AMERICAN BANKER

BankThink Crapo bill is right to help less risky regional banks

By
Meghan Milloy

Published
March 02 2018, 12:30pm EST

For the better part of a decade, the Dodd-Frank Reform and Consumer Protection Act has been law, bringing with it 147 new regulations that have resulted in $38.9 billion in regulatory costs and 82.9 million paperwork-burden hours for our country's financial industry.

Now, 10 years after the height of the recession, Congress finally has prioritized reforming Dodd-Frank in an effort to curtail those unnecessary costs and support long-term growth.

The Economic Growth, Regulatory Relief and Recovery Act is the result of several months of bipartisan collaboration in the Senate Banking Committee, the majority of whose members (rightly) agree it is time for change. The bill differs from last year's Choice Act in the House, but the intent is the same: provide much-needed relief to financial institutions responsible for economic growth.

In particular, some regional and midsize banks stand to benefit from the proposed bill, which raises the asset threshold for stress tests and prudential standards from $50 billion to $250 billion. These institutions, which fill the gap between community banks and Wall Street banks, serve as the economic backbone for communities in every state by providing capital to consumers as well as the businesses driving job creation and growth; however, these community banks also fall above the $50 billion line, triggering crushing regulations.

Regulators, economists and members of Congress — including Dodd-Frank's own Barney Frank — have recognized that drawing a line at $50 billion was the wrong approach. This mistake is one reason why, eight years after Dodd-Frank became law, correcting the most obvious flaws of the law is so important.

While some say the bill goes too far, the data present a different story: Midsize and regional banks, the primary beneficiaries of this bill, present little risk to the financial system, yet are saddled with burdensome and unnecessary compliance costs.

The Office of Financial Research came to this conclusion in its 2015 and 2017 reports, which looked at several factors in each institution's business model to determine their risk level.

In fact, this current bill should just be the starting point for real regulatory reform, as it doesn't go quite far enough to regulate all financial institutions properly. The American Action Forum has long advocated for tailored regulation based on each company's activities, and in its latest report, OFR also supported this approach, saying "bank size alone does not equate to risks a firm may pose to financial stability."

Not only would tailored regulations allow less risky institutions to focus on their core activities, such as deposits and lending, with fewer burdens, but it would also hold the riskiest financial companies to a higher compliance standard. Proper levels of regulation enhance the safety and soundness of our financial system and enable the banks to serve their customers and communities more effectively and efficiently — goals on which both sides of the aisle can agree.

Encouragingly, an activities-based approach to financial regulation has also received bipartisan support in the past, which is yet another sign that a proper regulatory framework isn't too far off.

Although there's a full docket of issues for Congress to tackle this year, we are long overdue for reform to Dodd-Frank. A system which frees up midsize and regional banks from stifling regulatory and supervisory requirements would benefit consumers across the country, whether buying a home, starting a business or looking to deposit money safely.

Meghan Milloy is the director of financial services policy at the American Act Forum.