AFR Americans for Financial Reform

Claims and Facts about the Impact of Dodd Frank on Community Banks, Lending and Small Business

CLAIM: Dodd Frank took a "one size fits all" approach, making small banks and credit unions pay for the sins of big banks.

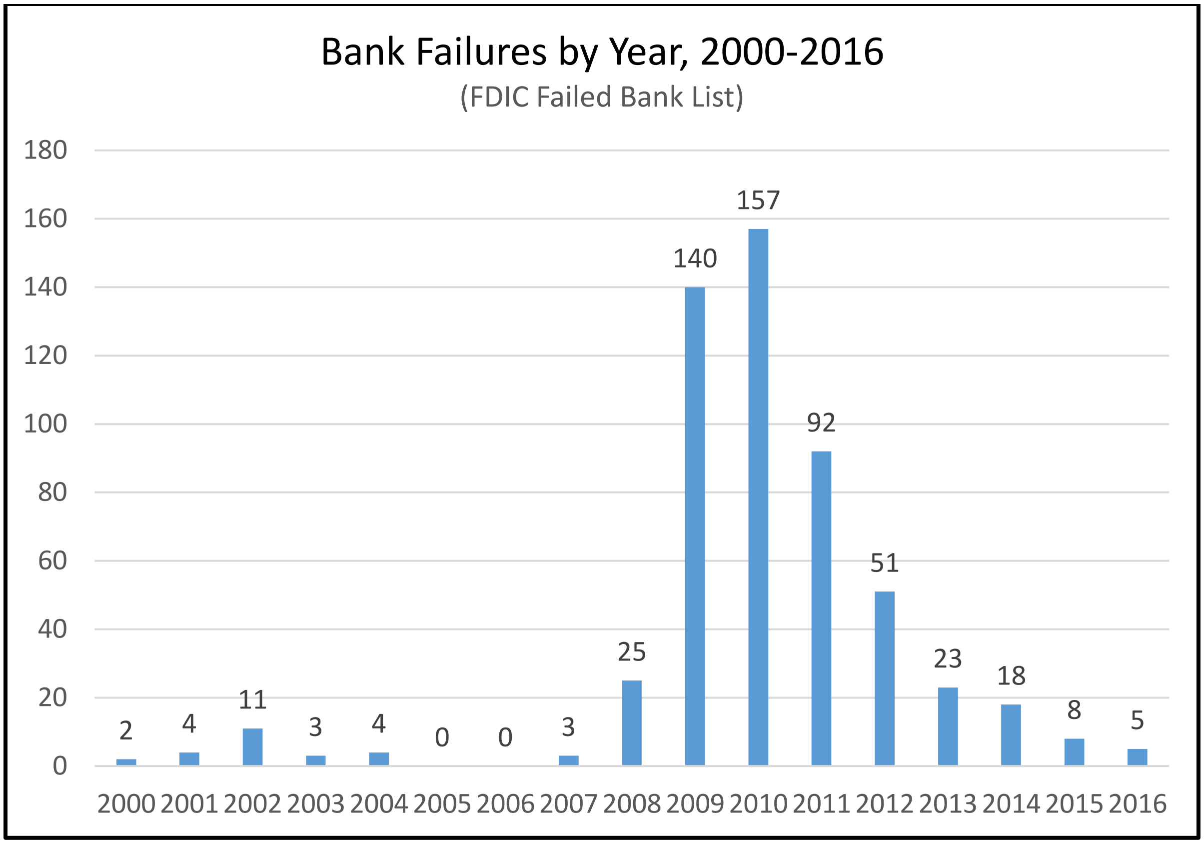
FACT: The law treats these institutions very differently. Many key provisions apply exclusively or mainly to big banks. Smaller banks and credit unions are excluded from stress tests, "living wills," heightened liquidity standards, debit-card fee limits, and the supervision and enforcement authority of the Consumer Financial Protection Bureau. In its mortgage and consumer banking rules, the CFPB itself has carved out significant exemptions for small and rural lenders.[1]

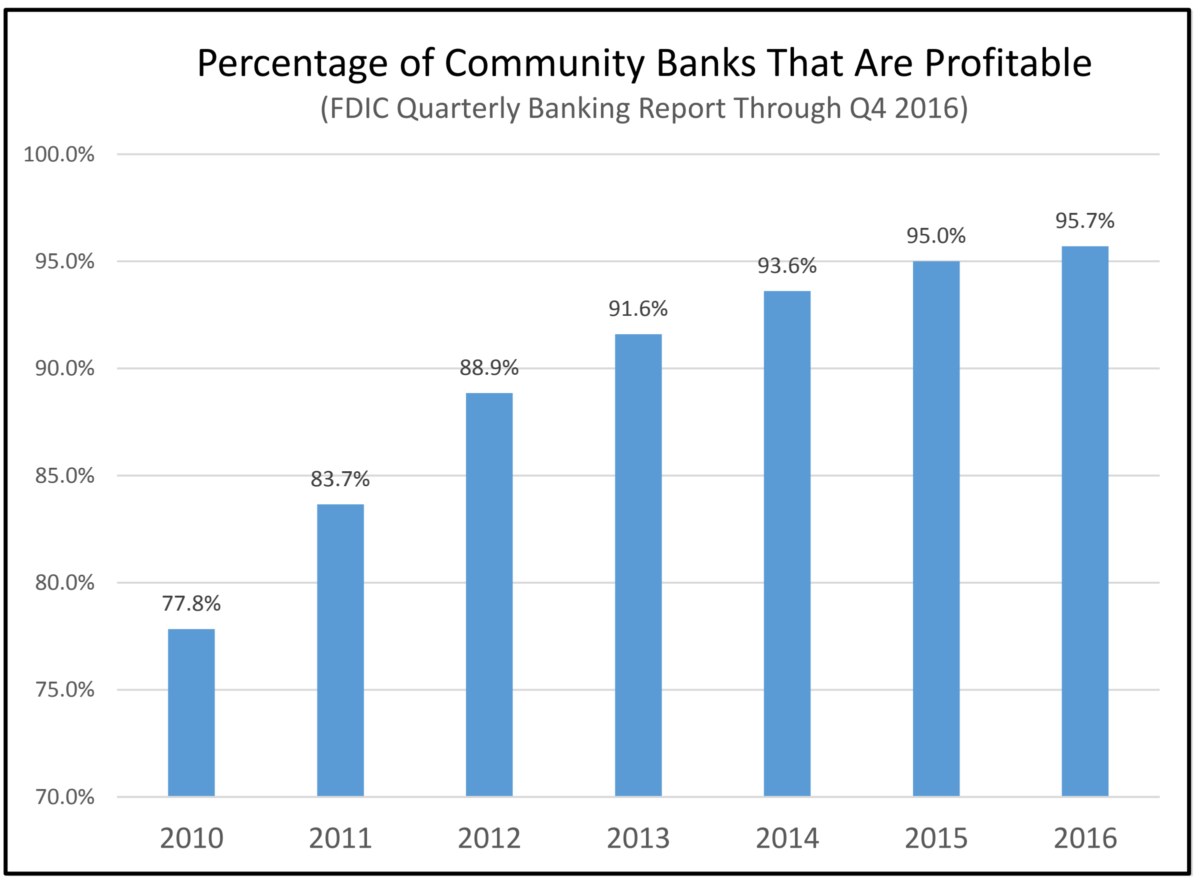
Other parts of Dodd Frank help *shield* community banks and credit unions against unfair competition. The statute requires big banks to be held to higher overall capital and prudential standards than small banks, and it brings nonbank lenders under serious federal oversight for the first time. As of mid-2015, roughly three-quarters of the CFPB's enforcement actions had been against nonbanks, and almost all its bank enforcement actions had been against the very biggest institutions – those with more than $50 billion in assets.[2]

CLAIM: Dodd Frank has put community banks out of business.

FACT: Banks have been consolidating, and small banks closing and merging, for decades in response to an increasingly mobile society and technology-driven economies of scale. Bank closures spiked during the financial crisis – *before* Dodd Frank, not after. In 2016, only five banks failed, down from 140 in 2009 and 157 in 2010.[3]

Since that time, community banks have recovered strongly. The percentage of community banks turning a profit has increased year after year, from 78 percent in 2010 to 95.7 percent in 2016.[4] One big factor working in their favor: small banks have saved an estimated *$3.7 billion* in deposit insurance fees – as a direct result of discounts mandated by Dodd Frank.[5]


Bank Failures by Year, 2000-2016
(FDIC Failed Bank List)
180
160
140
120
100
80
60
40
20
0
2
4
11
3
4
0
0
3
25
140
157
92
51
23
18
8
5
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016


Percentage of Community Banks That Are Profitable
(FDIC Quarterly Banking Report Through Q4 2016)
100.0%
95.0%
90.0%
85.0%
80.0%
75.0%
70.0%
77.8%
83.7%
88.9%
91.6%
93.6%
95.0%
95.7%
2010
2011
2012
2013
2014
2015
2016

CLAIM: Regulations that pose little difficulty for large banks can be a heavy burden on smaller banks that don't have teams of lawyers handling compliance issues.

FACT: Like operating expenses in general, regulatory compliance costs tend to be higher, relative to assets, for smaller institutions. Overall, however, community banks gain far more than they lose from regulation. It is because of regulation that the U.S. still has many more banks per capita, and more small banks, than other countries do. The industry's consolidation in recent decades is partly the result of *deregulation* – the gradual abandonment of rules like Glass Steagall and the historic ban on interstate banking. The Dodd Frank Act gave small banks preferential treatment in a number of important areas: the Volcker Rule, for example, was a step back toward the Glass-Steagall principle of keeping traditional banks separate from investment banks and hedge funds.[6]

In a 2016 study, the Philadelphia Federal Reserve Bank pointed out that "while it is plausible that the fixed costs of hiring another employee impose a larger burden on small banks," small banks, as a practical matter, often use outside contractors "who spread their own fixed employment costs across their many small bank clients."[7]

CLAIM: Small businesses can't get loans because of Dodd Frank's impact on community banks.

FACTS: Lending by community banks declined sharply as a result of the financial crisis – a catastrophe that could have been avoided or greatly mitigated if the protections of Dodd-Frank had already been in place. Since that law began to take effect, community bank lending has rebounded, rising by nearly 17 percent over the calendar years 2015-16 – well over the growth rate for lending by U.S. banks as a whole.[8]

Bank lending to small businesses, like overall business lending, has been on an upswing – growing at a "slow but steady" pace since 2013, according to the U.S. Small Business Administration.[9] While such lending is still far short of pre-crisis levels, even the chief economist for the National Federation of Independent Businesses explains it as a product of "historically weak" credit demand rather than any reluctance to loan on the part of banks, and that is consistent with the view of most small business owners themselves. In a recent NFIB survey, access to credit ranked Number 65 among their top 75 concerns, with only 4 percent of responding companies reporting an inability to meet their borrowing needs.[10]

Small businesses do voice frustration, however, with the opaque and confusing terms of many loan offers, which can make it hard for them to enjoy the benefits of genuine competition and meaningful choice. These complaints closely echo the concerns of non-business borrowers, and they reflect the significant reliance of small business owners on credit cards, second mortgages, and other forms of consumer credit. Their interests would thus be served by *stronger* financial regulation — for example, by expanding the core jurisdiction of the Consumer Financial Protection Bureau to include loans used for business as well as personal, family, and household purposes. [11]

Lack of evidence may not prevent a host of political figures, including Donald Trump, from continuing to paint a picture of small businesses being strangled by lack of credit due to overregulation. But the numerous experts and business reporters who have taken the time to examine this claim have almost universally judged it to be a myth – perpetrated, in the words of the Dow Jones economic columnist Rex Nutting, by those who "want to gut or repeal Dodd-Frank, but don't want to tell us what their real reasons are, so they make up a sob story about how Mom & Pop entrepreneurs can't get a loan."[12]

CLAIM: The CFPB's qualified mortgage (QM) rule has limited small banks' ability to issue loans.

FACT: Mortgage lending plunged between 2007 and 2010, as banks woke up to a legacy of toxic loans and tightened their underwriting criteria. This was well before the Consumer Financial Protection Bureau's new mortgage rules began to take effect in 2014. There is no evidence that the QM rules have limited mortgage lending by smaller lenders. In fact, between 2012 and 2015, the market share of the smallest mortgage lenders (institutions with assets under $1 billion) increased from 54 percent to 58 percent.[13] The QM rules, by barring or discouraging many of the tricky loans and bad practices that became common in the years before the financial crisis, may help explain those increases: a safer mortgage market is one that creates more favorable ground for community banks, credit unions, and other responsible lenders.

Claim: The Durbin Amendment has hurt small banks by pressuring them to reduce debit-card interchange fees – a vital source of income.

Fact: Community banks were exempted from the fee reductions of the Durbin Amendment. While their lobbyists argued that competition with large banks would force small banks to accept the same limits, that prediction has clearly failed to come true: interchange fees for banks with more than $10 billion in assets have fallen sharply, from around 44 cents to about 22 cents per transaction, while small banks have not seen any such decline. On the contrary, they have continued to experience a rise in both transaction volume and revenues. "In sum, the evidence does not support the claim that competitive forces have effectively imposed the interchange fee ceiling on small banks," the Philadelphia Federal Reserve study concluded.[14]

CLAIM: Credit unions have been damaged by Dodd Frank

FACT: While the number of credit unions has fallen, this is a trend that long predates Dodd Frank. It is also a misleading trend: even as their numbers have shrunk, credit unions have been growing in size and market share. Credit union membership was up 3.8 percent in 2015 - the fastest growth in 20 years.[15] It rose even faster in 2016, when federally insured credit unions gained 4.2 million members, bringing total membership to nearly 107 million.[16]

Meanwhile, credit union operating costs, as a percentage of assets, have declined – from 3.59 percent in 2008 to 3.1 percent in 2016.[17]

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[1] Marcus Stanley, testimony before House Small Business Subcommittee, June 9, 2016.

[2] Deloitte Center for Financial Services, Enforcement Actions in the Banking Industry, October 2015, drawing on SNL analysis of CFPB enforcement actions.

[3] FDIC, Failed Bank List.

[4] Federal Deposit Insurance Corporation, Quarterly Banking Profile, Community Bank Performance Section, Table 1-B (2015, 2016).

[5] Kyle D. Allen, Travis R. Davidson, Scott E. Hein, Matthew D. Whitledge, *Dodd-Frank's Federal Deposit Insurance Reform*, Sept. 2016.

[6] Adam Levitin, Size Matters: Community Banks' Real Problem, Credit Slips blog, Feb. 10, 2015.

[7] James DiSalvo and Ryan Johnston, How Dodd–Frank Affects Small Bank Costs, Federal Reserve Bank of Philadelphia, 2016.

[8] Marcy Gordon, US Banks in Strong Shape as 4th quarter profit jumps. FDIC, Quarterly Banking Profile, Fourth Quarter 2016.

[9] U.S. Small Business Administration Office of Advocacy, Small Business Lending, Second Quarter 2015.

[10] National Federation of Independent Businesses, Small Business Economic Trends, Jan. 2017.

[11] Twelve Federal Reserve Banks, *2016 Small Business Credit Survey: Report on Employer Firms* (Apr. 2017), at 17. Federal Reserve Bank of Cleveland, *Alternative Lending through the Eyes of "Mom-and-Pop" Small-Business Owners: Findings from Online Focus Groups*, Aug. 25, 2015.

[12] Rex Nutting, Trump and Cohn are wrong: Dodd-Frank isn't killing the economy, Feb. 15, 2017.

[13] Michael Calhoun, testimony before House Financial Service Committee, Mar. 28, 2017,

[14] James DiSalvo and Ryan Johnston, How Dodd–Frank Affects Small Bank Costs, Federal Reserve Bank of Philadelphia, 2016.

[15] Credit Union National Association, Credit Unions Post an Impressive 3.8% Membership Growth

[16] National Credit Union Administration, NCUA Chart Pack (2016).

[17] National Credit Union Administration, NCUA Chart Pack (2016).