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Hearing Before House Small Business Committee

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Chairman Heulskamp, Ranking Member Chu, and members of the committee, thank you for the opportunity to testify here today. My name is Marcus Stanley and I am the Policy Director of Americans for Financial Reform.

Today's hearing asks us to consider the impact of the Dodd-Frank Act on small banks. I want to make two broad points.

First, community banks face economic headwinds that are unrelated to Dodd-Frank, connected both to long-term trends and to the effects of the financial crisis itself.

Second, the big picture is that community banks have returned to profitability under Dodd-Frank. In 2015, over 95% of community banks earned a profit – up from just 78% in 2010, the year Dodd-Frank was passed.

Consolidation in the banking industry is not a new phenomenon. The number of FDIC-insured banks has declined by two-thirds over the past thirty years, with the decline concentrated among banks with less than $1 billion in assets. The number of community banks has declined every single year since 1984.

The causes of these long-term trends include changes in economies of scale in banking, and deregulatory measures that assisted the expansion of large regional and global banks.

The catastrophic effects of the financial crisis made things worse. Over 400 community banks failed between 2008 and 2011. Facing huge losses in the deposit insurance fund and a historically devastating recession, FDIC supervisors cracked down on risks in existing banks and made it more difficult to open new banks – a regulatory response that would have occurred even if the Dodd-Frank Act had never passed.

When we look at the well-being of community banks since the passage of Dodd-Frank, as well as the specific provisions of the law, we see a better picture. Not only have more than 95% of community banks returned to profitability today, but return on equity has been steadily increasing. Average community bank ROE has gone up every year since the passage of Dodd-Frank, and reached almost 9 percent in 2015 – a level that some larger banks such as Citigroup or Bank of America might envy.

One reason for that is that in drafting Dodd-Frank, Congress made major efforts to shield small banks from additional regulations targeted at the large banks and non-banks at the center of the 2008 crisis. Smaller banks are exempted from numerous provisions in the law, including new heightened prudential standards in Title I of the law, new over-the-counter derivatives regulations, and direct CFPB examination. As detailed in my written testimony, regulators have continued this practice in implementing the law, with efforts to shield small banks from compliance burdens in areas ranging from the Volcker Rule to new mortgage regulations. The Dodd-Frank Act was major legislation passed in response to the worst financial and economic crisis since the 1930s, and it clearly does have impacts throughout the financial system. But those impacts are concentrated on the large banks and non-banks that are the major competitors of community banks.

At the same time, I do not wish to imply that there are not real issues with small business access to credit that this committee can and should address. Small business lending has lagged during the recovery, and economic expansion has been more concentrated in urban areas. Helping small banks to address this issue should be high on our agenda. But looking at the Dodd-Frank Act as its cause seems misguided. Instead, agencies like the Small Business Administration and the Farm Credit system can provide more direct assistance.

We must also make sure that non-bank financial entities are competing on a level playing field with regulated banks. On-line marketplace lenders are a rapidly growing provider of small business lending, and are subject neither to consumer protection laws nor risk controls. The evidence indicates they often provide a substandard and even exploitative product – just 15% of small business borrowers from online lenders expressed satisfaction with their experience, while 75% of small business borrowers from community banks did. Congress should consider expanding oversight of these entities.

Thank you for the opportunity to testify, and I look forward to taking questions.