

## **Community banks hoping for relief from regulations**

Cost of Dodd-Frank difficult to absorb

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A group of Wisconsin bankers on a recent lobbying trip to Washington, D.C., returned with heightened optimism that some of the rules now governing community banks — regulations they contend are too costly — will be eased.

Community banks in Wisconsin and the United States, defined generally as banks with assets of less than \$10 billion, have complained since 2010 that reforms passed by a then-Democrat controlled Congress and aimed at preventing another financial crisis unfairly imposed an expensive compliance burden on them.

They've argued that consumers have been affected in the process, too, as banks have stopped offering some services rather than go through the hassle of dealing with the new rules.

Now that President Donald Trump has told the treasury secretary to review the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act and its thousands of regulations, community bankers are hopeful some relief could be on the way.

"I think everyone we have talked to in our Wisconsin delegation, whether they are Democrat or Republican, understands that community banks were not the cause of the problems that occurred in the crisis years, and

that the pendulum has swung too far and that the burden is disproportionately heavy on community banks," said Rose Oswald Poels, who as chief executive of the Wisconsin Bankers Association led about two dozen community bankers on their trip to the U.S. Capitol in March.

Oswald Poels said Dodd-Frank, as the law is known to bankers, took a "one-size-fits all" approach to banking reform.

While big banks don't like the cost of complying with new rules, either, the expense of compliance, form-completion and additional record keeping is more difficult for smaller banks to absorb, she said.

With the exception of Green Bay-based Associated Bank, which has assets of more than \$29 billion, all banks headquartered in Wisconsin would be considered community banks under the Federal Reserve's \$10 billion-or-less definition.

Among the new rules community bankers frequently cite as onerous is a standard approach to who should qualify for a mortgage. The rules are intended to ensure borrowers can repay their

loans, but the unintended consequence is that people who local lenders know are good borrowers but don't meet a standard debt-to-income ratio may not get a mortgage, bankers assert.

Granting a non-standard mortgage draws additional scrutiny from examiners and opens up a bank to potential problems under rules of Dodd-Frank, bankers say. An annual residential real estate report released last week by the American Banker Association trade group said its survey of 159 banks found that compliance costs related to mortgages have increased 97% as a result of recent regulatory reforms, and 75% have had to hire additional staff to cope with new regulations. Three fourths of the banks participating in the survey had assets of less than \$1 billion. "What Dodd-Frank has added is a whole 'nother level of regulatory compliance for the banks," said Joe Fazio, chief executive of West Bend-based Commerce State Bank. "So, more rules and regulations to follow, but also more tracking and more reporting. And it's that added cost and the potential penalty or exposure if you haven't done something right." David Schuelke, CEO of Spring Bank in Brookfield, said he thinks there is bipartisan support in Congress for giving community banks some relief from compliance with new rules. "Dodd-Frank was sold to us to end 'too-big-to-fail' — and by us I mean the American public. My personal opinion is it doesn't really do anything to stop too-big-to-fail," Schuelke said. "Maybe the target was the larger banks in somebody's mind, but the way the law was written and passed, it affects community banks the same as big banks. They don't always have the resources to handle it efficiently. It's tough on the bottom line." Any legislation that would alter Dodd-Frank, however, will get a fight from consumer advocacy organizations.

"From my perspective and from the perspective of the consumer groups, the small banks have been on a mission forever to attack regulations,"

said Ed Mierzwinski, consumer program director for U.S. Public Interest Research Groups, or U.S. PIRG.

He said bankers' claims that higher regulatory costs are a key reason for consolidation in the industry are overblown. He also doesn't buy the argument that new regulations are hurting profits.

"Small banks have been complaining and trying to blame Dodd-Frank for all their ills. First, they don't have any ills. They're extremely profitable. They're doing very well," Mierzwinski said.

In 2016, earnings at community banks in the U.S. totaled \$21.4 billion, an increase of \$2 billion, or about 10%, from 2015 earnings, according to the Federal Deposit Insurance Corp.

Consumer groups also are concerned about the attempt by banks, large and small, to weaken the Consumer Financial Protection Bureau, an advocacy organization, commonly called CFPB, which also was created as part of the Dodd-Frank law. CFPB describes itself as "a U.S. government agency that makes sure banks, lenders and other financial companies treat you fairly."

Is there a chance bankers will get what they want?

“Of course, they’ve got a bigger chance than they did before because Congress has changed and the president has changed,” Mierzwinski said. “We’re doing all we can to protect the CFPB, which we don’t think is the problem.”

Oswald Poels said bankers aren’t seeking a repeal of the entire banking reform law.

“Peeling back the burden of Dodd-Frank is really the goal of community bankers this session — to get some meaningful relief on the regulatory front for them,” Oswald Poels said.