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Smaller banks see regulatory relief after U.S. elections

By Emily Stephenson
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All but the biggest U.S. banks could see relief from some financial reforms after the November elections even if control of the U.S. Congress remains divided between Democrats and Republicans.

Post-election committee leadership changes and growing momentum behind bipartisan fixes may lead to tweaks to the 2010 Dodd-Frank law for the smallest community banks, larger firms such as PNC Financial Services (PNC.N) of Pittsburgh and Regions Financial (RF.N) of Birmingham, Alabama, and insurers, lobbyists and congressional staffers said.

Small banks "make loans to local small businesses, support their communities, and would not threaten our financial system if they defaulted," Senator Sherrod Brown, an Ohio Democrat, said in a statement to Reuters. Brown is a contender for a committee leadership post in the 114th Congress, which begins in January.

To be sure, President Barack Obama retains his veto power, so there will be no gutting of Dodd-Frank, which aims to make banks less risky, end the problem of "too big to fail" institutions, and prevent a repeat of the 2007-2009 financial crisis.

Instead, the possible changes range from adjusting which banks count as "rural" and are exempted from certain rules, to declaring fewer banks big enough that their failure would threaten markets, a designation that brings extra regulatory oversight.

"I think that it's likely that we will see actually some significant community bank regulatory relief in the new Congress," said Camden Fine, head of the Independent Community Bankers of America, a Washington lobby group for small banks.

Community institutions have won supporters on both sides of the aisle and in both houses of Congress, in part because most lawmakers represent a small bank. The House of Representatives has approved bipartisan bills to free small banks from Federal Reserve and other rules.

Banks that describe themselves as regional banks, including PNC, the 11th biggest US holding company with $324 billion in assets, according to U.S. regulatory data, and Capital One (COF.N) of McLean, Virginia, the 13th biggest with about $291 billion in

assets, have banded together to form a coalition that argues they are like community banks, accepting deposits and lending to consumers and local businesses, and shouldn't have to meet the same requirements as Wall Street firms.

"The Regional Bank Coalition believes that it's time to move beyond the simple asset-only model to determine systemic risk because it does not match the reality of the U.S. banking system," Deron Smithy, treasurer of Regions Bank, said in congressional testimony in May. "Rules designed for large, complex firms impose real, burdensome costs when applied to middle-market lenders." Regions has $118 billion in assets and is the 26th biggest holding company.

Under Dodd-Frank, banks with more than $50 billion in assets must test their performance in a hypothetical crisis, plan for what would happen if they should fail and meet other rules. A bill in the House to change that threshold now has more than 70 co-sponsors.

"We never thought $50 billion was a forever number, and I think it was one of those things we would have looked at again," former Representative Barney Frank, a Democrat and one of the law's co-authors, said in an interview.

Senate Democrats, led by Banking Committee Chairman Tim Johnson, shied away from changes to Dodd-Frank for fear Republicans would try to use the opportunity to weaken the law. But Johnson is retiring, and several of his possible successors support targeted relief for some institutions.

Johnson's committee has already moved forward with changes for insurers. The Senate in June voted to change the so-called "Collins amendment," which governs capital rules for big insurers.

The adjustment, which would no longer make insurers follow banks' relatively more strict capital rules, was sought by Prudential Financial (PRU.N) and MetLife (MET.N).

"The minute that we saw the Collins amendment pass ... it became very clear that there could be legislative fixes to the Dodd-Frank Act in the 114th Congress," said Isaac Boltansky, an analyst with Compass Point Research and Trading.

POLITICALLY DIVISIVE

Despite limited areas of bipartisan agreement, most banking issues remain politically divisive.

For instance, Brown, a possible chairman of the banking committee, has scrutinized consumer products such as payday loans. Senators Richard Shelby and Mike Crapo, potential leaders if Republicans take over, are critical of the new agency that oversees those products.

Neither side can make headway on pet issues single-handedly. "The Republicans can't get anything done in the Senate without some Democrat support," said Mark Calabria, a former Shelby staffer who is now at the libertarian Cato Institute.

There is also concern that the House and Senate have struggled to cooperate even on issues they agree on, such as the Collins bill. "That doesn't bode well for larger, more complex issues," Brown said.

House Financial Services Committee Chairman Jeb Hensarling wants to ease the Collins amendment, and could still do that before the midterm elections. But he might attach it to other Dodd-Frank legislation that Democrats would not support, congressional staffers said.

"When we have tried to forge compromises with the chairman, he has insisted on undermining financial stability and consumer protection by providing carve-outs for large banks," Maxine Waters, the top Democrat on the committee, said in a statement to Reuters.

Hensarling has blamed the Senate, where he has said "good ideas go to languish and fail," for not taking up other relief bills. A committee staffer said the House had passed numerous bipartisan financial bills that the Senate has not taken up, including to exempt small banks from some Fed and consumer bureau rules.