



Wisconsin community banks hopeful for Dodd-Frank rollback

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The 2010 Dodd-Frank Act was sold as a way to rein in a freewheeling Wall Street, but Wisconsin bankers say the law has burdened community banks to the point of accelerating mergers and consolidation.

“2016 saw a significant jump in merger activity here in Wisconsin,” Rose Oswald Poels, president and CEO of the Wisconsin Bankers Association (WBA), told Watchdog.org. The number of announced mergers last year reached 22 in the state, compared with 12 in 2015, according to Poels’ numbers

The added red tape from Dodd-Frank has burdened community banks while also limiting borrowing options for small businesses and homeowners, thereby hamstringing economic activity in Wisconsin, she said.

But Poels and others in the industry see a silver lining this year as the House Financial Services Committee moves forward on reforming Dodd-Frank, which was enacted in the wake of the 2008 recession. The committee on Wednesday will take up a new draft of the Financial CHOICE Act, which would alter provisions of Dodd-Frank that Republican lawmakers say have been particularly onerous to small businesses.

President Donald Trump signaled his desire to rethink Dodd-Frank banking regulations by signing an executive order in January that urges the Treasury Department to look at ways banks can be given more freedom to make loans in ways that will advance economic growth.

The Wisconsin congressional delegation will have a degree of influence over how Dodd-Frank reforms evolve in the House. Two of its Congressional members, Reps. Sean Duffy (R-Wausau) and Gwen Moore (D-Milwaukee), both sit on the Financial Services Committee.

Neither lawmaker responded to requests for comment on reforming Dodd-Frank, but Duffy’s public statements leave no uncertainty about his position. In reaction to Trump’s signing of a House joint resolution that pulls back Dodd-Frank rules on energy producers, the congressman expressed a desire to lift federal red tape on businesses and families.

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“President [Barack] Obama’s burdensome Dodd-Frank financial rules have held our economy back since the bill was passed,” Duffy said in a prepared statement.

Poels said that as a result of Dodd-Frank, consumers in Wisconsin can no longer get certain types of loans easily and quickly. Balloon notes, which do not fully pay down a loan over their term and require the repayment of what’s left of the principal balance, are more difficult for the banks to approve in the wake of Dodd-Frank, she said.

“Community banks in Wisconsin did a lot of portfolio lending in the form of balloon notes in the past,” Poels said.

Like other community banking associations, WBA wants to see changes in the Consumer Financial Protection Bureau, which Dodd-Frank assigned the power to issue far-reaching rules and fines. The banks see the bureau as lacking budget oversight because it gets its funding directly from the Federal Reserve, rather than having its budget overseen by Congress. The agency is also run by a single director rather than the traditional commission style of governance.

“You shouldn’t have a federal agency that doesn’t have any budget restrictions,” Poels said.

Despite the challenges of complying with federal regulations, she said Wisconsin’s banks are doing well financially.

“We do have an overwhelming number of banks in the state that are profitable,” Poels said.

But the cost of complying with regulation and the need for higher levels of cyber security mean there’s less money available for lending – and getting a higher return on investments, she said.

“When you look at comparative time frames from prior years, net profits have not increased as much as in past years,” Poels said.

Others also see Dodd-Frank as being ripe for reform this year in the Republican-controlled Congress. Thaya Brook Knight, associate director of financial regulation studies at the Cato Institute in Washington, said Republican lawmakers are primed to get a record of accomplishments in place before the midterm elections in 2018.

“There is motivation among Republicans right now to get something done,” Knight said.

Reducing top-down federal rules on the smaller banks should be politically feasible because they were not seen as villains in the 2008 financial crisis, Knight said. But she added that altering the current rules on mortgage financing might be more difficult because housing issues are viewed as more political.

“Relief for small banks is going to be an easier sell than some of the other areas,” Knight said.

She could not say whether the banks’ challenges have affected some regions of the United States more than others, but Knight agreed that areas with small populations – such as large swaths of the Midwest – tend to have the greatest impact.

“Small businesses rely overwhelmingly on small banks for financing,” Knight said.

She also said that Trump will have the opportunity to rethink the way Dodd-Frank is administered by filling seats on the Securities Exchange Commission and by naming a new director of the CFPB in July 2018, when current Director Richard Cordray's term ends.

"It gives the president a fairly broad policy role to change Dodd-Frank even without changing the underlying law," she said.