Do You Speak Dodd Frankish?

by Steve Brown

The US Navy and environmental groups are at war over military activities taking place off the coasts of CA and HI. War gaming in these areas dates back to 1886 and is designed to train navy personnel in explosives and missiles. Sonar testing and explosives are also harmful to marine creatures such as dolphins, whales, sea turtles and seals. Studies find damage ranges from temporary hearing loss to the death of animals. We can just imagine Flipper the dolphin wearing hearing aids. In all seriousness though, the poor animals have nothing to do with combat training; their circumstance is one of collateral damage. They are the unintended victims of a more prioritized national objective, the defense of the nation.

The expression "collateral damage" also characterizes some of the consequences of the financial regulatory overhaul of the last few years. Dodd Frank and the Consumer Protection Acts passed in 2010 were aimed at giant banks judged responsible for the financial meltdown and resulting Great Recession. Unfortunately, community banks of a more modest size are also feeling the impact of the reform as collateral damage, despite that even 4Ys later the Dodd Frank overhaul is still a work in progress. The 850 pages of legislation text covering 398 new regulations have not been fully implemented. In fact, 45% of the law still needs definition and adoption by the agencies in charge, according to the law firm of Davis Polk.

The effects of only partial implementation are complicated. Agencies such as the Consumer Financial Protection Bureau (CFPB) and the Financial Stability Oversight Council (FSOC) have been created. Nevertheless, key provisions of the reform they are supposed to enforce are still in limbo. TBTF Banks are supposed to submit "living wills" explaining their strategy for a rapid bankruptcy in the event of another financial crisis, and yet the Federal Reserve recognized this summer that it has not received this information. Tougher regulations for credit rating firms are still in the making, as are standards for the mortgage securities market.

Overall, some 19K pages of regulatory text have been produced, according to the Mercatus Center at George Mason University, but there are more to come. These new rules and the uncertainty about future ones are negatively affecting smaller banks. Even though they were not the target of Dodd Frank reforms, they are still obliged to comply with new mortgage rules, capital requirements and rules governing municipal advisors. They are collateral damage.

Few community banks delved into sophisticated structures, they didn't engage actively in securitization, nevertheless the rules made for their giant colleagues trickle down to them. On average, banks have added 1 to 3 employees to assist with regulatory compliance. The Fed in fact estimates that hiring just 2 more compliance personnel could reverse the profitability of up to 33% of the smallest banks.

In addition to shoring up compliance departments, community banks have also changed their product lines in order to avoid lawsuits and regulatory crackdown. Soft data like the character of a borrower that has historically helped smaller banks serve the special needs of their markets is not recognized by some regulators, so some banks have eliminated its use. Given fewer products and less ability to make decisions based on local expertise, community banks are left with a difficult task to define their differences from competitors. Large banks whose risky activities caused all the problems in the first place often still get favorable treatment. Unfortunately, the whale that is too big to fail still has enormous advantages over our chipper Flipper and that equates to collateral damage that affects everyone.

BANK NEWS

FHLB Merger

The Federal Housing Finance Agency has approved the voluntary merger of the FHLB of Des Moines and the FHLB of Seattle.

Boosting Sales

A survey of salespeople worldwide by AchieveGlobal finds high performers were almost twice as effective as low performers in developing new business. Meanwhile, respondents who performed best said they utilized various factors (goal setting, forecasting sales results, having an in-depth knowledge of the customer's industry, uncovering client needs, creating a call strategy before meeting with the customer and articulating a business case that showed the client how a product or service would financially benefit them), while those who performed the worst focused on other factors (building a network of contacts, identifying all contacts within an account, acting as the customer's advocate and taking responsibility for their needs, configuring a solution to meet the client's needs and others).

Strange Biz

A Wells Fargo-Gallup survey of small business owners finds only 37% say they feel "extremely" or "very successful" as a small business owner vs. 43% who said so in 2009, nearly a 14% decline.

Housing Decline

The homeownership rate of housing in the US was 64.4% as of Q3 2014 vs. 69.2% a decade prior (Q4 2004), or about a 7% decline overall.

Health Care

Research by EBRI finds that in 2012 almost 61% of workers employed 40 or more hours per week had healthcare coverage from their job vs. about 34% of workers employed 30 to 39 hours and only 13% of those employed less than 30 hours. Over the past 10Ys, the percentage of workers covered by their employer for each of these three types has declined 3% (40+ hours), 12% and 16%, respectively.

Social Influence

Forbes finds 81% of people say online posts from friends and family directly influence purchase decisions.

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