



## Translating The Volcker Rule

by [Steve Brown](#)

The movie *Lost in Translation* tells a simple story of love and friendship between an aging movie star and a young college graduate. The two Americans meet in a hotel in Tokyo in a story of communication gaps and alienation. Differences between Japanese and American cultures are highlighted as too is the generation gap between a has-been actor (who travels to Tokyo to make a whiskey commercial) and his relationship with the young wife of a celebrity photographer (bored with her life and herself). A lot is unspoken and a lot is lost in translation.

When it comes to banking, this is not so different from the story of the Volcker rule, a chapter in the never-ending Dodd Frank drama. The Volcker rule initially came in at 11 pages, but when the agencies responsible for the implementation tried to translate it, they produced a draft of 300 pages. Later they settled on 71 pages for the basic rule plus some 800 pages of commentary and clarification. It was still not clear enough, however.

The idea was for the Volcker rule to block big Wall Street banks from making speculative trades with their own money while under the umbrella of FDIC insurance. This seems simple enough and yet it is not. Perhaps this is because the mega-banks and their lobbyists keep finding multiple interpretations. As things sit today, the Volcker rule has become so complicated that regulators have extended over and over the deadline for the affected banks to unload private equity and hedge fund investments. The initial deadline was July 2014, then July of 2015 and most recently it has been extended to 2017.

It's good to note that community banks have benefited from the multiple rewritings of this script. Industry representatives for community banks have declared that small institutions didn't engage in the high risk trading strategies that rocked Wall Street and thankfully they have been heard. Fed Governor Tarullo and Comptroller of the Currency Curry have both publicly said community banks should even be exempted from the harshest Dodd Frank requirements. Even Barney Frank, the Frank in Dodd Frank, is backing this effort. The FDIC has calculated that around 400 of the 6,500 banks in America hold investments in funds that are prohibited by the Volcker rule. Among the 400, only a few community banks even have these kinds of investment vehicles.

The majority of community banks stick to a business model that focuses on relationship banking, small business lending and the support of their communities. Fed governor Tarullo said he feels confident that he can support the easing of the regulatory burden on small institutions. He even proposed an asset threshold of \$10B to be the minimum that would be subject to the Volcker Rule. We will have to wait and see how this plays out.

While it is not a surprise that larger organizations are fighting restrictions on how they do business, there is plenty of evidence that the downward pressure on loan pricing has been driven in some part by the flow of private equity money into the system.

At a high level, we applaud the generic efforts to aim the Volcker Rule at the banks that violated its principals in the past as long as community banks can be spared. We also appreciate the regulatory

community making a real effort not to include community banks. When you get down to it, at this point there is just no further need for translation.

## **BANK NEWS**

### **Sale Barriers**

A Bank Director survey of executives & directors finds the following barriers to selling their bank: management and/or members of the board want to remain independent (68%); pricing is too low (56%); no potential and/or suitable buyers (25%); shareholders have unrealistically high expectations about price (19%); economic outlook is too uncertain and potential acquirers are risk adverse (19%); regulatory outlook is too uncertain and potential acquirers are risk adverse (16%).

### **Dividends**

Fed research finds about 65% of banks <\$1B paid dividends (excludes S Corps) nationwide last year vs. about 71% of those with assets \$1B to \$10B.

### **Portfolio Management**

Reuters reports Fed officials say they plan to be very gradual in shrinking their portfolio as they seek to avoid market disruptions. Former Fed Vice Chairman Kohn said he believes a managed run down of the portfolio will begin once Fed funds reach about 1%.

### **Competition**

The latest survey by J.D. Power finds Bank of America ranked worst among its peers in retail customer satisfaction in states where it has the most branches.

### **Good News**

The EC has increased its expectations for Eurozone growth from 1.3% prior to 1.5%. That is good news for US exports over time.

### **Looking for Loans**

A Bank of America survey of small business owners finds the following percentages by generational grouping say they intend to apply for a loan this year: 27% of Millennials; 23% of Gen X and 9% of Boomers.

### **CRE Prices**

Fed research finds commercial property price appreciation jumped 10% nationwide at the end of 2014.

### **Mobile**

A survey by SAP finds 82% of retail bankers agree or agree strongly that in the next 5Ys mobile will become the top channel for millennials and those younger in age.

### **M&A Discussion**

A Bank Director survey of executives & directors that asked respondents when their board discusses acquisition opportunities, which of the following are analyzed found among the highest were: size of deals we can afford (76%); potential targets (72%); deal price (67%); market extension (67%); geographic expansion (65%) and availability/sources of capital (57%).

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