Regulatory Relief For Community Banks?

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Summary: Many community banks are grateful that they received regulatory relief in 2018, but sadly others still feel substantially burdened. We provide a regulatory review.

The median age of the US population according to the Census Bureau is about 38Ys old. That is up from a median of 30Ys old in 1980 and only 23Ys old in 1900. Meanwhile, FL has the highest percentage of senior residents 65+ at 20.1%, while AK has the lowest at about 9.5%. If you feel like you aged just reading this, know that only 3.6% of people 65Ys+ are in nursing homes or assisted living, there are 4 women to every 3 men over age 65Ys, but that drops to 4 women to every 2 men over 85Ys.

No matter your age, community bankers certainly feel like they have aged immensely from the credit crisis forward. That is why so many are grateful that they received regulatory relief in 2018, but sadly many still feel substantially burdened.

Some of the Economic Growth, Regulatory Relief and Consumer Protection Act's key provisions impacting banks with <$10B in assets include: the ability to forgo certain ability-to-pay requirements regarding residential mortgage loans; exemption from the "Volcker Rule;" the ability to be subject to a new Community Bank Leverage Ratio; and the ability to be subject to reduced reporting requirements in call reports.

The new law also increases the consolidated asset threshold from $1B to $3B, for a bank to be eligible for an 18-month exam cycle instead of a 12-month cycle--provided the bank is not engaged in significant nonbanking activities; does not conduct significant off-balance-sheet activities; and does not have a material amount of outstanding debt or equity securities, other than trust-preferred securities.

Compliance costs have been impacted by the new law as well, according to an Independent Banker survey of community bank CEOs. Here, 40% said they had to increase spending last year vs. 60% in 2017, while 58% said that spending has leveled off.

Still, 33% said that compliance remains one of their top three business challenges (though it is notable that's down from 46% from the 2017 survey).

Regulators are listening and it seems more changes are coming to ease the burden for community banks. Randal Quarles, the Fed's vice chair of supervision in November told the House Financial Services Committee that, "Our work to improve regulatory efficiency is not done, and we expect to make additional progress in the months ahead on a number of issues."

The Fed is also continuing to streamline bank examinations for certain activities under its new Bank Exams Tailored to Risk program, Governor Michelle W. Bowman recently told attendees of the American Bankers Association's Conference for Community Bankers. She said it is imperative that regulators continue to tweak requirements to reflect the "straightforward nature of community banking."

While community bankers may not feel much regulatory relief yet, progress seems to be inching forward, so we are hopeful it will continue. In the meantime, we will update you on any new significant developments, to help keep you from aging prematurely.

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