New Orleans CITYBUSINESS

Dodd-Frank debate continues among New Orleans bankers

By: Lance Traweek, Reporter August 25, 2015 0

Are community banks too small to survive the effects of stricter federal regulations? That question lingers as the Dodd-Frank Act marks its fifth anniversary this year.

The concern of the legislation's effect on community banks is part of a wider discussion about whether they can be a legitimate competitor against megabanks. But the role that the law is playing on the shrinking industry is debatable.

Local analysts say community banks are not being pushed out of business because of the 2010 legislation.

"Community banks are doing just fine even in this low-rate environment," said Kyle Waters, owner of Metairie-based Loan Evaluation Services LLC. Interest rates have lingered near zero the last few years.

"That's not to say it's a tough slog, but community banks are like most small businesses – they find a way to get it done," he added.

That sentiment is shared among many in the banking industry. Smaller banks have been quick to speak out against the reform that was meant to regulate the banking industry as a whole. Community bankers say the cost of compliance has been a heavy burden, but they are surviving nonetheless.

Glenn Geddis, president of Bank of Louisiana, said community banks can not only survive but can thrive.

"There is a place for small banks to be effective and succeed," Geddis said.

Geddis points toward operating efficiency as the key factor in turning around a profit.

Proposed changes to Dodd-Frank continue to make their way through Washington. Senate Republicans are trying to advance legislation that would ease requirements on smaller banks, a measure opposed by Democrats who say the law gives consumers more protections and reduces the chances for another national recession.

The decrease of banks in general in the U.S. banking landscape began well before Dodd-Frank. In the 1980s, there were 18,000 institutions. At the beginning of 2015, there were 6,400, according to the FDIC.

Smaller banks are merging assets and fewer new banks are being chartered. The rate of consolidation has been objectively steady, averaging out around 3.5 percent annually. Since Dodd-Frank, it is slightly higher at 4 percent.

In general, larger banks are more profitable than smaller-size banks – often portraying increasing returns to scale. According to a 2012 Government Accountability Office study, banks with more than $10 billion of assets mostly had higher returns on assets and equity, except during the financial crisis.

"There needs to be some change in the regulatory game to make it less burdensome on smaller banks than regular banks," Geddis added. "I'm optimistic. There are fewer and fewer community banks, but we are using a different business model to succeed in this environment."

Bankers said it's all about smaller institutions finding niches to operate competitively against larger ones.

"The unfortunate reality is that everything the government has done in the last decade has consolidated power in Washington, D.C. and New York," said Guy Williams, president of Gulf Coast Bank. "The financial crisis was created by a small group of people who have grown since the bailout."

Community banks continue to shrink in absolute number and market share. Williams compared them to neighborhood grocery stores.

"There will still be some, but how many and how much of the sales volume will neighborhood grocery stores handle?" Williams asked.

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