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Small banks mobilize to block U.S. rules

Window on Wall Street

BEN PROTESS

NEW YORK Television ads airing in the Washington area feature an anxious woman, warning that "community banks and credit unions will be squeezed" by "bad" regulation.

Ads in subway cars running to suburbs in Virginia and Maryland carry similar predictions, while Capitol Hill newspapers have run ads picturing an empty purse alongside an alarming notice that "Washington is helping you clean out your wallet."

The message is clear: Lawmakers and regulators should tread lightly on small banks.

The community banking industry — which fears losing billions of dollars to a wave of new rules stemming from the Dodd-Frank law, enacted in the wake of the financial crisis — has undertaken an aggressive lobbying campaign, taking particular aim at certain consumer protection provisions and restrictions on debit card fees. The Independent Community Bankers of America, the trade group for small banks, spent $1.2 million on its efforts in the first quarter of 2011.

But the regulation may not be as burdensome as the advertising campaign — or the lobbying dollars — would imply. Community banks and credit unions won exemptions from some of the law's toughest provisions, including capital and liquidity requirements.

"There is basic human anxiety about change," said Neal S. Wolin, the deputy U.S. Treasury secretary. "If you sit down with 20 small banks, you'll find there's a lot of anxiety there, but if you ask them to focus that criticism in concrete ways, there's not much there."

Community bankers have even praised some Dodd-Frank rules that rein in Wall Street's freewheeling ways. The banks say that curbs on proprietary trading and the derivatives business put them on more equal footing with their larger competitors.

Dodd-Frank also overhauled the banking industry's deposit insurance rules to the advantage of small institutions. The move, which will force large risk-taking banks to pay a bigger share of insurance premiums, is expected to save small banks about $4 billion over the next three years, according to Camden Fine, who leads the community bankers group.

"The legislation was a very mixed bag for community banks," said Mr. Fine. "There were some good provisions; some provisions that will have a horrendous impact if we can't get them changed."

Some community bankers would prefer to avoid new rules altogether, arguing they were not to blame for the crisis.

"We make money the old-fashioned way; no funny stuff," said Salvatore Marranca, a former U.S. banking regulator who is now president and chief executive of Cattaraugus County Bank, an institution with 65 employees located in Little Valley, New York.

"It's hard to say Dodd-Frank is a win when you come away bloodied and bandaged," he said.

Bankers say Enemy No. 1 is a restriction on fees that banks can charge grocery stores and other retailers each time a customer uses a debit card. The Federal Reserve has proposed capping the so-called swipe fee at 12 cents, which is 70 percent below the average fee charged in 2009.

Although Dodd-Frank excused community banks from the rules, Mr. Fine said the exemption was "worthless" — a concern shared by the Fed chairman, Ben S. Bernanke.

"It is possible that the exemption will not be effective in the marketplace," Mr. Bernanke said in congressional testimony, adding that the rule "could result in some smaller banks' being less profitable or even failing."

Now, in hopes of delaying the debit card rule, the community banking industry is mobilizing lobbyists and bankers to make their case through letters and in meetings with regulators, records show. Mr. Fine's group and other lobbyists for small banks and credit unions have held at least 10 meetings with top Fed officials over the last year, aiming to influence the final version of the debit card rule.

They also are appealing to Congress, where some lawmakers have introduced a measure to delay the debit card rule for at least 15 months.

"They have the political power to push back, and they're taking advantage of it," said Jaret Seiberg, a financial policy analyst at MF Global's Washington Research Group.

Community bankers have already won over a top regulator, Elizabeth Warren, who is setting up the Consumer Financial Protection Bureau.

"I really have to say, I love a lot of those guys," Ms. Warren said. "These are guys who are running small outfits who know the name of every single person who works for them."

While the consumer bureau is not allowed to inspect or bring enforcement actions against small banks, the industry is subject to the bureau's new rules for mortgages and credit cards.

"That is causing a lot of anxiety," Mr. Fine said.

But Dodd-Frank allows a council of financial regulators to overrule potentially burdensome regulations written by the bureau.

And Ms. Warren, who met about 60 executives of small banks and credit unions in March alone, has assured the industry that she will keep them involved in the rule-writing process. Several financial trade groups this month praised the bureau for new mortgage disclosure forms, which will replace documents that are costly for lenders to fill out.

"I want to see the business model that they have flourish," Ms. Warren said. "I want to see it succeed big time."