

ABA: Dodd-Frank Red Tape Will Kill 1,000 Small Banks

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Consumer Financial Protection Bureau head Elizabeth Warren testifies on Capitol Hill in Washington, Wednesday, March 16, 2011, before the House... [View Enlarged Image](#)

"Change is coming," warns interim Consumer Financial Bureau chief Elizabeth Warren. This summer, her potter new agency will rewrite and enforce rules for the entire "We will build a strong enforcement arm," she vowed in than half our budget will be committed to establishing st meaningful enforcement."

That has bankers petrified. The American Bankers Assc the Dodd-Frank Act, which created the CFPB, will help 1,000 banks out of business by the end of the decade.

Bankers say the bureau is empowered to demand any i wants from any bank at any time and in any form. That i more time and money filing reports and huddling with re serving customers.

Banks will be subject to some 20 new reporting mandat Home Mortgage Disclosure Act, including data fields on

designed to help regulators police "predatory lending."

For the first time, banks also must collect and report data to the bureau on credit applications made by minority-owned busin analyze the data for discrimination, in consultation with an advisory board including inner-city activists.

Small Banks' Big Headache

The law creates an unparalleled disclosure headache, especially for smaller banks, which incur disproportionately higher cos compliance.

That is "bad news for community banks already collapsing under mountainous regulatory burdens," said ABA Chairman Step also heads Cincinnati-based LCNB National Bank.

Some 42 mostly smaller banks have folded this year amid continued loan woes.

Community banks make loans that big banks wouldn't touch. Fewer banks mean fewer sources of capital, as well as higher r customers.

"If we tie up our capital system, it's going to take money away from the people who need it to create jobs," warned U.S. Char Commerce President Tom Donohue.

The law also heightens litigation risk. Smaller banks can't afford the army of lawyers required to fend off federal redlining con consumer lawsuits.

Dodd-Frank makes it easier for borrowers to sue lenders to get out of mortgages that contain so-called "abusive" features ba

bureau, including high interest charges and fees and prepayment penalties.

The powerful credit cop also will enforce "fair-lending" rules outlawing credit discrimination.

The Warren Court

CFPB is set to launch July 21. As the only agency dedicated solely to consumer protection, it will need to grow massively to cover its jurisdiction — which includes banks, independent mortgage lenders, credit unions, credit cards and student loans.

Warren, now interim director, is expected to be nominated by President Obama and confirmed by the Democrat-run Senate in the next few weeks. Warren has outspoken views.

During her long academic career, she's proposed nationalizing banks and capping interest rates. She's made almost \$100,000 in consulting expert testimony in lawsuits vs. banks.

Senate Republicans threaten to block her confirmation unless banking regulators get the power to overturn CFPB decisions that go too far.

House Republicans say the law vests too much power in her position, which reports only to the president. They've cleared a path for her with a five-member commission.

Warren contends critics' real goal is to make her agency "toothless" to fight the market "excesses" that she says caused the financial crisis. "They want to kill the agency," agrees Ed Mierzwinski of the U.S. Public Interest Research Group in Washington.

Republicans don't have the votes in the Senate to repeal Dodd-Frank. But they could tie up funding.

GOP lawmakers worry about the volume and pace of rulemaking under Dodd-Frank.

The 2,319-page law is expected to translate into tens of thousands of pages of new rules in the Federal Register. Regulatory agencies are rushing to write them, giving industry little time to comment on their impact.

The sweeping reform, which contains a whopping 16 titles, requires more than 250 rulemakings, which may not be fully implemented for several years.

In contrast, the Sarbanes-Oxley Act of 2002 took just 16 rulemakings over two-and-a-half years.

"I think my grandchildren are going to be writing those rules many years from now," Donohue said.

The process is creating unprecedented uncertainty.

"The uncertainty is a major cause of concern right now not only for our customers, but for the industry," said Mike Detwiler, president of Denver-based Mortgage Cadence, a leading provider of underwriting software.

Under Dodd-Frank's regulations, he predicts, lenders will have fewer product choices, and will likely suffer even lower volume margins.