Ideas in Action

Ideas in Action is a public forum to present discussion of issues that affect Florida's economy, public policy, and concerns that touch the lives of many Floridians. The opinions expressed in this publication are solely those of the author(s), and do not necessarily reflect those held by the members, staff, or distinguished Board of Trustees of Florida TaxWatch.

Over-Regulation of Banking Industry Bad for Everyone

Written by: Alex Sanchez

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There are so many words that I could use to detail the challenges facing the banking industry in Florida and throughout the country. But, sometimes, a picture really is worth a thousand words. Take a look at the picture of me standing by a small mountain of federal government regulations—a physical example of the paperwork and red tape that are fodder for government jokes. For a little context, I stand 6'5" tall. The stacks of paper are the Federal Register from April 2011 to date, which has grown to be more than ten feet tall. Each and every day, this publication is printed with the new rules and regulations from the Obama Administration and the federal agencies, including the banking regulators.

Specifically, the Dodd-Frank Act—the biggest re-write of financial regulations in decades—has had a major and direct impact on the banking industry. According to the American Bankers Association, Dodd-Frank:

- Required federal financial regulators to write and enforce 398 new rules;
- Is only halfway through writing mandated rules, but has already created 5,905 pages of proposed regulations with an additional 7,708 pages of final rules;
- Has a lengthy and complex implementation process which will likely take years more, adding to uncertainty for banks;
- Requires more than 60 million hours of paperwork for compliance.

How are banks, especially, community banks expected to manage this non-stop avalanche of regulations?

Each and every day, Florida banks must keep up with all of this. Unfortunately, many small community banks do not have the resources to follow all of the updates to the Federal Register and the regulations contained therein. Complying with the new regulations has imposed tremendous costs for banks of all sizes, both in terms of dollars paid and in the number of services and products they are able to offer their customers. Ultimately, the cost of over-regulation will be felt by bank customers in the form of restricted credit and fewer services and products being available.

Former Federal Reserve Governor Elizabeth Duke noted that "hiring one additional employee would reduce the return on assets by 23 basis points for the median bank in the group of smallest banks, those with total assets of $50 million or less. To put this estimate in perspective, such a decline could cause about 13 percent of the banks of that size to go from profitable to unprofitable."

Conservative estimates place banking industry compliance at 12 percent of operating costs. Banks have been forced to place personnel in compliance areas, rather than in lending and customer service. This reduces resources that could be directly applied to serving a bank's customers and community. It means fewer loans get made, slower job growth and a weaker economy. When banks aren't lending, there is a broad impact that ripples through communities. Over-regulation of the banking industry is bad for everyone.

This is why the Florida Bankers Association (FBA) and its members will be making trips to Washington, D.C. every month of this year. Rain, snow, sleet or hail (and, believe me, we've seen it all) we will not stop advocating. Each time I walk through the halls of our nation's Capitol I carry a message about the unreasonable regulatory burden placed on banks. The banking industry needs regulatory relief and we need it now. With the current political environment, relief will only happen if we convince Democrats and Republicans that it is needed so the FBA is working with both sides of the aisle.

We know that we have much work to do and we cannot stop.

Alex Sanchez is president and CEO of the Florida Bankers Association (FBA). Established in 1888, the FBA is one of Florida's oldest trade associations; its members include banks and trust companies of all sizes that have a presence in Florida.

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