No. 14-05
FEBRUARY 2014

WORKING PAPER

HOW ARE SMALL BANKS FARING UNDER DODD-FRANK?

by Hester Peirce, Ian Robinson, and Thomas Stratmann

MERCATUS CENTER
George Mason University

ABSTRACT

This paper presents the results of the Mercatus Center's Small Bank Survey, which include responses from approximately 200 banks across 41 states with less than $10 billion in assets each, serving mostly rural and small metropolitan markets. The initial analysis suggests that Dodd-Frank significantly affects small banks and their customers. A large majority of respondents viewed Dodd-Frank as more burdensome than the Bank Secrecy Act, and the participating banks reported substantially increased compliance costs in the wake of new regulations. These costs include hiring new compliance personnel, increased reliance on outside compliance experts, additional resources allocated to compliance, and more time spent by noncompliance employees on compliance. The increased regulatory burdens have led small banks to reconsider their product and service offerings, including considering whether to stop providing residential mortgages. Many small bank customers, who will have difficulty locating convenient alternatives, will feel the indirect effects of Dodd-Frank.

JEL codes: G21, G28, K23, L11, L150, L250, L510, Y1

Keywords: banking, bank regulation, Dodd-Frank, community banks, FDIC, Federal Reserve, OCC, firm size, market structure, mortgages, policy, small banks, standardization

PRINCIPAL FINDINGS

- *Compliance costs.* Small banks are spending more on compliance in the wake of Dodd-Frank. The median number of compliance staff for the banks in our survey increased from one to two, and more than a quarter of respondents plan to add another compliance person. More than eighty percent of respondents saw their compliance costs rise by more than five percent since 2010.
- *Concerns.* Small banks are most concerned about the Bureau of Consumer Financial Protection and the new mortgage rules.
- *Consolidation.* Small banks are responding by trimming their product lines and contemplating mergers with other banks. They are rethinking whether to offer residential mortgages and home equity lines of credit. Approximately twenty-five percent of the banks we surveyed are contemplating mergers.

Mercatus Center at George Mason University
3434 Washington Boulevard, 4th Floor
Arlington, VA 22201
www.mercatus.org

CONTENTS

Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank) three and a half years ago in response to the financial crisis of 2007–2008.[1] Since the law's enactment, federal regulators have steadily issued subsequent rules to govern the practices of U.S. financial institutions. The legislative text of Dodd-Frank alone totaled approximately 850 pages.[2] As of mid-November 2013, its new rulemakings had created nearly 19,000 pages of regulatory text, with approximately sixty percent of the rules still outstanding.[3]

Although new regulations associated with Dodd-Frank affect many types of financial institutions and other companies, the effect on small banks has emerged as a matter of considerable concern. Federal Reserve Chairman Ben Bernanke expressed it this way:

> As battle-scarred survivors of a financial crisis and deep recession, community bankers today confront a frustratingly slow recovery, stiff competition from larger banks and other financial institutions, and the responsibility of complying with new and existing regulations. Some observers have worried that these obstacles—particularly complying with regulations—may prove insurmountable.[4]

In making these comments, Chairman Bernanke likely was reacting to sentiments such as those expressed by one of the small bank respondents in our survey that "[m]ore [c]ompliance expense is killing the small community banks, who actually serve, work, volunteer in the communities they serve. The new rules are going to make it nearly impossible to continue helping our community." In response to such concerns, regulators—as they continue to promulgate rules—have deliberately reached out to small banks.[5]

Small banks were not a principal regulatory target of Dodd-Frank. Proponents of the law described it as a targeted response to Wall Street's large financial institutions and their potential to cause downstream harm in the broader economy. In their view, Dodd-Frank was intended to ensure that "[n]o longer again will recklessness on Wall Street cause joblessness on Main Street."[6] One of the statute's primary architects, Senator Christopher Dodd, explained that "[w]e have put an end to too-big-to-fail bailouts and to an era in which executives on Wall Street felt free to gamble with other people's money in the belief that American taxpayers would be there for them if they lost."[7]

The law's advocates explained that small banks were not responsible for the crisis and should not pay for larger financial institutions' missteps. Senator Dodd challenged the "myth" that "Dodd-Frank hurts small businesses and community banks" and explained that "[t]he law is squarely aimed at better regulating the largest and most complex Wall Street firms—the ones that were most responsible for the crisis and still present the most risk. Small community banks were victims of the crisis, with hundreds failing as a result of the big banks' risky gambles."[8] Neal Wolin, Deputy Secretary of the Treasury, likewise explained that "[t]he authors of the Dodd-Frank Act understood the important role of community banks and that they were not the cause of the crisis. That is why Dodd-Frank is focused on constraining risk at the largest institutions and on closing

gaps in regulation for activities, like derivatives trading, that are not central to the business of community banks."[9]

Dodd-Frank made certain accommodations for small banks. For example, changes deemed favorable to small banks were made to the way that deposit insurance premiums are calculated.[10] Further, small banks were exempted from the so-called Durbin Amendment, which limits debit interchange fees.[11] Perhaps most significantly, small banks are not subject to direct supervision by the Bureau of Consumer Financial Protection (the agency also known as the Consumer Financial Protection Bureau).[12] Instead, their federal prudential regulator—the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, or the Office of the Comptroller of the Currency—is primarily responsible for enforcing the Bureau's rules.[13] Dodd-Frank also directed the Bureau to consider as part of its rulemaking "the impact of the proposed rules" on small financial institutions.[14] As another example, only large banks are subject to Dodd-Frank's stress-testing requirements.[15] In addition, Dodd-Frank's employee incentive compensation provisions do not cover banks under $1 billion in assets.[16]

Despite the intentions of Dodd-Frank's proponents and the attempts made to moderate its effect on small banks, as regulators have filled in the details of the new regulatory regime there has been a growing realization of the law's profound effects on financial institutions of all sizes. Bankers,[17] politicians,[18] regulators,[19] and commentators[20] have noted the potential harm that Dodd-Frank is causing small banks and the communities they serve. Most of these concerns are based on an increasing body of compelling anecdotes rather than on broad-based survey data.

This paper adds to the discussion about the effects of Dodd-Frank on small banks by describing and analyzing the results of a survey of approximately 200 small banks that the Mercatus Center at George Mason University conducted. The purpose of the survey was to understand with more granularity how Dodd-Frank is affecting small banks. Our findings suggest that Dodd-Frank has deeply affected small banks. They are spending more time and money on compliance and, in some cases, are shifting away from products, such as residential mortgage loans, for which the regulatory burden appears to outweigh the benefits of continued involvement. Dodd-Frank's effects differ in nature and degree across small banks, and compliance costs may moderate as regulators more clearly define regulatory requirements and banks get accustomed to complying with the new regulators and regulatory requirements. The prevailing sentiment among surveyed banks, however, is that regulatory-compliance burdens are becoming a growing obstacle to small banks' profitability and their ability to serve their communities.

The paper proceeds as follows. Section 1 briefly describes the nature of the small bank industry and the regulatory challenges that small banks face as a result of Dodd-Frank. Section 2 provides an overview of other small bank empirical studies. Section 3 discusses the survey design, methods, and response rate. Section 4 presents the quantitative results for each of the survey categories and includes selected narrative responses. Section 5 discusses differential effects across small banks, and section 6 concludes. The paper's appendices summarize all non-narrative responses, set forth the survey instrument, and provide summaries of other small bank empirical studies.

1. SMALL BANKS AND DODD-FRANK

TO EMPHASIZE THAT size is our sole demarcating criterion, we used the term "small bank" in the survey (and this paper) instead of the more commonly used term "community bank," unless we were referring to the work of others. Common definitions for "community bank" also rely on the size of a bank's total consolidated assets. There is not, however, a uniformly accepted size cutoff. The Board of Governors of the Federal Reserve System uses a $10 billion threshold to define community banks.[21] Dodd-Frank typically employs a $10 billion threshold for purposes of certain exemptions.[22] The Government Accountability Office (GAO) used a $10 billion cutoff in a recent study on community banks.[23] Other regulators traditionally have used a $1 billion threshold.[24] Yet other definitions of "community bank" incorporate factors that seek to capture the essence of a community bank as a locally focused financial institution specialized in the provision of traditional banking products and services.[25]

The Federal Deposit Insurance Corporation (FDIC) recently developed a more nuanced definition that considers factors in addition to asset size.[26] The FDIC explained that "using only a size cutoff does not account for industry growth, and the attributes associated with community banks are not exclusively tied to size."[27] Accordingly, the FDIC's definition is a multi-step approach that considers size, but also includes looking at features of a banking organization such as whether it takes deposits and makes loans, how its assets are employed, whether it is engaged in basic banking activities, and how spread out its offices are geographically.[28]

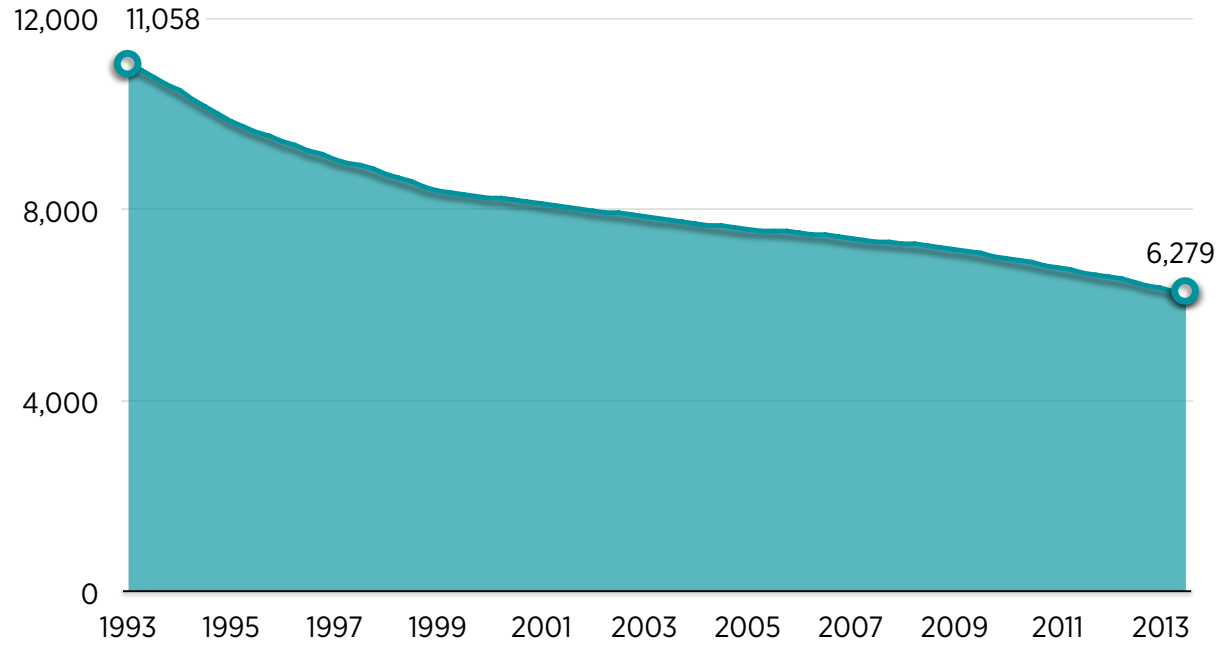
Although a multipronged, activity-centric definition such as the one employed by the FDIC is useful, for ease of administration we selected the threshold of $10 billion in assets. We defined "bank" to include "the bank, thrift, or banking entity for which [the person completing the survey] work[ed], including all its branches." Although we asked bank respondents to identify whether they operate within a holding-company structure, we did not ask them to answer on behalf of the whole holding company. Approximately 71.0% of small banks are in a holding company, but 93.5%[29] of these banks have only one insured depository within the holding company.[30] The $10 billion threshold means that we include banks that are excluded by the FDIC's definition, but our simpler definition allowed for easier identification of target banks, aligns with other regulatory and legislative approaches for delineating community from non-community banks, and recognizes that bank size is important in understanding Dodd-Frank's effects. The $10 billion threshold also corresponds with the eligibility threshold for many Dodd-Frank exemptions, and thus is a useful cutoff for a survey designed to shed light on the Act's consequences.

We nevertheless acknowledge that small is in the eye of the beholder. The CEO of a $200 million bank is not likely to perceive a $10 billion bank as small, but a potential investor may think of the $10 billion bank as small.[31] Many of the challenges faced by banks at the small end of the spectrum are very different from those at the large end. Among other things, it is much easier for a $10 billion bank to absorb compliance costs than it is for a $100 million bank to do so.

A. Decline of the Small Bank

U.S. banks come in a wide range of sizes and types. Small banks dominate the banking landscape in the United States in terms of numbers, but not in terms of assets. The biggest banks have been growing in size as the ranks of small banks have decreased over the years. By one estimate, more than five percent of community banks failed during the financial crisis.[32] Even apart from failures during the crisis, however, the downward trend in numbers of small banks is dramatic, as we illustrate in figure 1.

Figure 1. Number of Banks with $10 Billion or Less in Assets (Quarterly Data, 1993–2013)



Source: FDIC statistics on depository institutions, http://www2.fdic.gov/sdi/download_large_list_outside.asp.

Notes: Institutions were aggregated under their bank holding companies where applicable. Available data did not permit thrifts to be aggregated under their holding companies.

The reasons for the decline in small banks are complex and are not all rooted in failure. The FDIC explored the data in its study of community banks, which uses the more nuanced definition described above rather than our size-based definition.[33] Over 2,500 banks failed between 1984 and 2011.[34] These failures occurred mostly during the savings and loan crisis and the most recent crisis.[35] Another 12,500 banks were merged or consolidated.[36] There were an average of 346 mergers per year from 1985 to 2000, but only 182 mergers per year from 2000 to 2011.[37] Bank charter consolidations follow a similar pattern.[38]

Offsetting the merger and consolidation trend, there were 4,888 new charters from 1984 to 2011.[39] The ranks of banks under $100 million dropped by a notable 11,392 banks during that period.[40] By contrast, the number of banks with between $100 million and $10 billion in assets grew by nineteen percent.[41] The FDIC's study analyzes these statistics to show that the relative

stability in this larger category masks the fact that "their ranks were constantly being thinned over time by failures, mergers, and consolidations and replenished by new charters and growth among smaller institutions."[42] Banks that started out below $100 million—"the group that would experience a net decline of 82 percent in their numbers by 2011—were in fact more likely than any other size group to survive the entire 27-year period."[43] A handful of these very smallest banks even turned into banks in the over $10 billion category.[44] The net result of all of this activity is that, as of September 30, 2013, the FDIC reported a total of 6,377 insured financial institutions, with 6,279 financial institutions below the threshold of $10 billion in assets.[45]

As the number of banks has dropped, banking assets have grown and have become increasingly concentrated in the largest banks. Between 1990 and 2011, the assets held by the four largest banks went from being equal to nine percent of gross domestic product (GDP) to being equal to fifty percent of GDP.[46] The distribution of assets held by banks is striking; 98.5% of all institutions meet our definition of a "small bank," but collectively these banks hold approximately 18.6% of total assets. The remaining 98 large financial institutions hold approximately 81.4% of total assets. Table 1 illustrates the concentrated nature of the banking industry.

Table 1. Banks Reporting Assets Below/Above $10 Billion

	Banks with less than $10 billion in assets	Percentage of total	Banks with more than $10 billion in assets	Percentage of total
Number of banks	6,279	98.5	98	1.5
Total employees (FTE)	601,108	28.9	1,479,263	71.1
Total assets	$2,731,527,228,000	18.6	$11,933,515,111,000	81.4
Total deposits	$2,221,556,135,000	20.1	$8,849,220,250,000	79.9
Total equity capital	$303,025,497,000	18.5	$1,333,875,439,000	81.5

Source: FDIC statistics on depository institutions, http://www2.fdic.gov/sdi/download_large_list_outside.asp.

Note: Figures as of September 30, 2013. Institutions were aggregated under their bank holding companies where applicable. Available data did not permit thrifts to be aggregated under their holding companies.

B. Role of Small Banks

Despite the decline in their numbers, small banks still play an important role in the American banking system, the economy, and their communities. Small banks tend to concentrate on the local provision of traditional banking services and fund themselves with customer deposits.[47] The FDIC found that "many nonmetro (and a surprising number of metro) areas tend to rely much more heavily on community banks as their lifeline to mainstream financial services."[48] They are central players in rural areas.[49]

Small banks play a key role in many market segments. Tanya Marsh and Joseph Norman—using FDIC data and a definition of "community bank" similar to the FDIC's definition—report that "community banks provide 48.1% of small business loans issued by U.S. banks, 15.7% of residential mortgage lending, 43.8% of farmland lending, 42.8% of farm lending, 34.7% of commercial real estate loans, and hold 20% of all retail deposits at U.S. banks as of 2010."[50] As these figures suggest, small banks are particularly important as agricultural lenders[51] and small-business lenders.[52]

Because of the local focus and emphasis on small-business lending, according to the FDIC, community banks can play a role in fostering local entrepreneurship:

> By carrying out the traditional banking functions of lending and deposit gathering on a local scale, community banks foster economic growth and help to ensure that the financial resources of the local community are put to work on its behalf. Community banks have always been inextricably connected to entrepreneurship.[53]

Small banks often forge closer relationships with their customers than their larger competitors do. They cannot afford to burn bridges with their customers, so they take steps to ensure repeat business.[54] Their resulting ability to gather and consider "soft information" enables them to lend to borrowers that might not be able to get loans from larger institutions that rely more on standardized lending criteria. One study described how small banks can fill a niche "stemming from their ability either to successfully lend to what have been variously described as 'informationally opaque' borrowers—borrowers without long credit histories suitable for credit-scoring or other model-based lending practiced by large banks—or to engage in relation- or reputation-based lending or lending in low-volume markets."[55] Thus, a small bank may be better suited than a larger one to cater to consumers who have irregular income[56] or small businesses that "do not have audited financial statements and other data that may be used by large banks in credit scoring models."[57] Small-business lending, in particular, is one area in which small banks can competitively distinguish themselves by utilizing nonstandardized information gathered in the course of a long banking relationship.[58]

The tailored approach that employs nonstandardized information appears to be profitable. The FDIC found that community banks incur lower losses on their loans than non-community banks.[59] Some small banks even earn higher returns than their larger counterparts.[60] Indeed, "[a]ggregate performance patterns of institutions in different size classes suggest that community banks [here defined as banks with less than $1 billion in net assets] have been able to earn more as lenders than larger organizations have, but community banks also face rising relative operating costs."[61] As will be discussed below, regulations are one component of those costs.[62]

C. Dodd-Frank's Impact on Small Banks

Regardless of the content of Dodd-Frank, banking regulations generally tend to have a disproportionate effect on small banks. Small banks lack the depth of compliance expertise necessary to facilitate cost-effective compliance with, and legal avoidance of, regulatory obligations. One would expect that JPMorgan, with its compliance staff of more than 5,000,[63] is better able to absorb new regulations than a small bank with a compliance staff of five. A subset of regulatory costs are fixed costs, which means they do not vary with the size of the institution. Every bank, for example, has to make required changes to mortgage disclosures, but a large bank will be able to spread the associated legal and administrative costs over a larger number of mortgage loans.

Furthermore, small banks, which already have a difficult time attracting qualified personnel, may feel that recruiting challenge more keenly at a time when regulatory changes are forcing all banks to hire more compliance personnel.[64]

Although large banks are subject to substantially more regulatory requirements than small banks and generally have more intricate regulatory structures, certain fixed costs of understanding and absorbing new regulatory mandates apply to all banks, regardless of size. Moreover, even rules directed only at large banks could "eventually be applied to small institutions in varying degrees, for example, through industry best practices."[65]

Small banks, which cannot spread compliance costs over a large asset base, are at a competitive disadvantage to large financial institutions. Gregory Elliehausen finds that "[t]he basic conclusion is similar for all of the studies of economies of scale: Average compliance costs for regulations are substantially greater for banks at low levels of output than for banks at moderate or high levels of output."[66] Incremental increases in compliance costs are likely to have a disproportionately negative effect on small banks' profitability.[67] Gilbert has shown that banks that are consistently high earners are characterized by a lower ratio of operating expenses to income.[68] Although Gilbert points out that this correlation may not imply causation,[69] the relationship is worth bearing in mind as regulators consider and implement additional obligations for small banks. Staff of the Federal Reserve Bank of Minneapolis attempted to quantify the costs of regulation by modeling the effect that hiring new compliance personnel has on bank profitability.[70] They find that "the impact on profitability is most significant for the smallest institutions."[71]

Compliance issues may be a particular distraction for high-level managers at small banks, who already have a number of disparate responsibilities.[72] Elliehausen reported results, based on reviewed case studies and surveys, that "suggest that a large part of the labor cost of complying with regulations is the time that bank officers and managers devote to compliance activities, especially the time devoted to complying with new regulations or major revisions of regulations."[73]

Compliance issues may also affect the customers of small banks. Small banks, looking for ways of recouping the increases in fixed costs, may, depending on the competitive landscape, pass these costs on to customers in the form of limited product offerings and higher prices for basic products and services. Regulatory burdens, therefore, can result in harm to small bank customers.[74] These customers may find themselves with limited access to banking services. They may shift their patronage to larger banks that enjoy competitive advantages in managing regulatory costs but are not as conveniently located, do not provide the same level of customer service, or do not offer a regionally tailored product mix. Large banks may also not be as willing to serve the customers, such as small businesses and rural populations, that small banks typically serve. Some retail customers will be able to use Internet banking, and some small businesses may be able to turn to nontraditional funding sources, such as crowdfunding.[75] These options, however, may not be suitable for, or available to, all of the former customers of a shuttered community bank. For example, a small business that was able to borrow money from a local bank with first-hand knowledge of the business is unlikely to be able to replicate that relationship with a remote lender.

Regulations—such as many of those emerging from Dodd-Frank—that encourage or insist on standardization of bank products and services can be particularly harmful to small banks and their customers. Large banks find it profitable to offer standardized products. Small banks tend to serve idiosyncratic markets, and they succeed by molding their business models to the economic contours of their local communities. A large bank cannot accommodate certain types of customers with its standard products and processes. If federal banking regulations require small banks to mimic these products and processes, these customers might find that small banks cannot serve them either. Professor Marsh and coauthor Norman explain it this way:

> [T]he focus on standardization fails to recognize challenges faced by borrowers who lack the deep credit history or documentation necessary for the model-based transactional lending used by large financial institutions. Self-employed workers, seasonal workers farmers, and people transitioning to work will be particularly at risk by increased standardization.[76]

One recent survey found that "many [community] bankers felt that the move toward standardized products and a 'one-size-fits-all' supervisory approach were taking away one of the strongest advantages of community banks: the ability to tailor products to fit individualized needs."[77]

In addition to standardization, commentators have identified specific parts of Dodd-Frank that are potential sources of difficulty for small banks. In September 2012, the GAO issued a report on Dodd-Frank's effect on community banks and credit unions and concluded that it was too early to assess the impact.[78] It found potential effects in seven of the sixteen Dodd-Frank titles.[79] The American Enterprise Institute (AEI) issued a report in May 2013 that considered how Dodd-Frank is affecting community banks.[80] It identified a number of specific relevant Dodd-Frank provisions, but concluded that the main effect of Dodd-Frank is to compound already existing regulatory burdens and force standardization of consumer financial products, which runs counter to small banks' business model.[81] In the authors' view, "Dodd-Frank exacerbates the broken model of American financial regulation that fails to differentiate between small banks engaged in traditional relationship banking and modern, complex financial services firms."[82] They recommend replacing that model with a two-tier regulatory system.[83]

The primary areas in which Dodd-Frank has the potential to affect small banks positively or negatively are set forth in table 2. Some of these areas are of much more immediate concern to bankers than others.[84]

Table 2. Provisions of Dodd-Frank with Potential Effects on Small Banks

Dodd-Frank title	Provision that could affect small banks
Title I	• Risk committee regulations • Designation of systemically important financial institutions • Capital requirements (in conjunction with Basel III)*
Title III	• Reassignment of authorities of Office of Thrift Supervision • Permanently raising deposit insurance to $250,000 • Changes in deposit insurance assessment base • Temporary unlimited insurance for transaction accounts
Title VI	• Easing interstate-branching restrictions • Volcker Rule • Authorization of commercial interest-bearing checking accounts
Title VII	• Derivatives-clearing, exchange-trading, and reporting mandates • Requirements on swap dealers and major swap participants • Position limits
Title IX	• Municipal advisor registration and regulation • Risk retention and "Qualified Residential Mortgage" definition • Removing credit ratings from statutes and regulations • Executive compensation requirements for public companies • Reporting of, and limits on, incentive compensation (banks > $1billion) • Exemption for small public companies from internal control audit
Title X	• Bureau of Consumer Financial Protection • Unfair, deceptive, and abusive acts and practices authority • Authorization for bureau to require reports from small banks • Small business loan and enhanced mortgage loan data collection • Mortgage disclosure simplification • Remittance transfer requirements • Durbin Amendment
Title XIV	• "Ability to Repay" rule and "Qualified Mortgage" definition • Enhanced enforcement authority for state attorneys general • Mortgage-originator standards • Mortgage-servicing requirements • Escrow account requirements • Appraisal requirements

Sources: Authors' assessment of Dodd-Frank; AEI Community Bank Study, GAO Community Bank Study.

** The Basel capital framework is the product of an international committee of bank supervisors, which sets a common framework, which is then implemented by member regulators. See Bank for International Settlements, About the Basel Committee, https://www.bis.org/bcbs/about.htm (last visited Feb. 11, 2014).*

2. OTHER SMALL BANK EMPIRICAL RESEARCH RELATED TO DODD-FRANK

EMPIRICAL WORK CAN help to determine which parts of Dodd-Frank are of greatest concern to small bankers. Our survey complements and extends other recent empirical studies of small banks. We discuss a number of these studies in detail in Appendix B.[85] These surveys looked at small banks of different sizes.[86] The studies ranged in number of participants from 9[87] to 1,700.[88] Each of these studies helps to provide a framework within which to understand small bankers' individual experiences, but each also has limitations. Several were limited to banks in specific states or regions.[89] Some of the surveys were not anonymous.[90] A number of studies were conducted by regulators, which may have affected bankers' answers.[91] Some of the surveys appear to have asked only a few, relatively broad questions about Dodd-Frank and regulatory burdens.[92]

Although our question set and the scope of our survey population is quite different than those employed by other studies, the findings of these other surveys are broadly consistent with our results. They found substantial concern among small banks about regulatory and compliance burdens, a finding that also emerges from our survey. Other surveys attempted to gauge the relative importance of regulatory-compliance burdens and found that they ranked high among the challenges facing small banks. Our survey respondents likewise pointed to regulatory burdens as a major challenge. Similarly, our survey reveals increased hiring of compliance personnel, more noncompliance employee time spent on compliance, and increased spending on compliance, trends also noted in other surveys. Like the Kansas City Federal Reserve survey,[93] our survey identified mortgage regulations as a particular area of concern.

Our survey distinguishes itself from others in the number and depth of its questions about Dodd-Frank. We were able to obtain more specific insights than the other surveys into how particular parts of the Act are affecting banks across the nation. In addition, we received detailed information about how specific products and services may be affected by Dodd-Frank.

3. SURVEY DESIGN AND METHOD

We believe that our work, which we designed to obtain granular information from a large number of banks across the nation, is an important contribution that helps to broaden the understanding of small banks' experiences since Congress passed Dodd-Frank. Moreover, because the Mercatus Center at George Mason University is independent of regulators, banks, and other commercial interests, and because the survey responses were anonymous, the results may be particularly useful. We describe our survey design and methods below.

The Mercatus Center's Small Bank Survey focused on Dodd-Frank's effects on small banks.[94] It consisted of seventeen survey sections covering background information, regulatory burdens, business operations, and strategic decision making. A copy of the survey instrument is available at http://mercatus.org/small-bank-survey.

We electronically distributed a link and the password to the web-based, password-protected survey to small banks.[95] We conducted the survey between July 2013 and September 2013. According to our estimates, the completion time for the survey by a broadly knowledgeable employee or executive of the bank was between fifteen and forty-five minutes.[96]

The main challenge that we encountered in administering the survey was finding willing survey respondents. We mentioned the survey in public forums that were related to small banks and Dodd-Frank.[97] In addition, we asked a number of national- and state-level banking associations to transmit the survey link to their members, and a number of them did so, although we are not sure how many. These associations did not have any input into the content or design of the survey and were not nor will be provided with access to its raw data or any nonpublic results. We also sent the survey link to more than 500 email addresses that we were able to locate or reverse engineer for small banks or their employees. We did not seek to obtain email addresses for all small banks

because doing so would have been too time-consuming. Because the method that we used to deliver the survey was not random, the survey results may not be representative of the general population of small banks. Our respondents may be more attuned to regulatory issues than other small banks, because they learned about our survey largely from trade associations.

The length of the survey—ninety-six questions—may have dissuaded some potential participants. Indeed, one bank to which the survey link was mailed responded that "[w]e are too busy working on Dodd-Frank to fill out your survey." We split the survey into four sections, with a total of seventeen categories. Table 3 identifies the four sections of the survey, the corresponding categories, and the relevant subsections of the Results section of this paper in which the findings are discussed.

Table 3. Survey Sections

Section	Categories	Results subsection
1	Bank Characteristics, Products and Services	A–B
2	Regulatory and Compliance Activities, Capital, FDIC, Durbin Amendment, Municipal Advisors, Regulatory Oversight, Volcker Rule, Compensation	C–J
3	Bureau of Consumer Financial Protection, Mortgages, Derivatives, Fees and Revenue	K–N
4	Strategy, Credit Ratings, Other Issues	O–Q

Participation in the survey was optional, and respondents could skip questions or withdraw from the study at any time, for any reason. The survey offered no rewards for participation or penalties for abstention.[98] We consulted outside experts in survey design and implementation, and convened two telephonic focus groups consisting of small bank executives to solicit feedback on a preliminary draft of the survey instrument.

We took all measures at our disposal to ensure the confidentiality and anonymity of survey respondents. We administered the survey through Wufoo, using a secured connection.[99] Distribution of the survey utilized a general link sent through emails that did not track respondents' email addresses. The survey instructed respondents to refrain from using personal names, the names of their banks, or any other personally identifiable information. We informed participants that we would present any results of the survey in aggregate form only, but we retained the right to quote from qualitative or narrative responses so long as these representations did not identify individual banks. We will not make particular respondents' aggregate survey responses public because, taken together, they might allow for identification of the responding bank. The full results of the survey have been kept secure by researchers overseeing the project and will not be shared outside of the Mercatus Center.

Approximately 200 banks responded to our survey. The number of respondents is different for each of the survey's four sections. Table 4 provides a breakdown of the number of respondents for each of the four sections. We included respondents in a section's count if they answered at least one question in that section.

Table 4. Number of Respondents in Each Section of the Survey

Survey section	Number of respondents (*N*)
1	222
2	190
3	172
4	162
Mean	187

As anticipated, some respondents did not complete every section, either due to time constraints or due to technical problems. We included respondents who answered a single question in a given section but then opted out or encountered technical difficulties. Thus, for instance, respondents who dropped out after the first section are not counted as "nonresponses" to questions in the later sections, but respondents who began a section and failed to complete it are counted as "nonresponses" for all the unanswered questions within that section. Many questions afforded respondents an opportunity to answer "not applicable" or "unsure," which may have helped to reduce the number of nonresponses.

Our sample is nonrandom, because respondents self-selected whether to participate, and we have not computed any statistical estimates about the degree to which the sample represents the population. However, the findings from the sample may be viewed as suggestive of the broad trends across the small bank segment of the banking industry.

Our survey sample includes banks ranging from $2.9 million to $9.4 billion in assets. Most small banks in our sample were at the low end of the range. This is reflective of the general population of small banks, which is skewed heavily toward banks under $1 billion. Figure 2 compares the distribution of banks in our sample with the distribution of the universe of small banks by size. Table 5 shows that the banks in our sample are slightly larger in assets and employees than the banks in the small bank universe.

Figure 2. Distribution of Survey Sample vs. Distribution of Small Bank Population

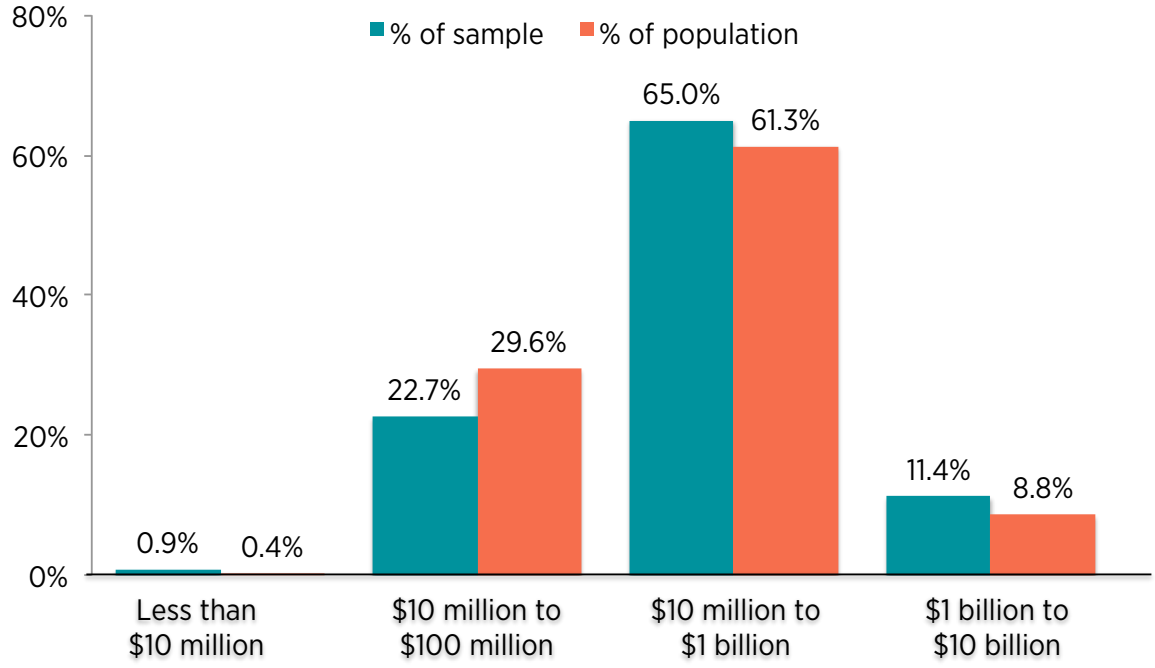


Table 5. Survey Sample vs. Small Bank Population

	Survey sample	Small bank population
Assets		
Mean	$510,926,326	$435,025,837
Median	$221,000,000	$173,405,000
FTE employees		
Mean	120	96
Median	52	41

4. RESULTS

We set forth the results of the survey below. The results we present are primarily the quantitative results, but we also include certain relevant narrative responses from a variety of respondents. The results are grouped according to the subject-matter categories that we employed in the survey. Additional results tables can be found in Appendix A.

A. Bank Characteristics

The survey first collected background information and characteristics of the participating banks. As reflected in table 5 above, the survey captured a broad and—on several important parameters—relatively representative cross section of the small bank industry.

As shown in figure 3, state-chartered, non–Federal Reserve member banks constituted the largest set of respondents, with 44.3% of the sample identifying themselves in this category. State-chartered Federal Reserve members (31.2%) and nationally chartered banks (23.1%) made up the second and third largest sets of respondents.

Figure 3. Bank Type

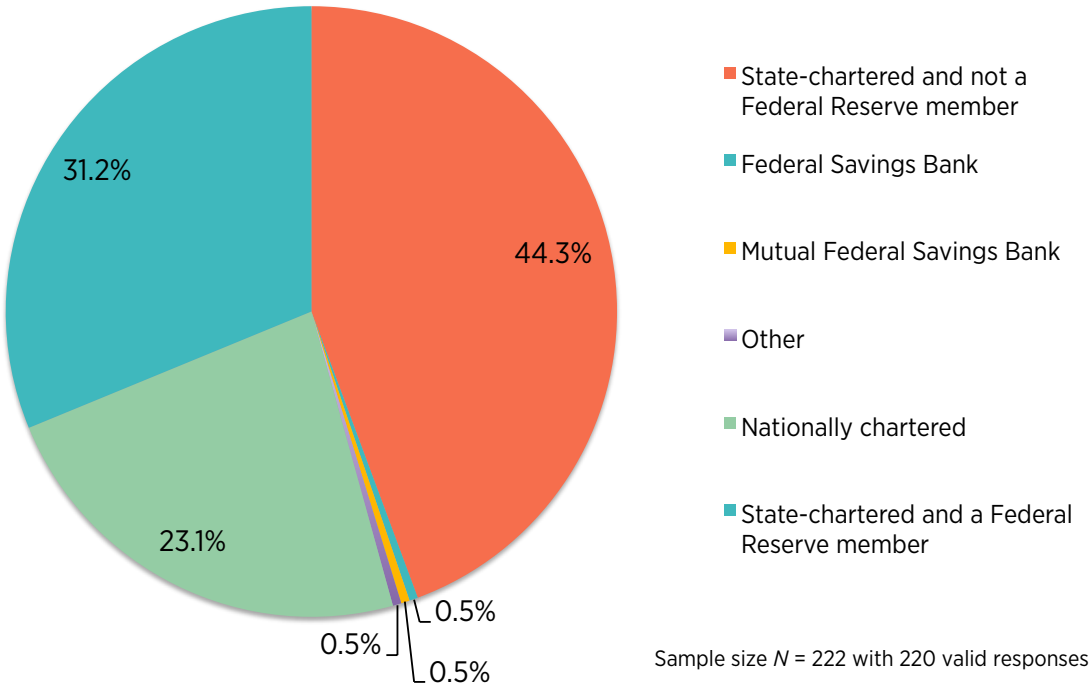
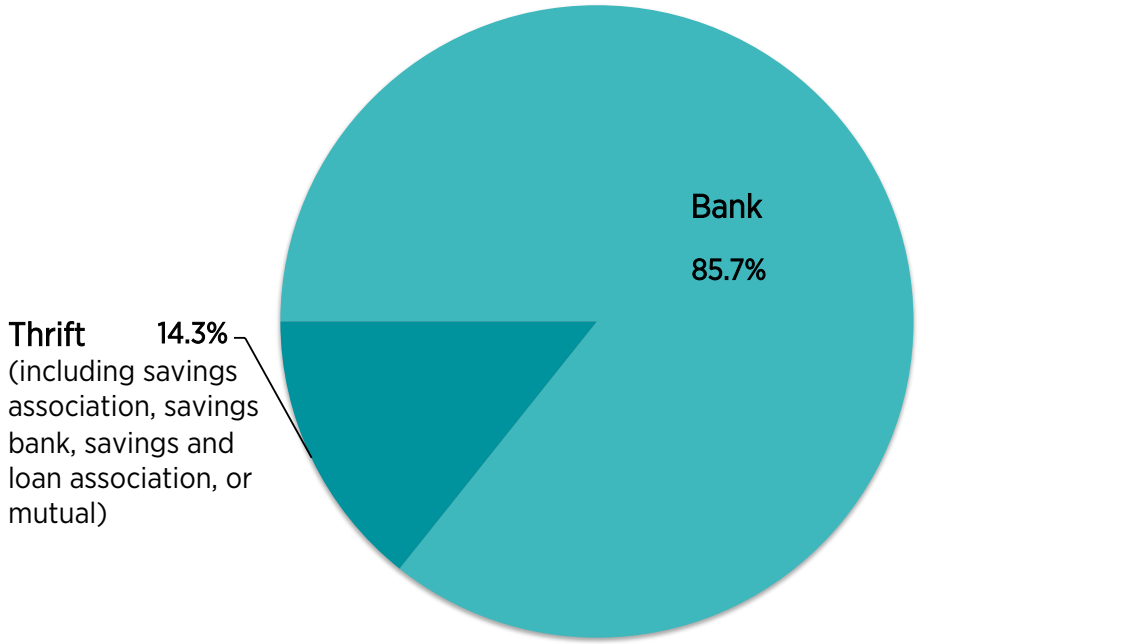


Figure 4 shows that the majority of respondents hold a bank charter (85.7%), and the remaining respondents hold thrift charters. As noted above, unless otherwise specified, we use the term "bank" to refer generically to banks and thrifts.

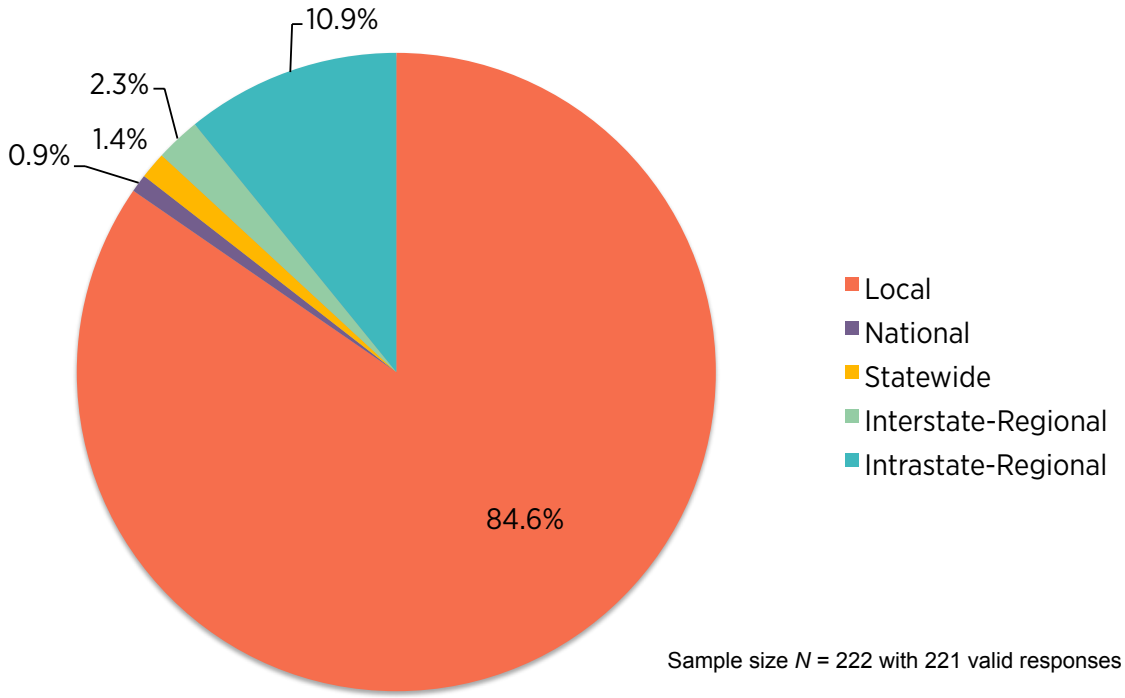
Figure 4. Charter Type



Sample size *N* = 222 with 217 valid responses

As figure 5 shows, the majority of responding banks identified themselves as local banks (84.6%). Others primarily identified themselves as intrastate-regional (10.9%), statewide (1.4%), or interstate-regional (2.3%) banks. Very few described themselves as national banks (0.9%).

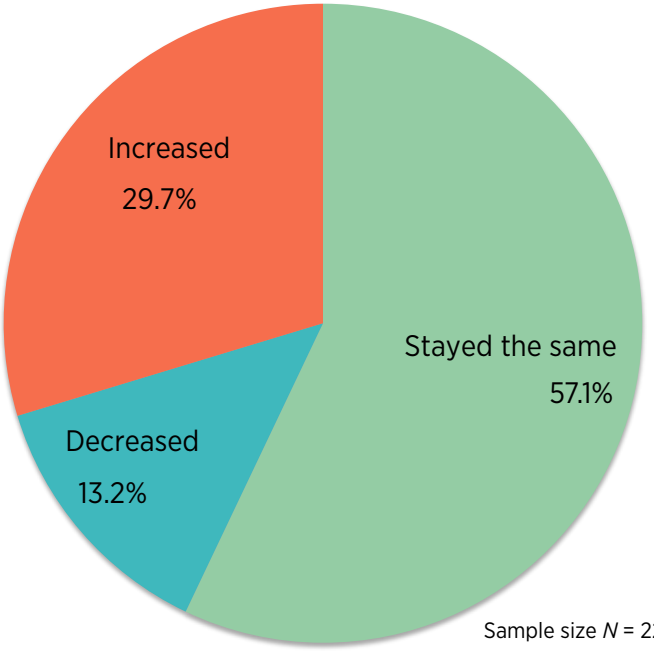
Figure 5. Geographical Footprint



Sample size *N* = 222 with 221 valid responses

The respondents reported numbers of branches ranging from 0 to 217, with a sample average of 10 and median of 4. Figure 6 shows that the majority of banks reported that the number of their branches had stayed the same since 2008 (57.1%). Of the remaining respondents, 29.7% reported an increase, and 13.2% reported a decrease in the number of branches since 2008.

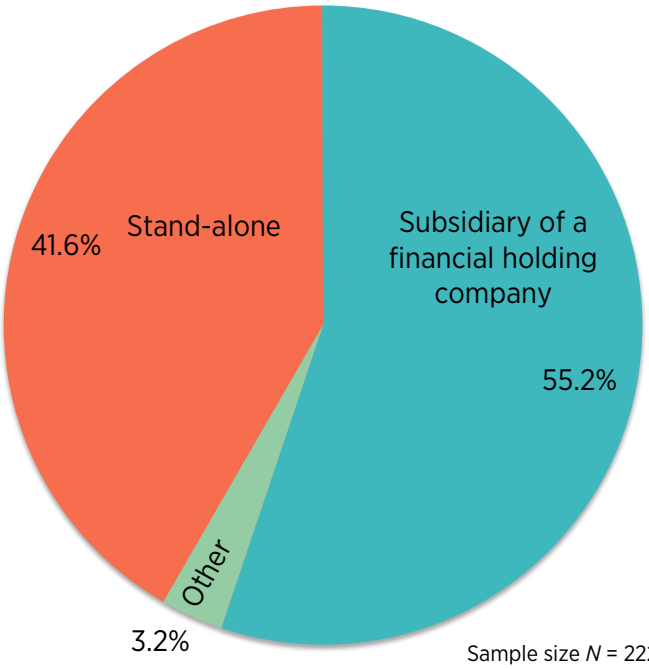
Figure 6. Changes in the Number of Branches Since 2008



Sample size *N* = 222 with 219 valid responses

As figure 7 shows, 55.2% of respondent banks are subsidiaries of a "financial holding company," which is a common structure pursuant to which a bank's stock is partially or entirely owned by a holding company.[100] The remaining respondents primarily identified as stand-alone (41.6%).

Figure 7. Organizational Structure



Sample size *N* = 222 with 221 valid responses

Figure 8, which represents the responses regarding bank-ownership type, shows that more than a third of respondents are closely held. Respondents were allowed to select multiple responses; therefore, percentages do not sum to 100%.

Figure 8. Ownership

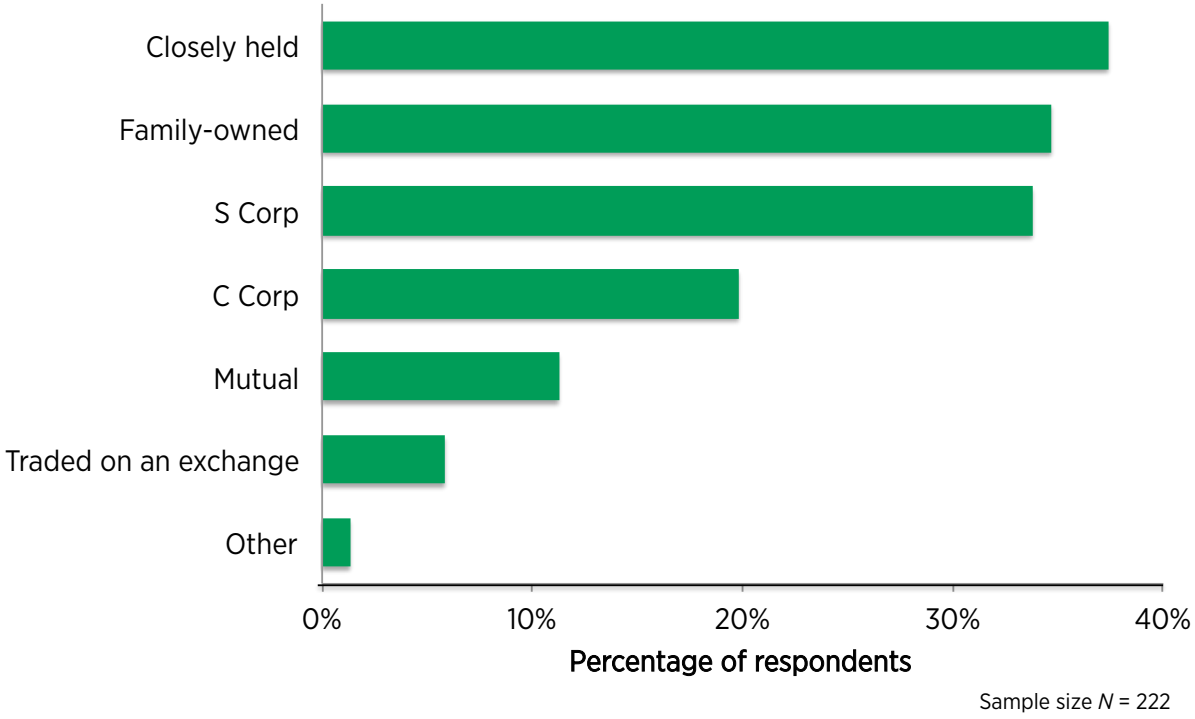
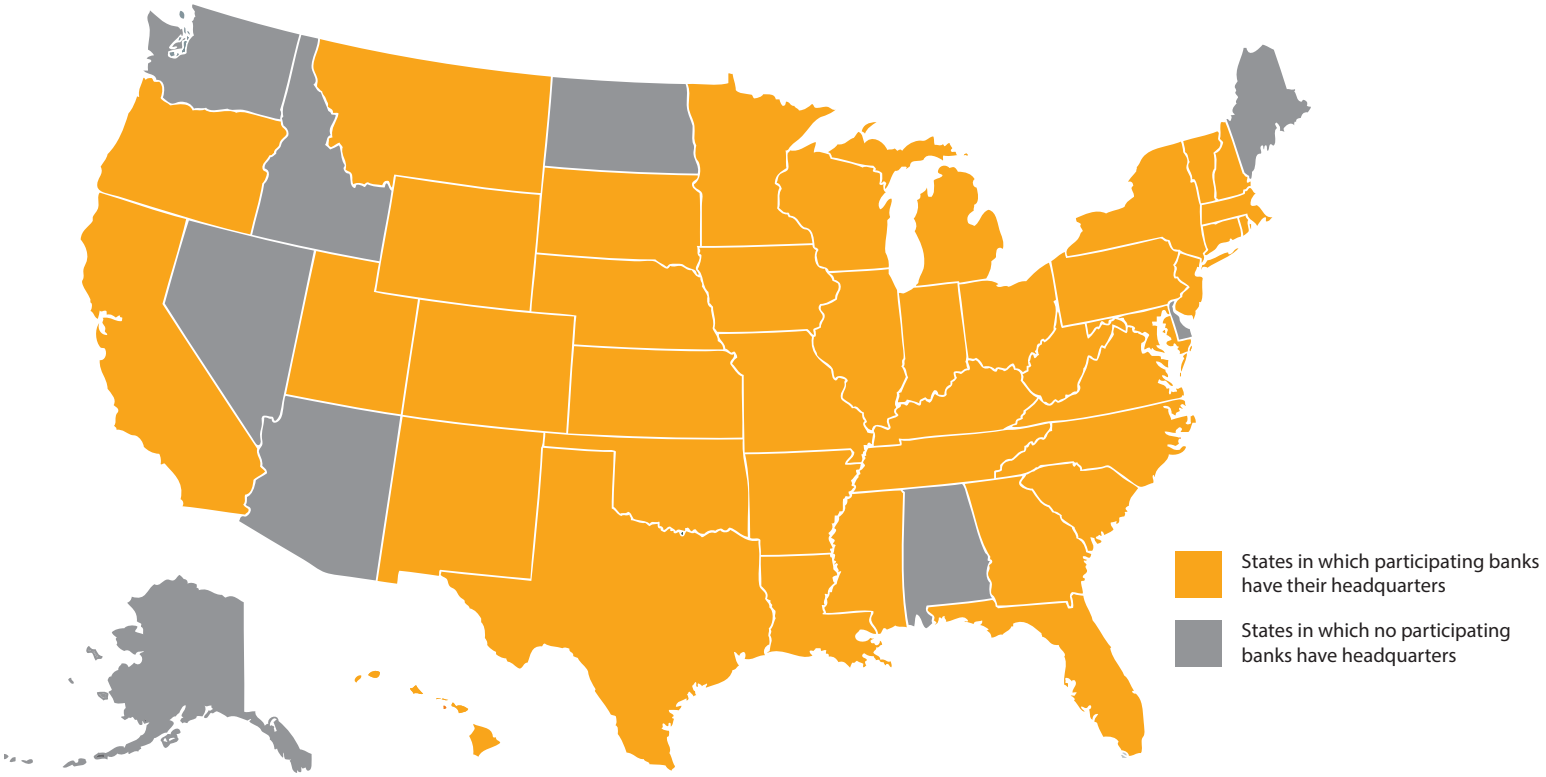


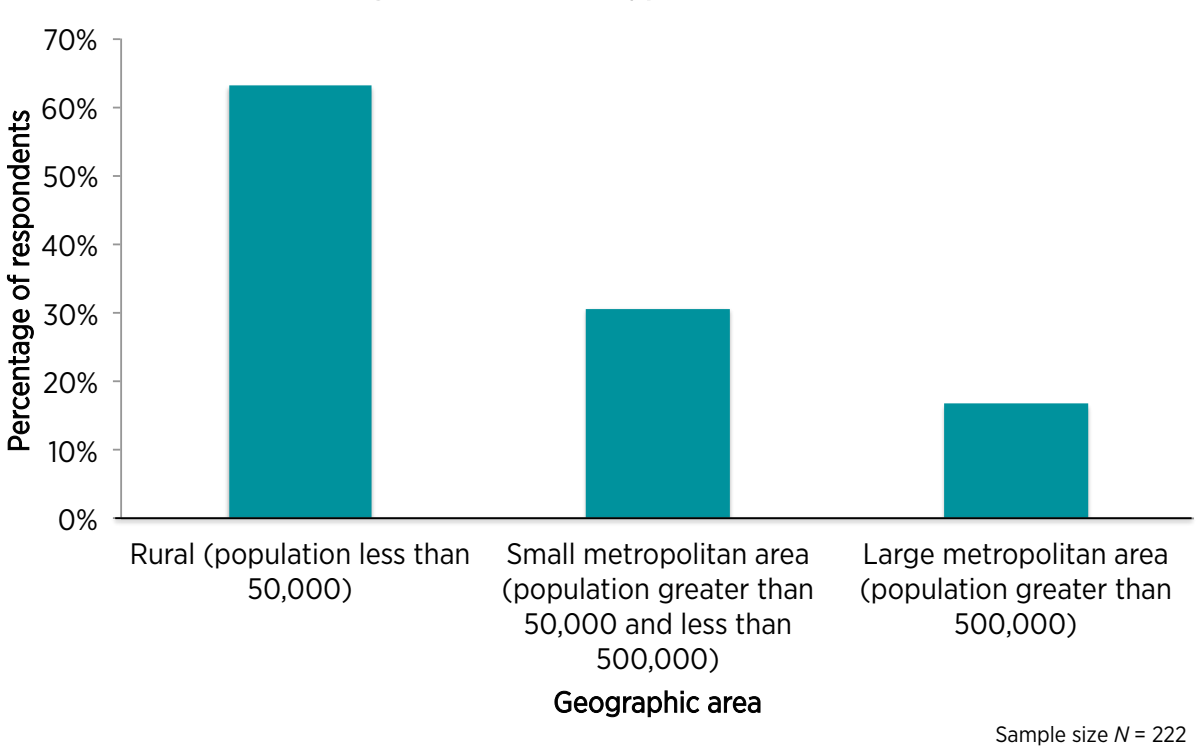
Figure 9 identifies the states in which participating banks have their headquarters. Our sample represents banks in forty-one states. Table 15 in Appendix A provides a table that reports the number of survey respondents in each U.S. state. Responses were not evenly distributed across the represented states. In part, this is a result of the different degrees of willingness of small bank associations to distribute our survey to their members.

Figure 9. Geographic Distribution of Responding Banks



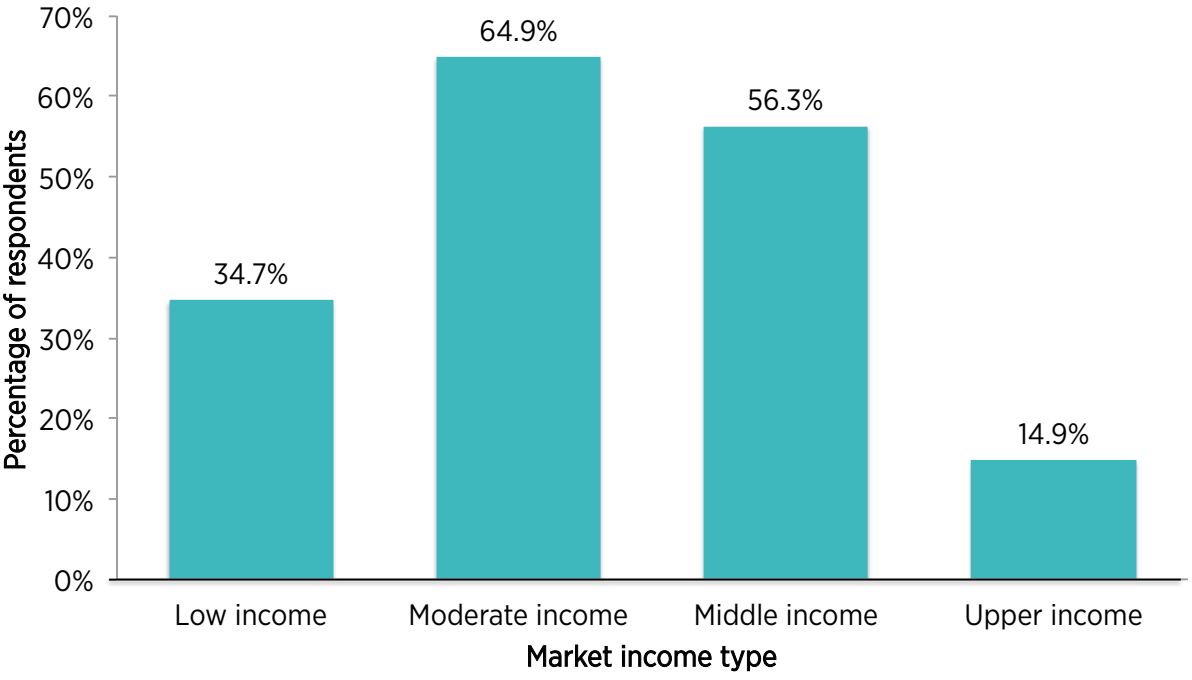
Figures 10 and 11 show the types of markets that participating banks serve. The figures show the relative over-representation of small banks in rural and small metropolitan areas and illustrate the role these banks play in serving nonwealthy populations. Respondents were allowed to select multiple responses; therefore, percentages do not sum to 100%.

Figure 10. Market Type(s) Served



Sample size *N* = 222

Figure 11. Income Market(s) Served



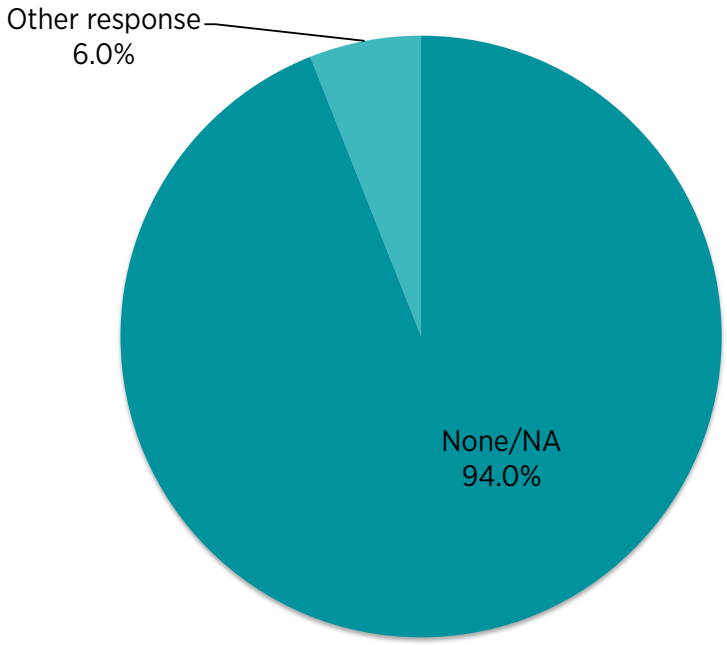
Sample size *N* = 222

B. Products and Services

The survey sought to understand the relative importance of small banks' various product and service offerings and the effects of Dodd-Frank on these offerings. As figure 12 shows, almost all respondents responded that they would not *add* any new products as a result of Dodd-Frank. Several respondents were quite emphatic in their responses. One of these stated that

> We will not be adding any products, services or lines of business because of Dodd-Frank. It makes compliance too difficult and we will only be reducing the products offered. … These regulations have all but destroyed our market and will do the same to the banking industry as a whole if nothing is done to prevent further damage.

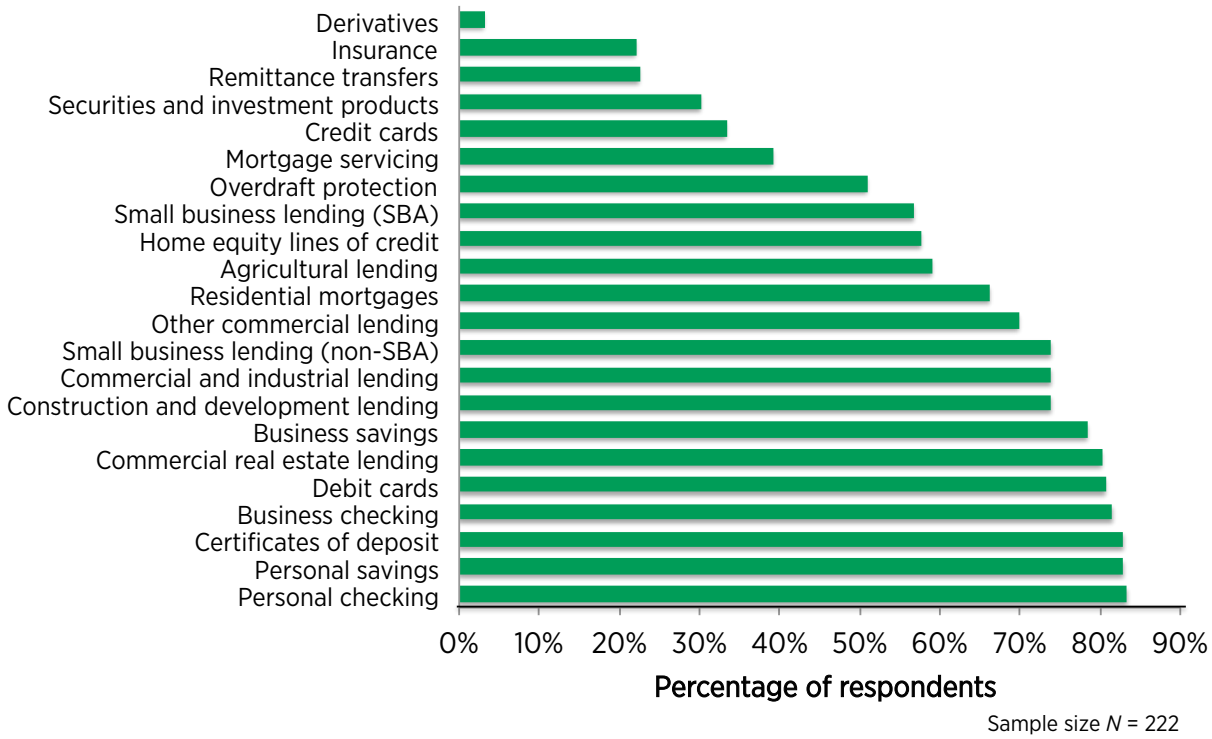
Figure 12. Adding Products and Services in Response to Dodd-Frank



Sample size *N* = 222 with 133 valid responses

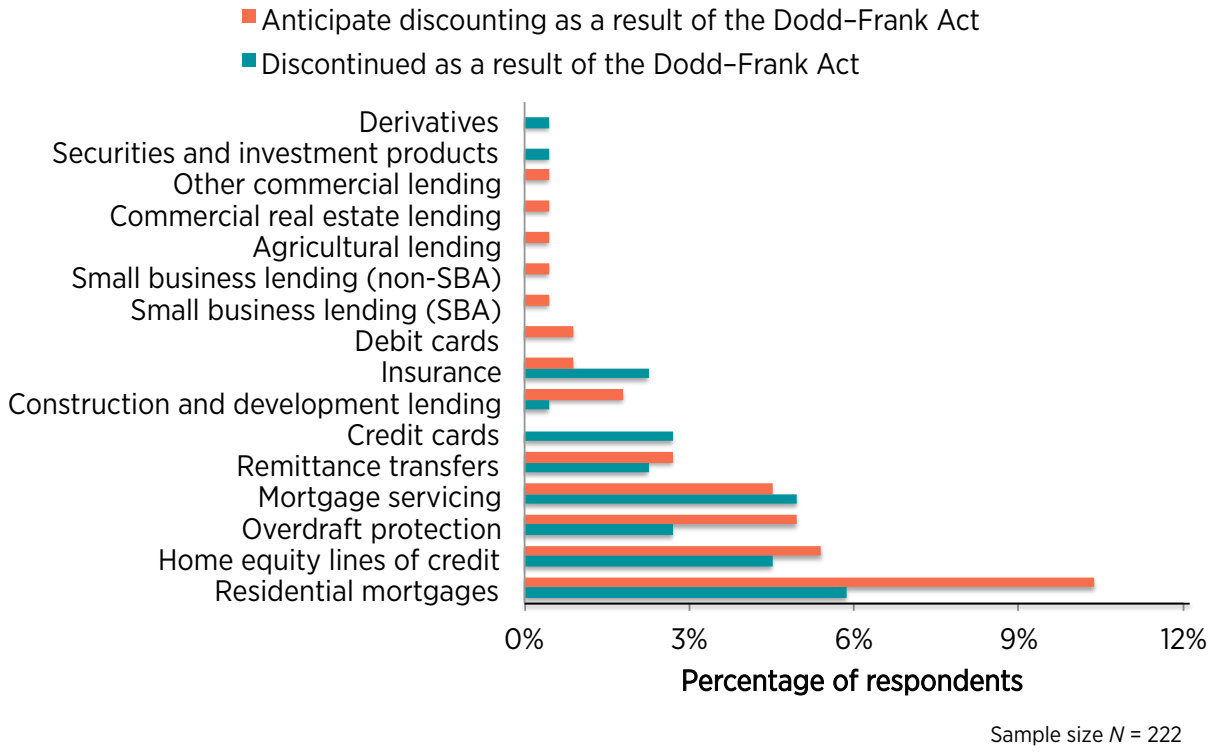
Figure 13 charts the survey participants' product and service offerings. A majority of participating banks reported currently offering the following products: Personal checking, personal savings, business checking, business savings, overdraft protection, certificates of deposit, debit cards, residential mortgages, home equity lines of credit, Small Business Administration (SBA) lending, non-SBA small-business lending, agricultural lending, commercial real-estate lending, construction and development lending, commercial and industrial lending, and other commercial lending. A minority of participating banks reported currently offering the following products: credit cards, mortgage servicing, insurance, securities and investment products, derivatives, and remittance transfers.

Figure 13. Products and Services Offered



Some banks reported already having discontinued, or planning to discontinue, products as a result of Dodd-Frank. As the results demonstrate, when taken together, these discontinuations could leave a substantial gap in consumer-product offerings. Figure 14 provides a visual summary of the discontinuations and anticipated discontinuations across product and service offerings. The areas that saw the largest numbers of discontinuations are residential mortgages (5.9%), mortgage servicing (5.0%), home equity lines of credit (4.5%), overdraft protection (2.7%), and credit cards (2.7%).[101] As one respondent noted, even "within [continuing] product lines specific types of products will go away." Participating banks most commonly reported anticipating discontinuation of residential mortgages (10.4%), mortgage servicing (4.5%), home equity lines of credit (5.4%), and overdraft protection (5.0%).

Figure 14. Impact of Dodd-Frank on Products/Services Offered



Sample size *N* = 222

C. Regulatory and Compliance Activities

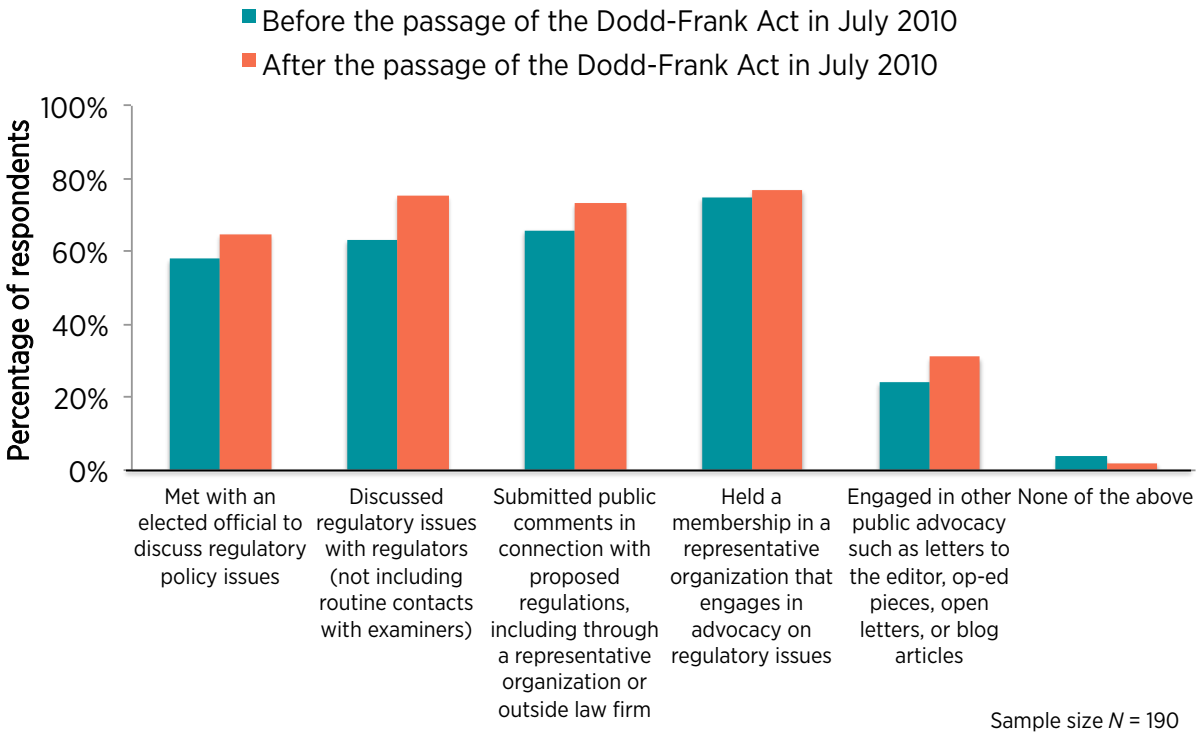
The survey investigated the resources that small banks have been devoting to regulatory and compliance activities and thus provides an important window into the impact that Dodd-Frank-related regulatory burdens have on small banks. We asked questions about involvement in the legal and regulatory process and measurable costs, such as compliance operations and staffing. The

responses show that the resource demands associated with the new regulations are a cause of significant frustration for small banks, as the following respondent noted:

> Rules are written for the largest institutions in the country, yet the smaller institutions have to abide by the same rules. We don't have the number of employees or the financial resources to keep up with Dodd-Frank and [its] rules that will change nothing for the banking industry. Why make it harder for community banks to do business and survive? We fill a niche that larger banks can't and won't.

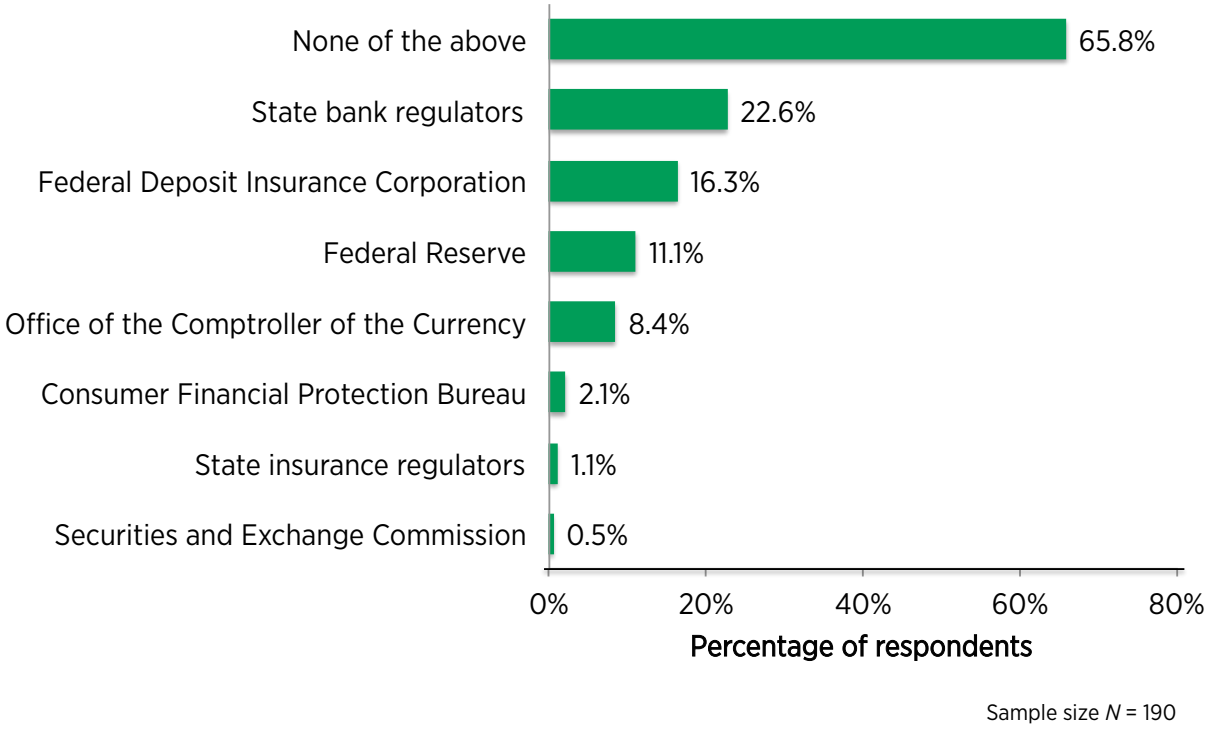
As figure 15 illustrates, the banks participating in the survey indicated a very high level of engagement in advocacy efforts related to small bank regulation both before and after the passage of Dodd-Frank. The active involvement of respondents may reflect the fact that a number of banking associations distributed our survey to their member banks, and these members may be more likely than nonmember banks to be engaged in advocacy. Moreover, banks that choose to respond to a survey about regulation may also be banks that engage in advocacy. Respondents could select multiple responses; therefore, percentages do not sum to 100%.

Figure 15. Engagement in Advocacy Efforts



Responses recorded for question 25 (tabulated data for which is available in Appendix A) show that regulators have invited only a small minority (5.8%) of survey participants to participate in small bank advisory councils or panels to assess the impact of Dodd-Frank Act regulation on small banks. As figure 16 shows, the majority (65.8%) of survey participants indicated that they had not been contacted by regulators regarding the feasibility of implementing Dodd-Frank. Those who had been contacted were most likely to have been contacted by state banking regulators (22.6%). Respondents could select multiple answers; therefore, percentages do not sum to 100%.

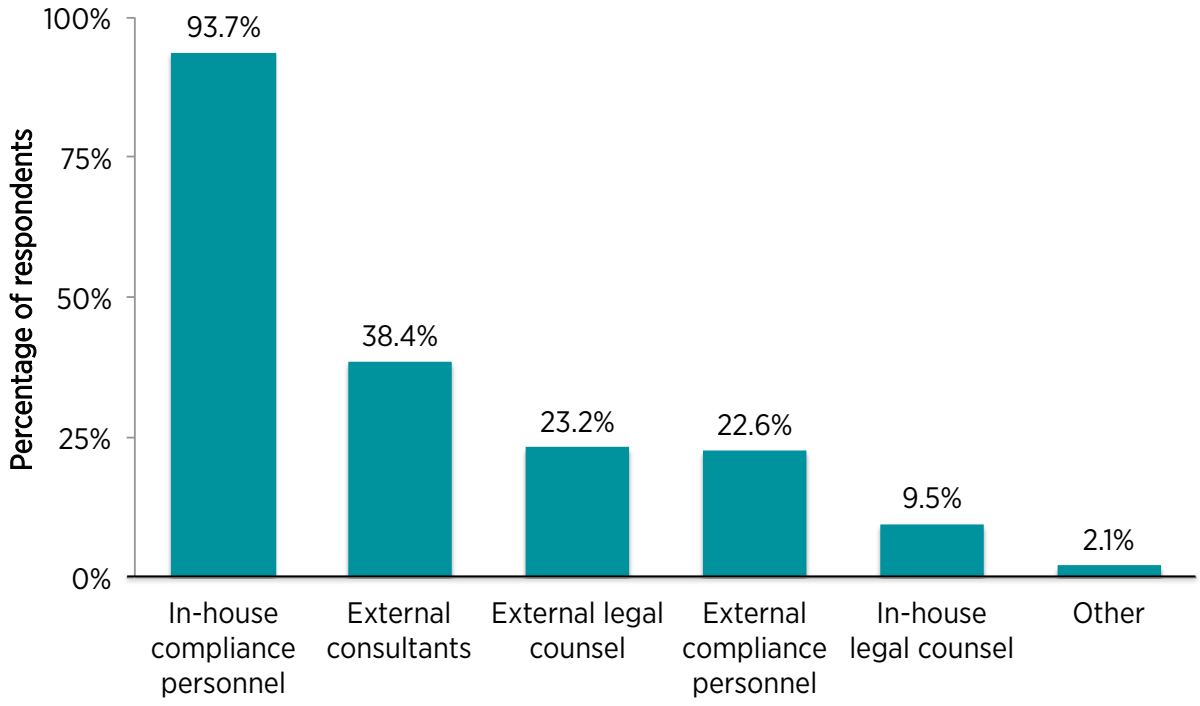
Figure 16. Contact by Regulators Regarding Dodd-Frank



Sample size *N* = 190

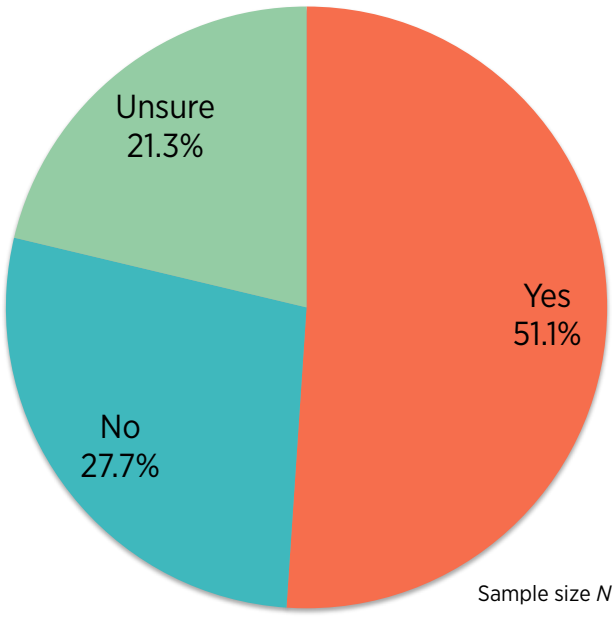
Figures 17 and 18 shed light on how participating small banks fulfill their compliance obligations. As figure 17 shows, a majority of survey participants indicated that in-house compliance personnel (93.7%) are responsible for regulatory compliance. Participating banks also reported that they rely on external consultants (38.4%), external legal counsel (23.2%), external compliance personnel (22.6%), and in-house legal counsel (9.5%). Respondents could select multiple answers; therefore, percentages do not sum to 100%. As reflected in responses to question 27 (tabulated in Appendix A), respondents reported an even split regarding whether they had engaged outside consultants for assistance with Dodd-Frank Act regulations. As figure 18 shows, approximately half of respondents plan to engage an outside consultant.

Figure 17. Compliance Responsibility



Sample size *N* = 190

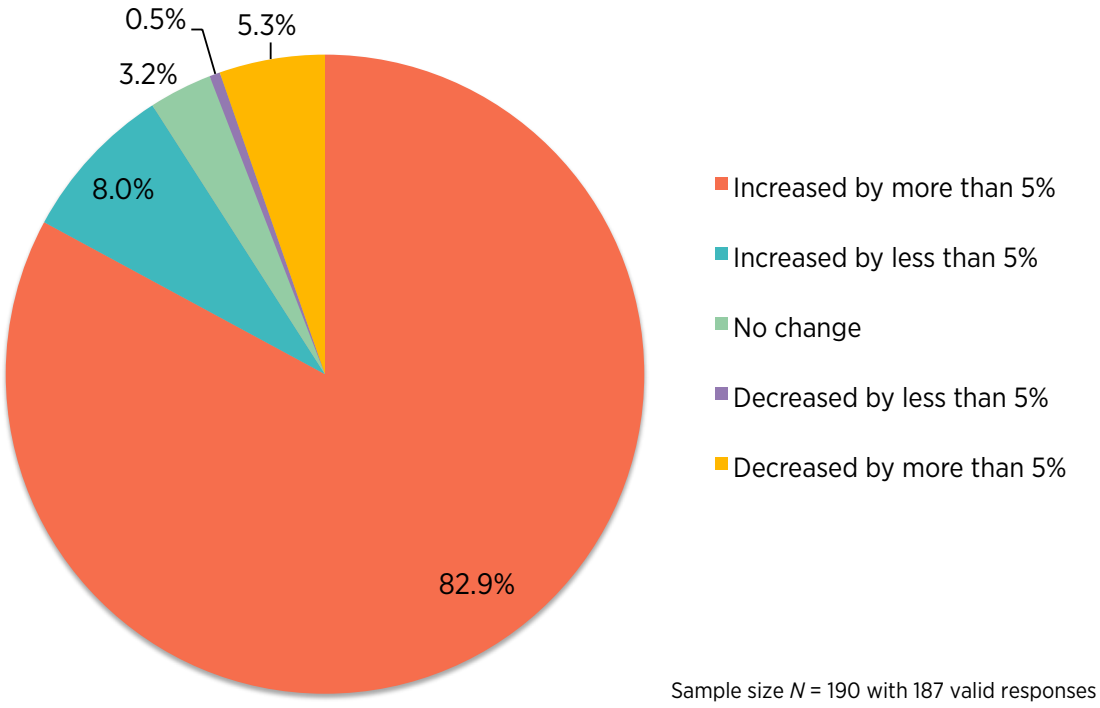
Figure 18. Anticipated Engagement with Outside Consultants in Connection with Dodd-Frank



Sample size *N* = 190 with 188 valid responses

As reflected in figure 19, approximately ninety percent of respondents reported an increase in compliance costs, and most (82.9%) of participating banks reported that their compliance costs had increased by more than five percent. Approximately five percent of respondents reported a decrease by more than five percent.

Figure 19. Change in Annual Compliance Costs Since Dodd-Frank



Sample size *N* = 190 with 187 valid responses

Along with costs, demands on compliance personnel are also increasing. As one bank explained, "Our current staff does not have the time to research and implement the volume of changes being proposed and implemented." More generally, as shown in figure 20, since Dodd-Frank's passage, there has been a notable shift in the distribution of the number of compliance and legal personnel. The median number of compliance personnel prior to July 2010 was one, and currently that number is two. As discussed in section K, the Bureau of Consumer Financial Protection appears to be a major driver of compliance hiring. Table 6 summarizes the responses regarding the number of legal and compliance personnel prior to July 2010, the number currently, and—for the approximately twenty-seven percent of banks that are planning to hire additional personnel—the number of anticipated hires over the next twelve months.

Figure 20. Histogram of Compliance/Legal Personnel

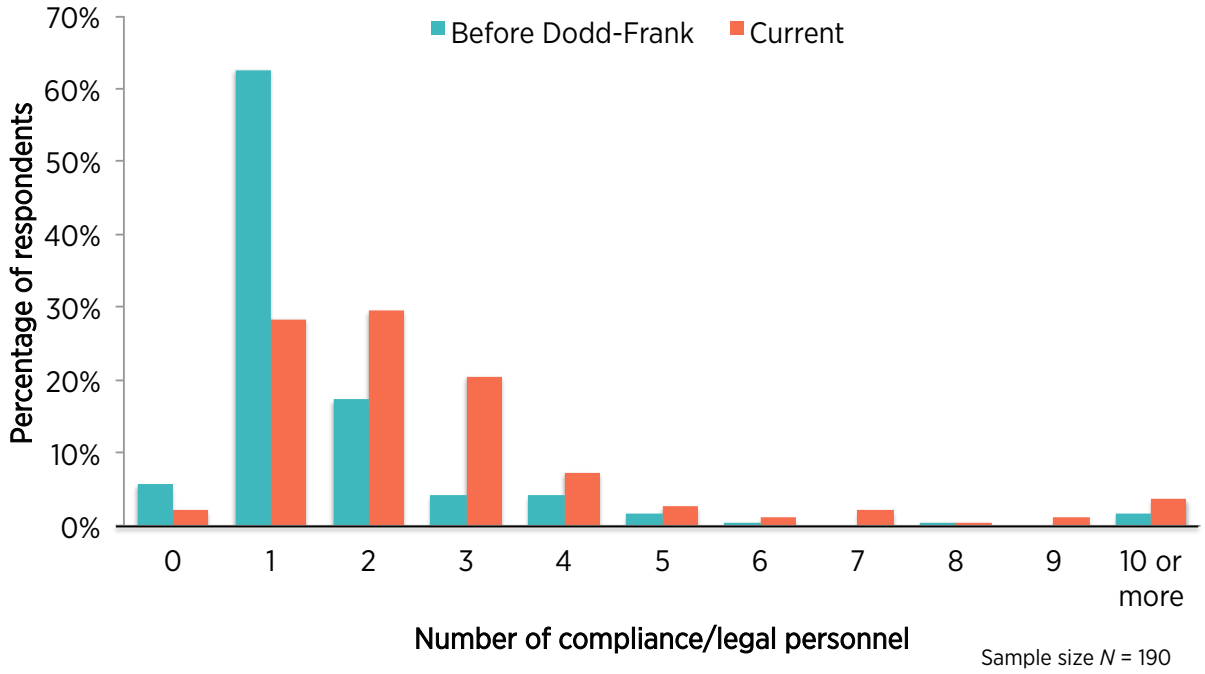


Table 6. Number of Compliance/Legal Personnel

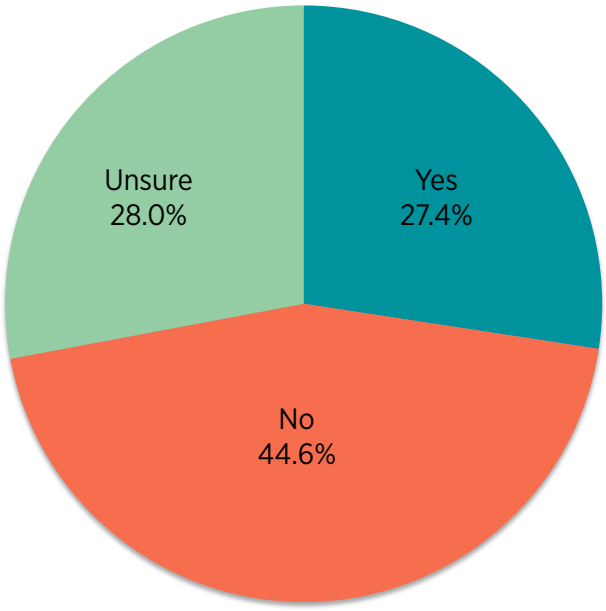
	Prior to July 2010	Currently	Additional in the next 12 months*
Mean	2	3	1
Median	1	2	1
Min	0	0	0
Max	13	16	5

Sample size *N* = 190

**Note: The figures for additional compliance/legal personnel in this table are based on the subsample of respondents who indicated that they are planning to hire additional compliance/legal personnel in the next twelve months.*

These numbers must be put into the context of the total number of employees of small banks. As table 5 above shows, the median number of employees in our sample bank is fifty-two. For some banks, compliance hiring is not over. In short, small banks have materially increased their compliance departments. Figure 21 shows that more than one-quarter of respondents plan to hire additional compliance personnel in the next year. Given the expertise required for regulatory compliance, these positions could add significantly to small banks' compensation costs.

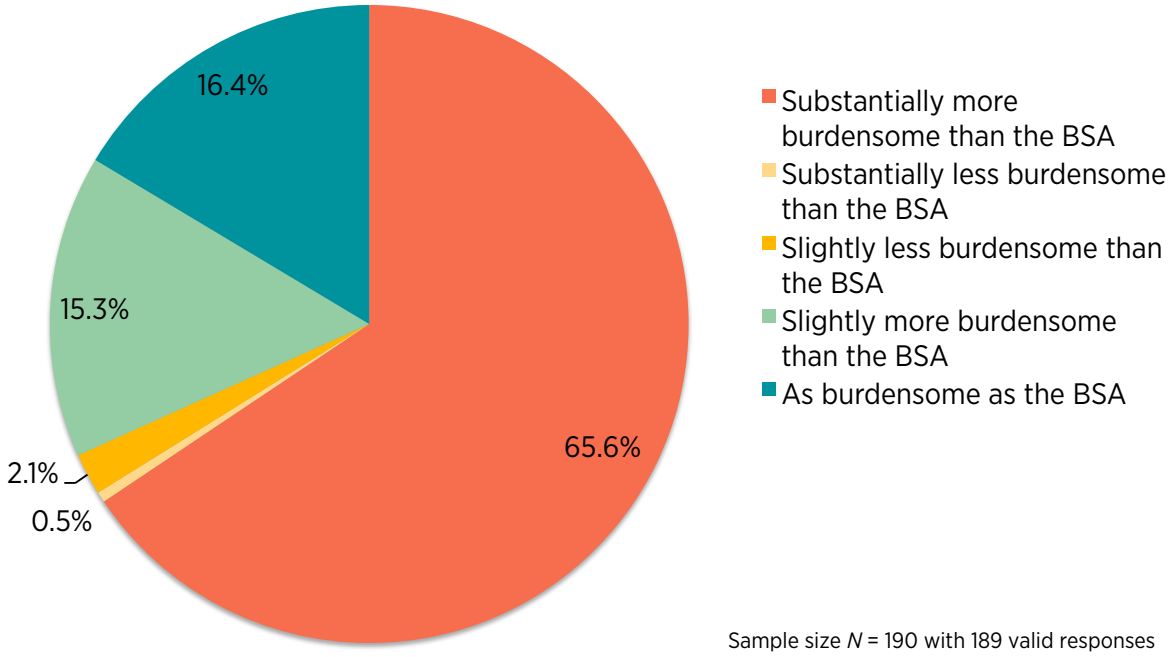
Figure 21. Hiring Additional Compliance/Legal Personnel in Next 12 Months



Sample size *N* = 190 with 186 valid responses

The survey asked respondents to compare the requirements expected as the result of Dodd-Frank, relative to the existing requirements subsequent to the Bank Secrecy Act (BSA),[102] which was signed into law in 1970 and modified under the PATRIOT Act of 2001. We chose the BSA as the point of comparison because it is widely perceived to be a big source of compliance burdens.[103] Figure 22 shows that a large majority of the banks indicated that Dodd-Frank regulations were more burdensome than the BSA, with 65.6% describing them as "substantially more burdensome" and 15.3% describing them as "slightly more burdensome."

Figure 22. Dodd-Frank Compared to the Bank Secrecy Act (BSA)



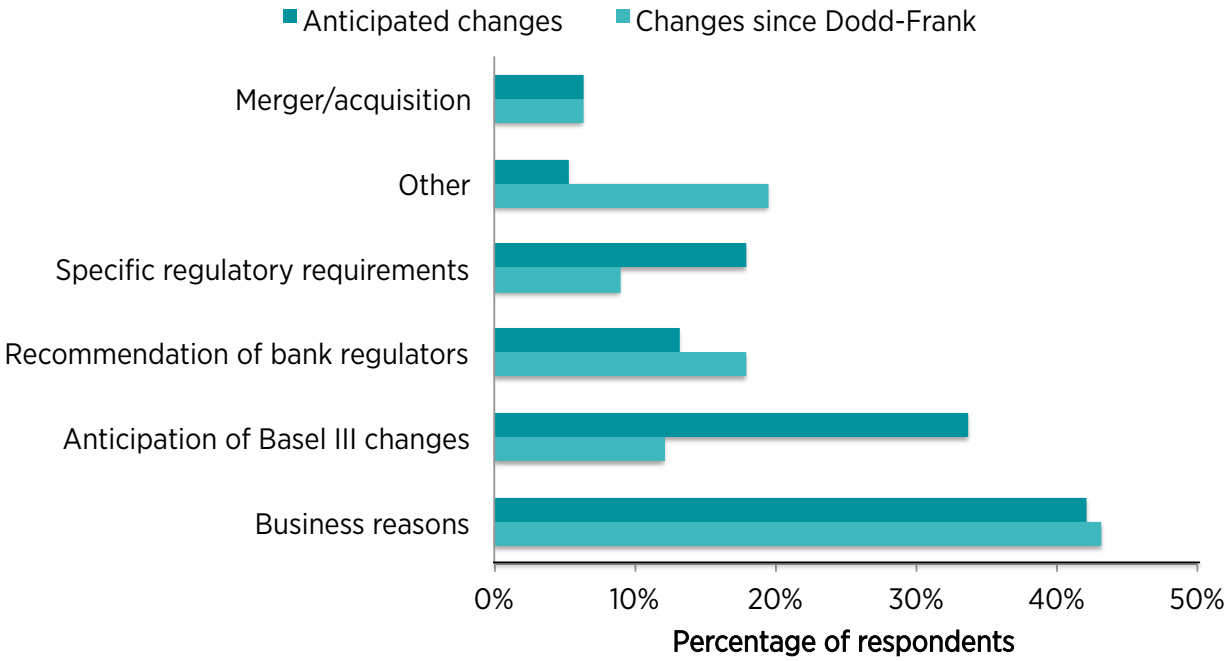
Sample size *N* = 190 with 189 valid responses

D. Capital

The survey asked about banks' capital position and anticipated changes with respect to this position. Capital requirements, although indirectly arising from Dodd-Frank, are primarily determined by the new Basel capital framework—Basel III.[104] U.S. banking regulators finalized the rules implementing Basel III in July 2013,[105] and included accommodations for small banks.[106] However, some commentators view these accommodations as insufficient.[107]

As the survey responses indicate, small banks expect to make changes in response to the Basel III rules, but banks' own business reasons appear to be driving most of the changes in bank capital. Figure 23 shows the reasons for actual and anticipated changes in Tier 1 capital.

Figure 23. Reasons for Changes in Tier 1 Capital



Sample size *N* = 190

Table 7 shows that Tier 1 capital ratios have increased since Dodd-Frank's passage.

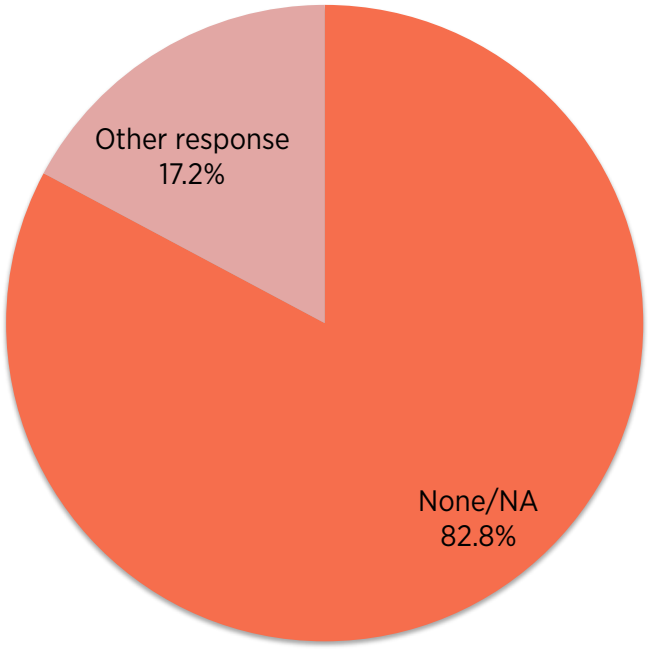
Table 7. Tier 1 Capital Ratio

	Prior to July 2010	Currently
Mean	11.02%	11.44%
Median	9.74%	10.00%
Min	3.58%	2.12%
Max	41.23%	37.83%

Sample size *N* = 190

As reflected in responses to question 38 in Appendix A, 59.5% of survey participants anticipate their banks' Tier 1 capital ratio will increase in the next five years, 26.8% anticipate their ratios staying the same, and 7.4% anticipate a decrease. As reflected in responses to question 37 in Appendix A, the most commonly reported approach for increasing Tier 1 capital is retained earnings (71.1%), followed by raising additional capital from existing shareholders (17.4%), cutting dividends (16.3%), and selling assets (6.3%). As figure 24 shows, over 80% of respondents did not believe that the phase-out of trust-preferred securities would have any effect on them.

Figure 24. Effect of Trust-Preferred Securities Phaseout

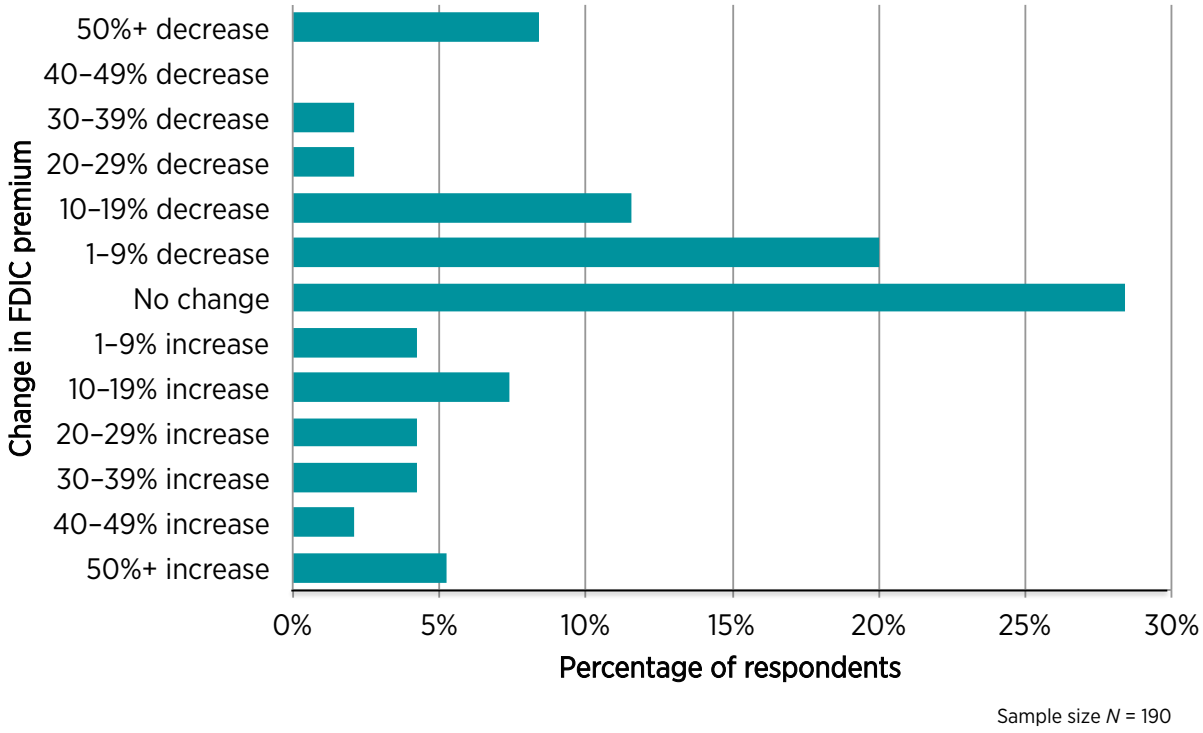


Sample size *N* = 190 with 157 valid responses

E. FDIC Insurance

Dodd-Frank made a number of changes to deposit insurance, including permanently raising the insurance limit to $250,000 and changing the assessment base.[108] The latter change was anticipated generally to lower assessment fees for small banks,[109] but results from this survey show mixed effects. As figure 25 shows, banks participating in the survey reported a broad range of changes—including substantial increases—to rates for deposit insurance.

Figure 25. FDIC Premium Changes



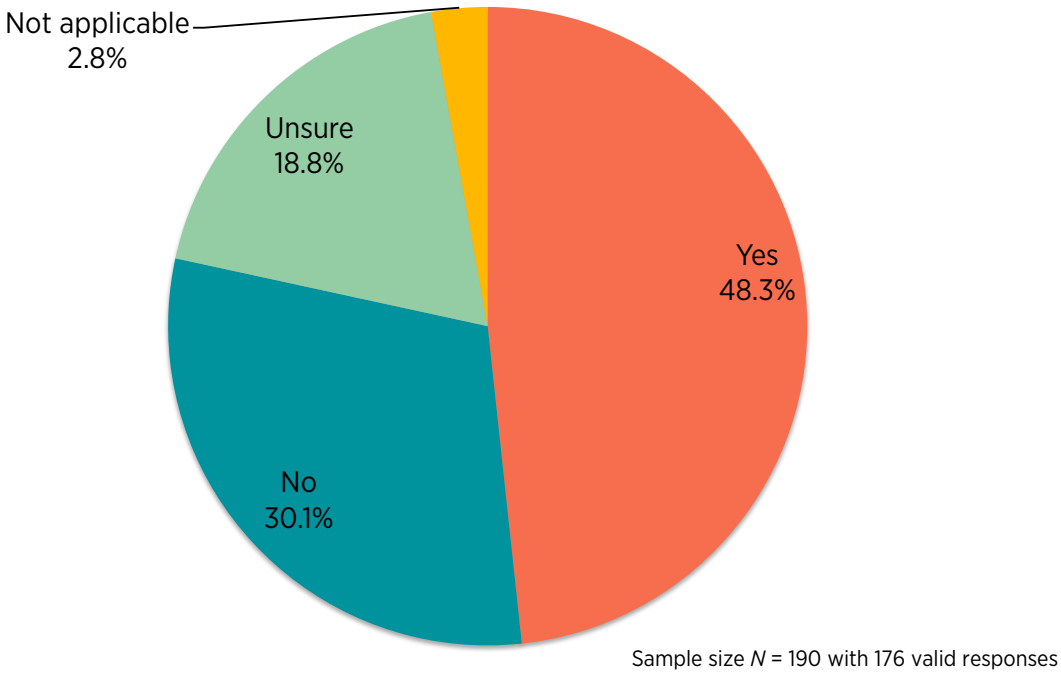
Sample size *N* = 190

We asked additional questions with respect to other deposit insurance issues. As reflected in responses to question 45 in Appendix A, a majority of respondents indicated that the discontinuation of the temporary unlimited FDIC coverage for non-interest-bearing transaction accounts (TAG Program) had not affected their bank (70.0%). As reflected in responses to question 46 in Appendix A, a majority of survey participants reported that current FDIC insurance coverage levels are adequate for the needs of bank customers (74.7%).

F. The Durbin Amendment

The Durbin Amendment directs the Board of Governors of the Federal Reserve System to establish standards for debit-card interchange transaction fees to ensure they are "reasonable and proportional to the cost incurred by the [debit card] issuer with respect to the transaction."[110] Although Dodd-Frank exempts small bank issuers from the provision, figure 26 shows that the Durbin Amendment is having an impact on almost half of small banks.

Figure 26. Has the Durbin Amendment Affected Your Bank?



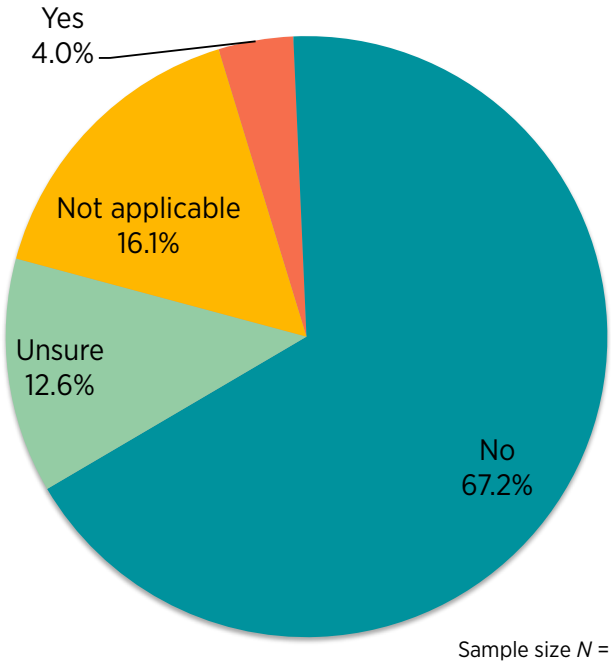
Sample size *N* = 190 with 176 valid responses

Respondents that provided quantitative estimates of the revenue effect in their narrative comments reported decreases in revenue ranging from seven to thirty percent. The effect on small banks' customers is less clear. As reflected in responses to question 48 in Appendix A, 13.2% of respondents indicated the Durbin Amendment had affected their customers, 32.6% indicated it had not, and 44.2% were unsure. Respondents that provided narrative responses generally expressed the belief that merchants are not lowering prices for customers, but that bank customers already are, or may in the future, pay higher bank fees for debit cards.

G. Municipal Advisors

Section 975 of Dodd-Frank directs the Securities and Exchange Commission (SEC) to establish a regulatory framework for "municipal advisors," who "provide[] advice to or on behalf of a municipal entity … with respect to municipal financial products [including 'investment strategies'] or the issuance of municipal securities, … ."[111] That language could be interpreted to encompass many bank employees who deal with municipalities, as it was under the SEC's initially proposed approach.[112] Its final rule, which was adopted after the receipt of our survey responses, narrowed the definition of "investment strategies" and provided exemptions for advice regarding deposit accounts, extensions of credit, and activities in which the bank is acting as an indentured trustee.[113] A majority of respondents reported zero employees registered as municipal advisors, with a mean of one and a maximum of forty. As figure 27 shows, for most banks, the municipal advisor rules to date had not affected the way they do business with municipalities. Of the banks that responded affirmatively, most explained in narrative responses that they would consider discontinuing, or already had discontinued, or would limit their interactions with municipalities. The SEC's final rules likely moderate any planned changes in this area.

Figure 27. Have the Municipal Advisor Rules Changed the Way You Interact with Municipalities?

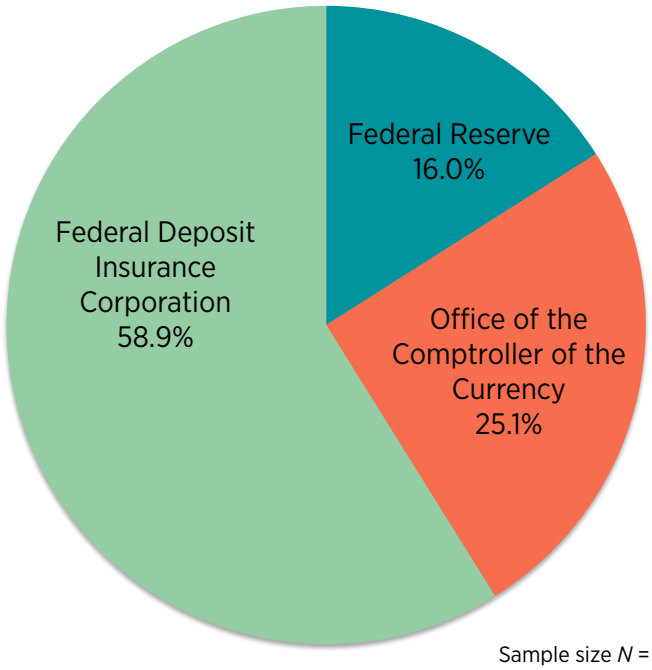


Sample size *N* = 190 with 174 valid responses

H. Regulatory Oversight

This portion of the survey investigated the federal regulatory authorities overseeing small banks, perceptions regarding coordination between regulators, and the uncertainty created by the evolving mix of state and federal law regulating small banks. Dodd-Frank eliminated the Office of Thrift Supervision, which meant that some small banks acquired a new regulator.[114] Approximately 10.5% of respondents reported that their primary federal regulator had changed since July of 2010. The narrative responses of the respondents that switched from the Office of Thrift Supervision to the Office of the Comptroller of the Currency (OCC) reflected both positive and negative experiences with the change. Figure 28 identifies the primary federal regulators for the participating banks. Most respondents reported that the FDIC was their primary federal regulator.

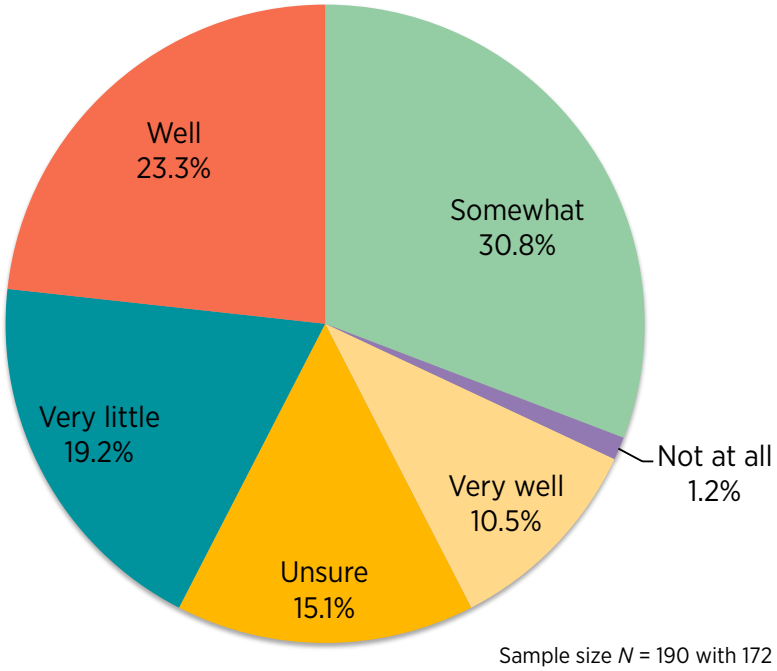
Figure 28. Primary Federal Regulator



Sample size *N* = 190 with 175 valid responses

Participating banks were asked to gauge how well regulatory agencies (without specifying state or federal) coordinate with one another. Figure 29 shows a relatively positive sentiment about the degree of regulatory coordination.

Figure 29. Coordination among Regulators



Sample size *N* = 190 with 172 valid responses

As reflected in responses to question 65 in Appendix A, approximately twenty-three percent of respondents reported that they are affected by conflicting mandates from their safety-and-soundness regulator and the Bureau of Consumer Financial Protection. In narrative responses, some respondents indicated a tension between pressures to lend and the Bureau's new rules. Moreover, as table 8 shows, approximately thirty percent of respondents reported that their certainty about which law governs their activities had decreased either significantly or slightly after Dodd-Frank.

Table 8. After the Passage of Dodd-Frank, How Has the Degree of Certainty Changed as to Whether Bank Activities Are Governed by State Law, Federal Law, or Both?

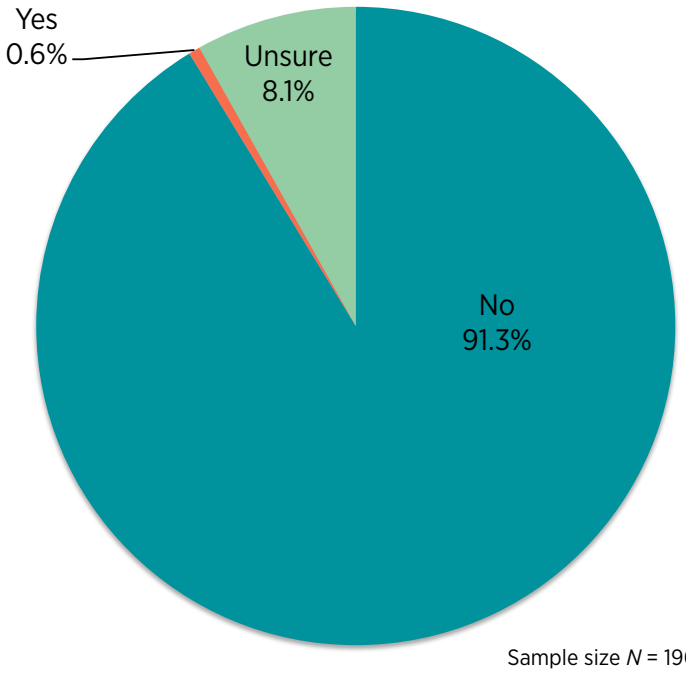
Has decreased significantly	21	11.1%
Has decreased slightly	38	20.0%
Has not changed	75	39.5%
Has increased slightly	22	11.6%
Has increased significantly	17	8.9%

Sample size *N* = 190 with 173 valid responses

I. Volcker Rule

The Volcker Rule is a provision in Dodd-Frank that prohibits banking entities from engaging in proprietary trading and limits their relationships with hedge funds and other private funds.[115] The provision was not expected to affect many small banks, and—as figure 30 shows—our survey confirmed that expectation; small banks have not altered their activities in anticipation of the Volcker Rule.

Figure 30. Activities Modified in Anticipation of the Volcker Rule



Sample size *N* = 190 with 172 valid responses

Also consistent with expectations and as reflected in the responses to question 59 in Appendix A, 77.4% of respondents anticipated that the Volcker Rule would not affect the products and services offered to customers or associated fees. These survey results predated the finalization of the Volcker Rule. In its final form, the Volcker Rule engendered substantial concern from small banks with investments in securities backed by trust-preferred securities[116]—a concern that was eventually alleviated through an amendment to the Volcker Rule.[117]

J. Incentive-Based Compensation

Section 956(a) of Dodd-Frank requires financial institutions with $1 billion or more in total assets to disclose to their federal regulators the structures of all incentive-based compensation arrangements.[118] The required disclosures will be used to determine whether the compensation structure violates rules adopted under the same section to prohibit "any types of incentive-based payment arrangement, or any feature of such arrangement, that regulators determine encourages inappropriate risks."[119] Because there is a statutory exemption for banks below $1 billion in assets,[120] the rule directly affects only approximately 8.8% of all small banks, i.e., the subset of small banks that has between $1 billion and $10 billion in assets.[121]

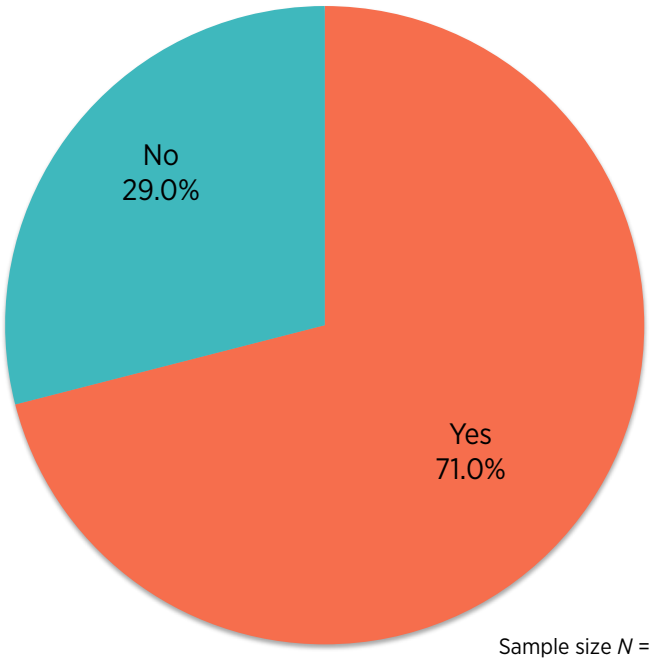
Notwithstanding the $1 billion threshold, approximately one-third of the banks reported having changed incentive-based compensation since the passage of Dodd-Frank (33.7%). Approximately 20% of respondents anticipated that these changes would have a slight negative impact on employee performance and the bank's ability to attract high-quality employees. Based on the narrative responses, it appears that the bulk of the incentive-based compensation changes occurred mostly in the area of financial incentives for mortgage lenders.

K. Bureau of Consumer Financial Protection

Title X of Dodd-Frank establishes the Bureau of Consumer Financial Protection, also known as the Consumer Financial Protection Bureau (CFPB)—a new regulatory authority that oversees the provision of consumer financial products and services. Although the Bureau does not have primary supervisory and enforcement authority over institutions with less than $10 billion in assets, small banks are subject to the Bureau's regulations.[122] The Bureau is required to consider "the impact of proposed rules" on small banks.[123]

Our survey results document that the Bureau is of great concern to small banks. The concern is evident from narrative responses, such as the following—"Management spends considerable time reviewing CFPB activities to determine where our areas of risk are." Concerns about the Bureau were also evident in responses to several questions. As figure 31 shows, the existence of the Bureau is affecting most banks' business activities.

Figure 31. Have Business Activities Been Affected by CFPB?

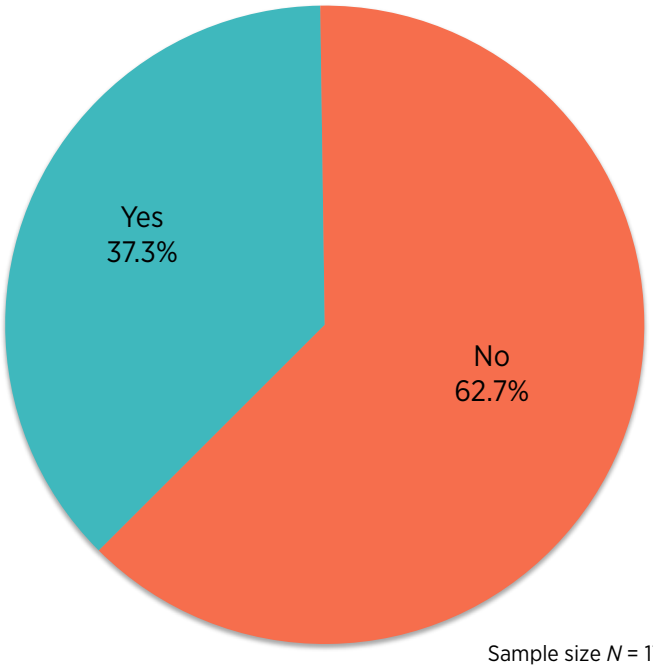


Sample size *N* = 172 with 169 valid responses

Respondent banks also are spending time and resources on CFPB-related compliance, including keeping apprised of the Bureau's regulatory developments. As figure 32 shows, thirty-seven percent of respondents reported hiring additional compliance or legal personnel specifically in response to the Bureau's regulatory initiatives. Figure 33 shows that most respondents have hired one additional staff person in response. As figure 20 above showed, more than sixty percent of respondents reported having one compliance or legal person before Dodd-Frank.[124]

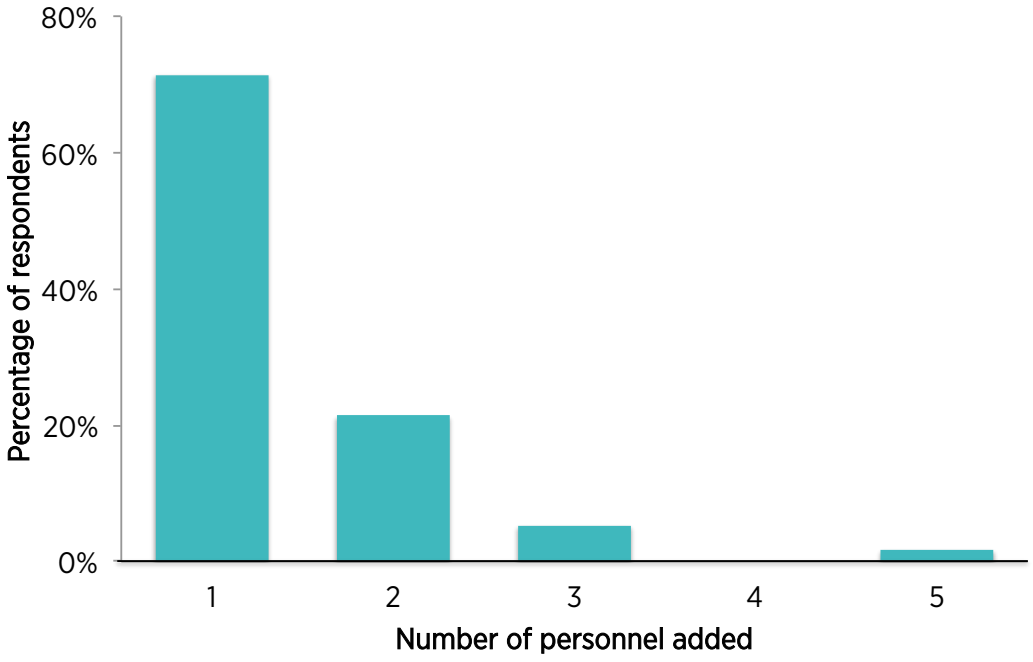
As reported in responses to question 67 in Appendix A, seventy-eight percent of respondents anticipated that the initiatives of the CFPB will affect their customers. More than half (56.7%) of the respondents reported altering customer disclosures in response to CFPB regulations, but a frequent theme in the narrative comments was that these disclosures would compound—not alleviate—customer confusion, and were paperwork for paperwork's sake. The following is a typical comment: "Community banks that know their customers will struggle to be able to continue to lend to good, long term customers." In their narrative responses, respondents focused heavily on how the CFPB's mortgage rules would affect customers.

Figure 32. Compliance/Legal Staff Added Due to CFPB



Sample size *N* = 172 with 169 valid responses

Figure 33. Histogram of Personnel Added Due to CFPB

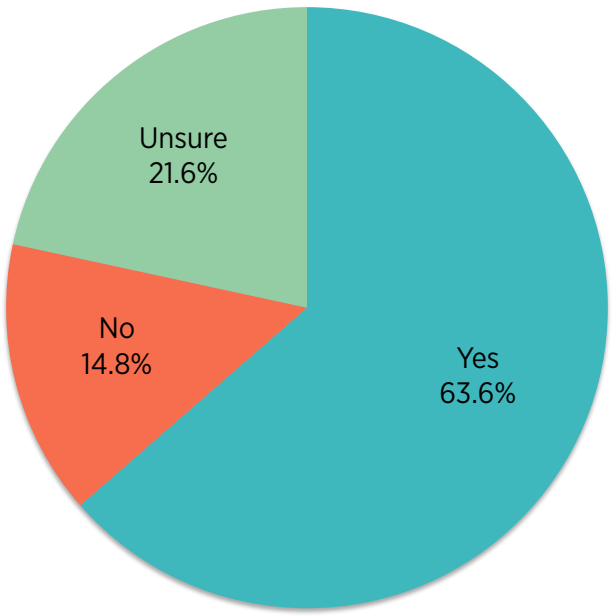


Sample size *N* = 63

L. Mortgages

Dodd-Frank precipitated substantial changes in mortgage regulations. The CFPB and other regulators have promulgated new mortgage rules, which include new restrictions on lending practices and loan terms, new disclosure forms and procedures, and increased legal liability for lenders. As reported in responses to question 72 in Appendix A, a slight majority of respondents reported they had changed mortgage-underwriting practices in the past five years (51.2%). The results noted above in section B indicate that some small banks already have discontinued mortgage lending and mortgage servicing activities and others are contemplating doing so. One respondent explained its rationale: "This piece of regulation is written so unclearly with so many trip wires that serve no benefit to customers, that we anticipate not offering a mortgage product." As figure 34 shows, more than sixty percent of the survey respondents reported that they anticipate altering the nature, mix, and volume of mortgage products in response to regulatory changes.

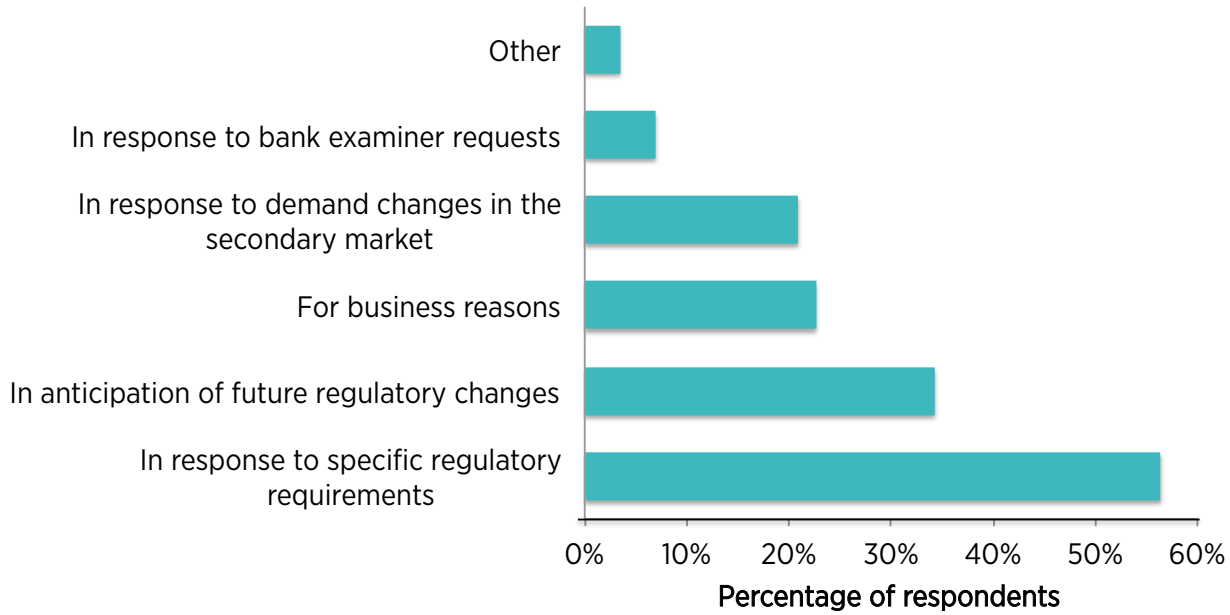
Figure 34. Anticipate Changes to the Nature, Mix, and Volume of Mortgage Products in Response to Regulatory Changes



Sample size *N* = 172 with 162 valid responses

Figure 35 shows why banks have made changes in their product mix. Regulatory changes appear to be a very important factor in these decisions. One interesting phenomenon not noted in the chart, but reflected in numerous comments, is that some small banks are moving away from holding loans on their balance sheets and are instead originating loans to be sold on the secondary market.

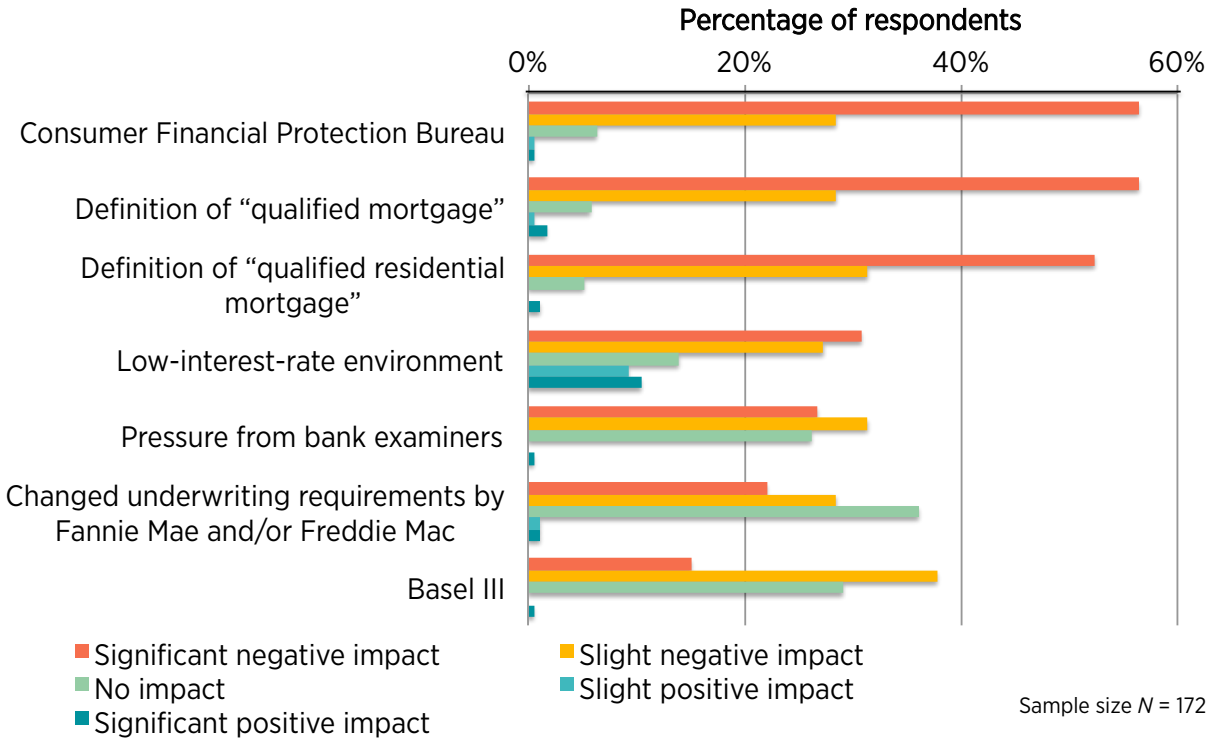
Figure 35. Reasons for Altering Mortgage Offerings



Sample size *N* = 172

In an effort to understand what is driving small banks' decisions with respect to their participation in the mortgage market, we asked participants to gauge the impact of various specific factors on their mortgage offerings. Figure 36 summarizes their responses. The responses indicate that all of the factors, some of which are regulatory and some of which are not, are producing negative effects for a substantial portion of the small banks surveyed. In particular, the Bureau of Consumer Financial Protection and the definitions of "qualified mortgage" and "qualified residential mortgage" elicited reports of negative impacts from the vast majority of respondents. Respondents could give more than one response.

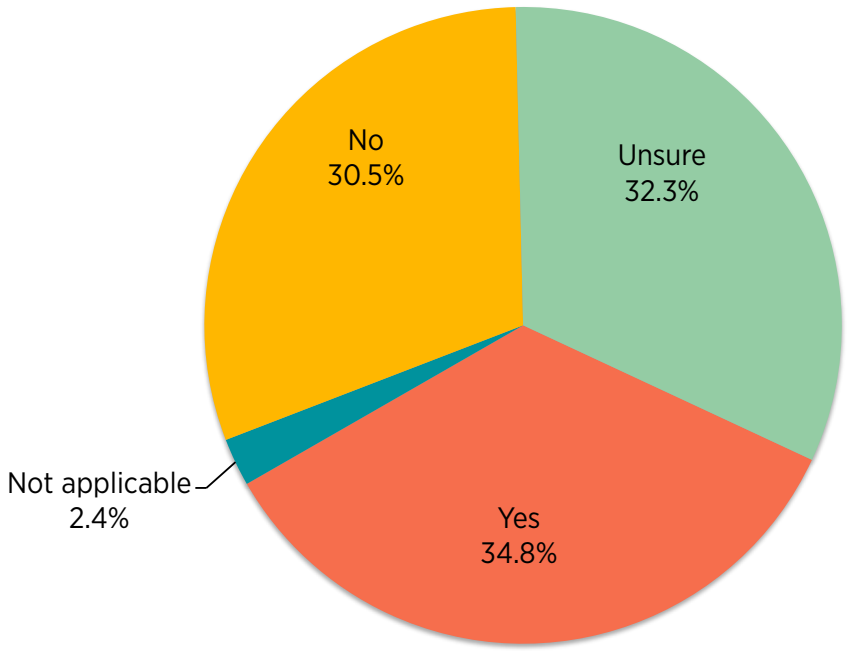
Figure 36. Effects on Mortgage Offerings



Under the new regulations, if a mortgage fits within the regulatory defined "qualified mortgage" parameters, lenders have a measure of legal protection from challenges that they violated the ability-to-repay rule. The qualified mortgage rule requires banks to make substantial changes in the way they conduct mortgage lending. One respondent explained, "Our initial estimate is over 50 internal underwriting and documentation guidelines, process, and policies will be affected by this rule in some manner." When asked whether they would anticipate making future loans that do not meet the definition of a "qualified mortgage," as figure 37 shows, the surveyed banks were almost evenly divided, with approximately one-third of respondents saying yes, one-third saying no, and one-third unsure.

The fact that the respondents were divided on whether they would issue qualified mortgages may reflect the general confusion among small banks about how the mortgage rules apply to them, a phenomenon that generated comments such as this one: "All the uncertainty and changing of definitions, etc., related to qualified mortgages, mortgage banking requirements and so forth has made the business of serving customers by helping them become homeowners much more difficult, cumbersome, and time consuming." One potential source of confusion is that some mortgages would be qualified mortgages for some banks, but not for others. A qualified mortgage is defined differently for small banks in rural or underserved counties than for other banks.[125] Thus, one respondent wrote, "Our community is considered 'rural' so thankfully, we will be exempt from some new rules, so we will be able to offer more 10-30 year fixed rate mortgages," while another commented that "I am located in a county listed as an MSA, and while I watch a corn field and grain bins from my office window, I can't be considered a rural bank. It makes no sense."

Figure 37. Does Your Bank Anticipate That It Will Make Any Loans That Do Not Meet the Definition of a "Qualified Mortgage"?



Sample size *N* = 172 with 164 valid responses

M. Derivatives

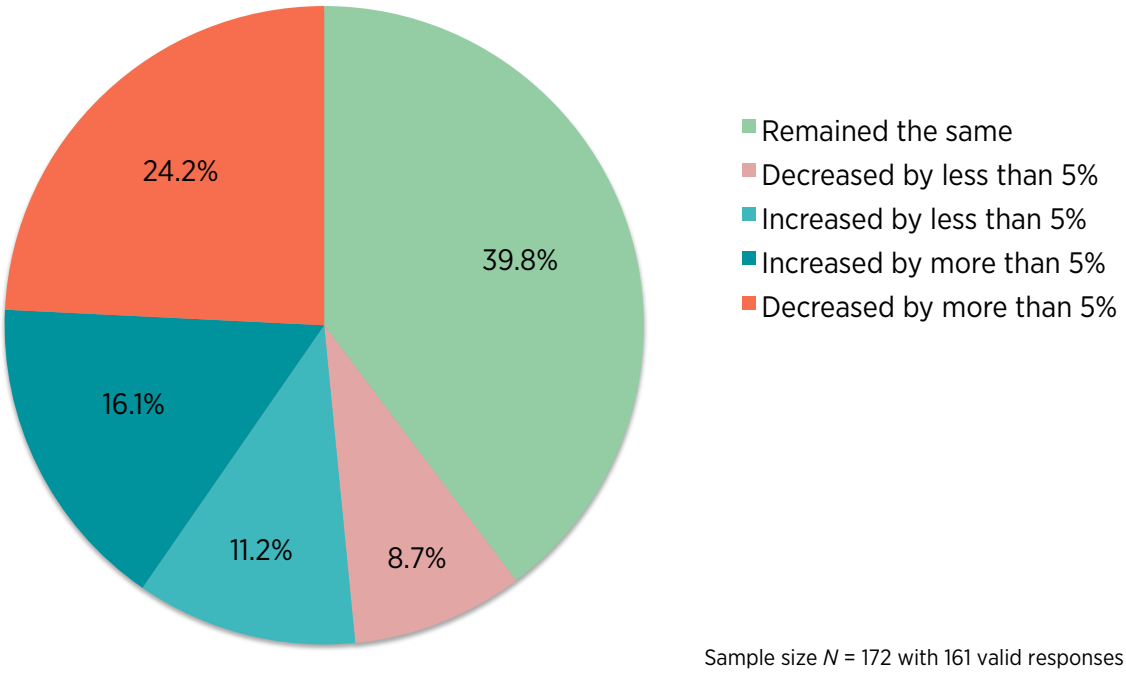
One of Dodd-Frank's main areas of focus is over-the-counter derivatives. Dodd-Frank created an extensive regulatory regime for "swaps" and "security-based swaps." The new regime includes registration of key market participants, clearing mandates, reporting requirements, and trading mandates. Small banks, which sometimes use swaps to manage the risk of their lending activities,

are exempt from certain key Dodd-Frank over-the-counter derivatives requirements.[126] As responses to question 76 in Appendix A show, only 7.6% of respondents engaged in derivatives transactions in the past five years. They used derivatives to hedge interest rate risk. Only one respondent reported that it is contemplating limiting its use of derivatives in response to regulatory requirements.

N. Fees and Revenue

We sought to understand the degree to which regulatory changes resulting from Dodd-Frank may affect the fees charged by, and revenue earned by, small banks. As figure 38 shows, it is difficult to identify a clear trend. Approximately thirty-three percent of respondents' fees fell, while approximately twenty-seven percent of respondents' fees rose. The differences could be a reflection of the different degrees to which respondents face competition. Among the sources of falling fees were reductions in debit interchange fees and overdraft fees. The responses could reflect changes to the banks' aggregate fees collected, rather than changes in the fees paid by individual customers. Some respondents suggested that fee increases would be coming in order to offset increased regulatory expenses.

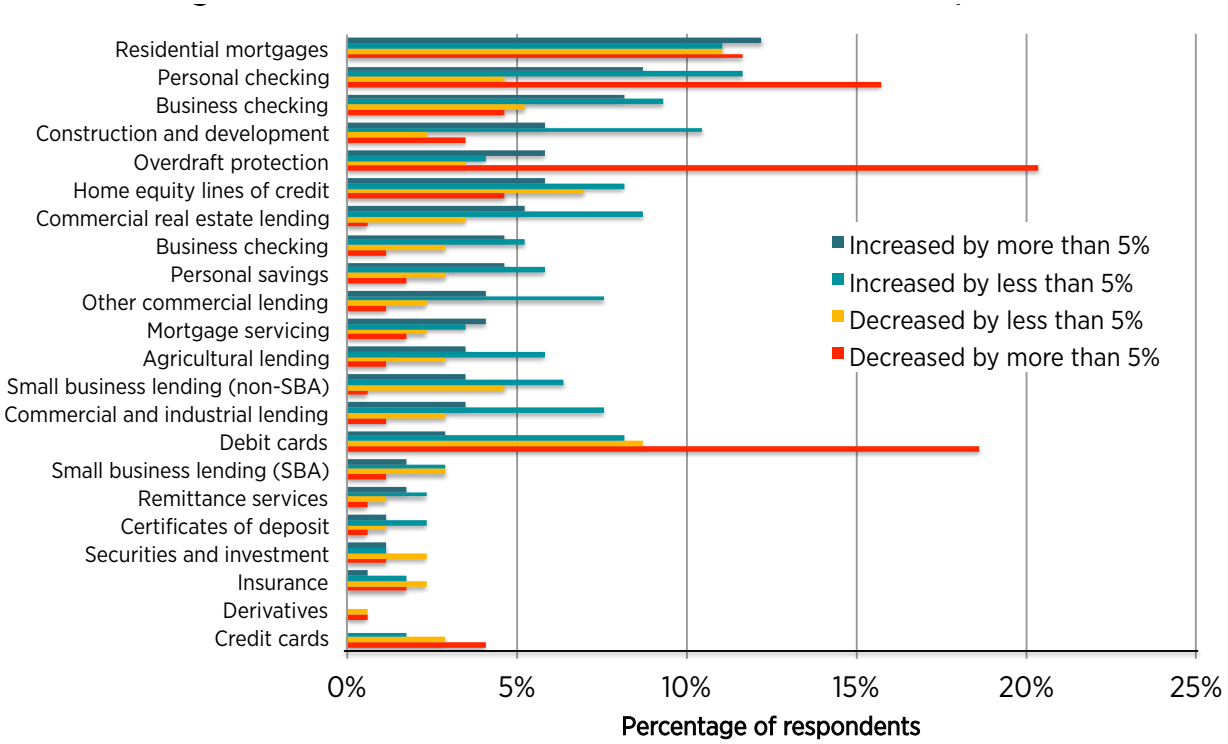
Figure 38. Changes in Customer Fees Since Dodd-Frank



Sample size *N* = 172 with 161 valid responses

Our survey asked respondents to report the impact of Dodd-Frank Act regulations on specific products and services offered by the bank. Figure 39 provides a chart of the responses across the various product offerings, as reflected in question 79 in Appendix A. The results seem to match the responses to the earlier question regarding overall fee changes. For most respondents, customer fees associated with most products and services have not yet changed as a result of Dodd-Frank. The most significant changes reported were in overdraft protection, residential mortgages, and personal checking. Respondents that reported increased fees for personal checking and residential mortgages were offset by a nearly equal number of respondents that reported fee decreases for these products. Many reported that fees were unchanged.

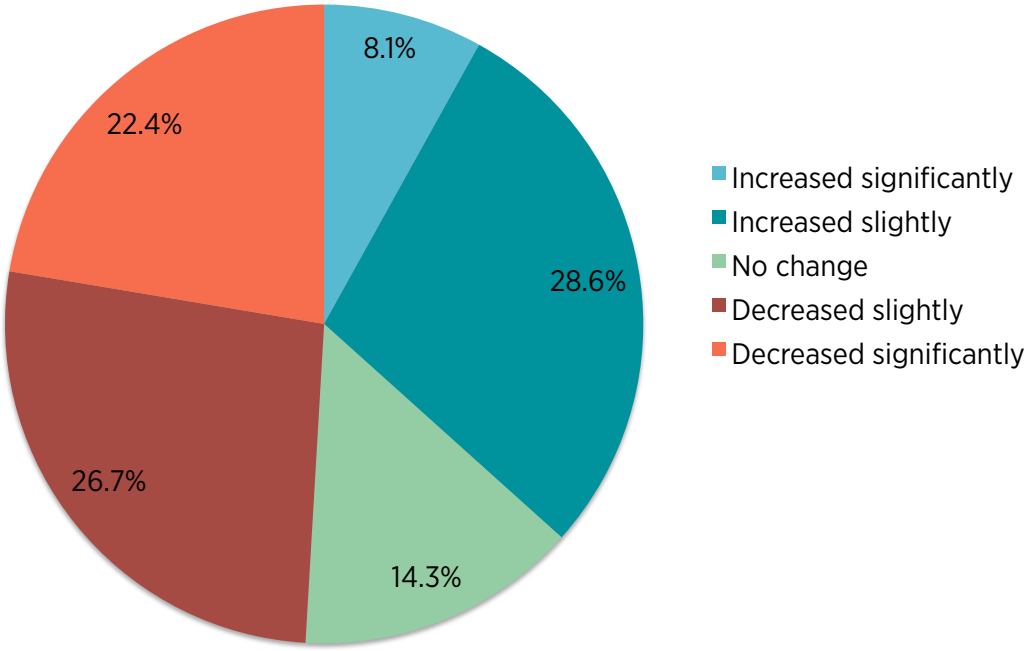
Figure 39. Effects of Dodd-Frank on Fees of Product/Service



Sample size *N* = 172; figures representing "no impact" have been ommitted

As figure 40 shows, more than thirty-six percent of respondents reported stronger returns on equity since the passage of Dodd-Frank, but the profitability of nearly half of the banks has suffered.

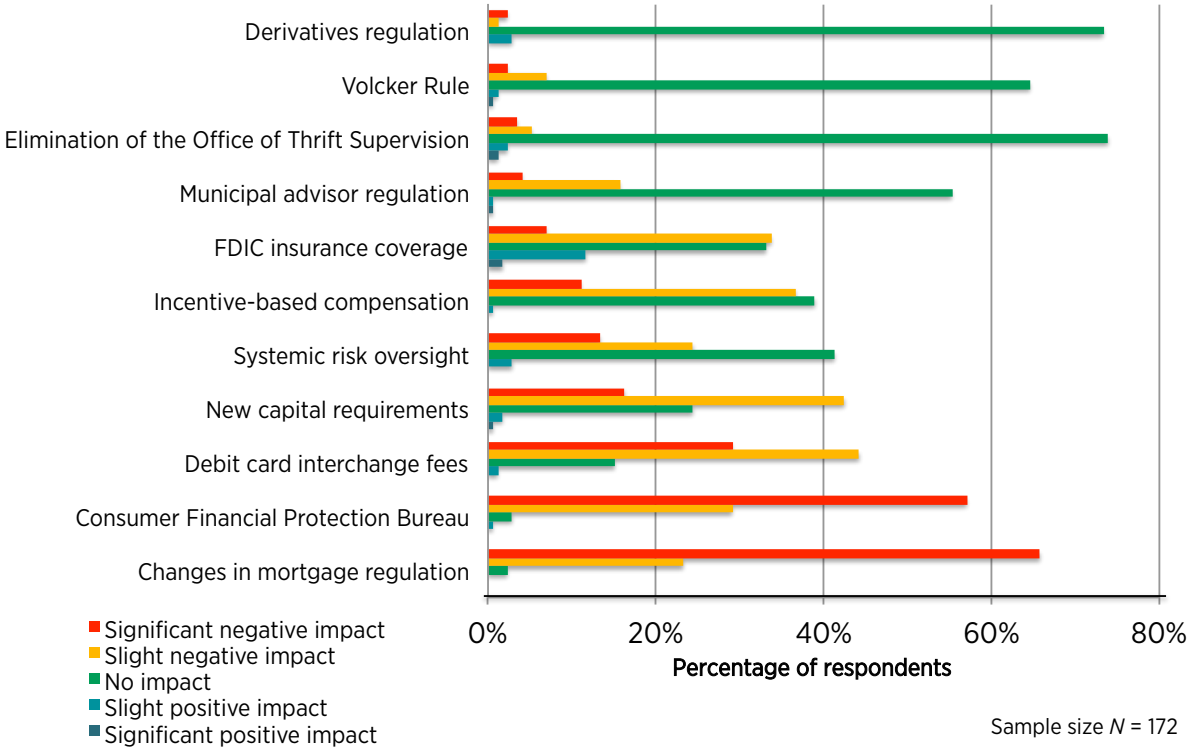
Figure 40. Change in Return on Equity Since July 2010



Sample size *N* = 172 with 161 valid responses

When asked to gauge the impact of various aspects of Dodd-Frank on bank earnings, negative effects were most commonly reported as a result of the Bureau of Consumer Financial Protection, changes in mortgage regulations, debit interchange regulations, and new capital requirements. Figure 41 summarizes participants' responses to question 82 in Appendix A regarding the impact of the different aspects of Dodd-Frank on bank earnings.

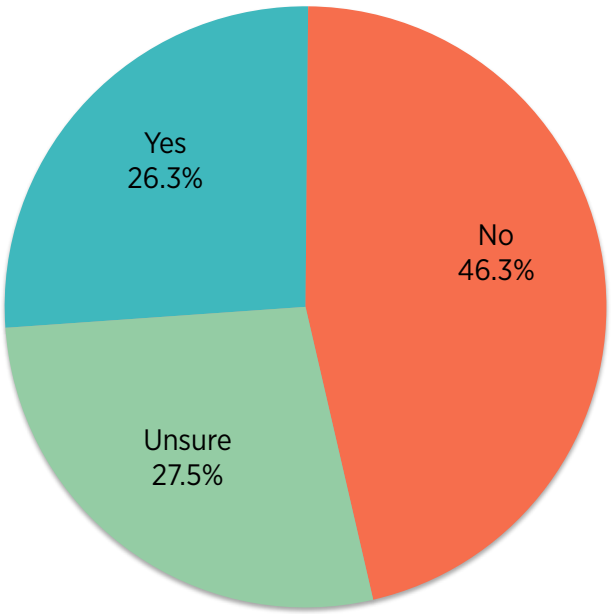
Figure 41. Impact of Policy on Bank Earnings



O. Strategic Direction

We asked small banks about their strategic activities and plans in the new Dodd-Frank environment. Regulatory changes are not the only challenge currently affecting small banks. The industry also faces the difficult low–interest rate environment, which tends to disproportionately affect banks concentrated in traditional deposit-taking and lending.[127] In addition, the prospect of rapidly rising interest rates may drive merger and acquisition activity and growth strategies of small banks. Five banks (approximately three percent of the sample) reported having merged with, or been acquired by, another bank since Dodd-Frank's enactment. Twelve banks (approximately seven percent of the sample) reported having acquired another bank in the same period. Almost ninety-five percent of respondents anticipate consolidation in the banking industry over the next five years. As figure 42 illustrates, more than a quarter of respondents anticipate being part of that consolidation activity.

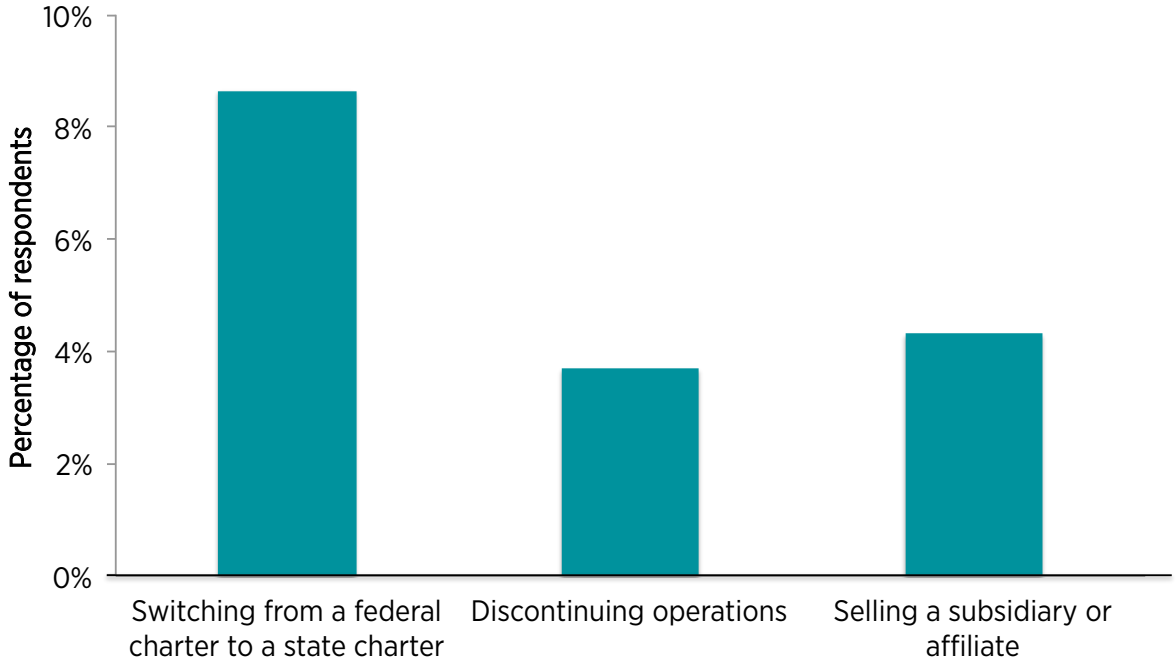
Figure 42. Anticipate Engagement in Merger and Acquisition Activity in the Next Five Years



Sample size *N* = 162 with 160 valid responses

We also asked about other potential strategic plans, such as switching charters, becoming a nonbank entity, discontinuing operations, or selling pieces of their operations. We show the most popular responses in figure 43.

Figure 43. Potential Future Strategies



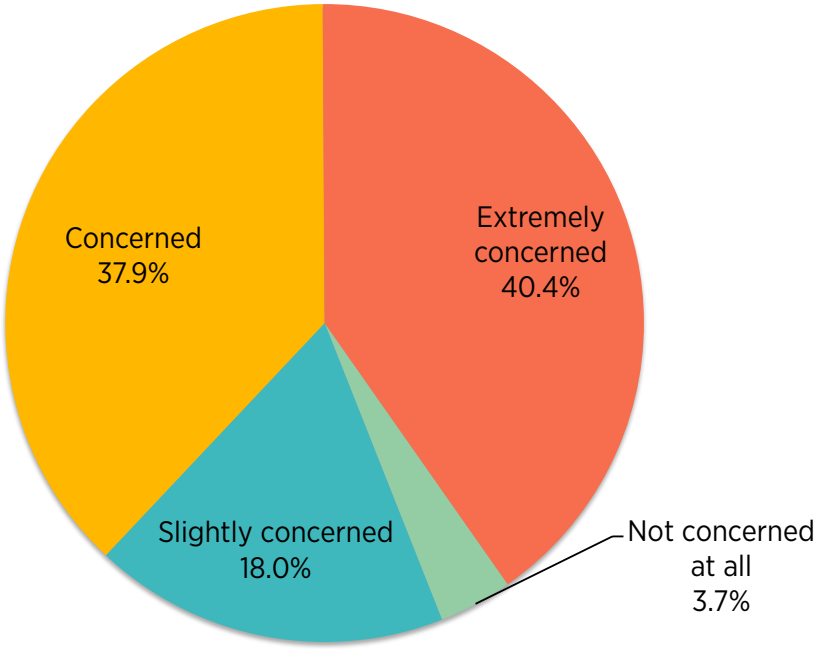
Sample size *N* = 172

Based on narrative responses, many small banks are considering mergers or acquisitions in order to spread increased regulatory costs across a larger bank. On the other hand, some survey participants are taking care to avoid crossing the asset size thresholds that are used in regulatory exemptions. As one respondent explained, "Going from being treated as a small bank to a large bank is not incremental; as soon as you become a large bank you have to implement all of the requirements for a large bank." Yet other respondents emphasized that large-bank requirements tend to trickle down to smaller banks. Survey participants reported that the different regulatory framework applicable to larger banks has influenced strategic decisions. Specifically, as reflected in responses to questions 90 and 91 in Appendix A, 23.5% of respondents indicated that regulators' size-sensitive approach was influencing decisions regarding the size of their banks, and 20.4% said that it was influencing decisions regarding their growth strategy. Dodd-Frank expands interstate branching possibilities for banks,[128] but most respondents had no plans to take advantage of that change.

A majority of survey participants expressed concern about the interest rate environment. A particular concern reflected in many of the narrative responses is, as one respondent explained,

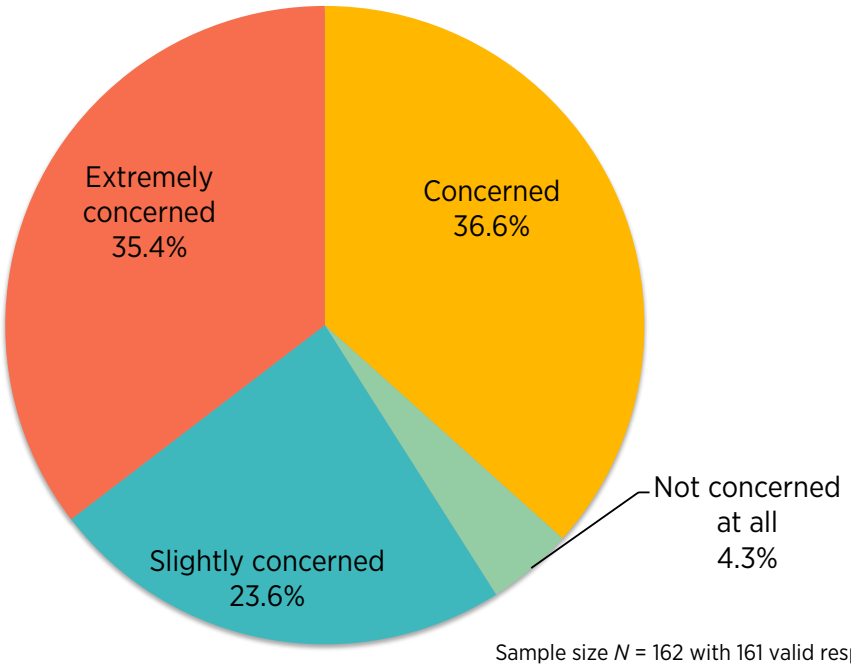
"the rate at which interest rates will increase once they begin to rise." One respondent noted that "[t]he low interest rate environment is disproportionately tougher on small banks and in turn its customers" than on "[l]arge banks [which] are much more equipped to handle the prolonged lower rates." Another respondent wrote that "many banks are extending and mis-matching assets and liabilities to find any earnings at all." A number of narrative responses reflected the difficulty of planning in an uncertain macroeconomic environment characterized by—in the words of one respondent—"the unprecedented level of monetary intervention on the part of the Federal Reserve." As figures 44 and 45 show, only approximately four percent of respondents reported *not* being concerned about the current and future interest rate environments.

Figure 44. Concern about the Current Interest Rate Environment



Sample size *N* = 162 with 161 valid responses

Figure 45. Concern about Future Interest Rate Risk

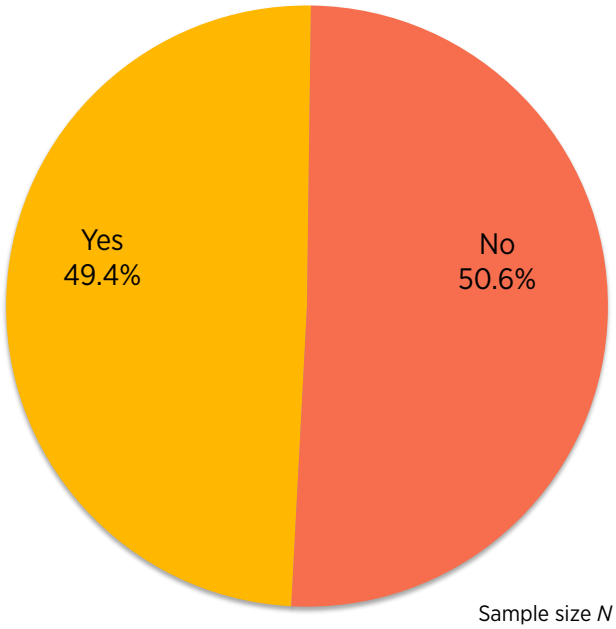


Sample size *N* = 162 with 161 valid responses

P. Credit Ratings

Dodd-Frank lays the groundwork for the elimination of statutory and regulatory references to ratings by nationally recognized statistical rating organizations (NRSROs), which are more commonly known as credit-rating agencies.[129] Among the affected statutes and regulations are banking regulations. As figure 46 shows, approximately half of the survey participants reported that they have altered their credit-analysis practices.

Figure 46. Alterations to Credit-Analysis Practices in Response to Dodd-Frank



Sample size *N* = 162 with 160 valid responses

Figure 47 shows that these respondents took a number of different approaches to altering their credit-analysis practices. Respondents could select more than one option.

Figure 47. Nature of Changes in Credit-Analysis Practices

Q. Other Issues

Two final open-ended items allowed respondents to identify other "issues that are currently affecting the way your bank serves its customers" and "any additional issues that your bank has identified as important for it or its customers as a result of the Dodd-Frank Act and corresponding regulations." Several respondents expressed concerns about competition from credit unions and unregulated nonbank financial institutions. Generally, however, themes similar to the ones expressed elsewhere in the survey emerged—concerns about being unfairly subjected to big bank regulations, general worries about the mounting compliance burden, fear of inadvertently violating a regulation, and a concern that the new regulations are not helping customers. As one respondent explained, "The current [r]egulatory environment is very disruptive to the operation of the Bank. There is no time left to do banking." One respondent characterized the "regulatory complexity [as] stifling and scary." Another respondent lamented the fact that "[m]any concerned, conscientious community bankers are selling out or just retiring due to the maddening pace of illogical & unnecessary regulation. Not one of the regulations we've seen would have done anything to prevent the 2008 collapse."

5. DIFFERENTIAL EFFECTS ACROSS BANKS

THE SURVEY RESULTS suggest—as would be expected—that, even among small banks, the effects of Dodd-Frank are not uniform. We have performed a preliminary analysis by creating cross tabulations for several of the survey responses—categorizing banks above and below $200 million in assets, within quartiles according to the sample's distribution of reported assets, and grouped according to the primary federal regulator of each bank. Of banks below $200 million in assets, 14.3% anticipate discontinuation of residential mortgages as a result of Dodd-Frank, whereas only 6.9% of banks above $200 million said they anticipate discontinuation. Moreover, 10.5% of respondents below the $200 million threshold have discontinued residential mortgages as a result of Dodd-Frank. Only 2.6% of banks above $200 million have done so. The cross-tabulations of quartiles show a similar pattern with the bottom quartile reporting higher rates of discontinuation and anticipated discontinuation.

In both relative and absolute terms, banks above the $200 million threshold were more likely to rank regulatory coordination as having been conducted well or very well. When broken into quartiles, banks in the third quartile ($220–$450 million) ranked regulatory coordination more highly than the others. Banks below $200 million reported lower rates of reliance on external legal counsel and higher levels of external compliance personnel than banks above $200 million. Table 9 displays results from a quartile-based cross tabulation, which found that rates of reliance on both in-house and external legal counsel for compliance appear to increase with size. Banks in the third quartile display the highest rates of external consultants. The question allowed multiple responses, so the percentages within the rows do not sum to 100%.

Table 9. Compliance Sourcing Cross Tabulation

Assets (millions)	In-house legal counsel	External legal counsel	In-house compliance personnel	External compliance personnel	External consultants	Other
< $104	3.6%	12.7%	80.0%	20.0%	32.7%	1.8%
$104–$220	5.5%	16.4%	83.6%	25.5%	30.9%	1.8%
$220–$450	1.8%	22.8%	86.0%	21.1%	42.1%	1.8%
> $450	22.6%	28.3%	73.6%	11.3%	26.4%	1.9%

Sample size $N = 190$

Banks that identified the Federal Reserve as their primary regulator also reported the most substantial changes in compliance costs. More than 85% of the Federal Reserve–regulated banks, 69.7% of the FDIC-regulated banks, and 54.5% of the OCC-regulated banks reported increases in compliance costs greater than five percent. In future work, we expect to conduct further analysis to understand the different effects within our sample of small banks.

6. CONCLUSION

THIS PAPER PRESENTS the results of the Mercatus Center's Small Bank Survey. The survey drew responses from approximately 200 banks with less than $10 billion in assets across 41 states, serving mostly rural and small metropolitan markets. This survey, because of its large scale and in-depth questions, helps to shape our understanding of the effects that Dodd-Frank is having on small banks. We anticipate making further use of the dataset to better understand how Dodd-Frank is affecting different subsets of small banks. As Dodd-Frank implementation progresses, additional surveys could help to illuminate whether the problems bankers are reporting are transitional or a permanent feature of the contemporary banking landscape. Further work is needed to shed light on the relationship between new regulations and increases in fees and limitations of service and product offerings.

Our initial analysis suggests that Dodd-Frank is having significant effects on small banks and their customers. A large majority of small banks view Dodd-Frank as more burdensome than the Bank Secrecy Act, a regulatory regime that banks widely regard as very burdensome. The participating banks noted their substantially increased compliance costs in the wake of Dodd-Frank. These costs include new compliance-personnel hires, increased reliance on outside compliance experts, additional resources allocated to compliance, and more time spent by noncompliance employees on compliance.

An important driver of compliance expenditures is the Bureau of Consumer Financial Protection. Small banks' experience with the mortgage rules—where the CFPB has concentrated much of its rulemaking activity to date—seems to have generated a broader concern about the effect that the Bureau will have in the future on small banks across other products and services. One respondent expressed the realization that "[s]mall [banks] were supposed to be exempt from CFPB—well, we definitely are not." Another comment similarly observed that "[w]hile [small banks are] not examined by CFPB, their initiatives will definitely flow to the prudential regulators and affect all banks."

More generally, Dodd-Frank's exemptions do not appear to effectively shield small banks from new burdens. The Durbin Amendment, for example, is affecting small banks, despite the statutory exemption they enjoy. As one commenter noted, "any regulations applied to larger [systemically important financial institutions] always roll downhill, regardless of what congressional leaders say." Because large and small banks compete against one another, the effect of regulatory changes—such as price caps under the Durbin Amendment—are not easily limited to large banks.

Increased regulatory burdens have led small banks to reconsider their product and service offerings. Based on the responses, we expect that the small bank share of the residential mortgage business will shrink considerably. Small banks also have begun to cut back on overdraft protection. These changes in product offerings will affect small bank consumers, who may have difficulty locating convenient alternatives.

The long-term ramifications of Dodd-Frank on bank customers are unclear. Some have already seen their fees increase, and respondents anticipated that additional fee increases are coming. Many respondents, however, reported that fees are unchanged since the enactment of Dodd-Frank. It is not clear that consumers are benefiting from the regulations intended to protect them. Respondents expressed frustration that many of the new compliance burdens are not beneficial to the customers that these new regulations are supposed to help.

Small banks report mixed results on profitability. Some banks' return on equity has increased, while it has decreased for others. The widespread belief that industry consolidation will happen suggests, however, that banks are concerned about profitability. Because the vast majority of respondents' compliance expenditures have risen, many may be looking for ways to spread increased compliance costs over a larger bank. Regulation is not the only issue driving worries about profitability. Small banks also are concerned about the low–interest rate environment and the prospect that interest rates will rise quickly.

The results of this survey can help Congress and regulators as they think about ways to achieve their regulatory objectives without unduly adding to the already substantial regulatory burden faced by small banks. Particularly in an environment of increasing bank concentration, taking steps to ensure that regulation does not provide a competitive obstacle for small banks is important.

Regulators can look to existing mechanisms for understanding and easing regulatory burdens. The banks in our survey actively engage in advocacy, so willing regulators have many opportunities to seek out their expertise. Regulators also could consider using economic analysis to better understand the effects of their regulatory actions on small banks. Analysis under the Regulatory Flexibility Act[130] and the Small Business Regulatory Enforcement Fairness Act (SBREFA)[131] could also help regulators to think specifically about tailoring regulations for small banks. The CFPB, which is one of three agencies subject to a requirement to convene SBREFA panels,[132] may be able to take greater advantage of this resource than it has to date.[133] The Office of Advocacy of the Small Business Administration can help the regulators consider the unique challenges faced by small banks and develop appropriate regulatory accommodations. Besides these considerations, regulators could ease the burden on small banks through longer implementation periods, increased efforts to educate small banks about how rules apply to them, and improved interagency coordination.

The survival of small banks is important because they are particularly well-suited to serving small communities, small businesses, and borrowers with unique needs. Regulatory burdens on small banks translate into limited options for consumers. Federal policy can support small financial institutions by freeing them from regulatory burdens that impose costs without corresponding benefits.

APPENDIX A: SUMMARY RESPONSE TABLES

Characteristics

1. As of the end of the most recent quarter, what was your bank's approximate asset size? ($US)		
Responses	220	99.1%
No Response	2	0.9%
Average	510926325.8	
Median	221000000	
Min	2900000	
Max	9486279000	

2. As of the end of the most recent quarter, what were your bank's approximate total deposits? ($US)		
Responses	217	97.7%
No Response	5	2.3%
Average	390148201.6	
Median	187000000	
Min	1670000	
Max	7000000000	

3. As of the end of the most recent quarter, approximately how many employees (full-time equivalent) did your bank have?		
Responses	216	97.3%
No Response	6	2.7%
Average	119.8	
Median	52	
Min	5	
Max	2887	

4. How is your bank chartered?		
Responses	221	99.5%
No Response	1	0.5%
State-chartered and not a Federal Reserve member	98	44.1%
State-chartered and a Federal Reserve member	69	31.1%
Nationally chartered	51	23.0%
Federal Savings Bank	1	0.5%
Mutual Federal Savings Bank	1	0.5%
Other	1	0.5%

5. What type of charter does your bank hold?		
Responses	217	97.7%
No Response	5	2.3%
Bank	186	83.8%
Thrift (including savings association, savings bank, savings and loan association, or mutual)	31	14.0%

6. Which of the following best describes your bank?		
Responses	221	99.5%
No Response	1	0.5%
Local	187	84.2%
Intrastate-Regional	24	10.8%
Statewide	3	1.4%
Interstate-Regional	5	2.3%
National	2	0.9%
International	0	0.0%

7. How many branches does your bank currently have?		
Responses	222	100.0%
No Response	0	0.0%
Average	9.7	
Median	4	
Min	0	
Max	217	

8. How has the number of branches changed since 2008?		
Responses	219	98.6%
No Response	3	1.4%
Increased	65	29.3%
Decreased	29	13.1%
Stayed the same	125	56.3%

9. Which of the following describe your bank? Please check all that apply.		
Responses	29	13.1%
No Response	83	37.4%
Closely held	83	37.4%
Family-owned	77	34.7%
Traded on an exchange	13	5.9%
S Corp	75	33.8%
C Corp	44	19.8%
Mutual	25	11.3%
Other	3	1.4%

10. What best describes the organizational structure of your bank?		
Responses	221	99.5%
No Response	1	0.5%
Stand-alone	92	41.4%
Subsidiary of a financial holding company	122	55.0%
Other	7	3.2%

11. Approximately what percentage of your bank's income was classified as interest income for FY2012?		
Responses	191	86.0%
No Response	31	14.0%
Average	0.805467725	
Median	0.84	
Min	0.0416	
Max	0.99	

12. Approximately what percentage of your bank's income was classified as non-interest income for FY2012?		
Responses	192	86.5%
No Response	30	13.5%
Average	0.188774737	0.1%
Median	0.15	0.1%
Min	0.01	0.0%
Max	0.96	0.4%

13. What was your bank's largest source for non-interest income for FY2012?		
Responses	199	89.64%
No Response	23	10.36%

14. What was your bank's return on assets for FY2012?	
Responses	195
No Response	27
Average	0.011597
Median	0.0088
Min	–0.003
Max	0.086

15. In what state is your bank headquartered?		
Alabama	0	0.0%
Alaska	0	0.0%
Arizona	0	0.0%
Arkansas	3	1.4%
California	4	1.8%
Colorado	2	0.9%
Connecticut	3	1.4%
Delaware	0	0.0%
Florida	4	1.8%
Georgia	5	2.3%
Hawaii	1	0.5%
Idaho	0	0.0%
Illinois	9	4.1%
Indiana	3	1.4%
Iowa	8	3.6%
Kansas	20	9.0%
Kentucky	1	0.5%
Louisiana	4	1.8%
Maine	0	0.0%
Maryland	2	0.9%
Massachusetts	4	1.8%
Michigan	3	1.4%
Minnesota	25	11.3%
Mississippi	4	1.8%
Missouri	10	4.5%
Montana	3	1.4%
Nebraska	10	4.5%
Nevada	0	0.0%
New Hampshire	2	0.9%
New Jersey	4	1.8%
New Mexico	1	0.5%
New York	2	0.9%
North Carolina	4	1.8%
North Dakota	0	0.0%
Ohio	6	2.7%
Oklahoma	8	3.6%
Oregon	1	0.5%
Pennsylvania	2	0.9%
Rhode Island	1	0.5%
South Carolina	2	0.9%

South Dakota	1	0.5%
Tennessee	7	3.2%
Texas	13	5.9%
Utah	2	0.9%
Vermont	3	1.4%
Virginia	7	3.2%
Washington	0	0.0%
West Virginia	4	1.8%
Wisconsin	6	2.7%
Wyoming	2	0.9%

16. Which market type(s) best describes the geographic area your bank serves? Please check all that apply.		
Rural (population less than 50,000)	140	63.1%
Small metropolitan area (population greater than 50,000 and less than 500,000)	68	30.6%
Large metropolitan area (population greater than 500,000)	37	16.7%

17. How would your bank classify the primary geographic area(s) it serves based on census classification? Please check all that apply.		
Low Income	77	34.7%
Moderate Income	144	64.9%
Middle Income	125	56.3%
Upper Income	33	14.9%

Resources Devoted to Regulatory and Compliance Activities

18. Product Matrix	Currently Offered	Not Currently Offered	Discontinued as a Result of the Dodd-Frank Act	Anticipate Discontinuing as a Result of the Dodd-Frank Act
Personal Checking	83.3%	0.9%	0.0%	0.0%
Personal Savings	82.9%	0.0%	0.0%	0.0%
Business Checking	81.5%	0.9%	0.0%	0.0%
Business Savings	78.4%	3.2%	0.0%	0.0%
Overdraft Protection	50.9%	23.0%	2.7%	5.0%
Certificates of Deposit	82.9%	0.5%	0.0%	0.0%
Credit Cards	33.3%	44.6%	2.7%	0.0%
Debit Cards	80.6%	1.8%	0.0%	0.9%
Residential Mortgages	66.2%	1.8%	5.9%	10.4%
Home Equity Lines of Credit	57.7%	16.7%	4.5%	5.4%
Mortgage Servicing	39.2%	32.9%	5.0%	4.5%
Insurance	22.1%	53.2%	2.3%	0.9%
Small Business Lending (SBA)	56.8%	23.4%	0.0%	0.5%

Small Business Lending (non-SBA)	73.9%	9.0%	0.0%	0.5%
Agricultural Lending	59.0%	21.6%	0.0%	0.5%
Commercial Real Estate Lending	80.2%	2.3%	0.0%	0.5%
Construction and Development Lending	73.9%	6.8%	0.5%	1.8%
Commercial and Industrial Lending	73.9%	6.8%	0.0%	0.0%
Other Commercial Lending	69.8%	9.5%	0.0%	0.5%
Securities and Investment Products	30.2%	48.6%	0.5%	0.0%
Derivatives	3.2%	73.9%	0.5%	0.0%
Remittance Transfers	22.5%	48.2%	2.3%	2.7%

19. Please identify, in the order of importance, the three products or services that contributed most to your bank's revenue in the past twelve months.*		
Responses	180	81.08%
No Response	42	18.92%

* Responses were narrative and so specific responses are not set forth here.

20. Please identify, in order of importance, the three products or services that your bank anticipates will contribute most to its revenue in the next twelve months.*		
Responses	176	79.28%
No Response	46	20.72%

* Responses were narrative and so specific responses are not set forth here.

21. Please identify any products, services, or lines of business that your bank has added or plans to add as a result of the Dodd-Frank Act.		
Responses	133	59.9%
No Response	89	40.1%
None/NA	125	94.0%
Other Response	8	6.0%

22. Did your bank engage in any of the following activities before the passage of the Dodd-Frank Act in July 2010? Please check all that apply.		
Met with an elected official to discuss regulatory policy issues	110	57.9%
Discussed regulatory issues with regulators (not including routine contacts with examiners)	120	63.2%
Submitted public comments in connection with proposed regulations, including through a representative organization or outside law firm	125	65.8%
Held a membership in a representative organization that engages in advocacy on regulatory issues	142	74.7%
Engaged in other public advocacy such as letters to the editor, op-ed pieces, open letters, or blog articles	46	24.2%
None of the above	7	3.7%

23. Has your bank engaged in any of the following activities after the passage of the Dodd-Frank Act in July 2010? Please check all that apply.		
Met with an elected official to discuss regulatory policy issues	123	64.7%
Discussed regulatory issues with regulators (not including routine contacts with examiners)	143	75.3%
Submitted public comments in connection with proposed regulations, including through a representative organization or outside law firm	139	73.2%
Held a membership in a representative organization that engages in advocacy on regulatory issues	146	76.8%
Engaged in other public advocacy such as letters to the editor, op-ed pieces, open letters, or blog articles	59	31.1%
None of the above	4	2.1%

24. Has your bank been contacted by any of the following regulatory authorities regarding the feasibility of implementing Dodd-Frank regulations? Please check all that apply.		
State bank regulators	43	22.6%
Federal Reserve	21	11.1%
Office of the Comptroller of the Currency	16	8.4%
Consumer Financial Protection Bureau	4	2.1%
Federal Deposit Insurance Corporation	31	16.3%
Securities and Exchange Commission	1	0.5%
State securities regulators	1	0.5%
State insurance regulators	2	1.1%
None of the above	125	65.8%

25. Has your bank been contacted by regulatory authorities regarding your bank's participation in a small bank advisory council or panel to assess the impact of Dodd-Frank regulations on small banks?		
Responses	189	99.5%
No Response	1	0.5%
Yes	11	5.8%
No	152	80.0%
Unsure	26	13.7%

26. Who handles your bank's regulatory compliance? Please check all that apply.		
In-house legal counsel	18	9.5%
External legal counsel	44	23.2%
In-house compliance personnel	178	93.7%
External compliance personnel	43	22.6%
External consultants	73	38.4%
Other	4	2.1%

27. Has your bank engaged an outside consultant for assistance with regulatory changes related to the Dodd-Frank Act?		
Responses	189	99.5%
No Response	1	0.5%
Yes	95	50.0%
No	94	49.5%
Unsure	0	0.0%

28. Does your bank plan to engage an outside consultant for assistance with regulatory changes related to the Dodd-Frank Act?		
Responses	188	98.9%
No Response	2	1.1%
Yes	96	50.5%
No	52	27.4%
Unsure	40	21.1%

29. How has the amount of resources that your bank spends annually on regulatory compliance changed since the passage of the Dodd-Frank Act in July 2010?		
Responses	187	98.4%
No Response	3	1.6%
Has increased by more than 5%	155	81.6%
Has increased by less than 5%	15	7.9%
Has not changed	6	3.2%
Has decreased by less than 5%	1	0.5%
Has decreased by more than 5%	10	5.3%

30. How many compliance/legal personnel did your bank have in July 2010?		
Responses	187	98.4%
No Response	3	1.6%
Average	1.6	
Median	1	
Min	0	
Max	13	

31. How many compliance/legal personnel does your bank have currently?		
Responses	188	98.9%
No Response	2	1.1%
Average	2.8	
Median	2	
Min	0	
Max	16	

32a. Does your bank anticipate hiring additional compliance/legal personnel in the next twelve months?		
Responses	186	97.9%
No Response	4	2.1%
Yes	51	26.8%
No	83	43.7%
Unsure	52	27.4%

32b. If you answered "yes" to the question above, how many additional compliance/legal personnel does your bank plan to hire in the next twelve months?		
Responses	51	26.8%
No Response	139	73.2%
Average	1.254	
Median	1	
Min	0.2	
Max	5	

33. Relative to the requirements of the Bank Secrecy Act (BSA), how does your bank expect the requirements imposed under the Dodd-Frank Act will compare?		
Responses	189	99.5%
No Response	1	0.5%
Substantially more burdensome than the BSA	124	65.3%
Slightly more burdensome than the BSA	29	15.3%
As burdensome as the BSA	31	16.3%
Slightly less burdensome than the BSA	4	2.1%
Substantially less burdensome than the BSA	1	0.5%

Capital

34. What was your bank's Tier 1 capital ratio prior to July 2010?		
Responses	160	84.2%
No Response	30	15.8%
Average	0.110180625	
Median	0.0974	
Min	0.0358	
Max	0.4123	

35. What is your bank's Tier 1 capital ratio currently?		
Responses	163	85.8%
No Response	27	14.2%
Average	0.114409202	
Median	0.1	
Min	0.0212	
Max	0.3783	

36. If your bank's Tier 1 capital has changed since July 2010, what accounts for the change? Please check all that apply.		
Business reasons	82	43.2%
Merger/Acquisition	12	6.3%
Recommendation of bank regulators	34	17.9%
Specific regulatory requirements	17	8.9%
Anticipation of Basel III changes	23	12.1%
Other	37	19.5%

37. What sources/strategies does your bank plan to pursue, if any, for increasing its Tier 1 capital? Please check all that apply.		
Retain earnings	135	71.1%
Private placement	8	4.2%
Public offering	8	4.2%
Raise additional capital from existing shareholders	33	17.4%
Sell assets	12	6.3%
Cut dividends	31	16.3%
Not applicable	26	13.7%
Other	12	6.3%

38. How does your bank anticipate its Tier 1 capital ratio will change in the next 5 years?		
Responses	178	93.7%
No Response	12	6.3%
Increase	113	59.5%
Stay the same	51	26.8%
Decrease	14	7.4%

39. If your bank anticipates a change in its Tier 1 capital ratio, what accounts for the anticipated change? Please check all that apply.		
Business reasons	80	42.1%
Merger/Acquisition	12	6.3%
Recommendation of bank regulators	25	13.2%
Specific regulatory requirements	34	17.9%
Basel III changes	64	33.7%
Other	10	5.3%

40. What effect will the phasing out of Trust Preferred Securities as Tier 1 capital have on your bank?*		
Responses	157	82.63%
No Response	33	17.37%

* Responses were narrative and so specific responses are not set forth here.

41. Did your bank participate, or is your bank currently participating, in any of the following programs? Please check all that apply.		
Troubled Asset Relief Program (TARP)	14	7.4%
Small Business Lending Fund (SBLF)	8	4.2%
Community Development Capital Initiative (CDCI)	1	0.5%

42. Does your bank plan to take advantage of the following programs? Please check all that apply.		
Small Business Loan Fund (SBLF)	4	2.1%
Community Development Capital Initiative (CDCI)	2	1.1%

FDIC

43. By approximately what percentage did your bank's rates for federal deposit insurance change following the passage of the Dodd-Frank Act? Please indicate whether the change was positive or negative.		
Responses	129	67.9%
No Response	61	32.1%
Average	0.109996895	
Median	0	
Min	–0.56	
Max	5	

44. Will your bank's activities or revenues change in response to the manner in which deposit insurance premiums are now assessed?		
Responses	175	92.1%
No Response	15	7.9%
Yes	22	11.6%
No	92	48.4%
Unsure	61	32.1%

45. Has the discontinuation of the temporary unlimited FDIC coverage for non-interest bearing transaction accounts (TAG Program) affected your bank?		
Responses	177	93.2%
No Response	13	6.8%
Yes	30	15.8%
No	133	70.0%
Unsure	14	7.4%

46. Is the current FDIC insurance coverage level adequate for the needs of your bank's customers?		
Responses	175	92.1%
No Response	15	7.9%
Yes	142	74.7%
No	26	13.7%
Unsure	7	3.7%

Interchange Fees

47. Has the Durbin Amendment's regulation of debit interchange fees and transaction routing affected your bank?		
Responses	176	92.6%
No Response	14	7.4%
Yes	85	44.7%
No	53	27.9%
Unsure	33	17.4%
Not Applicable	5	2.6%

48. Has the Durbin Amendment affected your bank's customers?		
Responses	175	92.1%
No Response	15	7.9%
Yes	25	13.2%
No	62	32.6%
Unsure	84	44.2%
Not Applicable	4	2.1%

Municipal Advisor

49. The Dodd-Frank Act created a new registration obligation for municipal advisors. How many employees at your bank have registered as municipal advisors?		
Responses	165	86.8%
No Response	25	13.2%
Average	0.609756098	
Median	0	
Min	0	
Max	40	

50. Has your bank changed the way it does business with municipalities in response to the new requirements regarding municipal advisors?		
Responses	174	91.6%
No Response	16	8.4%
Yes	7	3.7%
No	117	61.6%
Unsure	22	11.6%
Not Applicable	28	14.7%

51. Does your bank anticipate changing the way it interacts with municipalities in response to the new requirements regarding municipal advisors?		
Responses	173	91.1%
No Response	17	8.9%
Yes	15	7.9%
No	81	42.6%
Unsure	53	27.9%
Not Applicable	24	12.6%

Regulatory Oversight

52. What agency is your bank's primary federal regulator?		
Responses	175	92.1%
No Response	15	7.9%
Federal Reserve	28	14.7%
Office of the Comptroller of Currency	44	23.2%
Federal Deposit Insurance Corporation	103	54.2%

53. Has your bank or its holding company's primary regulatory agency changed since July 2010?		
Responses	176	92.6%
No Response	14	7.4%
Yes	20	10.5%
No	156	82.1%

54. How well do your bank's regulatory agencies coordinate with one another?		
Responses	172	90.5%
No Response	18	9.5%
Not at All	2	1.1%
Very Little	33	17.4%
Somewhat	53	27.9%
Well	40	21.1%
Very Well	18	9.5%
Unsure	26	13.7%

55. Please provide an example/examples of the types of issues on which there has been coordination.*		
Responses	68	35.79%
No Response	122	64.21%

* Responses were narrative and so specific responses are not set forth here.

56. Please provide an example/examples of the types of issues on which there has not been coordination.		
Responses	47	24.74%
No Response	143	75.26%

* Responses were narrative and so specific responses are not set forth here.

57. After the passage of the Dodd-Frank Act, how has the degree of certainty changed as to whether your bank's activities are governed by state law, federal law, or both?		
Responses	173	91.1%
No Response	17	8.9%
Has decreased significantly	21	11.1%
Has decreased slightly	38	20.0%
Has not changed	75	39.5%
Has increased slightly	22	11.6%
Has increased significantly	17	8.9%

Volcker Rule

58. Although regulators have not yet finalized the Volcker Rule, which places limitations on banks' proprietary trading and private fund activities, has your bank modified its activities in anticipation of changes?		
Responses	172	90.5%
No Response	18	9.5%
Yes	1	0.5%
No	157	82.6%
Unsure	14	7.4%

59. Does your bank anticipate that the Volcker Rule will affect the products and services your bank offers to its customers or the fees it charges?		
Responses	172	90.5%
No Response	18	9.5%
Yes	2	1.1%
No	147	77.4%
Unsure	23	12.1%

Incentive-Based Compensation

60. Has your bank changed the structure of its incentive-based compensation since the passage of the Dodd-Frank Act in July 2010?		
Responses	172	90.5%
No Response	18	9.5%
Yes	64	33.7%
No	85	44.7%
Not Applicable	23	12.1%

61. How does your bank anticipate these changes will affect its employees' overall performance?		
Responses	167	87.9%
No Response	23	12.1%
Decrease significantly	13	6.8%
Decrease slightly	39	20.5%
No change	93	48.9%
Increase slightly	1	0.5%
Increase significantly	1	0.5%
Unsure	20	10.5%

62. How does your bank anticipate these changes will affect its ability to attract high-quality employees?		
Responses	167	87.9%
No Response	23	12.1%
Decrease significantly	16	8.4%
Decrease slightly	37	19.5%
No change	80	42.1%
Increase slightly	12	6.3%
Increase significantly	2	1.1%
Unsure	20	10.5%

CFPB

63. Has your bank hired additional compliance or legal personnel specifically in response to regulatory initiatives of the Consumer Financial Protection Bureau?		
Responses	169	98.3%
No Response	3	1.7%
Yes	63	36.6%
No	106	61.6%

64. Have initiatives of the Consumer Financial Protection Bureau affected your bank's business activities?		
Responses	169	98.3%
No Response	3	1.7%
Yes	120	69.8%
No	49	28.5%

65. Has your bank been affected by conflicting mandates from the Consumer Financial Protection Bureau and your safety and soundness regulator?		
Responses	166	96.5%
No Response	6	3.5%
Yes	40	23.3%
No	69	40.1%
Unsure	57	33.1%

66. Has your bank altered customer disclosures in response to Consumer Financial Protection Bureau initiatives, or does your bank anticipate doing so?		
Responses	169	98.3%
No Response	3	1.7%
Yes	98	57.0%
No	24	14.0%
Unsure	47	27.3%

67. Does your bank anticipate its customers being affected by the initiatives of the Consumer Financial Protection Bureau?		
Responses	169	98.3%
No Response	3	1.7%
Yes	134	77.9%
No	17	9.9%
Unsure	18	10.5%

68. In the past five years, how has your bank altered the nature, mix, and volume of mortgage products it offers to retail consumers?*		
Responses	141	81.98%
No Response	31	18.02%

* Responses were narrative and so specific responses are not set forth here.

Mortgages

69. If your bank has altered the nature, mix, and volume of mortgage products it offers, why has it done so? Please check all that apply.		
For business reasons	39	22.7%
In response to specific regulatory requirements	97	56.4%
In response to bank examiner requests	12	7.0%
In response to demand changes in the secondary market	36	20.9%
In anticipation of future regulatory changes	59	34.3%
Other	6	3.5%

70. Does your bank anticipate altering the nature, mix, and volume of mortgage products it offers in response to regulatory changes?		
Responses	162	94.2%
No Response	10	5.8%
Yes	103	59.9%
No	24	14.0%
Unsure	35	20.3%

71. Effect on Mortgages	Significant Negative Impact	Slight Negative Impact	No Impact	Slight Positive Impact	Significant Positive Impact	Unsure
Consumer Financial Protection Bureau	56.4%	28.5%	6.4%	0.6%	0.6%	2.9%
Definition of "qualified mortgage"	56.4%	28.5%	5.8%	0.6%	1.7%	1.7%
Definition of "qualified residential mortgage"	52.3%	31.4%	5.2%	0.0%	1.2%	4.1%
Low-interest rate environment	30.8%	27.3%	14.0%	9.3%	10.5%	2.3%
Pressure from bank examiners	26.7%	31.4%	26.2%	0.0%	0.6%	8.1%
Changed underwriting requirements by Fannie Mae and/or Freddie Mac	22.1%	28.5%	36.0%	1.2%	1.2%	4.1%
Basel III	15.1%	37.8%	29.1%	0.0%	0.6%	11.0%

72. In the past five years, has your bank changed its mortgage underwriting practices?		
Responses	166	96.5%
No Response	6	3.5%
Yes	88	51.2%
No	70	40.7%
Not Applicable	8	4.7%

73. How does your bank anticipate changing its mortgage underwriting requirements in the next two years?*		
Responses	118	68.60%
No Response	54	31.40%

*Responses were narrative and so specific responses are not set forth here.

74. If your bank anticipates changing mortgage underwriting requirements, please briefly describe the reason for, and nature of, the changes.*		
Responses	81	47.09%
No Response	91	52.91%

* Responses were narrative and so specific responses are not set forth here.

75. Does your bank anticipate that it will make any loans that do not meet the definition of a "qualified mortgage"?		
Responses	164	95.3%
No Response	8	4.7%
Yes	57	33.1%
No	50	29.1%
Unsure	53	30.8%
Not Applicable	4	2.3%

Derivatives

76. In the past five years, has your bank or its holding company engaged in derivatives transactions?		
Responses	162	94.2%
No Response	10	5.8%
Yes	13	7.6%
No	149	86.6%

77. Has your bank or its holding company already limited, or does your bank or its holding company anticipate limiting, its derivatives activities in response to new regulatory requirements?		
Responses	165	95.9%
No Response	7	4.1%
Yes	1	0.6%
No	35	20.3%
Unsure	17	9.9%
Not Applicable	112	65.1%

Fees and Revenue

78. On average, how have the fees your bank charges customers changed since the passage of the Dodd-Frank Act in July 2010?		
Responses	161	93.6%
No Response	11	6.4%
Decreased by more than 5%	39	22.7%
Decreased by less than 5%	14	8.1%
Remained the same	64	37.2%
Increased by less than 5%	18	10.5%
Increased by more than 5%	26	15.1%

79. Effect of DFA on Fees	Decreased by more than 5%	Decreased by less than 5%	Remained the same	Increased by less than 5%	Increased by more than 5%	Not Applicable
Certificates of Deposit	0.6%	1.2%	79.1%	2.3%	1.2%	6.4%
Personal Savings	1.7%	2.9%	72.7%	5.8%	4.7%	2.3%
Business Checking	1.2%	2.9%	71.5%	5.2%	4.7%	2.9%
Commercial Real Estate Lending	0.6%	3.5%	65.7%	8.7%	5.2%	5.2%
Commercial and Industrial Lending	1.2%	2.9%	62.8%	7.6%	3.5%	11.0%
Other Commercial Lending	1.2%	2.3%	62.8%	7.6%	4.1%	9.9%
Business Checking	4.7%	5.2%	61.0%	9.3%	8.1%	1.7%
Construction and Development Lending	3.5%	2.3%	57.6%	10.5%	5.8%	9.3%
Small Business Lending (non-SBA)	0.6%	4.7%	57.0%	6.4%	3.5%	16.9%
Small Business Lending (SBA)	1.2%	2.9%	51.2%	2.9%	1.7%	27.9%
Agricultural Lending	1.2%	2.9%	51.2%	5.8%	3.5%	23.8%
Debit Cards	18.6%	8.7%	50.6%	8.1%	2.9%	2.3%
Personal Checking	15.7%	4.7%	48.8%	11.6%	8.7%	1.7%
Home Equity Lines of Credit	4.7%	7.0%	44.2%	8.1%	5.8%	20.3%
Residential Mortgages	11.6%	11.0%	37.2%	11.0%	12.2%	4.7%
Mortgage Servicing	1.7%	2.3%	32.6%	3.5%	4.1%	44.8%
Credit Cards	4.1%	2.9%	31.4%	1.7%	0.0%	48.3%
Overdraft Protection	20.3%	3.5%	29.1%	4.1%	5.8%	25.6%
Securities and Investment Products	1.2%	2.3%	25.6%	1.2%	1.2%	52.3%
Insurance	1.7%	2.3%	21.5%	1.7%	0.6%	59.9%
Remittance Services	0.6%	1.2%	19.2%	2.3%	1.7%	57.6%
Derivatives	0.6%	0.6%	8.1%	0.0%	0.0%	76.7%

80. How has your bank's return on equity changed since July 2010?		
Responses	161	93.6%
No Response	11	6.4%
Decreased significantly	36	20.9%
Decreased slightly	43	25.0%
Has not changed	23	13.4%
Increased slightly	46	26.7%
Increased significantly	13	7.6%

81. Does your bank anticipate that the Dodd-Frank Act's identification of large bank holding companies and certain non-bank financial institutions for special regulation will affect your bank's ability to fund its activities?		
Responses	161	93.6%
No Response	11	6.4%
Yes	11	6.4%
No	90	52.3%
Unsure	60	34.9%

82. Impact of Policy on Bank Earnings	Significant Negative Impact	Slight Negative Impact	No Impact	Slight Positive Impact	Significant Positive Impact	Unsure
Changes in Mortgage Regulation	65.7%	23.3%	2.3%	0.0%	0.0%	2.3%
Consumer Financial Protection Bureau	57.0%	29.1%	2.9%	0.6%	0.0%	2.3%
Debit Card Interchange Fees	29.1%	44.2%	15.1%	1.2%	0.0%	3.5%
New Capital Requirements	16.3%	42.4%	24.4%	1.7%	0.6%	5.8%
Systemic Risk Oversight	13.4%	24.4%	41.3%	2.9%	0.0%	8.7%
Incentive-Based Compensation	11.0%	36.6%	39.0%	0.6%	0.0%	4.7%
FDIC Insurance Coverage	7.0%	33.7%	33.1%	11.6%	1.7%	4.7%
Municipal Advisor Regulation	4.1%	15.7%	55.2%	0.6%	0.6%	14.0%
Elimination of the Office of Thrift Supervision	3.5%	5.2%	73.8%	2.3%	1.2%	4.7%
Volcker Rule	2.3%	7.0%	64.5%	1.2%	0.6%	14.5%
Derivatives Regulation	2.3%	1.2%	73.3%	2.9%	0.0%	10.5%

83. How does your bank anticipate that loosened restrictions on branch banking will affect your bank?*		
Responses	126	77.78%
No Response	36	22.22%

* Responses were narrative and so specific responses are not set forth here.

Strategic Direction

84. Has your bank merged with or been acquired by another bank since July 2010?		
Responses	159	98.1%
No Response	3	1.9%
Yes	5	3.1%
No	154	95.1%

85. Has your bank acquired another bank since July 2010?		
Responses	158	97.5%
No Response	4	2.5%
Yes	12	7.4%
No	146	90.1%

86. Does your bank anticipate merging with, being acquired by, or acquiring another bank in the next five years?		
Responses	160	98.8%
No Response	2	1.2%
Yes	42	25.9%
No	74	45.7%
Unsure	44	27.2%

87. Is your bank considering taking any of the following actions in the next five years? Please check all that apply.		
Switching from a federal charter to a state charter	14	8.6%
Switching from a state charter to a federal charter	5	3.1%
Becoming a nonbank entity	3	1.9%
Switching to a credit union charter	2	1.2%
Switching to an industrial loan corporation charter	2	1.2%
Discontinuing operations	6	3.7%
Other	10	6.2%
Unsure	35	21.6%

88. Does your bank anticipate further consolidation in the banking industry?		
Responses	161	99.4%
No Response	1	0.6%
Yes	153	94.4%
No	5	3.1%
Unsure	3	1.9%

89. Is your bank or its holding company considering selling any subsidiary or affiliate operations in the next two years?		
Responses	162	100.0%
No Response	0	0.0%
Yes	7	4.3%
No	118	72.8%
Unsure	22	13.6%
Not Applicable	15	9.3%

90. Does the fact that the Dodd-Frank Act employs a different regulatory framework for larger banks influence decisions regarding your bank's size?		
Responses	162	100.0%
No Response	0	0.0%
Yes	38	23.5%
No	110	67.9%
Unsure	14	8.6%

91. Does the fact that the Dodd-Frank Act employs a different regulatory framework for larger banks influence decisions regarding your bank's growth strategy?		
Responses	161	99.4%
No Response	1	0.6%
Yes	33	20.4%
No	116	71.6%
Unsure	12	7.4%

92. How concerned is your bank about the current interest rate environment?		
Responses	161	99.4%
No Response	1	0.6%
Not concerned at all	6	3.7%
Slightly concerned	29	17.9%
Concerned	61	37.7%
Extremely concerned	65	40.1%

93. How concerned is your bank about future interest rate risk?		
Responses	161	99.4%
No Response	1	0.6%
Not concerned at all	7	4.3%
Slightly concerned	38	23.5%
Concerned	59	36.4%
Extremely concerned	57	35.2%

Credit Ratings

94a. Under the Dodd-Frank Act, references to credit ratings must be eliminated from statutory and regulatory requirements. Has your bank altered its credit analysis practices in response to this provision or related guidance from regulators?		
Responses	160	98.8%
No Response	2	1.2%
Yes	79	48.8%
No	81	50.0%

94b. If you answered "yes" to the question above, how has your bank altered its practices? Please check all that apply.		
Contracted with outside firms to conduct credit analysis	34	21.0%
Hired additional employees to conduct credit analysis	22	13.6%
Altered the nature of the securities that your bank purchases	38	23.5%
Other	25	15.4%

95. Please describe any other issues that are currently affecting the way your bank serves its customers.*		
Responses	60	37.04%
No Response	102	62.96%

* Responses were narrative and so specific responses are not set forth here.

96. Please describe any additional issues that your bank has identified as important for it or its customers as a result of the Dodd-Frank Act and corresponding regulations.*		
Responses	36	22.22%
No Response	126	77.78%

* Responses were narrative and so specific responses are not set forth here.

APPENDIX B: OTHER SMALL BANK EMPIRICAL RESEARCH

A. Conference of State Bank Supervisors' Town Halls

The Conference of State Bank Supervisors, in conjunction with the Federal Reserve System, held town hall meetings from April through July 2013 with more than 1,700 community bankers in twenty-eight states as part of a broader study of community banks.[134] In addition to the town hall meetings, state banking commissioners employed surveys and telephone calls.[135] All of the community bankers were asked the same seven questions.[136] The study presents the results in narrative, summary form for all states collectively and for each state individually. The surveyed banks were optimistic that they could distinguish themselves from larger banks in customer service and believed there are competitive opportunities.[137] On the other hand, the surveyed banks were concerned, among other things, about "one-size-fits-all" regulation, increased regulatory costs, and customer perceptions that "too-big-to-fail" banks are safer.[138] The study's summary notes that "[s]tatements from many states focused on a need for community banks to have sufficient scale to cover regulatory costs."[139]

B. FDIC Interviews with Community Bankers

The FDIC issued an extensive community banking study in December 2012.[140] That study included a summary of interviews conducted in October and November 2012 with nine community banks. The interviews were on topics such as compliance costs and the effects of regulation and supervision on profitability.[141] All of the participants were state banks that were not members of the Federal Reserve System.

The FDIC's primary conclusions were that community banks are feeling the pressure of cumulative regulatory buildup and desire more technical guidance and outreach from regulators. A majority of the banks expressed concern about the raft of new regulations adopted under the Bank Secrecy Act and the USA Patriot Act after September 11, 2001.[142] Because at the time of the survey many Dodd-Frank regulations were still being developed, interviewed banks were uncertain about the effects that Dodd-Frank might have.[143] The FDIC reported that, more generally, "[m]ost interview participants stated that no one regulation or practice had a significant effect on their institution. Instead, most stated that the strain on their organization came from the cumulative effects of all the regulatory requirements that have built up over time."[144]

The FDIC's questions did not elicit quantitative compliance-cost information. Many participants had increased their compliance personnel in the past ten years, and non-compliance personnel were spending more time on compliance activities in 2012 than they had five years earlier.[145] The FDIC found, however, that the banks it interviewed did not track compliance costs separately, "that their overall business model and strategic direction had not changed or been affected by the regulatory compliance cost issues," and "that they had not discontinued offering

products or services because of regulatory compliance, with the exception of overdraft protection and certain high-risk mortgage products."[146] The FDIC interviewees identified difficult-to-track indirect compliance costs such as "noncompliance personnel time associated with regulatory compliance duties; software and hardware costs associated with responsibilities that might include compliance; and employee time associated with attending training that includes both compliance and noncompliance issues."[147]

Interviewees noted their increasing reliance on outside compliance consultants because of "their inability to understand and implement regulatory changes within required timeframes and their concern that their method of compliance may not pass regulatory scrutiny."[148] Reliance on outside service providers makes it more difficult for banks to meet compliance deadlines, because timing of needed updates is not in the banks' control.[149]

C. *Bank Director* Magazine and Grant Thornton Poll

In June 2013, *Bank Director* magazine and Grant Thornton conducted a poll of more than 130 bank senior executives and board members.[150] The poll included only banks above $500 million in assets, but approximately three-quarters of respondents were from banks with less than $10 billion in assets.[151] The survey touched on a broad range of topics, and it is interesting as a gauge of the relative attention that bank executives are giving to different issues. Attention devoted to regulatory concerns can crowd out attention on other, business-related issues.

The summary report explains that "[t]he regulatory compliance burden remains the top overall concern of banking leaders. When asked about specific regulatory issues, implementation of the Dodd-Frank Act rated at the highest level of concern."[152] Basel III and the Bank Secrecy Act did not elicit as much concern as did the CFPB, which eighty-five percent believe to be more negative than positive.[153] An interesting feature of the report is its juxtaposition of the major concerns of banks above and below $10 billion, as shown in table B1. Smaller banks were nearly equally concerned about regulatory compliance burdens as their larger counterparts.

Table B1. Areas of Greatest Concern Identified in Grant Thornton/Bank Director Poll

Concern	% of banks < $10 billion concerned	% of banks > $10 billion concerned
Margin compression	89	87
Regulatory compliance burden	86	87
Loan competition	77	81
Cyber security risk	71	90
Loan demand	63	68
Interest rate risk	39	39

Source: Grant Thornton & Bank Director, Bank Board and Executive Survey: Cautious Optimism on the State of Banking (Sept. 2013), at 4, Fig. 2.

D. KPMG 2013 Community Banking Survey

In October 2013, the accounting firm KPMG LLP conducted a survey of over 100 senior executives of regional and community banks ranging in size from $1 billion to $20 billion in assets.[154] Like the *Bank Director*/Grant Thornton poll, this survey sheds light on the issues occupying the attention of bank management. As the table below indicates, regulatory issues are an important area of concern, but not as big a concern as they were in 2012.

Table B2. Select KPMG 2013 Community Banking Survey Findings

Finding	% of respondents
Political/regulatory uncertainty poses biggest threat to business model	61
11–20% of total operating costs is driven by regulatory compliance requirements	37
Expect to increase spending in regulation/control environment over the next year	24
Leveraging data more effectively for regulatory requirements will be the IT-related project that receives the most focus in the next year as it relates to infrastructure and compliance	35
Regulatory and legislative pressures are a primary obstacle for growth (2013 result)	42
Regulatory and legislative pressures are a primary obstacle for growth (2012 result)	47
Navigating regulatory changes will require the most time, energy, and resources from management this year (2013 result)	15
Navigating regulatory changes will require the most time, energy, and resources from management this year (2012 result)	27

Source: KPMG, 2013 Community Banking: Industry Outlook Survey: Encouraging Outlook Moves Beyond Regulation (2013). The language in the figure is quoted from the survey report, but the table draws from multiple places in the report.

In addition to general questions about regulatory burden, the survey elicited more specific expectations about where those burdens would fall. Thirty-nine percent of respondents believed that, among the regulatory initiatives, capital and liquidity requirements would have "the most impact on their business."[155] The areas in which the largest percentages of respondents were "considering divesting in light of current regulatory and market conditions" were student lending (30%), residential mortgages (23%), asset and wealth management (23%), and credit cards (18%).[156] Sixty-five percent of survey respondents expected to be involved in a merger and acquisition transaction in the next year as either a buyer or seller, and "[r]egulatory changes/reform" were the most frequently cited reason.[157]

E. Florida Chamber Foundation

The Florida Chamber Foundation conducted a small business lending survey of seventy-five community banks and credit unions with $5 billion or less in assets in the summer of 2012.[158] Although limited to one state and focused on small business lending, the survey offers some useful insights related to Dodd-Frank.

The survey found that customers would be affected by regulatory burdens on small financial institutions. Specifically, sixty-four percent of respondents "said their lending to small businesses over the next three years will be negatively affected by the Dodd-Frank Act" and "[s]eventy-two percent said that the availability of customer services would be negatively impacted

by Dodd-Frank."[159] "Meeting [r]egulatory [c]ompliance [r]equirements" was the "top strategic challenge" for survey participants, and ninety-six percent of the survey participants anticipated spending "considerably more time and money on compliance with new federal regulation over the next three years."[160] They also "cited the confusion, complexity, and inconsistencies of the Dodd-Frank Act as [a source of] significant collateral damage on their core operations."[161] Ninety-seven percent of respondents "said senior management attention to compliance issues will significantly or modestly increase over the next three years."[162] A large majority of respondents also anticipated that direct compliance costs—on expenses such as training, new compliance hiring, external consultants, and software—would rise over the next three years.[163] More than half of respondents expected to need one to three additional full-time compliance employees over the next one to three years.[164]

F. Federal Reserve Bank of Kansas Survey

The Federal Reserve Bank of Kansas conducted its most recent detailed survey of 322 community banks and other community depository institutions in the Tenth Federal Reserve District[165] in June 2011.[166] The survey asked a broad range of questions in areas related to the challenges respondents faced, their growth plans, their product offerings, their intended areas of future concentration, their anticipated sources of competition, their customer fees, and the regulatory climate. All of the respondents had under $1 billion in assets, and just under sixty percent had less than $100 million in assets.[167]

That survey sheds further light on community banks' regulatory burdens. Eighty-four percent of community bank respondents ranked "[m]eeting regulatory compliance requirements" as a significant challenge, which made it the most frequently cited challenge of the twenty-one significant challenges included in the survey.[168] It should be noted, however, that the 2008 survey, which was conducted prior to the enactment of Dodd-Frank, found that "meeting regulatory compliance requirements" was also the first among seventeen challenges respondents expected to face over the next five years.[169] This was a marked change from the results in the Bank's 2001 and 2004 surveys, in which regulatory compliance was rated as a much less pressing concern.[170]

With respect to particular regulatory areas, more than sixty percent of community bank respondents ranked compliance with mortgage regulations as requiring the most time, compared to other regulations such as the Community Reinvestment Act and Bank Secrecy Act/anti–money laundering regulations.[171] Eighty-five percent of respondents expected to have to spend more time than previously complying with mortgage regulations in the next three years.[172] More than ninety percent of respondents anticipated that their senior management and board of directors would spend more time on compliance issues during the next three years.[173] Approximately five percent of the community bank respondents reported having four or five full-time compliance personnel, and more than twenty-three percent of respondents anticipated having to increase their compliance personnel to that level within three years.[174] A large majority of the respondents reported that they

are anticipating increases in other compliance expenses, namely software, consulting, and training expenses, over the next three years.[175]

The survey also suggests some potential changes for bank customers. More than ten percent of community bank respondents reported that they would significantly decrease their in-portfolio residential mortgage lending and their consumer credit card loans over the next three years.[176] Nearly twenty percent reported that the proportion of accounts that qualified for free checking would significantly decrease in the next three years.[177]

G. Risk Management Association Survey

The Risk Management Association conducted a survey of 230 executives of banks with less than $5 billion in assets in March 2013.[178] The Association's survey respondents indicated considerable concern about regulation. Approximately forty percent of the respondents ranked "[r]egulatory and compliance risk" as the top risk, among a choice of eight.[179] Twenty-two percent of respondents cited "compliance [as] the biggest factor threatening their institution's success over the next 12 months."[180] Respondents found "existing regulations … confusing or difficult to implement" and "indicated that there is a need to resolve overlapping and conflicting guidance from FRB, FDIC, SEC, Treasury, CFPB, and state banking commissions."[181] Respondents anticipated that the biggest decreases in lending over the next two years would be in residential mortgages and home equity lines of credit.[182] Forty-six percent of respondents reported that their banks planned to be a buyer or seller in a merger and acquisition transaction over the next two years.[183] Thirty-eight percent of these respondents cited regulatory compliance costs or burdens as the driving factor for mergers and acquisitions.[184]

NOTES

[1] Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, Pub. L. No. 111-203, 124, Stat. 1376 (July 21, 2010).

[2] To put this in perspective, consider that the original Federal Reserve Act of 1913 totaled approximately 30 pages. Federal Reserve Act of 1913, Pub. L. No. 63-43, 38 Stat. 251 (1913). The original text is available at http://fraser.stlouisfed .org/publication/?pid=262.

[3] Nicole Gelinas, *Dodd-Frank: Too Convoluted to Succeed*, E21 at the Manhattan Institute, November 20, 2013.

[4] Ben S. Bernanke, Chairman, Board of Governors of the Federal Reserve System, Remarks at "Community Banking in the 21st Century," a Conference Co-sponsored by the Federal Reserve System and the Conference of State Bank Supervisors, St. Louis, Missouri (Oct. 2, 2013), *available at* http://www.federalreserve.gov/newsevents/speech/bernanke20131002a.htm. *See also* Alan J. Wilson, *Note: There Goes the Neighborhood: Regulating Away the Community Bank—An Analysis of the Costs of Current Regulations on Community Banks*, 116 W. VA. L. REV. 463, 486 (2013) (finding that "[t]he Dodd-Frank Act's sudden impact of stringent regulations have shocked bankers, stifled innovation, and slowed development of competitive community banks").

[5] *See, e.g.*, U.S. GOV'T ACCOUNTABILITY OFFICE, GAO-12-881, COMMUNITY BANKS AND CREDIT UNIONS: IMPACT OF THE DODD-FRANK ACT DEPENDS LARGELY ON FUTURE RULE MAKINGS (2012) [hereinafter GAO COMMUNITY BANK STUDY], at 20–22 (detailing some of these efforts).

[6] Nancy Pelosi, Speaker of the U.S. House of Representatives, Floor Speech: By Voting Yes, We Will Pass the Toughest Wall Street Reform in Generations (June 30, 2010), *available at* http://www.democraticleader.gov/news/speeches /pelosi-voting-yesdelimiter-we-will-pass-toughest-set-wall-street-reform-generations.

[7] *Implementing the Dodd-Frank Wall Street Reform and Consumer Protection Act: Hearing Before the Senate Comm. on Banking, Housing, and Urban Affairs*, 111th Cong., 2d Sess. 2 (2010) (statement of Chairman Dodd).

[8] Christopher J. Dodd, *Five Myths About Dodd-Frank*, WASH. POST, Oct. 21, 2011, *available at* http://www.washingtonpost .com/opinions/five-myths-about-the-dodd-frank-financial-regulations/2011/10/19/gIQAtq7j4L_story.html.

[9] Neal Wolin, *Financial Reform Protects and Strengthens Community Banks*, TREASURY NOTES BLOG (Apr. 20, 2011), http://www.treasury.gov/connect/blog/Pages/Financial-Reform-Protects-and-Strengthens-Community-Banks.aspx.

[10] *See* Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, Pub. L. No. 111-203, 124, Stat. 1376 (July 21, 2010), at § 331(b). *See also* 156 CONG. REC. S5811 (daily ed. July 14, 2010) (statement of Sen. Tester) ("[T]he Senate unanimously passed an amendment I offered to make sure banks only pay their fair share for Federal deposit insurance. Right now, smaller community banks are paying for 30 percent of this insurance, even though they account for only 20 percent of all bank assets. That does not make sense, and this bill fixes that problem.").

[11] *See* Dodd-Frank Act § 1075 (new 15 U.S.C. § 920(a)(6) (2012) exempts small issuers).

[12] *See id.* § 1026 (12 U.S.C. § 5516 (2012)).

[13] *Id. See also id.* § 1002(24) (12 U.S.C. § 5481(24) (2012)) (defining "prudential regulator").

[14] *See id.* § 1022(b).

[15] *See id.* § 165(i)(2)(A) (imposing resolution plan and stress testing requirements for large banks).

[16] *Id.* § 956(f) (12 U.S.C. § 5641(f) (2012)).

[17] *See, e.g.*, *Examining Community Bank Regulatory Burdens: Hearing Before the Subcomm. on Fin'l Institutions and Consumer Credit of the H. Comm. on Fin'l Servs.*, 113th Cong., 1st Sess. 49 (Apr. 16, 2013) (written statement of Kenneth L. Burgess, Chairman, FirstCapital Bank of Texas, on Behalf of the Amer. Bankers Assoc.) ("During the last decade the regulatory burden for community banks has multiplied tenfold, with more than 50 new rules in the two years before Dodd-Frank. Dodd Frank will add hundreds more affecting all banks. Managing this tsunami of regulation is a significant challenge for a bank of any size, but for the median-sized bank with only 39 employees, it is overwhelming."); *id.* at 147 (written statement of Preston Pinket III, President and Chief Executive Officer, City National Bancshares) ("[T]he cost of meeting regulations, the time spent keeping abreast of changes to the regulations are up significantly. We understand that there is a need for increased efforts on this front, and only request that this body continues to recognize and encourage the regulators to keep in mind that the business of banking can't just be an exercise in meeting regulatory requirements. So please, as you think of the usefulness of the requirements also think about the financial impact of that compliance particularly on smaller Community institutions.").

[18] *See, e.g.*, Jerry Moran, U.S. Senator, Moran's Memo: Three Years Later, Community Banks Bear Burden of Dodd-Frank (July 19, 2013) ("This July marks three years since President Obama signed the bill into law, and we've had ample time to observe and evaluate the impact of its more than 400 new rules and mandates. It is increasingly clear that what was aimed at protecting consumers and bringing stability to our financial system has instead done great harm to the financial institutions rural Americans depend on most: community banks."), *available at* http://www.moran.senate.gov/public/index.cfm/editorials?ID=884c5da1-26b2-4eee-bb9d-471ff71c50d5; *Regulatory Burdens: The Impact of Dodd-Frank on Community Banking: Hearing Before the Subcomm. on Economic Growth, Job Creation and Regulatory Affairs of the H. Comm. on Oversight and Gov't Reform*, 113th Cong., 1st Sess. 2 (2013) (statement of Rep. DeSantis) ("Unfortunately, the regulatory regime imposed by the traditional banking regulators, as well as the Dodd-Frank Act, needlessly raise community banks' costs of doing business. There will be only one consequence from this regulatory burden, a reduction in community banks' ability to serve their communities.").

[19] *See, e.g.*, Richard W. Fisher, President, Federal Reserve Bank of Dallas, Remarks Before the Committee for the Republic: Ending "Too Big to Fail": A Proposal for Reform Before It's Too Late (with Reference to Patrick Henry, Complexity, and Reality) (Jan. 16, 2013) (observing that community banks "are being victimized by excessive regulation that stems from responses to the sins of their behemoth counterparts"), *available at* https://www.dallasfed.org/news/speeches/fisher/2013/fs130116.cfm; Elizabeth A. Duke, Governor, Board of Governors of the Federal Reserve System, Speech at the Southeastern Bank Management and Directors Conference, University of Georgia, Terry College of Business (Feb. 5, 2013) (acknowledging "how tiring it is to fight a financial crisis and survive a deep recession followed by a weak recovery only to confront what seems to be a tsunami of new regulations," but noting that "[c]ommunity [b]ankers [a]re [b]eing [h]eard" by regulators"), *available at* http://www.federalreserve.gov/newsevents/speech/duke20130205a.htm.

[20] *See, e.g.*, Louise Bennetts, *Thanks to Dodd-Frank, Community Banks Are Too Small to Survive*, AMER. BANKER, Nov. 9, 2012 ("The Dodd-Frank Act, sold to the public as the tamer of the Wall Street Titans, may well end up having a disproportionate impact on smaller institutions, thanks to the costs of capital implications of being 'not too big to fail' and the advent of the Consumer Financial Protection Bureau."); Tanya D. Marsh & Joseph W. Norman, *Reforming the Regulation of Community Banks After Dodd-Frank* (presented at Federal Reserve Bank of St. Louis Community Banking in the 21st Century Conference, Oct. 3, 2013), at 1 (arguing that "the over-regulation of community banks, most recently by The Dodd-Frank Wall Street Reform and Consumer Protection Act … unjustifiably hastened" the process of bank consolidation), *available at* http://www.stlouisfed.org/banking/community-banking-conference/PDF/Marsh_Norman_Reforming_Regulation.pdf.

[21] *See, e.g.*, Board of Governors of the Federal Reserve System, *Supervisory Policy and Guidance Topics: Community Banks*, http://www.federalreserve.gov/bankinforeg/topics/community_banking.htm (last visited Jan. 21, 2014) (noting that "in general, community banks can be defined as those owned by organizations with less than $10 billion in assets").

[22] *See, e.g.*, Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, Pub. L. No. 111-203, 124, Stat. 1376 (July 21, 2010) at §165(h)(2)(A) (12 U.S.C. §5365(h)(2)(A) (2012)) (requiring Board of Governors of the Federal Reserve System to "issue regulations requiring each bank holding company that is a publicly traded company and that has total consolidated assets of not less than $10,000,000,000 to establish a risk committee"); §165(i)(2)(A) (12 U.S.C. §5365(i)(2)(A) (2012)) (requiring stress tests for financial companies with total consolidated assets of more than $10 billion); §174(a)(8)(requiring banking regulators to conduct a study of "study of the use of hybrid capital instruments as a component of Tier 1 capital" and consider, among other factors, "the availability of capital for financial institutions with less than $10,000,000,000 in total assets"); §334(e) (requiring Federal Deposit Insurance Corporation to offset, with respect to insured depositories with total consolidated assets of less than $10 billion, the effects of steps taken to increase in the deposit insurance fund reserve ratio); §723(a)(3) (adding 7 U.S.C. §2(h)(7)(C)(ii)(I) (2012)) (directing Commodity Futures Trading Commission to consider exempting, among others, depository institutions with total assets of $10 billion or less from swaps clearing requirement); §763(a) (adding 15 U.S.C. §78c-3(g)(3)(B)(i) (2012)) (directing Securities and Exchange Commission to consider exempting, among others, depository institutions with total assets of $10 billion or less from security-based swaps clearing requirement); §1025(a) (12 U.S.C. §5515(a) (2012)) (providing that section titled "Supervision of Very Large Banks, Savings Associations, and Credit Unions" applies only to financial institutions with more than $10 billion in assets); §1026 (12 U.S.C. §5516 (2012)) (establishing parameters for reporting requirements, examinations, and enforcement actions by the Bureau of Consumer Financial Protection with respect to insured depositories and credit unions with $10 billion or less in assets); §1075 (adding 15 U.S.C. §16930-2(a)(6) (2012)) (exempting debit card issuers with less than $10 billion in assets from interchange fee caps).

[23] *See* GAO Community Bank Study, *supra* note 5, at 5 ("almost 7,400 (about 99 percent) of all banks had less than $10 billion in assets in 2011 and thus fell within our definition of a community bank").

[24] *See, e.g.*, Office of the Comptroller of the Currency, Community Bank Supervision: Comptroller's Handbook 1 (2010) (explaining that "[c]ommunity banks are generally defined as banks with less than $1 billion in total assets").

[25] For two qualitative definitions of "community bank," *see* Robert DeYoung, William C. Hunter & Gregory F. Udell, *The Past, Present, and Probable Future for Community Banks*, 25 J. Fin. Serv. Res. 86, 87 (2004).

[26] FDIC, FDIC Community Banking Study (2012), *available at* http://www.fdic.gov/regulations/resources/cbi/study.html. Chapter 1 of the study is "Defining the Community Bank."

[27] *Id.* at I.

[28] *See id.* at table 1.1 ("Summary of Research Definition of Community Banking Organization").

[29] Estimates based on 2013Q3 data, FDIC Statistics on Depository Institutions, *available at* http://www2.fdic.gov/sdi/download_large_list_outside.asp.

[30] *See id.* at 6-4 (noting that most banks are in a holding company) and 1-2 (reporting that "[a]t year-end 2011, there were 7,357 FDIC-insured banking charters operating within 6,720 separate banking organizations").

[31] *See, e.g.*, James K. Glassman, *Small Bank Stocks Worth Buying*, Kiplinger.com (Mar. 2012) (discussing investments in community banks with up to $25 billion in assets), *available at* http://www.kiplinger.com/article/investing/T052-C016-S001-small-bank-stocks-worth-buying.html; Nicholas Galluccio, *3 Small Bank Stocks with Takeover Potential*, Forbes

(July 15, 2013) (discussing stocks of three small banks, one of which has $12 billion in assets), *available at* http://www.forbes.com/sites/investor/2013/06/26/3-small-bank-stocks-with-takeover-potential/.

[32] Conference of State Bank Supervisors, Community Banking in the 21st Century: Opportunities, Challenges, and Perspectives 13 (2013), *available at* www.csbs.org/news/csbswhitepapers/Documents/FINAL PUBLICATION.pdf.

[33] FDIC Community Banking Study, *supra* note 26.

[34] *Id.* at 2-1.

[35] *Id.*

[36] *Id.* at II.

[37] *Id.* at 2-1. This number excludes mergers that were assisted by the FDIC.

[38] *Id.* at 2-1 and 2-2.

[39] *Id.* at 2-2.

[40] *Id.*

[41] *Id.* at 2-3.

[42] *Id.*

[43] *Id.*

[44] *Id.*

[45] FDIC Statistics on Depository Institutions, http://www2.fdic.gov/sdi/download_large_list_outside.asp.

[46] Richard W. Fisher & Harvey Rosenblum, *Vanquishing Too Big to Fail*, Federal Reserve Bank of Dallas, 2012 Annual Report (2013), at chart 1, *available at* http://www.dallasfed.org/microsites/fed/annual/2012/ar12b/index.cfm.

[47] FDIC Community Banking Study, *supra* note 26, at 1-1.

[48] *Id.* at 3-5.

[49] *See, e.g.*, R. Alton Gilbert & David C. Wheelock, *Big Banks in Small Places: Are Community Banks Being Driven Out of Rural Markets*, Fed. Res. Bank of St. Louis Rev. (May/June 2013), at 205 ("larger banks tend to have more of their offices and deposits in urban markets, whereas smaller banks have relatively more offices in rural counties"). The authors also find that "the average rural county deposit share of large banking organizations did not increase between 2001 and 2012[, which is] at least suggestive that small banks remain competitive in their main market segments." *Id.* at 216. *See also* FDIC Community Banking Study, *supra* note 26, at 3-4 ("In all, community banks were almost three times more likely than noncommunity institutions to locate their offices in a nonmetro area in 2011, and were four times more likely to operate offices in rural counties.").

[50] Marsh & Norman, *supra* note 20, at 14.

[51] GAO Community Bank Study, *supra* note 5, at 15 ("Community banks [defined as banks with less than $10 billion in assets] have also done significantly more agricultural lending as a percentage of total lending than large banks, with the smallest community banks allocating the highest percentage to agricultural loans.").

[52] *Id.* at 14 (finding that "about 18 percent of total lending at community banks was small business loans, compared to about 5 percent at larger banks in 2011"); Office of Advocacy, U.S. Small Business Administration, Small Business

Lending in the United States 2012 (July 2013), at table I (showing that more than half of 2012 small business loans were made by banks with less than $10 billion in assets). More generally, the Small Business Administration's report provides a helpful overview of small business lending in recent years.

[53] FDIC COMMUNITY BANKING STUDY, *supra* note 26, at I.

[54] Marsh & Norman, *supra* note 20, at 12 ("the relationship banking model depends on repeat business within a limited population which provides a strong economic disincentive to predatory lending and other practices exploitative of consumers").

[55] *See, e.g.*, Tim Critchfield et al., *The Future of Banking in America: Community Banks: Their Recent Past, Current Performance, and Future Prospects*, FDIC BANKING REV. (2004), at 4, *available at* http://www.fdic.gov/bank/analytical/banking/2005jan/br16n34full.pdf.

[56] Tanya D. Marsh & Joseph W. Norman, *The Impact of Dodd-Frank on Community Banks* (American Enterprise Institute May 7, 2013) [hereinafter AEI Community Bank Study], at 11 (citing example of community bank that lends to consumers whose income comes from timber and mining), *available at* http://www.aei.org/papers/economics/financial-services/banking/the-impact-of-dodd-frank-on-community-banks/.

[57] GAO COMMUNITY BANK STUDY, *supra* note 5, at 16.

[58] For a discussion of this comparative advantage, *see* DeYoung et al., *supra* note 25, at 104–106.

[59] FDIC COMMUNITY BANKING STUDY, *supra* note 26, at 4-5 & 4-6.

[60] *Id.* at III (Explaining that, while noncommunity banks tend to be more profitable than community banks, "community banks that operated continuously between 1984 and 2011 [had a] weighted average pretax ROA over the study period was one basis point higher than that of continuously operating noncommunity banks.").

[61] Critchfield et al., *supra* note 55, at 15.

[62] For a comprehensive, critical analysis of attempts to quantify the costs of bank regulation, *see* Gregory Elliehausen, *The Cost of Banking Regulation: A Review of the Evidence* (Federal Reserve Board Staff Studies No. 171, 1998), *available at* http://www.federalreserve.gov/pubs/staffstudies/1990-99/ss171.pdf.

[63] *See* Dawn Kopecki, *Dimon Tells JPMorgan to Brace for More Regulatory Woes*, BLOOMBERG (Sept. 17, 2013).

[64] *See* AEI Community Bank Study, *supra* note 56, at 36–37 (discussing anticipated increase in compliance personnel hiring and difficulties of community banks in attracting suitable personnel). *See also* Critchfield et al., *supra* note 55, at 25 (reporting that "[s]urveys of community bankers indicate that attracting and retaining qualified personnel is perhaps these executives' most important concern").

[65] GAO COMMUNITY BANK STUDY, *supra* note 5, at 20.

[66] Elliehausen, *supra* note 62, at 29.

[67] Critchfield et al., *supra* note 55, at 27.

[68] R. Alton Gilbert, *The Viability of Small Banks in the United States* (Networks Financial Institute Policy Brief Apr. 2007), at 12.

[69] *Id.* at 13.

[70] Ron Feldman, Ken Heinecke & Jason Schmidt, *Quantifying the Costs of Additional Regulation on Community Banks* (Federal Reserve Bank of Minneapolis Economic Policy Paper No. 13-3, 2013), *available at* http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=5102.

[71] *Id.* at 6.

[72] The diversity of small-bank executives' responsibilities was brought home to one of the authors in conversation with a small bank CEO, who reported that he makes business decisions, deals with customers, shovels the snow, attends to the plumbing, and oversees regulatory compliance.

[73] Elliehausen, *supra* note 62, at 29.

[74] *See, e.g.*, Todd Zywicki, *Striking the Right Balance: Investor and Consumer Protection in the New Financial Marketplace: The Consumer Financial Protection Bureau: Savior or Menace?*, 81 Geo. Wash. L. Rev. 856, 927 (2013) ("Washington has systematically imposed punitive and ill-advised regulation and price controls on core consumer financial products: credit cards, debit cards, and mortgages. The results have been both predictable and tragic—systematically driving consumers out of the mainstream financial system, withdrawing high-quality products, and increasingly driving many consumers to inferior substitutes such as payday lending, overdraft protection, and prepaid cards. While those products play a valuable and necessary role in the consumer credit ecosystem, it is difficult to fathom the wisdom of government policies that systematically deter the use of preferred products and encourage the use of those alternatives.").

[75] For this point, we credit an anonymous reviewer.

[76] Marsh & Norman, *supra* note 20, at 8.

[77] Conference of State Bank Supervisors, *supra* note 32, at 15.

[78] GAO Community Bank Study, *supra* note 5.

[79] *Id.* at 19.

[80] AEI Community Bank Study, *supra* note 56.

[81] *Id.* at 35–39.

[82] *Id.* at 40.

[83] *Id.*

[84] For an overview of issues that are of concern to small banks, *see* Amer. Bankers Assoc., Dodd-Frank and Community Banks: Your Guide to 12 Critical Issues (2012).

[85] Conference of State Bank Supervisors, *supra* note 32, at 15; FDIC Community Banking Study, *supra* note 26; Grant Thornton, Bank Board and Executive Survey: Cautious Optimism on the State of Banking (Sept. 2013) [hereinafter Grant Thornton/Bank Director Survey], *available at* http://www.bankdirector.com/files/7213/7832/4246/2013_Bank_Board__Executive_Survey.pdf; KPMG, 2013 Community Banking: Industry Outlook Survey: Encouraging Outlook Moves Beyond Regulation 23 (2013) [hereinafter KPMG Survey], *available at* https://www.kpmg.com/US/en/IssuesAndInsights/ArticlesPublications/Documents/community-banking-industry-outlook-survey-2013.pdf; Florida Chamber Foundation, 2012 Small Business Lending Survey 11 (2012) [hereinafter Florida Chamber Foundation Survey] (setting forth details about the survey and its respondents); Division of Supervision and Risk Management, Federal Reserve Bank of Kansas City, Survey of Community Depository Institutions (Aug. 2011) [hereinafter Kansas City Federal Reserve Survey] (for the survey results for community banks, *see* http://www.kc.frb.org/publicat/banking/surveycommbanks/11BankResults.pdf); The Risk Management Association,

THE 2013 COMMUNITY BANK REGULATORY ISSUES SURVEY: EXECUTIVE SUMMARY (2013) [hereinafter RISK MANAGEMENT ASSOCIATION SURVEY], *available at* http://www.rmahq.org/File%20Library/White%20Papers/The-2013-Community-Bank-Regulatory-Issues-Survey.pdf.

[86] *See, e.g.*, KPMG SURVEY, *supra* note 85 (surveying banks between $1 billion and $20 billion in assets); FLORIDA CHAMBER FOUNDATION SURVEY, *supra* note 85 (surveying financial institutions with $5 billion or less in assets); KANSAS CITY FEDERAL RESERVE SURVEY, *supra* note 85 (surveying institutions with less than $1 billion in assets).

[87] FDIC COMMUNITY BANKING STUDY, *supra* note 26. The interview portion of the study included nine banks.

[88] CONFERENCE OF STATE BANK SUPERVISORS, *supra* note 32.

[89] *See* CONFERENCE OF STATE BANK SUPERVISORS, *supra* note 32; FLORIDA CHAMBER FOUNDATION SURVEY, *supra* note 85; and Kansas City Federal Reserve Survey, *supra* note 85.

[90] *See, e.g.*, CONFERENCE OF STATE BANK SUPERVISORS, *supra* note 32; FDIC COMMUNITY BANKING STUDY, *supra* note 26.

[91] *See* CONFERENCE OF STATE BANK SUPERVISORS, *supra* note 26; FDIC COMMUNITY BANKING STUDY, *supra* note 32; and Kansas City Federal Reserve Survey, *supra* note 85.

[92] *See, e.g.*, GRANT THORNTON/BANK DIRECTOR SURVEY, *supra* note 85; CONFERENCE OF STATE BANK SUPERVISORS, *supra* note 32.

[93] KANSAS CITY FEDERAL RESERVE SURVEY, *supra* note 85, at 14.

[94] Similar concerns about Dodd-Frank as those mentioned above for small banks have been expressed with respect to small credit unions. However, because credit unions are subject to a unique regulatory and taxation scheme, the survey did not include them.

[95] *See* Mercatus Center at George Mason University, Small Bank Survey, http://mercatus.org/small-bank-survey (last visited Feb. 21, 2014) (linking to the survey instrument).

[96] We did not specify which employee or executive of a specific bank should take the survey, because different banks allocate responsibility differently. We took care to ensure that our results do not include duplicate surveys from a single bank.

[97] *See, e.g.*, *Regulatory Burdens: The Impact of Dodd-Frank on Community Banking, Hearing Before the Subcomm. on Economic Growth, Job Creation and Regulatory Affairs of the H. Comm. on Oversight and Gov't Reform*, 113th Cong., 1st. Sess. 27 (2013) (testimony of Hester Peirce) ("the Mercatus Center is conducting a survey of small bankers to better understand the nature of the challenges they are facing and the opportunities they are seeing as Dodd-Frank implementation progresses. I encourage community bankers to take the survey").

[98] The George Mason University Office of Research Integrity & Assurance reviewed the survey protocol and determined a full review was unnecessary because the survey asked for representative views of the bank rather than the personal opinions of individual respondents.

[99] *See* Wufoo, *Our Security Measures*, *available at* http://www.wufoo.com/security/ (last visited Jan. 28, 2014).

[100] FDIC COMMUNITY BANKING STUDY, *supra* note 26, at 6-4.

[101] No respondents reported discontinuation of personal checking, personal savings, business checking, business savings, certificates of deposit, or commercial and industrial lending.

[102] Bank Secrecy Act, Pub. L. No. 91-508, 84 Stat. 1114 (1970) (codified as amended at scattered sections of 12 U.S.C., 18 U.S.C., and 31 U.S.C.).

[103] *See, e.g.*, News Release, Independent Community Bankers Association, ICBA Urges Balanced Approach to Bank Secrecy Act Compliance (May 10, 2007) (noting that "community bankers across the country say the Bank Secrecy Act is one of the most burdensome areas of compliance"), *available at* http://www.icba.org/news/newsreleasedetail.cfm?Item Number=33959.

[104] *See supra* note to table 2.

[105] *See* Office of the Comptroller of the Currency et al., Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule; Final Rule, 78 Fed. Reg. 62,018, 62,021 (Oct. 11, 2013) ("The agencies are adopting the Basel III NPR, Standardized Approach NPR, and Advanced Approaches NPR in this final rule, with certain changes to the proposals, as described further below. (The Board approved this final rule on July 2, 2013, and the OCC approved this final rule on July 9, 2013. The FDIC approved a similar regulation as an interim final rule on July 9, 2013.)").

[106] *See, e.g.*, Federal Reserve Bank of St. Louis, *Final Basel III Capital Rule—Less Impact on Community Banks*, CENTRAL BANKER (Summer 2013), *available at* http://www.stlouisfed.org/publications/cb/articles/?id=2415.

[107] *See, e.g.*, Hugh Carney, *Washington Must Keep Community Bankers in the Loop on Basel*, AMER. BANKER, Nov. 7, 2013 ("While the final U.S. version of the Basel III capital rules included some concessions to community banks, many bankers remain frustrated with the rule's restrictions on Subchapter S institutions, the harsh treatment of mortgage servicing assets and the heavy compliance burden as banks retool systems for the new capital rules."), *available at* http://www .americanbanker.com/bankthink/Washington-must-keep-community-banks-in-loop-on-basel-1063483-1.html.

[108] *See* Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, Pub. L. No. 111-203, 124, Stat. 1376 (July 21, 2010), at Act § 335 (amending 12 U.S.C. § 1821(a)(1)(E) (2012)) and § 331(b) (12 U.S.C. § 1817note (2012)).

[109] *See, e.g.*, Jim Fuchs & Andrew P. Meyer, *Most Community Banks Will Pay Lower Premiums Under FDIC Assessment Rules*, CENTRAL BANKER (Summer 2011) ("Nationally, community banks will experience a more than $1 billion decrease in assessment fees with the FDIC's new assessment methodology. In general, the smallest community banks, those with less than $100 million in total assets, will experience the biggest decline (a 5.1-basis-point decrease on average). The largest community banks, those with between $1 billion and $10 billion in total assets, will experience, on average, a 4-basis-point decline."), *available at* http://www.stlouisfed.org/publications/cb/articles/?id=2116.

[110] Dodd-Frank Act § 1075 (adding 15 U.S.C. § 920(a)(3)(A) (2012)).

[111] *Id.* § 975(e) (amending 15 U.S.C. § 78o-4 (2012)).

[112] *See, e.g.*, AMER. BANKERS ASSOC., *supra* note 84, at 14 ("The registration rule proposed by the Securities and Exchange Commission has defined investment strategies broadly to include any funds 'held' by a municipal entity, regardless of whether such funds are related to the issuance of municipal securities or the investment of bond proceeds. This definition could cover traditional bank products and services, such as deposit accounts, cash management products and loans to municipalities.").

[113] U.S. Securities and Exchange Commission, Registration of Municipal Advisors, 78 Fed. Reg. 67,468 (Nov. 12, 2013).

[114] Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, Pub. L. No. 111-203, 124, Stat. 1376 (July 21, 2010), at § 312 (12 U.S.C. § 5413 (2012)).

[115] *Id.* § 619 (12 U.S.C. § 1851 (2012)).

[116] *See, e.g.*, Complaint, Amer. Bankers Assoc. et al. v. Fed'l. Deposit Insur. Corp. et al., Case 1:13-cv-02050-RJL ¶1 (Dec. 24, 2013) (alleging that, absent relief, an unanticipated provision in the final Volcker Rule would result in "unexpected and, in many cases, significant earnings and capital losses" to "hundreds of community banks across the nation").

[117] *See* Press Release, Board of Governors of the Federal Reserve System, Agencies Approve Interim Final Rule Authorizing Retention of Interests in and Sponsorship of Collateralized Debt Obligations Backed Primarily by Bank-Issued Trust Preferred Securities (Jan. 15, 2014), *available at* http://www.federalreserve.gov/newsevents/press/bcreg/20140114b.htm.

[118] 12 U.S.C. § 5641(a) (2012).

[119] Dodd-Frank Act § 956(b) (12 U.S.C. § 5641(b) (2012)).

[120] *Id.* § 956(f) (12 U.S.C. § 5641(f) (2012)).

[121] FDIC Statistics on Depository Institutions (Sept. 30, 2013), *available a*t http://www2.fdic.gov/sdi/main.asp.

[122] Dodd-Frank Act § 1026 (12 U.S.C. § 5516 (2012)).

[123] *Id.* § 1022 (12 U.S.C. § 5512(b)(2)(A)(ii) (2012)).

[124] *See supra* figure 19.

[125] *See, e.g.*, Paul Mondor, *Bureau of Consumer Financial Protection, Exemption from Escrow Requirement for Small Lenders in Rural and Underserved Counties*, Mar. 12, 2013 ("Under the Ability to Repay and Qualified Mortgage Standards Under the Truth in Lending Act rule, which is effective January 10, 2014, mortgage loans with balloon payments do not meet the qualified mortgage (QM) standard in most cases. However, certain small creditors that operate predominantly in rural or underserved counties will be eligible to originate balloon-payment QMs."), *available at* http://www.consumerfinance.gov/blog/exemption-from-escrow-requirement-for-small-creditors-in-rural-or-underserved-counties/.

[126] *See, e.g.*, Commodity Futures Trading Commission, Fact Sheet: Final Rule on End-User Exemption to the Clearing Requirement for Swaps (July 10, 2013) ("The final rule exempts banks, savings associations, farm credit system institutions, and credit unions with total assets of $10 billion or less from the definition of 'financial entity,' making such 'small financial institutions' eligible for the end-user exception."), *available at* http://www.cftc.gov/PressRoom/Events/ssLINK/eue_factsheet_final.

[127] *See, e.g.*, FDIC COMMUNITY BANKING STUDY, *supra* note 26, at III ("Because of their focus on traditional lending and deposit gathering, community banks derive 80 percent of their revenue from net interest income compared with about two-thirds at noncommunity banks. Accordingly, the narrowing of net interest margins places a significant drag on the earnings of community banks.").

[128] Dodd-Frank Act § 613 (amending 12 U.S.C. § 36(g)(1)(A) (2012)).

[129] *Id.* § 939 (removing statutory references) and § 939A (removing regulatory references).

[130] 5 U.S.C. § 601–612 (2012).

[131] Small Business Regulatory Enforcement Fairness Act, Pub. L. 104-121, Title II, 110 Stat. 857 (1996) (codified in various sections of 5 U.S.C. § 601 et seq.).

[132] Dodd-Frank Act § 1100G (amending 5 U.S.C. § 609(d) (2012)).

[133] *See, e.g.*, Letter from Various Small Business Organizations to Sam Graves, Chairman, and Nydia Velázquez, Ranking Member, House Committee on Small Business (Aug. 1, 2012), 1 ("[W]e are concerned that the CFPB views SBREFA as a

burden rather than as a means of improving their regulations. In some cases, CFPB chooses to skip the process altogether, and in other cases they choose to convene panels on compressed timelines, making it difficult for small companies to prepare and gather industry information.").

[134] For a summary of the survey results, *see* CONFERENCE OF STATE BANK SUPERVISORS, *supra* note 32.

[135] *Id.* at 23–24 (listing town hall, meeting, and survey dates and locations).

[136] *Id.* at 23.

[137] *Id.* at 15.

[138] *Id.*

[139] *Id.* at 16.

[140] FDIC COMMUNITY BANKING STUDY, *supra* note 26.

[141] *See id.* at Appendix B.

[142] *Id.* at B-1.

[143] *Id.*

[144] *Id.*

[145] *Id.*

[146] *Id.* at B-2.

[147] *Id.*

[148] *Id.*

[149] *Id.*

[150] GRANT THORNTON/BANK DIRECTOR SURVEY, *supra* note 85.

[151] *Id.* at 8.

[152] *Id.* at 5.

[153] *Id.*

[154] KPMG SURVEY, *supra* note 85.

[155] *Id.* at 9.

[156] *Id.* at 11.

[157] *Id.* at 12–13.

[158] FLORIDA CHAMBER FOUNDATION SURVEY, *supra* note 85 (setting forth details about the survey and its respondents).

[159] *Id.* at 7.

[160] *Id.* at 4, 6.

[161] *Id.* at 6.

[162] *Id.* at 8.

[163] *Id.* at 9.

[164] *Id.* at 10.

[165] The Tenth District includes Colorado, Kansas, Oklahoma, Nebraska, New Mexico, Missouri, and Wyoming.

[166] KANSAS CITY FEDERAL RESERVE SURVEY, *supra* note 85. For the survey results for community banks, *see* http://www.kc.frb.org/publicat/banking/surveycommbanks/11BankResults.pdf.

[167] *Id.* at 3.

[168] *Id.* at 4.

[169] Eric Robbins & Forest Myers, *The 2008 Survey of Community Banks in the Tenth Federal Reserve District, Financial Industry Perspectives* 11 (Fed'l Reserve Bank of Kansas City Dec. 2008), *available at* http://www.kansascityfed.org/publicat/fip/prs08-2.pdf. The authors of the 2008 study stated that "the bulk of written comments focused on regulatory burden" (*id.* at 15) and quoted one respondent who stated—perhaps presciently—that "the existing mortgage lending regulations are almost incomprehensible. Unfortunately, we expect them to get worse." *Id.* at 12.

[170] *Id.* at 11.

[171] KANSAS CITY FEDERAL RESERVE SURVEY, *supra* note 85, at 14.

[172] *Id.*

[173] *Id.*

[174] *Id.* at 15.

[175] *Id.*

[176] *Id.* at 9.

[177] *Id.* at 12.

[178] RISK MANAGEMENT ASSOCIATION SURVEY, *supra* note 85.

[179] *Id.* at 2.

[180] *Id.* at 3.

[181] *Id.*

[182] *Id.* at 4.

[183] *Id.* at 5.

[184] *Id.*

ABOUT THE AUTHORS

HESTER PEIRCE is a senior research fellow at the Mercatus Center at George Mason University. Before joining Mercatus, Peirce served as senior counsel to Senator Richard Shelby's staff on the Senate Committee on Banking, Housing, and Urban Affairs. In that position, she worked on financial regulatory reform following the financial crisis of 2008 as well as oversight of the regulatory implementation of the Dodd-Frank Act.

Peirce's work has been published in such outlets as the *Hill* and *American Banker*, and she is a regular contributor to *Real Clear Markets*. She is the editor of, and a contributor to, the book *Dodd-Frank: What It Does and Why It's Flawed*, published by Mercatus in 2012.

Peirce earned her BA in economics from Case Western Reserve University and her JD from Yale Law School.

contact: hpeirce@mercatus.gmu.edu

IAN ROBINSON is a second-year MA student in the economics department at George Mason University and an MA Fellow at the Mercatus Center. He graduated from James Madison University cum laude with a BS in industrial design.

Before joining Mercatus, Robinson worked as an analyst and advisor for Virginia Community Capital. He also served as treasurer for the Richmond Association for Business Economics.

THOMAS STRATMANN is a scholar at the Mercatus Center and a professor of economics at George Mason University. His primary research interests are political economy, fiscal policy, law and economics, health economics, and experimental economics.

Stratmann has published in journals such as the *American Economic Review*, *American Journal of Political Science*, *American Political Science Review*, *Journal of Political Economy*, *Review of Economics and Statistics*, and the *Journal of Law and Economics*.

He received his BA from the Free University of Berlin and his MA and PhD in economics from the University of Maryland.

AUTHOR ACKNOWLEDGMENTS

WE ARE EXTREMELY grateful to all the banks that participated in our focus groups and took the survey. We thank Richard Williams for seeing the need for this project; Lydia Mashburn and James Broughel for their careful project direction; Ted Bolema and three anonymous peer reviewers for their excellent insights on how to improve the paper; Robert Greene and Jesse Martinez for their excellent research assistance; Chris Koopman for his work on survey design; Ladan Nowrasteh for her web savvy; Rizqi Rachmat for his graphic brilliance; Jake Russ, Joshua Wojnilower, and Brian Deignan for their email searches; David Christiansen for his assistance organizing and analyzing survey data; and Corrie Schwab for her editing talent.