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The Importance of Community Lending to West Virginia's Economy

Senator Shelley Moore Capito
United State Senate

Shelley Moore Capito was elected to the United States Senate in 2014. She is the first female U.S. Senator in West Virginia's history.

Sen. Capito served West Virginia's Second Congressional District in the U.S. House of Representatives for 14 years, and as a member of the West Virginia House of Delegates for four years.

Today, Sen. Capito serves on the Appropriations Committee, the Energy and Natural Resources Committee, the Environment and Public Works Committee and the Rules and Administration Committee. She serves as chairman of the Appropriations Committee's Legislative Branch Subcommittee and the Environmental and Public Works Committee's Clean Air and Nuclear Safety Subcommittee.

A lifelong West Virginian, Sen. Capito was born in Glen Dale in the northern panhandle. She holds a bachelor's degree in zoology from Duke University and a master's degree in education from the University of Virginia.

This coming summer will mark the sixth anniversary of the Dodd-Frank Act becoming law. This transformative law has significantly changed the regulatory landscape for financial institutions of all sizes. When the law is completely implemented, 390 new rulemakings will have been implemented and, as of the end of 2015, nearly a quarter have yet to be completed.[1] The changing regulatory landscape for financial institutions is not limited to Dodd-Frank. In summer 2013, U.S. financial regulators released a final rule for implementation of enhanced capital standards, commonly referred to as Basel III.

Although the majority of these regulatory changes are written for large global financial institutions, the effect is being felt by community lenders across West Virginia. Large financial institutions have the capital, staff and expertise to handle the regulatory requirements placed onto them. Many community lenders in West Virginia simply do not have the ability to keep pace with the regulatory changes coming out of Washington. The regulatory burden makes it difficult for West Virginia's community lenders to focus on their core purpose of consumer and commercial lending that will drive our state's economic growth.

For many West Virginia lenders, their ability to serve their communities is contingent on their ability to work out tailored products to fit an individual client's needs. Relationship-based lending has been the hallmark of lending in rural areas for many years.

A farmer from Greenbrier County provides an ideal example. Agriculture income can be highly volatile due to relative unpredictability of a crop's yield each year. This volatility could make it difficult for the farmer to obtain a mortgage to purchase a new home or to refinance existing debt obligations. In these situations, the farmer's relationship with a local lender becomes critical to their ability to access credit to grow their business. The lender's extensive knowledge about the farmer's business can allow the lender to create a tailored product that meets the farmer's needs.

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This flexibility is essential for community lending to operate effectively. Unfortunately, over the past six years we've witnessed a move to a more centralized approach to financial regulation. As new regulations continue to emanate from Washington, the ability of community lenders in West Virginia to lend and facilitate economic growth in our communities becomes more challenging.

The increased regulatory burden is having a real effect on the ability of community lenders to help their local economies grow and prosper. In fact, many leaders of these institutions are deciding the only way to effectively deal with this burden is to increase their scale through mergers and acquisitions. As of 2011, a year after passage of Dodd-Frank, there were 7,357 federally insured banks in the United States. As of February 2016, there are 6,173, a loss of nearly 1,200 financial institutions. To put this in perspective, in 1984 there were nearly 18,000 federally insured banks in the United States. In less than 30 years we've lost 66 percent of federally insured banks.

Capital requirements and consumer compliance regulations are critical to governing a safe and sound financial system; however, we need to find

a more balanced approach to regulation. Tiered regulations, with emphasis on the size and complexity of the institution will better protect consumers and ensure the safety and soundness of financial institutions while at the same time ensuring that lenders have the flexibility necessary to help business grow the local economy.

I have worked in Congress to bring more regulatory certainty and flexibility to our financial institutions. In December, the HELP Rural Communities Act – legislation I helped introduce – was signed into law. This legislation is necessary because the original qualified mortgage rules promulgated by the Consumer Financial Protection Bureau made it difficult for rural lenders to continue serving their customers who relied on balloon loans for their mortgages. The HELP Rural Communities Act will create a process to allow rural lenders appeal to have their communities designated as rural and, in turn, gain regulatory flexibility that will allow them to continue to serve their customers.

While passage of legislation like the HELP Rural Communities Act is a good step, more work is necessary. Congress has a pivotal role in protecting the future of community-based lending. We must continue the discussion of creating a regulatory framework that does not impede community lending. We must also continue the discussion of ensuring that as new regulations are written, other regulations that are outdated, conflicting, unnecessary or overly burdensome are removed.

I will keep working to see that over-regulation does not jeopardize access to capital that is critical to economic growth in West Virginia.

[1] *http://www.davispolk.com/Dodd-Frank-Rulemaking-Progress-Report/*