LAS VEGAS SUN

GUEST COLUMN:

New act to affect community banks

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The residential mortgage lending practices of Wall Street financial firms resulted in a record number of homeowners, including an estimated 75 percent of all homeowners in Southern Nevada, owing more on their mortgages than their homes are worth. The financial and economic crisis that resulted from the evaporation of credit to subprime borrowers set off a chain reaction, commonly referred to as the Great Recession.

Recently, President Barack Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act with the goal of preventing financial catastrophes in the future.

What many people may not realize is that although we may want to pass a law to "restrain Wall Street excesses," the reality is that not all banks are the same. In fact, the United States is unique in having a variety of different chartering agencies that authorize banks to operate. Regulators at both the federal and state level permit bank operations under different rules and requirements. The result is that there are thousands of banks, with only a handful being very large and well known, such as Wells Fargo or Bank of America.

Most American banks are much smaller, established at the state level and regulated by state banking agencies. These smaller state-established banks, such as Meadows Bank, Service1st Bank and First Asian Bank in Las Vegas, are referred to as "community banks."

Unlike Wall Street investment banks, most of the community banks in Nevada did not make subprime (or even prime) residential loans. Residential mortgage lending migrated from community banks to larger banks and specialized mortgage companies, such as Countrywide, which granted subprime loans. Even though community banks did not have subprime mortgage loans on their books, the mortgage loan crisis devastated the housing market and national economy.

In an effort to prevent a similar economic crisis in the future, the Dodd-Frank Act directs the enactment of hundreds of federal regulations that will inevitably touch every bank and financial institution, including the smaller community banks.

Some may ask, "So what? Why are small banks important?" By being owned and managed by people connected to the community, a community bank is a much more effective evaluator of the creditworthiness of borrowers compared with impersonal megabanks that design broad lending policies and procedures from faraway offices staffed by people with little connection to the local community and its depositors and borrowers.

Most community bankers would tell you they are in a better position to evaluate the creditworthiness of a local borrower, and they would not likely grant home loans for the full purchase price to an applicant with insufficient evidence of income.

Enjoying long partnerships with the communities they serve, community banks want to be able to support local businesses and homeowners with responsible loans and mortgages.

Although the new financial reform law spares smaller banks from many of the onerous regulations that will be applicable to the biggest institutions, community banks will be affected by the establishment of an entirely new regulatory agency within the Federal Reserve that will have enormous power in regulating consumer loan transactions. It is possible that the variety and availability of consumer credit from community banks will be