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**Fine Points**

[hed] The ‘overbanked’ fallacy

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There is a conspicuous element of the banking sector that encourages what community bankers view as a dangerous trend: the consolidation of the banking industry into fewer and fewer hands. Representatives of the largest banking organizations, most recently BB&T chairman and CEO Kelly King, frequently argue that there are too many banks in the United States. Despite the many risks posed by rising industry concentration, we hear again and again that the nation is overbanked.

In fact, our banking system is plagued not by oversupply but by consolidation, which has shrunk the number of US banks from more than 18,000 to fewer than 5,800 in just three decades. This excessive consolidation has led to too few community banks, particularly in areas where scarce capital is needed the most.

This unfortunate trend culminated in the 2008 Wall Street financial crisis and the moral hazard of a handful of financial institutions deemed too big to fail. Just 0.2 percent of US banks hold more than two-thirds of industry assets, posing systemwide risks and the continued threat of taxpayer assistance should those massive institutions again reach the brink of failure. The trickle of de novo banks entering the market exacerbates the problem, with the number of bank applications plummeting from more than 100 per year before the crisis to just a handful since 2009.

The alternative to these oversized institutions is a community banking business model that is highly capitalized, locally focused and built on customer relationships and accountability. The transaction-based megabank model—designed to squeeze every last cent from customers—is what gave us the Wells Fargo phony-accounts scandal.

Of course, regulatory burden contributes greatly to the problem. A recent survey from the Federal Reserve and Conference of State Bank Supervisors found that community bank compliance costs have increased by nearly $1 billion in the past two years to roughly $5.4 billion, or 24 percent of community bank net income. Of the respondents who said they considered an acquisition offer in the past year, virtually all (96.7 percent) said regulatory costs were a “very important,” “important” or “moderately important” reason. Further, the Federal Reserve Bank of Richmond has found that regulatory costs contribute to the dearth of de novo applications.

Because of the role US financial regulation plays in industry consolidation, this is a public policy issue that must be dealt with before it’s too late. ICBA has long advocated a more tailored approach to bank regulation, with rules tiered to the size and risk profile of regulated institutions. Now is the time for policymakers to finally heed our calls.

Community banking has contributed greatly to the nation’s growth and development over the past century and a half. It is synonymous with the American traditions of independence, self-reliance and entrepreneurship. The declining number of US banks is not a trend to be encouraged but a problem to be fixed to maintain a diverse and decentralized system that ensures continued access to financial services for all Americans. Not all banks are the same, and the community banking industry’s role in our industry should not be diminished.

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