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What Community Banks Need to Survive the Dodd-Frank Act

By: Richard Longo

Community banks have a lot of work to do in preparation for the more than 250 regulations associated with the Dodd-Frank Act. The Community Depository Institutions Advisory Council estimates that despite exemptions made for small institutions, adhering to Dodd-Frank will require community banks, already limited with resources, to hire staff, train them and increase transaction times. Consultants predict that a typical community bank will need to add two full-time employees just for compliance. Of course, talented compliance staff will be on high-demand, especially in rural areas, and training staff to meet the new requirements will be difficult. Conservatively estimating, these employee resources may cost a community bank $80,000 to $100,000 a year in additional salary and benefits. To put this in perspective, a $200 million community bank may spend $325,000 annually in technology costs. Even if community banks could find a way to afford such added expenses, they must still consider the potential income loss they may incur due to the Durbin Amendment and other rules.

If community banks adhere to their standard processes and procedures — which usually include managing compliance and regulation requirements with staff-run reports — it will cost them roughly a quarter of their technology budgets. This is devastating news to the more than 800 troubled banks and others whose margins are already stretched. However, this is not a doom and gloom message. Community banks do not have to topple over to the troubled list due to regulatory burdens; nor do they have to remain troubled if they already are.

As an alternative, automated solutions leverage rules-based tools that limit the need for an individual to intervene on decisioning, thus evaluating risk in the most accurate manner. Regulators prefer these solutions because they encourage consistency and mandate due diligence. This does not infer that community banks have to lose control of the process. Rather, they can set pre-determined criteria to meet their institutions' specific goals and provide optional personal reviews for a low percentage of decisions. Essentially, the system should do all the heavy lifting, acting as the jury and lawyer, while bank employees only have to act as judge for roughly 10 percent of the cases.

The key to meeting growing regulatory requirements will be to embrace new capabilities enterprise-wide without breaking the budget. Community banks will need to venture away from their traditional report-based compliance systems and invest in technology to evolve beyond this daunting era. There are many benefits associated with technology, but most important is the ability to successfully shift a bank's core, fundamental processes and meet the requirements of changing regulations. Exchanging staff-based decisions and reporting for technology could be the only viable solution for many community banks.

Virginia-based, $3.7 billion Carter Bank & Trust implemented a new core platform in 2010 upgrading its 123 branch offices as well as its operation facilities. CB&T's former core processing system was a legacy mainframe-based system with applications written in outdated languages. The network design had insufficient communication models for seamless data exchange between the applications, and hindered the bank's capacity to respond to the challenges of reporting and increasing regulations. Add-on solutions to meet the bank's evolving needs proved to be long and tedious projects. It took months to integrate a new financial product into the system before it could be brought into the market, as it involved writing middleware programs to allow different platforms and systems to interact.

CB&T elected to replace its current system with an updated browser-based technology, one that provides real-time, high-volume and performance transactions across all channels. Now, the bank streamlines its operations across multiple platforms and systems and easily integrates with third-party providers.

According to Worth Harris Carter Jr., chairman of the board and president of CB&T, "Flexible and up-to-date core platforms are a necessity for any financial institution that wants to remain competitive in this new banking era. Operating under anything else would be like going into open-heart surgery with outdated equipment; it's an unnecessary risk that is not worth taking."

The Dodd-Frank Act touches virtually every business line in a community bank. Banks that need to evolve their core platforms and technology would be wise to start the search now. Waiting until all of the regulations are set and the rules are defined will not reap any rewards. Assuredly, there will be changes, and they will be plentiful. If a bank knows that it needs to advance its current practices, delaying the decision will only result in a loss of profits. Community banks should ensure that they are operating on processors with open integration and the ability to meet changing compliance demands. Furthermore, the processors should be flexible in scale, with the ability to meet and attain long-term growth strategies.

Community bankers that invest in the future will succeed in the long run. They should demand efficiency, accuracy and compliance in banking technology providers and settle for nothing less. The solid core platform with the ability to integrate all disparate and self-contained services into a flexible, scalable foundation will prepare bankers for today's regulatory demands as well as the many changes yet to come.

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