

FinPro says regulators need to back off banks for lending to grow

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By Robb Soukup

A new report by Liberty Corner, N.J.-based FinPro Inc. pins the blame for falling bank lending on overzealous regulators.

"Regulators are universally: pushing higher capital requirements, increasing reserve coverage ratio requirements, establishing rigid inflexible loan concentration thresholds, discouraging de novo bank formation, and inhibiting access to capital," the report states, adding that the application of these policies across all banking institutions is "directly limiting well-managed, safe and sound banks' ability and willingness to lend and scaring away new capital."

The report cites decreased lending to consumers and plunging levels of credit committed to commercial and industrial loans. Loan originations by the 22 largest TARP participants fell by 25%, to \$235 billion in August of this year from \$312 billion in June, according to a presentation accompanying the report. The authors of the report, Donald Musso, Michael O'Byrne and Michael Tourville, take issue with regulators forcing banks to increase allowance for loan and lease losses.

"In a move contrary to the reasonable historical trend, regulatory pressure has forced universally higher loan loss allowances ... not as a result of identified deficiencies in the institutions reserving methodology, but to bring them to peer or national average or median levels," according to the report, which argues that banks historically draw down allowances in bad times after building them as a buffer during periods of economic expansion.

"This over-reserving has correspondingly decreased lending capacity," the authors conclude, though their data indicate that allowances as a percentage of total loans steadily declined during the credit boom in the middle of this decade.

The report urges regulators to leave capital requirements at current levels, along with an array of other suggestions, including unfreezing de novo bank formations and allowing private equity to infuse capital into the industry. *i*