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Both Wall Street and Main Street banks adapt to "Wall Street Reform"

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'Would you tell me, please, which way I ought to go from here?'
'That depends a good deal on where you want to get to,' said the Cat.
'I don't much care where -' said Alice.
'Then it doesn't matter which way you go,' said the Cat.
'-so long as I get somewhere,' Alice added as an explanation.
Lewis Carroll, Alice's Adventures in Wonderland

It has been almost six months since the Dodd Frank Wall Street Reform and Consumer Protection Act was signed into law by President Barack Obama on July 21, 2010. And, much like Alice, banks, both on Wall Street and Main Street are left wondering, where do we go from here? The answer, quite simply is: it depends. While the new rules and regulations created by the Act apply to both large and small financial institutions alike, the manner in which financial institutions prepare to comply with the Act depends, at least in part, on where each hopes to "get to." Importantly, although the changes created by the Dodd Frank Act will be realized over years to come, the majority of changes will be implemented over the next 18 to 24 months, leaving both Wall Street and Main Street alike with little time to figure out not only where they go from here, but the best avenue to get there.

One thing is clear, however, in the wake of the regulatory changes ushered in by the passage of the Dodd Frank Act, both Wall Street and Main Street financial institutions must move quickly if they hope to strengthen their own, or possibly capture additional, market shares. Among its lofty goals, the Act aims to promote the financial stability of the U.S. by improving accountability and transparency in the financial system, end "too big to fail," protecting the American taxpayer by ending bailouts, and protect consumers from abusive financial services practices. According to a survey of the bill conducted by Harvard Law School, the Dodd Frank Act requires 243 rulemakings and 67 studies. Undoubtedly, all financial institutions will be forced to change how they conduct business in response to the Act.

Ironically, the larger Wall Street banks will likely be more able, at least initially, to maximize opportunities for growth in strategic areas even in this new, more restrictive environment, while smaller, Main Street focused banks may suffer under the weight of new rules and regulations, at least at the outset. Recognizing at the outset, however, the inherently different positions of large and small financial institutions, allows both to tailor their approach as they implement the sweeping reforms of the Dodd Frank Act, in order to insure the success of both Wall Street and Main Street financial institutions.

One of the primary differences between the Wall Street and Main Street banks stems from the fact that in addition to the requirements of the Dodd Frank Act, the larger Wall Street financial institutions must also contend with new rules issued by other regulators as well as comply with rules of international bodies, such as the Basel Committee of Banking Supervisors, which finalized a new set of standards on September 12, 2010, with which the G20 governments, including the U.S., are expected to comply. These standards, which were supported by the U.S. federal banking agencies, aim to strengthen significantly the standards for large internationally active banks. The aim, as announced by the Board of Governors is to "increase the quality, quantity, and international consistency of capital, to strengthen liquidity standards, to discourage excessive leverage and risk taking, and to reduce procyclicality in regulatory requirements" in hopes of reducing the incidence and severity of future financial crises. In this manner, the Dodd-Frank Act also requires all financial institutions to hold more, and better quality, capital. To this end, regulators can set higher capital and liquidity standards. Because international standards have already been moving in this direction, large financial institutions are in a far better position than their smaller counterparts to focus on securing high quality capital, such as common equity and retained earnings.

Smaller financial institutions are clearly not in the same position as their Wall Street counterparts to bear the increased costs of complying with the Act. Yet, while the requirements contained within 2300 page Act may appear daunting to Main St. banks, it is important to be aware that many areas covered by Dodd Frank such as hedge fund restrictions, proprietary trading, credit rating agencies, swaps and derivatives generally do not apply to smaller financial institutions. Moreover, the bill's provisions apply only to banks with more than $10 billion in assets. Ultimately, the path to success for smaller community banks will lie in their ability to offer more individualized services as they position themselves to meet their clients' financial strategies.

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