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America Needs Its Small Banks

The SVB collapse raises the specter of Europe-style consolidation, which would make it much harder for entrepreneurs and farms to get credit.

reene and John Michaelson

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The recent events surrounding Silicon Valley Bank and Signature Bank have created unprecedented challenges for the health of community, midsize and regional banks. We are headed at an accelerating pace toward a European-style banking system dominated by a handful of very large, effectively government-guaranteed banks. This would amount to a fundamental shift in the American banking system that would undermine its support for small and midsize businesses and local communities.

This shift is in part due to a larger trend of bank consolidation over the past several decades, which has allowed the biggest banks to continue to grow even larger. But now there is a new threat: the potential of a rapid flight to safety of depositors who may seek refuge with the “too big to fail” banks, starving smaller ones of capital.

Large banks play an essential role in our financial system. They provide crucial services for major projects, international commerce, large companies, major investment institutions and

large traders. But small businesses are the growth engine for the American economy—the drivers of job creation and innovation. Community and regional banks focus on the needs of these enterprises and keep them afloat in a tough economy. Community banks alone provided 30% of Paycheck Protection Program loans during the pandemic. According to the Independent Community Bankers of America, community banks make 60% of all small-business loans and more than 80% of farm loans. And great innovative companies start as small enterprises. The support of local banks is critical to supporting their growth.

The core of the U.S. banking system lies in community and regional banks that have strong relationships with their clients, serve a diverse array of customers and businesses, and are deeply invested in their communities. This is a stark contrast to the centralized banking system of Western Europe, which has contributed to economic stagnation and a lack of innovative small companies. The local focus of the U.S. banking system results in consumers who rely on borrowing to finance homes, cars and other large purchases, while small businesses rely on the same financing to execute payments and cover operational costs. These core features of our economy would incur significant damage with fewer community banks that have the motivation, infrastructure and resources to prioritize these customers.

This moment is a crucial juncture for the U.S. banking system, and policy makers need to decide what the system will look like when the dust settles. They can either tacitly promote rapid consolidation by the biggest banks or support a more stable and robust ecosystem of small, midsize and regional banks that better meet the needs of small-business owners and communities across the country.

The silence of larger financial institutions and megabanks over the weekend was heard loud and clear. It would be a grave mistake to loosen the financial fabric that holds the businesses of our nation together.

Mr. Greene is chairman and CEO of Tassat Group Inc. Mr. Michaelson is chief investment officer of Michaelson Capital and a director of Tassat.