The Daily Dish

Fixing Dodd-Frank's Flaws, Preserving its Virtues

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Eakinomics: Fixing Dodd-Frank's Flaws, Preserving its Virtues

Yesterday the Senate voted to begin deliberation of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The motion to move to debating the measure received 67 votes, making this perhaps the most bipartisan legislative action of the Trump era. Despite this broad support, Senator Elizabeth Warren held a press conference to rally opposition to the bill and argued, "I don't understand how anyone regardless of political party could support a bill like that. That means that the American taxpayer is going to take all the risk and all the profits are going to go to giant banks. That's just fundamentally wrong."

Sen. Warren pledged to have three days' worth of floor debate, with each day focusing on a particular theme. In her press conference she outlined those to be 1) consumers, 2) big bank gains from the bill, and 3) Congress' history of deregulation. Those themes likely will be iterated on the floor as follows: 1) Dodd-Frank was good for consumers, and this bill will hurt consumers; 2) Big banks will benefit from this bill, as it will roll back everything that Dodd-Frank did to them; and 3) Ever since Dodd-Frank passed in 2010, Republicans in Congress have done everything they can to roll it back and put the country back into another financial crisis. Since today is "Dodd-Frank was good for consumers, and this bill will hurt consumers" day, lets think about the track record a bit.

Dodd-Frank raised the cost of, and restricted access to, basic bank services. Before Dodd-Frank, 76 percent of all bank accounts were free, charging no usage fee to the consumer. As a result of Dodd-Frank's rules on checking accounts and debit cards, by 2013 just 38 percent of bank accounts remained fee-free. And in 2017, the average minimum balance to avoid fees was $668.18 for non-interest bearing accounts, and $6,484.81 for accounts that accrue interest, up from approximately $200 and $3000 respectively before Dodd-Frank.

Dodd-Frank's crushing burdens damaged small banks. Its regulations have resulted in $38.9 billion in regulatory costs and 82.9 million paperwork burden hours. Four years after the passage of Dodd-Frank, the number of small banks, which provide nearly half of the banking industry's small business loans despite holding less than 20 percent of its assets, had declined by 14.1 percent. Research from the Minneapolis Fed found that adding just two compliance officers to deal with Dodd-Frank's new requirements would make more than a third of small banks unprofitable.

Dodd-Frank cut the flow of credit to small and growing businesses. A new study from the National Bureau of Economic Research shows that Dodd-Frank's stress tests have reduced the supply of credit for and raised interest rates on small business loans. And where banks don't have local knowledge of the cost of the new capital requirements, they exit the market entirely.

The reality is that Dodd-Frank caused an enormous amount of collateral damage to small banks, small businesses, and consumers everywhere. That damage is why the bill on the floor this week would roll back the most costly regulations and requirements on the most vulnerable of banks. Far from being a giveaway to big banks, the bill targets banks between $50 and $250 billion in assets, banks which are the main drivers of small business lending and consumer banking products. By allowing them to free up resources in their compliance departments, this bill gives them greater ability to focus on their customers and cultivate their portfolios to promote real economic growth in the communities they serve.

Dodd-Frank has its virtues, but it also has many flaws. No one should be opposed to a sensible attempt to fix the latter.