Insight

U.S. Government Accountability Office: Dodd-Frank Burdens Banks and Reduces Consumer Credit

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Last week, while most Americans were spending time with family and friends celebrating the holidays and the close of 2015, the Government Accountability Office (GAO) quietly released a study indicating that Dodd-Frank created measurable burdens on community banks and credit unions and reduced the availability of credit to consumers, finally confirming what so much research has been saying for years.

The results of the study were broken out into two main sections: the first assessing the cumulative compliance burdens of Dodd-Frank rules on community banks and credit unions; and the second discussing the possible impacts of Dodd-Frank on Systemically Important Financial Institutions (SIFIs), designated nonbanks, and swaps. With regard to the compliance burden and its effects on consumer credit, the study found that "several of the mortgage-related rules have increased [community banks' and credit unions'] overall compliance burden, such as increases in staff and training. Additionally…these rules had begun to adversely affect some lending activities, such as mortgage lending to customers not typically served by larger financial institutions, even though CFPB provided exemptions or other provisions to [try to] reduce such impacts." The study continues on to explain that "there have been moderate to minimal initial reductions in the availability of credit among those responding to the various surveys." Once again, further evidence that Dodd-Frank reforms, which were aimed at Wall Street have, in reality, hurt Main Street.

The second section of the study begins by explaining the changes made by GAO to its set of indicators for designating large banks as SIFIs. In doing so, GAO reports that, contrary to much of the purpose of Dodd-Frank, these SIFIs have shown increases both in median assets and in median market share between the second quarter of 2010 and the second quarter of 2015. While the section continues by suggesting that Dodd-Frank has not resulted in "significant" increases in business and compliance costs for SIFIs, GAO offers several exceptions and qualifications to that statement. For example, in proposing that Dodd-Frank had no effect on the availability of credit provided by SIFIs, GAO assumes that credit is a function of banks' funding costs, which is not necessarily true. While banks' financials are one component of their ability to offer credit to consumers, there are a number of external factors that play into credit availability such as interest rates and consumer demand.

Similarly, in the final section of the study. GAO's indicators show increases in margin collateral for over-the-counter derivatives transactions since Dodd-Frank's passage, but again qualifies the findings with six important limitations, the most significant being that their indicators do not identify causal links between changes in collateralization and Dodd-Frank regulations. Further, GAO's indicators only measure the fair value of collateral held against current credit exposures but do not take into account the risk of uncollateralized losses. That, in and of itself, is enough to suggest that GAO's findings are, at best, limited in scope.

With so many limiting stipulations to its study and the rare occurrence of Congress' own nonpartisan,

accountability office stating that such a big, landmark piece of legislation like Dodd-Frank did, in fact, have significant negative effects across the industry, it's no wonder that GAO snuck out this report when few people were paying attention.