Our Perspectives:
Commentary on the economy & regulatory policies affecting financial companies

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Banking Regulation is a Hot Topic in the Presidential Campaign*

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Typically, banking regulation is not a hot topic in election campaigns. This presidential campaign is different. Banking regulation has been raised by the Republican primary candidates during the debates, and by President Obama in a speech that, according to some press accounts, "sets the stage for the themes of his reelection campaign."

During the debates, the Republican candidates have been highly critical of the Dodd-Frank Act. Each of the remaining candidates has called for the repeal of the Act, largely because of a perceived impact on small banks and on economic growth. At the same time, some of the Republican candidates have expressed support for other forms of banking regulation. Notably, Jon Huntsman and Rick Perry have called for reducing the size of banks in order to end "too-big-to-fail." (A position endorsed by the former President of the Kansas City Federal Reserve Bank and current nominee to be the Vice Chairman of the Federal Deposit Insurance Corporation, Thomas Hoenig, and by the current President of the Dallas Federal Reserve Bank, Richard Fisher.) Also, Newt Gingrich has stated that the 1999 amendments to the Glass-Steagall Act were a mistake, and he has called for a clear separation between commercial banking and investment banking.

Separately, President Obama addressed the state of banking regulation in a speech on December 6th in Osawatomie, Kansas. Not surprisingly, he expressed support for key features of the Dodd-Frank Act in that speech. He also provided a narrative on the causes of the financial crisis. That narrative not only offers a rationale for banking regulation, but indicates that the banking industry has a long way to go to regain public trust.

All this suggests that the banking industry will need to follow this Presidential election even more closely than usual. Extended excerpts from the

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President's speech follow:

> . . . Now, for many years, credit cards and home equity loans papered over this harsh reality. But in 2008, the house of cards collapsed. We all know the story by now: Mortgages sold to people who couldn't afford them, or even sometimes understand them. Banks and investors allowed to keep packaging the risk and selling it off. Huge bets — and huge bonuses — made with other people's money on the line. Regulators who were supposed to warn us about the dangers of all this, but looked the other way or didn't have the authority to look at all.
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> It was wrong. It combined the breathtaking greed of a few with irresponsibility all across the system. And it plunged our economy and the world into a crisis from which we're still fighting to recover. It claimed the jobs and the homes and the basic security of millions of people — innocent, hardworking Americans who had met their responsibilities but were still left holding the bag.
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> And ever since, there's been a raging debate over the best way to restore growth and prosperity, restore balance, restore fairness. Throughout the country, it's sparked protests and political movements — from the tea party to the people who've been occupying the streets of New York and other cities. It's left Washington in a near-constant state of gridlock. It's been the topic of heated and sometimes colorful discussion among the men and women running for president. . . .
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> Finally, a strong middle class can only exist in an economy where everyone plays by the same rules, from Wall Street to Main Street. As infuriating as it was for all of us, we rescued our major banks from collapse, not only because a full-blown financial meltdown would have sent us into a second Depression, but because we need a strong, healthy financial sector in this country.
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> But part of the deal was that we wouldn't go back to business as usual. And that's why last year we put in place new rules of the road that refocus the financial sector on what should be their core purpose: getting capital to the entrepreneurs with the best ideas, and financing millions of families who want to buy a home or send their kids to college.

Now, we're not all the way there yet, and the banks are fighting us every inch of the way. But already, some of these reforms are being implemented.

If you're a big bank or risky financial institution, you now have to write out a "living will" that details exactly how you'll pay the bills if you fail, so that taxpayers are never again on the hook for Wall Street's mistakes. There are also limits on the size of banks and new abilities for regulators to dismantle a firm that is going under. The new law bans banks from making risky bets with their customers' deposits, and it takes away big bonuses and paydays from failed CEOs, while giving shareholders a say on executive salaries.

This is the law that we passed. We are in the process of implementing it now. All of this is being put in place as we speak. Now, unless you're a financial institution whose business model is built on breaking the law, cheating consumers and making risky bets that could damage the entire economy, you should have nothing to fear from these new rules.

Some of you may know, my grandmother worked as a banker for most of her life — worked her way up, started as a secretary, ended up being a vice president of a bank. And I know from her, and I know from all the people that I've come in contact with, that the vast majority of bankers and financial service professionals, they want to do right by their customers. They want to have rules in place that don't put them at a disadvantage for doing the right thing. And yet, Republicans in Congress are fighting as hard as they can to make sure that these rules aren't enforced.

I'll give you a specific example. For the first time in history, the reforms that we passed put in place a consumer watchdog who is charged with protecting everyday Americans from being taken advantage of by mortgage lenders or payday lenders or debt collectors. And the man we nominated for the post, Richard Cordray, is a former attorney general of Ohio who has the support of most attorney generals, both Democrat and Republican, throughout the country. Nobody claims he's not qualified.

But the Republicans in the Senate refuse to confirm him for the job; they refuse to let him do his job. Why? Does anybody here think that the problem that led to our financial crisis was too much oversight of mortgage lenders or debt collectors?

Of course not. Every day we go without a consumer watchdog is another day when a student, or a senior citizen, or a member of our Armed Forces — because they are very vulnerable to some of this stuff — could be tricked into a loan that they can't afford — something that happens all the time. And the fact is that financial institutions have plenty of lobbyists looking out for their interests. Consumers deserve to have someone whose job it is to look out for them. And I intend to make sure they do. And I want you to hear me, Kansas: I will veto any effort to delay or defund or dismantle the new rules that we put in place.

We shouldn't be weakening oversight and accountability. We should be strengthening oversight and accountability. I'll give you another example. Too often, we've seen Wall Street firms violating major anti-fraud laws because the penalties are too weak and there's no price for being a repeat offender. No more. I'll be calling for legislation that makes those penalties count so that firms don't see punishment for breaking the law as just the price of doing business.

The fact is this crisis has left a huge deficit of trust between Main Street and Wall Street. And major banks that were rescued by the taxpayers have an obligation to go the extra mile in helping to close that deficit of trust. At minimum, they should be remedying past mortgage abuses that led to the financial crisis. They should be working to keep responsible homeowners in their home. We're going to keep pushing them to provide more time for unemployed homeowners to look for work without having to worry about immediately losing their house.

The big banks should increase access to refinancing opportunities to borrowers who haven't yet benefited from historically low interest rates. And the big banks should recognize that precisely because these steps are in the interest of middle-class families and the broader economy, it will also be in the banks' own long-term financial interest. What will be good for consumers over the long term will be good for the banks. . .

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