THE FINANCIAL SERVICES ROUNDTABLE
Financing America's Economy

Economic Impact of the Dodd-Frank Act

June 2012

Reports and public statements about the impact of financial regulatory reform on the economy, credit, consumers, and the industry, assorted by

The Financial Services Roundtable

Economist, "The Dodd-Frank Act: Too Big to Fail," February 18, 2012

Economic Impact of the Dodd-Frank Act

The health of the financial services industry has improved dramatically in recent months. Capital is at record highs, lending is at pre-crisis levels, and large financial companies are solvent and strong.

These improvements are the result of industry initiation and financial regulatory reform. The Dodd-Frank Act imposed a variety of new requirements regarding the business activities, capital, liquidity, governance and risk-management practices of large financial institutions, to make the system safer and stronger. However, if requirements are carried too far, adverse economic consequences will far outweigh the benefits.

The Financial Services Roundtable has developed a public database of *over 125 independent studies and reports showing how the cumulative weight of new rules will negatively impact the economic recovery and industry.* The database can be accessed on the Roundtable,'s website, www.fsround.org. [1]

Last August, the Roundtable published a white paper based on these studies, entitled, "Cumulative Weight." The paper examined the projected impact of financial regulatory reform on the economy, credit, international competiveness, and cost of basic financial services. The paper, which included an overview of the Dodd-Frank Act, is also hosted on the Roundtable's website.[2]

[1] http://www.fsround.org/fsr/publications_and_research/cumulative-weight.asp
[2] http://www.fsround.org/fsr/publications_and_research/files/CUMULATIVEWEIGHTWHITEPAPER.pdf

Since that time, dozens of new reports have been released on the economic impact of Dodd-Frank. What follows is a collection of updated studies and reports, from September 2011 through June 2012.

Impact on the Economy

U.S. GDP is projected to be 2.7% lower than it would otherwise be as a result of regulatory reform, according to the Institute for International Finance

- The Volcker Rule will raise energy prices and reduce energy investment, resulting in 200,000 lost jobs. If the Volcker Rule is implemented, electricity costs will increase by $5.3 billion per year; gasoline prices will increase by $2 billion per year; natural gas investment will be reduced by $7.5 billion and ; two East Coast refineries will close. ***I.H.S. Study,*** March 2012.

- It is the risk that the Dodd-Frank apparatus will smother financial institutions in so much red tape that innovation is stifled and America's economy suffers. ***The Economist,*** February 18, 2012.

- Dodd-Frank is the thing that is most harming the economy right now. Big business can deal with regulatory uncertainty, but it makes small businesses reluctant to take on risk and expand their operations. ***Todd Zywicki, Mercatus Center at George Mason University,*** September 21, 2011.

- By 2015, U.S GDP is projected to be 2.7% lower than it would otherwise be <as a result of regulatory reform>, or 5.2% lower if reform is implemented rapidly. ***Institute for International Finance Report,*** September 6, 2011.

- By 2015, 2.9 million jobs are projected to be lost in the U.S. <as a result of regulatory reform>, or 5.8 million jobs if reform is implemented rapidly. ***Institute for International Finance Report,*** September 6, 2011.

- Complexity risk - the burden on financial institutions and regulators of complex, cross-cutting and incomprehensible rules may now be the most significant impediment to financial-market recovery and robust economic growth. ***Karen Petrou, Federal Financial Analytics, Inc,*** November 2011.

Impact on Credit

The Volcker Rule will increase borrowing costs by up to $43 billion per year, according to an Oliver Wyman Study.

- Based on responses from 75 financial institutions in 38 countries, 40% of banks expect to raise the price they charge companies for loans by between half and a full percentage point, while a further 26% expect to raise the price of loans by more than that <as a direct result of Basel III>. ***Institute for International Finance.*** June 21, 2012

- The Dodd-Frank Act "was a major overreach that has created uncertainty throughout the economy and threatens to make credit for consumers and businesses more expensive and less available" said ***Senator Bob Corker of Tennessee***, May 7, 2012.

- The [Volcker Rule of the Dodd-Frank Act] would result in a decrease in liquidity and increase in price instability in many markets in the U.S., but will also have negative effects on markets globally, as banks will be forced to reduce the quality of their market-making services to comply. ***Institute of International Finance Report***, February 2012.

- The Volker Rule will cost American businesses up to $315 billion, increase borrowing costs by up to $43 billion per year, and dramatically reduce liquidity. ***Oliver Wyman Study***, January 2012.

- In our view, <the Volcker Rule> would result in a dramatic increase in volatility and reduction in market liquidity that would ultimately cause borrowing costs for all municipal issuers to rise. ***City Group Global Market Study***, January 2012.

- Relative to pre-crisis levels, banks would have to raise an additional 100% more capital ($525 billion) to meet Basel III's capital requirements. To meet these capital requirements, U.S. banks would have to either increase the borrowing costs to their customers by 60 basis points or reduce non-interest expenses by 19%. ***The Clearing House Report.*** September 26, 2011.

- <The Dodd-Frank Act> could have a negative effect on the ability of banks to extend credit and have a critical impact on our economy. ***Reginald Imamura, PNC Bank***, September 22, 2011.

- Real lending rates in the U.S. are projected to increase by 468 basis points, (or 701 basis points if reform is implemented rapidly), <exponentially increasing the cost of education loans, home loans, commercial loans, etc.> ***Institute for International Finance Report***, September 6, 2011.

Impact on Consumers

- Free checking is on the decline, in large part due to overdraft changes and the Durbin Amendment . In 2011, less than half of checking accounts (45%) were free of maintenance charges and balance requirements. In 2009, 76% of accounts were free. ***Roundtable Fast Facts: Decline of Free Checking,*** June 1, 2012.

- Instead of investing in new products to meet the demands of customers, banks are paying for changes to software to ensure compliance with all the new rules. Even a small reduction in the cost of compliance would free up billions of dollars that could facilitate loans and other banking services. ***William B. Grant, CEO of First United Bank of Trust***, May 9, 2012.

Free checking has declined by over 40% in the last three years in large part due to the Durbin Amendment and overdraft rules, according to a Bankrate survey.

- If regulators tighten restrictions on bank overdraft policies, it could threaten a major source of bank revenue and speed up the end of free checking accounts. ***Fitch Ratings Report.*** April 24, 2012.

- Consumers and small businesses are impacted in negative ways through the Dodd-Frank Act, such as: higher costs for financial products or limited products or limited credit availability at a higher cost. At some banks, certain types of credit will be completely eliminated and access to credit will be denied. ***Ignacio Urrabazo, Testimony before the House Subcommittee on Financial Institutions and Consumer Credit,*** March 14, 2012.

- Inflexible loan to value ratios and repayment ability criteria are likely to have the effect of putting home ownership out of reach for many Americans. ***Cliff McCauley, Testimony before the House Subcommittee on Financial Institutions and Consumer Credit,*** March 14, 2012.

- The Durbin Amendment will cause smaller institutions to cease offering <debit cards> to their consumers. ***Cliff McCauley,***

Testimony before the House Subcommittee on Financial Institutions and Consumer Credit, March 14, 2012.

- Elimination of fee incomes through Durbin and limitations of overdraft fees are hurting community banks. These fees are critical to the survival of community banking: it is key that noninterest income helps provide many of our banking products and services for consumers. ***Ignacio Urrabazo, Testimony before the House Subcommittee on Financial Institutions and Consumer Credit,*** March 14, 2012.

- Overdraft and interchange rules have cost the industry about $12.2 billion annually, translating into 20% higher fees for consumers. ***Javelin Study.*** February 2012.

- Retail prices have actually increased 1.7% since the Durbin Amendment became effective. ***Electronic Payment Coalition Report,*** December, 2011.

- It has become more expensive for consumers to use banks <as a result of regulatory reform>. ***Elizabeth Robertson, Javelin Strategy & Research,*** September 22, 2011.

- 41% of merchants reported they do not intend to pass on lower debit card costs to consumers, when asked about the Durbin Amendment. ***DFR Survey***, September, 2011.

- 54% of institutions report looking to re-structure or terminate rewards programs due to Durbin. ***Pulse Network's 2011 Debit Issuance Study,*** June 2011.

Impact on the Industry

- <Basel III rules> are leading many banks to fundamentally rethink their business models, with 65% reporting that they are evaluating their portfolios, 45% reporting that they are moving out of complex or less liquid instruments, while 30% said they were planning to drop lines of business and 13% said they are preparing to leave particular countries. ***Institute for International Finance.*** June 21, 2012.

- Dodd-Frank will cost JP Morgan Chase roughly $1 billion a year, across technology, risk, credit, compliance, and all other lines.

[***Jamie Dimon, CEO of JP Morgan Chase, Senate Banking Committee Testimony.***](#) June 13, 2012.

- Smaller banks could face "operational burdens" in implementing the <new capital> rules. ***Fed governor Elizabeth Duke.*** June 7, 2012.

- The new regulations are so complex that few people understand them, and it will cost them to figure it out. Companies will have to spend a lot to make sure they're aware of the details, since most don't have teams of attorneys to interpret them. ***Mitch Stebal of Busey Bank for the Washington Post***, May 23, 2012.

- Any one particular regulation may not be that onerous or expensive, but when you add them up, it raises the cost of doing business for banks, and ultimately the consumer ends up paying for it. ***Doug Cruickshanks, CEO of FirstBank***, May 7, 2012.

Compliance costs have increased over 240% in the last five years, one banker's Congressional testimony.

- Investment bankers and financial industry consultants estimated that Dodd-Frank would lower the return on equity of community banks with less than $500 in assets to between 6-8%. Bank investors usually look for returns near 11-14%. ***Reynolds, Bone, & Griesbeck***, May 6, 2012.

- Direct compliance costs have increased over 240% in that last five years – far exceeding the growth of the bank, its loans, investments and deposits. ***Les Parker, Testimony before the House Subcommittee on Financial Institutions and Consumer Credit,*** March 14, 2012.

- Annual compliance costs of Dodd-Frank are already over $7 billion for banks—even though only 27% of Dodd-Frank regulatory rules have been completed. The projected number of new personnel required to comply with Dodd-Frank is 26,447. ***American Action Forum data,*** March, 2012.

- Elimination of fee incomes through Durbin and limitations of overdraft fees are hurting community banks. These fees are critical to the survival of community banking: it is key that noninterest income helps provide many of our banking products and services for consumers. ***Ignacio Urrabazo, Testimony before the House Subcommittee on Financial Institutions and Consumer Credit,*** March 14, 2012.

Increasing regulation is the single largest factor of post-crisis bank profitability (or lack thereof) in the U.S. and Europe, according to a report by McKinsey.

- It took 20 million man hours to build the Panama Canal…we are with 22 million man hours only 1/3 of the way through major legislation. ***Congressman Randy Neugebauer,*** February 2012.

- Regulators' estimate that banks will have to spend 6.6 million hours to implement the Volcker rule. Over 1.8 million hours would be required every year in perpetuity. That translates into 3,292 years, or 3,000 bank employees to comply this rule. ***Frank Keating, President and CEO, American Bankers Association,*** October 2011.

- There is a widening gap between growing and non-growing markets. For example, Asian banks are likely to achieve annual revenue growth of around 10% over the next decade – double the rate of developed markets. ***McKinsey & Company Report.*** September 2011.

- Increasing regulation is the single largest factor of post-crisis bank profitability (or lack thereof) in the U.S. and Europe. U.S. banks will need to triple their net profits by 2015 to cover the cost of raising the capital required under Basel III and the Dodd-Frank Act. This is double the profit level that McKinsey forecasts U.S. banks are likely to achieve during this period. ***McKinsey & Company Report***. September 2011.

- Dodd-Frank has raised the cost of financial transactions in America and that encourages consolidation because it's the only way you can spread the costs over larger assets. ***Tom Hoenig, President of the Federal Reserve Bank of Kansas City.*** September 2011.

- Modifying systems for compliance with Dodd-Frank will drain resources and divert attention from projects that may help business growth. Firms do not plan to increase staff to handle requirements for Dodd-Frank, and are trying to meet demands with the same amount of people. ***Greg MacSweeny for Wall Street & Technology***, February 2011.

About the Roundtable

The Financial Services Roundtable represents 100 of the largest integrated financial services companies providing banking, insurance, and investment products and services to the American consumer. The mission of the Financial Services Roundtable is to protect and promote the economic vitality and integrity of its members and the United States financial system. Roundtable member companies provide fuel for America's economic engine, accounting directly for $92.7 trillion in managed assets, $1.2 trillion in revenue, and 2.3 million jobs.

More information about the Roundtable and its research can be accessed at www.fsround.org. If you have questions, please contact Abby McCloskey, Director of Research at the Financial Services Roundtable, at abby@fsround.org.

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