

# National Mortgage News

## Allison Would Bring Deregulatory Fervor to Trump's Treasury

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"The best strategy would be to simply announce that in one year, Freddie, Fannie and the FHA will quit making home mortgage loans," wrote John Allison, the former head of BB&T and a rumored candidate for Treasury Secretary.

If President-elect Donald Trump selects former banker and libertarian John Allison as his Treasury secretary, it's a clear indication that he intends to drastically deregulate the financial services industry.

Allison is a staunch opponent of the Federal Reserve Board, the Basel international accords, the government's support of the housing finance industry and the Dodd-Frank Act of 2010.

The former head of the Cato Institute has suggested that federal deposit insurance should be eliminated or curtailed, and that Fannie Mae and Freddie Mac caused the financial crisis along with the actions of the Federal Reserve.

"I am absolutely certain that the policies of the Federal Reserve, both the monetary policies and regulatory policies, were major contributors to the recent crisis," said Allison in July while testifying before the House Financial Services Committee.

Whether Allison will get the job is still unclear. He met with Trump on Monday, and there are several other candidates still in the running, including House Financial Services Committee Chairman Jeb Hensarling.

But Allison would come to the job with an impressive resume, one that would reassure many bankers who feel they have been abandoned or misunderstood by Washington.

The 68-year-old was chairman and chief executive officer of BB&T from 1989 to 2008 and grew the bank from \$5 billion to \$152 billion in assets despite pulling back on merger and acquisition activity in 2003. He became president and CEO of the Cato Institute, a libertarian think tank in 2012 and stepped down three years later. He is now on the board of directors and chairman of the Executive Advisory Council at the Cato Institute's Center for Monetary and Financial Alternatives and has authored two books on free-market philosophies.

He has been outspoken that regulatory policies have been counterproductive for the economy, frequently contributing to American Banker's BankThink page on the subject. While rejecting Basel III's complicated capital regime, he has favored higher capital requirements for certain institutions, saying they should equal 20% of shareholders' equity in relation to risk-weighted assets.

"That stance aligns him with...Hensarling," wrote Ian Katz, a director at Capital Alpha Partners in a recent note to clients while pointing out that the Texas Republican has introduced legislation that would allow banks with a simple leverage ratio of at least 10% to opt-out of certain Dodd-Frank requirements.

However, while Allison's deregulatory stance would be welcomed by the industry, Katz said "banks, particularly large ones, have been unenthusiastic about the tradeoff of higher capital in exchange for much less regulation. They would push back hard if a proposal along those lines advances in Congress."

Mark Calabria, director of financial regulation studies at the Cato Institute said that while dismantling Dodd-Frank "will be high on [Allison's] list...his concerns about financial regulation certainly pre-date Dodd-Frank."

He "also cares a lot about the budget issues and our long term fiscal imbalances," Calabria said, noting that tax reform will be one of Trump's top priorities.

Allison aligns with Trump in some key respects. During the campaign, Trump repeatedly claimed the Fed was propping up the economy to help President Obama. Allison has also criticized the Fed as a "political institution."

But Allison has espoused even more controversial views as well. For one, he has suggested eliminating federal deposit insurance because it "destroys market discipline." He wants to create a private insurance pool, a position that is unpopular with many community banks — who have generally favored increasing deposit insurance levels — and consumers.

Allison also said in an interview for The Federalist Society - a conservative nonprofit group — that he would get rid of the Consumer Financial Protection Bureau.

"The agency has not protected consumers, in fact the outcome has been the exactly the opposite — particularly for low income consumers," said Allison. "Through their rulings and related regulations they have made it more difficult for low end consumers to get credit. I hope that we will have an opportunity to roll back the consumer protection agency. I think that could be included in legislation to significantly amend Dodd-Frank which I believe has been very destructive for the economy."

Additionally, Allison has been a critic of Securities and Exchange Commission fair-value accounting rules and in an interview with American Banker in 2009 said, "Personally, I would just get rid of it tomorrow."

He views the Community Reinvestment Act and the government-sponsored enterprises as the primary causes of the financial crisis — a popular idea within conservative circles that has been challenged elsewhere.

If nominated and confirmed as Treasury secretary, Allison would play a key role in deciding the fate of Fannie and Freddie, which were seized by the government in 2008. He's already outlined a solution, one likely to roil the mortgage markets at least temporarily.

"The best strategy would be to simply announce that in one year, Freddie, Fannie, and the FHA will quit making home mortgage loans," wrote Allison in an American Banker op-ed. "Market participants will quickly fill the home finance gap. Financing homes is an excellent business."

He warned that the GSEs are "are taking risks that market participants will not take" and that "we might get lucky, but these are not risks that a rational investor would take."

Such a view stands on the far right of possible solutions to the GSE issue. Even many fellow Republicans are likely to balk at total privatization of Fannie and Freddie, fearing that doing so would eliminate the 30 year fixed-rate mortgage. The National Association of Home Builders and National Association of Realtors, both powerful organizations that hold sway with Republicans, have opposed privatization plans in the past.

Allison has also criticized the international Basel accords, though his views on that are more solidly in line with other Republicans.

"What we don't want is systematized risk, forcing everybody to the same standards, which is what a Basel does, forcing everybody to take the same risks, which is what affordable housing does, is when you get systematic problems instead of individual failures," he said in the July hearing.

Overall, Allison has pledged to take a complete look at the current regulatory system, examining regulations that can be eliminated to help spur economic growth.

"If I were in charge, I would go across the whole spectrum," Allison said in July. "I think a lot of regulations are counterproductive for the economy and counterproductive for the people they're supposed to help."