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Romney’s Dodd-Frank Kill Pledge Collides With Wall Street Agenda

Phil Mattingly | August 29, 2012

Mitt Romney has pledged to repeal the Dodd-Frank Act. He won’t, and that’s just fine with Wall Street.

Instead, Romney may give the financial industry something it wants more: a revamped Dodd-Frank that would accommodate some of the most profitable and riskiest activities while preserving a patina of protection for investors and consumers.

“There’s this perception that banks hate everything in Dodd-Frank, and that’s just not true,” said Mark Calabria, a former top Republican aide on the Senate Banking Committee. “From a bank’s perspective, you’d rather have piecemeal reform of Dodd-Frank, not only because there are things in the law you want to keep, but also because you’re going to have more control over the process.”

Congressional Republicans have already laid out the roadmap.

“With Dodd-Frank, it’s not going to be repeal,” said Representative Scott Garrett, a senior Republican member of the House Financial Services Committee. “There might be repeals of sections, but there will be a piece-by-piece analysis. We’ll throw out some and reform others.”

U.S. bank executives have made no secret of their dislike of parts of President Barack Obama’s 2010 financial-regulatory overhaul. Yet those same bankers, including Goldman Sachs Group Inc. (GS)’s Lloyd Blankfein and JPMorgan Chase & Co. (JPM)’s Jamie Dimon pledged broad support for the law, leaving their lobbyists and lawyers to fight behind the scenes for revisions that may save millions, if not billions, of dollars for their companies.

‘Too Far’

“If I could push a button and eliminate Dodd-Frank would I do it? No, I would not,” Blankfein, the chief executive officer of Goldman Sachs, said in a July appearance before the Economic Club of Washington. Still, he said, there are “some parts that go too far.”

The sentiments of CEOs such as Blankfein and the political realities of Washington mean that Romney would have an easier path winning revisions than repeal.

The architecture that Wall Street wants has emerged in House and Senate hearings and proposed bills over the past two years. It includes loosening rules governing the swaps market, an area where U.S. banks reported $7 billion in revenue in the first quarter of 2012, according to the Office of the Comptroller of the Currency. Restrictions on bank investment in private equity and hedge funds, as well as their ability to trade for their own account, also have been targeted.

Change That Matters

For banks spending billions of dollars to comply with the rules dictated by the 2,300-page law -- and millions on lobbying to alter it -- these are the changes that really matter.

Romney and congressional Republicans argue that the new regulations have weakened the economic recovery, in part because banks must focus resources on compliance instead of lending that money. With hundreds of rules touching everything from mortgage underwriting to proprietary trading, revisions to the law present an opportunity to streamline or eliminate provisions that may reduce the annual pretax revenue of the largest eight banks, including Bank of America Corp. and Wells Fargo & Co. (WFC), by as much as $34 billion, according to Matthew Albrecht, a credit analyst with Standard & Poor's.

Glenn Hubbard, an economic adviser to the Romney campaign, said in an Aug. 1 Wall Street Journal editorial that Romney would "work with Congress toward repealing and replacing the costly and burdensome Dodd-Frank legislation." Cost-benefit analysis -- a fixture of congressional Republican proposals aimed at Dodd-Frank -- would be the Romney approach, he wrote.

Swaps Market

House and Senate Republicans have drafted dozens of changes to the law, which was put into place in the wake of the worst financial crisis since the Great Depression. Revised rules for governing the $648 trillion swaps market have been passed by the House, along with restrictions on the new Consumer Financial Protection Bureau.

Romney's public comments track closely with the congressional Republicans' yet have lacked detail. Until he comes forward with his plans, bank executives who assume they'll get their wish lists are making a "roll of the dice," said Calabria, now director of financial-regulation studies at the Cato Institute in Washington.

Calabria pointed to Republicans who have called for breaking up the largest banks or cutting back on parts of the law that give a funding edge to Wall Street firms. It's "not necessarily always something bankers want," he said.

Volcker Rule

The provisions that banks and their lobbyists have said go too far, such as bans or limits on trading activities including the so-called Volcker rule that bars banks from trading for their own account, have been specifically targeted by Republicans, who almost unanimously opposed the law in 2010.

The hit list also includes the consumer bureau, a regulator whose potential independence and power drew opposition as Dodd- Frank was being drafted from an array of interests, from the U.S. Chamber of Commerce to Dimon, JPMorgan's chairman and chief executive officer. Dimon, in a 2011 letter to shareholders, said the bureau, which is housed within the Federal Reserve but maintains its independence, needed to be "effective for both consumers and banks."

Representative Kevin McCarthy of California, the third- ranking Republican in the House, says a Romney administration will tip the balance for several House-passed bills that have been stalled by the Democratic-led Senate.

Seeing Progress

"A Romney administration will provide the opportunity for Congress to make progress with financial-services regulatory reform," McCarthy said. "Senate Majority Leader Reid refuses to work with us in order to enhance the safety and soundness of our financial system."

The stakes for the securities and investment firms and commercial banks far exceed the money they've given toward electing Romney, almost $13 million, according to the Center for Responsive Politics. Of the 10 companies whose employees gave the most money to Romney's joint fundraising committee with the Republican National Committee, nine are Wall Street firms, according to a computer-assisted analysis by Bloomberg of Federal Election Commission data.

The eight largest banks stand to lose between $22 billion and $34 billion in pretax revenue annually as a result of the new law, according to Albrecht, the S&P analyst. The numbers, released in August, are an increase from the $19.5 billion to $26 billion initially projected by S&P.

Proprietary Trading

The "bulk of the higher projected costs" come from the Volcker rule, S&P said, citing the ban on proprietary trading that elicited more than 17,000 comment letters last year. The rule, which hasn't been finalized by regulators, has the potential to increase the cost of borrowing for companies as it reduces liquidity in bond markets, according to Republicans.

The Dodd-Frank opponents say the Volcker Rule restricts an activity that had little to do with the financial crisis. New rules in the swaps market exposing commercial companies to extra collateral demands and allowing U.S. regulators to oversee activities in foreign jurisdictions have also drawn opposition from Republicans.

Many of the changes proposed by Republicans, though stalled in the Senate, have also received support in the House from Democrats. Lobbyists and analysts point to next year as a real opportunity.

Obama has touted the law as a necessary check on Wall Street excess, needed to protect homeowners and investors from a repeat of the failings that led up to the financial crisis.

Still Reeling

Many investors and consumers are still reeling in the wake of the near-collapse of the U.S. financial system.

The U.S. unemployment rate has stayed above 8 percent for more than 40 months and there have been 3.7 million completed foreclosures since September 2008, the peak of the financial crisis, according to data provider CoreLogic Inc. More than 11 million homeowners now owe more on their houses than they are worth and people have struggled to take advantage of interest rates that are at historic lows.

The public's struggle is one reason wholesale repeal would be politically difficult. In the Senate especially, the rules make it much easier to block a bill than to pass one. Even if the Republicans were to gain a majority there in November, Democrats might have enough seats to sustain a filibuster to kill a repeal measure -- or even one that swings too far over toward Wall Street.

Still, if Romney wins, he'd have no shortage of allies on Capitol Hill. Plans are taking shape.

Piece by Piece

Senator Richard Shelby, the top Republican on the Senate Banking Committee, gave a speech in July outlining what he would do if he took the gavel in a Republican-led Senate in 2013.

Romney's comments don't rule out an option less than full appeal.

“I’d like to get rid of Dodd-Frank and go back and look at regulation piece by piece,” Romney told the guests at a London fundraiser last month. “I very much believe in updated regulation, but I believe Dodd-Frank has gone beyond what was appropriate for the sector.”

Representative Barney Frank, the Massachusetts Democrat who co-authored the law, had a simple response when asked what a Romney administration would mean for the law: “It would be the death of it,” he said.

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