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Unpredictable Trump Presents Challenge for Banks

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Donald Trump's decisive victory in the Indiana primary late Tuesday has cleared the path for him to become the Republican nominee for president – but hasn't cleared up the lingering doubts many bankers have about the real estate magnate.

Just six months out from the general election, Trump's positions on banking issues remain a complete mystery aside from a general pledge to roll back the Dodd-Frank Act. Indeed, Trump's campaign has avoided giving specifics on most issues, even when they've promised to provide them. Take, for example, Trump's much-hyped speech on foreign policy last week, in which his message simply boiled down to putting "America first."

"That was billed as a major foreign policy address and probably something he has given significant more thought to than to banking regulation and there is still nothing there," said Brian Gardner an analyst at Keefe, Bruyette & Woods. "It was a vacuous statement, some large guiding principles but no meat on the bones for what it means for U.S. foreign policy."

Dennis Kelleher, president and chief executive of the public interest group Better Markets, was more critical of Trump, saying "he apparently thinks slogans are policy."

He warned bankers that supporting Trump could backfire.

"The banking industry and the finance industry frankly need predictability within a certain reasonable range, and that is exactly what no one is going to get from Donald Trump. In fact, Trump prides himself on not being predictable and not being specific," Kelleher said.

To be sure, many bankers – traditionally a Republican lot – will not care that Trump's positions remain unknown. For them, the Dodd-Frank Act was a destructive law that threatens the entire industry. They will support any candidate willing to target it.

"Even though Trump carries tremendous controversy and everything else, the unknown is better than the known on the Democratic side," Albert "Kell" Kelly, chairman of the \$650 million-asset SpiritBank in Tulsa, Okla., said in an interview last month. "I want a president that is going to do anything" that would reduce regulation "and I'll take a chance on Genghis Khan right now if he comes out on the Republican side."

Yet that view is far from universal. Speaking off the record, several prominent Republican bankers have expressed significant concerns with Trump. While they say they wouldn't vote for

his expected rival, former Secretary of State Hillary Clinton, she would at least be stable and predictable.

“Even for critics among bank investors and the banking community critics of Hillary Clinton, I think they take comfort in the familiarity,” Gardner said.

Adding to those anxieties are what few specifics Trump has given on other issues. For example, he has said that he will cut off remittances to Mexico in order to get them to pay for his proposed wall – a move that would use banks as a tool of foreign policy.

And while Trump has said he wants to repeal and replace Dodd-Frank, it’s not clear what he would replace it with.

“It is hard to understand how you could create more uncertainty than repealing Dodd-Frank right now when it is close to fully implemented if you don’t have a viable replacement in mind,” said Justin Schardin, acting director of Bipartisan Policy Center’s Financial Regulatory Reform Initiative.

Moreover, Trump’s proposed trade war with China and other countries may endanger progress in other areas, including cross-border resolutions.

“What is he going to do on ‘too big to fail’? What is he going to do on cross-border resolutions?” Gardner said. “I feel pretty comfortable he has not given it much thought.”

Trump’s lack of concrete positions – like much of the rest of his campaign – is unprecedented. In the past two presidential elections, both Mitt Romney and John McCain outlined specific views on banking policies in response to the financial crisis (as did their opponent, Barack Obama).

All three candidates also had a clear stable of advisers they turned to, enabling bankers to gain insight into who they would pick for key government jobs if elected.

But Trump’s personnel picks are just as much of a mystery as everything else about his views.

Trump “could throw the rulebook out and put people in there who we have never heard of and have no experience in any of these issues,” said Mark Calabria, director of financial regulation studies at the Cato Institute. “That is a possibility.”

Overall, Gardner said the industry may grow more anxious as the election process continues if Trump does not provide more specifics.

“It is just generally negative for the sector because of a lack of familiarity, a lack of specifics and a lack of comfort in what actions he may or may not take,” he said.