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Shelby Issues Dodd-Frank Revamp With Tough Road to Enactment

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The head of the Senate Banking Committee unveiled his long-awaited bill to toughen oversight of the Federal Reserve and ease the regulatory burden on dozens of banks, setting off what could be intense negotiations with Democrats.

In legislation that Senator Richard Shelby calls a "work in progress," he laid out ideas to make the Fed disclose more information to Congress about its monetary-policy decisions and free some lenders from stringent capital requirements. While the bill is unlikely to win broad support in its current form, many of the proposals could intrigue Democrats who've backed some of the ideas in the past.

The bill would mark the biggest revamp of the Dodd-Frank Act since its 2010 enactment and is also Shelby's signature legislative effort this year. Getting it through Congress will set the tone for the remainder of his chairmanship, giving the Alabama Republican an incentive to work with Sherrod Brown, the ranking Democrat on the banking panel, analysts said.

'Fairly Aggressive'

The legislation's starting point is "fairly aggressive," said Mark Calabria, who used to work under Shelby and is now director of financial regulation studies at the Cato Institute. Shelby "understands that he's not going to get everything he wants," he added.

The bill could free regional banks with less than $500 billion of assets, including US Bancorp, SunTrust Banks Inc., and PNC Financial Services Group Inc., from the most aggressive oversight established under Dodd-Frank. A council of financial regulators would still get to decide whether lenders with assets between $50 billion and $500 billion deserve tough scrutiny and should hold substantial capital cushions.

The measure would have to change to win the backing of Brown, who in a statement called Shelby's proposals "a sprawling, industry wish list of Dodd-Frank rollbacks."

In an interview, Brown later said there's bi-partisan support for easing rules for small, community lenders. He also said he's willing to discuss reforming the Fed and whether the threshold for deeming banks systemically important should be raised above $50 billion of assets.

Mortgage Relief

Another Shelby proposal is giving banks a break from what's known as the qualified-mortgage rule by letting lenders get out of tough Dodd-Frank underwriting requirements when they keep a home loan on their books.

His legislation would let the wider governing bodies of U.S. financial agencies attend meetings of the Financial Stability Oversight Council, a panel of regulators charged with monitoring the biggest risks to the financial system. The change would allow commissioners and board members to keep tabs on the group's actions.

Shelby's bill would also demand more transparency when the FSOC decides whether to designate financial firms as systemically important, a process that has drawn criticism from Republican lawmakers and prompted insurer MetLife Inc. to sue the government.

The Fed provisions would set up a commission to make recommendations on restructuring the central bank, and make the president of the New York Fed a presidential appointment that's subject to Senate confirmation. Republicans and Democrats have complained that the New York Fed has too much power as the examiner of big Wall Street banks and lacks congressional oversight.

'Discussion Draft'

The legislation also includes a demand for quarterly reports about the considerations of the Federal Open Market Committee, disclosing more about the group's strategies and findings. It would shorten the waiting time to three years for full transcripts of the meetings.

"This discussion draft is a working document intended to initiate a conversation with all members of the committee who are interested in reaching a bipartisan agreement to improve access to credit and to reduce the level of risk in our financial system," Shelby, who has scheduled a May 21 banking committee meeting to discuss the legislation, said in a statement.

Aides to Shelby said evidence that they want to cooperate with Democrats exists in what's not in the bill, including any effort to rein in the Consumer Financial Protection Bureau or subject the Fed to audits of its monetary policy decisions. The CFBP, a signature achievement of populist Democratic Senator Elizabeth Warren, has been the focus of intense bank lobbying.