POLITICO

Trump's victory sparks bankers' hopes for new deal

Financial institutions have faced a stream of regulations since the 2008 financial crisis.

Victoria Guida and Zachary Warmbrodt

November 10, 2016

In the wake of Donald Trump's stunning presidential win, banks are working on a game plan to confront an entirely new reality: They might actually get their way.

While Trump bashed Wall Street throughout the campaign, the financial services industry is hoping his victory, coupled with a GOP-led Congress, could open a path forward to easing regulations.

"To say the world has changed is an understatement," one bank lobbyist said. "The defensive issues we were concerned about we can be less concerned about. And we can start thinking about, to some degree, an affirmative agenda. ... We didn't have a plan B, so now everyone's got to come up with a plan B."

Financial institutions have faced a stream of regulations since the 2008 financial crisis, from increased capital and liquidity standards, to proposed crackdowns on incentive pay for bank executives. Now, any rules that aren't finalized before the Obama administration leaves office could land in the lap of Trump-appointed regulators with very different ideas about supervision.

One area where Trump could have the biggest impact is on the CFPB, the agency set up by Sen. Elizabeth Warren (D-Mass.) that has become a lightning rod for Republican criticism.

The transition may jeopardize CFPB regulations aimed at curbing payday lending and the mandatory arbitration clauses that prevent consumers from taking companies to court. Both rules won't be finalized until at least next year, well after the new administration takes over.

Another influential post that Trump will have to fill is at the Federal Reserve, where the role of vice chairman of banking supervision has been unfilled since its creation in the 2010 Dodd-Frank law.

Given the potential for Trump-appointed regulators to change course, current officials at the Fed and other bank regulators will try "to get as many of the rules in place so that a Trump administration has to go to the trouble of dismantling them rather than simply not doing them," said Karen Shaw Petrou, a managing partner at Federal Financial Analytics.

Insurance companies are also expecting to benefit from the changing tide on financial regulation. Key players in the industry have spent years fending off increased federal and international intervention that's been under way since American International Group's near-collapse in 2008.

Trump would have the opportunity to appoint new members of the Financial Stability Oversight Council, including the Treasury secretary, who would serve as its chairman. FSOC is fighting in court to defend its designation of life insurer MetLife as "systemically important." And next year, members of the council would have the ability to reconsider the designations of AIG and Prudential Financial.

At the same time, insurers see a potential boost in their efforts to push back against international regulatory standard-setting for their industry, which in this country is largely regulated by the states.

“The winds of international standards and regulations being forced on American consumers and insurers came to an end last night," Nathaniel Wienecke, senior vice president for federal government relations at the Property Casualty Insurers Association of America, said. "This is a good day for private competitive insurance markets."

On the legislative side, small and regional banks, as well as credit unions, are well-positioned to see some regulatory relief, with political support from Republicans and moderate Democrats.

Regional banks in particular have seen a change to their calculus. A coalition of regional lenders and credit card companies has been lobbying Congress to overhaul a section of Dodd-Frank that requires banks with more than $50 billion in assets to be subject to so-called enhanced prudential standards.

“Dodd-Frank reform will certainly get a boost in a Trump administration," said Regional Bank Coalition spokesman Matt Well. “And the need to tailor rules based on a holistic set of risk factors for regional banks will likely be near the top of the list, given the Trump team's focus on moving the Main Street economy and the fact it is one of the only reforms to the law that has previously garnered bipartisan support."

And while the biggest banks aren't expecting the same degree of legislative carve-outs as their smaller competitors, they could benefit from friendlier relationships between Republican leaders in Congress and agency officials appointed by Trump.

Some Republicans see the election results giving a boost to House Financial Services Chairman Jeb Hensarling's Financial CHOICE Act, which would repeal and replace parts of Dodd-Frank. While the bill is still unlikely to pass in a closely divided Senate, it could carry some additional weight in the next Congress. Hensarling is close with Vice President-elect Mike Pence.

"Whether it's true or not, Republicans will talk as if they have a mandate here," Cato Institute Director of Financial Regulation Studies Mark Calabria said.

In the coming days, Republicans will need to decide whether to try to pursue any legislative changes in cooperation with Democrats during the lame-duck session of Congress, and how aggressive they want to be next year.

“Republicans have to be very thoughtful in approaching financial legislation and regulation in the next 200 days and be careful not to overreach," one GOP aide said. "You can make some very meaningful, very strong structural changes that are lasting with Democrats' support. But if you overreach you might not get anything."

Still, it’s unclear how Trump would square his populist rhetoric with the free market leanings of the broader Republican Party.

The people leading Trump’s transition efforts indicate friendliness toward Wall Street and other financial firms, including his selection of former SEC Commissioner Paul Atkins to help fill posts at independent financial agencies. Atkins has said "one could write a book about the various problems with the statutory text and implementation" of Dodd-Frank. He is the chief executive of Patomak Global Partners, a financial services consulting firm staffed with former regulators.

David Malpass, who founded consulting firm Encima Global and served as chief economist at investment bank Bear Stearns, is heading the Treasury transition team. He’s a veteran of the Treasury and State departments under Presidents Ronald Reagan and George H.W. Bush.

Warren on Thursday threatened to fight the president-elect and Republicans "every step of the way" if they deregulate big banks and financial institutions.

One progressive group said Trump was sending mixed signals about where he stands on the financial industry.

"There is an inherent contradiction between Donald Trump's anti-Wall Street rhetoric and talk of 'draining the swamp' to make the government work for the people, and his possible Wall Street appointments to run big government agencies that regulate the financial sector to protect regular Americans," said Lisa Gilbert, director of Public Citizen's Congress Watch division. "We hope that he will make good on his promises to free government from corrupting corporate influences."

Marcus Stanley, policy director at Americans for Financial Reform, said he expected to play defense on some issues but hoped that the populist pitch made by Trump during the election "wasn't just rhetoric that gets forgotten when you come to DC."

Dennis Kelleher, president and CEO of Wall Street watchdog group Better Markets, said it was “premature to think he's going to all of a sudden become a friend of Wall Street."

"The Tea Party, when they first came to power, they said a lot of things that were very populist, and there was a lot of hope there would be intersections between that and people on the other side in the Occupy movement," Gilbert said.

"It's always a possibility if people really mean what they've been saying. There could be interesting alliances and policy synergies, but we don't know right now how much of that was just rhetoric to tap into the anger people have."