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Dodd-Frank law: Regulations won't fix what's wrong

By Mark A. Calabria

The new Consumer Financial Protection Bureau in many ways exemplifies the problem with the Dodd-Frank financial reform: It ignores the underlying causes of the financial crisis while pursuing an unrelated partisan agenda.

Advocates of the new agency argue that regulators put too much emphasis on banks' safety and soundness at the expense of consumer protection, so the two functions had to be separated. But after more than 300 bank failures and trillions of dollars of assistance to the financial sector, it would seem there was not *enough* emphasis on safety and soundness.

The crisis was not caused by failures of consumer protection. It was caused by a housing bubble driven by easy credit. Under the guise of consumer protection, bank regulators spent much of the last decade urging banks to expand mortgage credit. Researchers such as Jeff Gunther of the Dallas Federal Reserve have found that the banks that did so became less sound.

Separating soundness from consumer protection has been tried with Fannie Mae and Freddie Mac. From 1992 to 2008, the Department of Housing and Urban Development enforced their housing goals, while the Office of Federal Housing Enterprise Oversight monitored their financial health. Unsurprisingly, HUD pushed Fannie and Freddie to take on ever more unsafe risk. The result has been a taxpayer-funded bailout that will cost hundreds of billions.

Even outgoing Rep. Barney Frank recognized the dangers of separating these functions. In 2008, he wrote legislation that combined them under a single new regulator for Fannie and Freddie. Oddly enough, Frank (D., Mass.) now argues that these functions must be separated for banks.

This is in keeping with the special treatment Fannie and Freddie always seem to receive. Despite the purported benefits of the consumer protection agency, Fannie and Freddie are explicitly exempt from its oversight. So is Wall Street, whose oversight stays with the unreliable Securities and Exchange Commission. And so are all the cheerleaders of the housing bubble, the real estate agents and builders who touted housing as a bulletproof investment.

In other words, almost everyone who had anything to do with the financial crisis is not affected by the new agency. It's as if Congress sold exemptions to the highest bidders.

In fact, the intent of the agency is not to prevent future financial crises or protect taxpayers, but to extend the reach of trial lawyers and regulators to financial products offered by non-banks, such as check cashers and payday lenders. And whatever your opinion of such companies, we can agree they weren't behind the financial crisis. Furthermore, they are already subject to regulation by the Federal Trade Commission.

Unfortunately, the new agency is a distraction from the real flaws of our financial system. Instead of increasing so-called consumer protection, Congress should have prohibited the government from pushing risky lending and reined in the easy-money Fed policies that inflated the housing bubble. That would help correct the problems Dodd-Frank ignores.

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