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U.S. Senate Committee on Banking, Housing, and Urban Affairs
534 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Crapo, Ranking Member Brown, and Members of the Committee,

I am writing to share my views on the *Economic Growth, Regulatory Relief and Consumer Protection Act*, S 2155. While I believe that legislative revisions and initiatives are appropriate, from time to time, to stay abreast of an ever-changing world of finance and technology, or to lessen compliance costs for community banks and credit unions, S 2155's regulatory relief does turn down the dial on some important provisions adopted after the financial crisis to better protect the public from systemic risks inherent in the financial sector.

Years in the making, the 2008 financial crisis exposed clear failings on Wall Street and in Washington. Policies and practices that allowed for, and sometimes encouraged, excessive risk-taking led to a near collapse of the financial system. Consumers were also too often victims of bad financial practices. As a result, millions of families lost their jobs or their homes. Many businesses failed. The overall economy lost trillions of dollars in wealth while government debt ballooned due to lost revenues and much needed stimulus.

In response, recalling lessons of earlier financial crises, Congress updated the rules of the road for consumer protection and the financial markets. This included vigorous debate on how best to readjust the balance of our laws to best promote innovation and investment while better protecting the public and the economy at large.

Proponents of reform said that new laws and regulations were needed both to better protect the public and to serve as a critical piece of revitalizing our economy through rebuilding confidence in the financial sector. Opposition to reform, though, centered around the opposite: that such efforts might significantly curtail economic activity, lending, and the health of the banking system without yielding real improvement in financial or consumer protection.

The result of these debates culminated in the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank) along with implementing regulations adopted by the federal financial and consumer regulatory agencies.

Seven years since the passage of major reforms, along with significant monetary policy easing and fiscal stimulus, credit is flowing, and the economy has significantly recovered. Corporate and industrial loans, as well as overall loans in the banking sector, have grown significantly since pre-crisis levels, 35% and 31% respectively. The financial system is back to pre-crisis levels of

activity, representing over 7% of gross domestic product, consistent with some other developed nations. Bank profits were at record levels in 2016 and, in the third quarter of 2017, banking industry's average return on assets was at a 10-year high.

In the wake of the crisis, financial reform has been one of the essential factors keeping a stable flow of credit to Main Street and providing the stabilization important to the improvement in the economy's overall performance. Subsequent to Dodd-Frank's passage, the United States economic growth has outpaced that of other advanced economies. And though many factors contribute to boosting job creation and wage growth for working families, the unemployment rate of 4.1% is the lowest in 17 years, and the stock market recently recorded all-time highs.

The recently enacted federal tax cut legislation is also anticipated to provide a significant boost to the finance and insurance industries. The *New York Times* and *Washington Post* have both reported on recent estimates that the new law represents a 35% tax cut for the industry, or a total of \$249 billion over the next 10 years.

Through Dodd-Frank and related reforms, much progress in strengthening the financial system and consumer protection has been made. Regulators have brought tougher capital and liquidity standards along with annual stress tests to large banks and requirements that they have credible plans for the wind-down of their affairs if they were to fail. Banks have been reoriented toward customers and Main Street by prohibiting proprietary trading. The swaps market, which was at the heart of the crisis, has been completely transformed, with bright lights of transparency and central clearing now shining on and lowering risk in the over \$300 trillion market. Regulators have taken significant steps to address the risks of potential runs on money market funds and created reporting requirements for hedge funds. Through a new council, the Financial Stability Oversight Council, regulators are collaborating with each other as a real deliberative body.

Further, consumers now have an agency – the Consumer Financial Protection Bureau – whose key mission is to make consumer financial markets work for consumers and to protect consumers from predatory lending practices and ensure they get a fair deal on financial products from mortgages to credit cards. This mission is not only good for consumers but also promotes safety and soundness and helps stabilize the real economy.

These new common-sense rules of the road have been truly transformative, helping stabilize the financial services sector and help it better serve the rest of the economy.

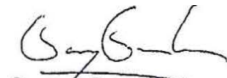
Policy making naturally relies on a series of tradeoffs and compromises. The community bank and regional bank relief in S 2155 comes along with some relief for the largest domestic and international banks. In raising the threshold from \$50 billion to \$250 billion in asset size for a bank to be considered subject to enhanced prudential standards, S 2155 eliminates the requirement for enhanced prudential standards, (other than stress tests) for 25 regional and super-regional banks. While many of the regional banks, and some of the super-regional banks, are not likely to be individually systemic, in aggregate they hold of over \$3.5 trillion in assets. History tells us that in a financial crisis that the risks within the banking sector are often correlated. S 2155 does represent, in aggregate, a dialing down of prudential oversight for about 20% of U.S. banking sector assets.

In particular, I draw attention to the possible effect of section 401 on foreign banks' U.S. Intermediate Holding Companies (IHCs). Some have read the current provision as possibly requiring the Federal Reserve to increase the threshold at which such IHCs are subject to enhanced prudential standards. Given the nature of our globally interconnected financial system, I think that it would be appropriate to clarify that section 401 does not give the Federal Reserve authority to raise the threshold on such IHC enhanced oversight if the total consolidated assets of such foreign bank are greater than \$250 billion.

In addition, section 401(a) in changing the word 'may' to 'shall' in Section 165(a)(2)(A) of Dodd-Frank, mandates that the Federal Reserve differentiate regulation for banks greater than \$250 billion in assets. Laws and regulations generally are better when they are applied consistently to similarly situated companies, fairly providing a level playing field of rules. While Dodd-Frank provided federal regulators flexibility, in certain circumstances, to deviate from a level playing field, mandating that they 'shall' differentiate may subject the government to additional lobbying and possible litigation from individual banks seeking specially tailored rules.

Lastly, section 107 would exempt retailers of manufactured housing and their employees from the definition of "mortgage originator." This repeal may leave people buying a manufactured home, often living on low or moderate incomes, subject to unfair or deceptive practices when being steered to affiliated lenders.

Thank you for considering these views as the Senate further debates S 2155.



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