STATEMENT

OF THE FINANCIAL SERVICES ROUNDTABLE

ON THE IMPACT OF DODD-FRANK

FOR SUBMISSION TO THE

COMMITTEE ON FINANCIAL SERVICES

UNITED STATES HOUSE OF REPRESENTATIVES

JULY 19, 2012

The Financial Services Roundtable ("the Roundtable") appreciates the opportunity to submit a statement to the House Financial Services Committee on the two-year anniversary of the Dodd-Frank Act ("the Act") and the impact of the Act on the industry and consumers. We thank you for holding these hearings, which could not come at a more critical time in our economic recovery.

The Roundtable represents 100 of the largest integrated financial services companies providing banking, insurance, and investment products and services to the American consumer. The mission of the Roundtable is to protect and promote the economic vitality and integrity of its members and the United States financial system. Roundtable member companies provide fuel for America's economic engine, accounting directly for $92.7 trillion in managed assets, $1.2 trillion in revenue, and 2.3 million jobs.

Our economic success as an industry is directly tied to our ability to effectively serve consumers; and the Act must be evaluated based on the degree that it helps or hinders our ability to provide this service. The Roundtable believes we must preserve those parts of the Dodd-Frank Act that make our system safer and stronger, while re-examining the provisions that restrict economic growth, limit credit, reduce consumer choice, and make U.S. companies less competitive.

Attached you will find a report on the state of the financial services industry, and a white paper summarizing the projected impact of financial regulatory reform on the economy, credit, international competiveness, and the cost of basic financial services.

The two-year anniversary of Dodd-Frank finds an industry that is safer and stronger, but a regulatory environment that is far from certain. With over 70% of the rules resulting from the Act yet to be finalized, we remain concerned about provisions that carry significant economic consequences for the industry and consumers.

The Roundtable very much appreciates the opportunity to submit this statement and supporting materials for the record, and we look forward to working with you as the committee continues to conduct its oversight of regulatory changes.

Best regards,

Steve Bartlett
President and CEO
The Financial Services Roundtable

THE FINANCIAL SERVICES ROUNDTABLE

Financing America's Economy

DODD-FRANK 2-YEAR ANNIVERSARY REPORT

State of the Financial Services Industry

July 21, 2012

Focus on fortress balance sheets; too big to fail;
the cumulative weight of new rules; and economic benefits of big banks

State of the Financial Services Industry

The two-year anniversary of the Dodd-Frank Act is marked by a safer and stronger financial services industry. Capital is at a record high, lending is at pre-crisis levels, and the number of "problem banks" is rapidly decreasing. The risk profiles of individual firms have been reduced and systemic risk oversight is in place for the first time in history.

These dramatic improvements are the result of industry initiative and financial regulatory reform. However, 70% of the rules resulting from the Dodd-Frank Act have yet to be finalized. Many of the expected provisions carry significant economic consequences for the industry, consumers, and the economy.

At this critical time in our nation's economic recovery, we must preserve those parts of the Dodd-Frank Act that make our system safer and stronger, while re-examining the provisions and combination of provisions that needlessly restrict economic growth, limit credit, result in higher costs and reduced access to services for consumers, and make U.S. companies less competitive.

Fortress Balance Sheets

Banks are much stronger today than they were *even before the 2008 crisis.* According to the Hamilton Financial Index released on July 16, 2012, bank safety and soundness is 22% above pre-crisis levels.

Bank capital is the highest in history. FDIC-insured banks hold $1.6 trillion in capital and set a record Tier 1 capital ratio (13.28%) in the first quarter of 2012. Insurance firms' capital and surplus have also grown to all-time highs, despite an increase in natural disasters in 2011.

Lending has risen to pre-crisis levels. Large banks with over $10 billion in assets increased their loans by $40 billion during the first quarter of 2012, and loan quality has improved across all loan categories and all bank sizes.

Net income has returned to pre-crisis levels. FDIC-insured commercial banks and savings institutions reported $35.3 billion in net income for first quarter 2012. This represents a $6.6 billion (22.9%) improvement over first quarter 2011 results.

Bank failures are at their lowest level in three years, and the number of "problem" institutions is now at its lowest level since 2008.

The improved health of the financial services industry is widely recognized. According to Federal Reserve Chairman Ben Bernanke, "Risk indicators present a picture of the banking system that has become healthier and more resilient." Presidential candidate

Mitt Romney echoed this sentiment, recently saying, “Our banks are on a much stronger basis than they were at the time of the last economic crisis, and they have built their capital base and their equity base and worked through a lot of their toxic assets.”

Systemic Risk & Too Big to Fail

The risk and impact of a financial services institution failing has been significantly reduced through industry improvements and financial regulatory reform.

Supervision of large financial services companies has increased dramatically. For example, large banks must submit detailed plans and stress tests to the Federal Reserve on an annual basis before they can pay out dividends to shareholders or make any other capital distributions. Additionally, the Dodd-Frank Act mandates that large banks conduct three stress tests each year and publicly disclose information about the results.

Systemic oversight is in place for the first time in history. The Financial Stability Oversight Council was created to monitor risk across the entire system, and identify and head-off emerging trends that could be a threat to financial stability.

In the unlikely event that a large financial company actually fails, the FDIC now has liquidation authority to swiftly isolate and resolve the firm. Large financial services companies must plan for their own failure and submit extensive resolution plans to the FDIC and Federal Reserve each year with an overview of how their institution would be resolved.

While there is no single definition of “too big to fail,” it is commonly used to describe a financial institution whose failure would destabilize the economy and thus require government intervention using taxpayer funds to keep it afloat. The improved health of financial institutions, increase in systemic risk oversight, and statutory protection of taxpayer dollars means that too big to fail is no longer a problem.

Cumulative Weight of Reform

According to Davis Polk’s Dodd-Frank progress report, 279 of 398 rules (70%) required by the Dodd-Frank Act have yet to be finalized as of July 2, 2012.

Many of these rules will dramatically alter the ways financial services firms do business, and the cumulative weight of hundreds of new rules promises to be significant for the U.S. economy. Consider these findings from recent studies:

- As the result of regulatory reform, U.S GDP is projected to be 2.7% lower than it would otherwise be by 2015, lending rates are projected to be 4.7% higher, and the U.S. is projected to lose 2.9 million jobs. **Institute for International Finance Report, September 2011.**

- The Volcker Rule is estimated to cost American businesses up to $315 billion, increase borrowing costs by up to $43 billion per year, and dramatically reduce liquidity. **Oliver Wyman Study, January 2012.**

- It is the risk that the Dodd-Frank apparatus will smother financial institutions in so much red tape that innovation is stifled and America's economy suffers. **The Economist, February 2012.**

- Free checking in the U.S. has declined by 40% <in large part due> to the Durbin amendment and overdraft rules. **Bankrate Survey, 2011.**

- Since passage, the Dodd-Frank Act has produced more than 52.7 million paperwork burden hours and imposed $7 billion in direct compliance costs. Based on calculations from The Financial Services Roundtable, Dodd-Frank regulations will require 26,352 employees to file federal paperwork. **American Action Forum, July 2012.**

The Financial Services Roundtable has cataloged over 125 independent studies and public statements about the economic impact of the Dodd-Frank Act, available at http://bit.ly/S5zbFF. These reports conclude that the cumulative weight of Dodd-Frank rules will restrict economic growth, restrict the availability of credit, increase the cost of financial services for consumers, and place U.S. financial institutions at a competitive disadvantage.

The costs of the Dodd-Frank Act are often weighed against the benefits of preventing the next crisis. But it is crucial to note that many of the most expensive provisions, such as the Durbin Amendment and Volcker Rule, had nothing to do with the crisis and will create a huge drag on the economy.

Going forward, it is crucial to minimize the negative economic consequences of the new rules and support the vital role that large financial services companies play in the U.S. economy.

Economic Benefits of Big Banks

Healthy, diversified, and large financial institutions are essential to the U.S. economy. Their provision for consumers, businesses, and global competitiveness cannot be understated and must be protected.

Large banks provide the vast majority of credit in the U.S. economy – schools, hospitals, small businesses, and personal expenditures. According to FDIC data, banks with more than $10 billion in assets finance 40% of small business loans, extend 85% of consumer credit, and manage 70% of home loans.

Large financial institutions are uniquely positioned to support global companies, such as Apple (valued at $324 billion) and Exxon Mobil (valued at $415 billion), by providing them with access to capital markets, cash management, credit, foreign exchange, risk management products, trade payments, investment products, and other critical financial services.

Large financial institutions drive much of the innovation in the industry such as online banking and mobile banking, have advanced payments and clearing technologies, and are recognized leaders across all industries in cybersecurity.

Banks have grown proportionately to support the needs of the U.S. economy. Over the past 20 years, U.S. bank assets have grown 237%, mirroring the percentage increases in U.S. exports (243%) and the S&P (292%), according to data from Bloomberg, the Federal Reserve, and U.S. Census.

A study undertaken by The Clearing House concludes that the unique benefits large U.S. banks provide to companies, consumers, and governments total $50 billion to $100 billion annually.

Conclusion

The financial services industry has come a long way since 2008. Sweeping legislative, regulatory, and industry changes, have made the industry safer and stronger. The industry remains committed to customers and communities and is helping to fuel the economy through lending.

In the next 12 months, hundreds of additional Dodd-Frank rules are scheduled to be finalized. These new rules will be issued in a hyper-charged political environment, with the Presidential and Congressional elections taking place in November, the fiscal cliff approaching at the end of 2012, and what is shaping up to be relatively tepid economic growth for the rest of the year.

It is essential to set aside political rhetoric and issue new rules prudently, supporting the parts of the Dodd-Frank Act that make financial services industry safer and stronger, while re-examining the provisions and combination of provisions that are needlessly detrimental to consumers, economy, and America's financial services industry.

About the Roundtable

The Financial Services Roundtable represents 100 of the largest integrated financial services companies providing banking, insurance, and investment products and services to the American consumer. The mission of The Financial Services Roundtable is to protect and promote the economic vitality and integrity of its members and the United States financial system. Roundtable member companies provide fuel for America's economic engine, accounting directly for $92.7 trillion in managed assets, $1.2 trillion in revenue, and 2.3 million jobs.

For more information about the Roundtable's Dodd-Frank research, visit http://www.fsround.org/fsr/publications_and_research/cumulative-weight.asp

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THE FINANCIAL SERVICES ROUNDTABLE
Financing America's Economy

Economic Impact of the Dodd-Frank Act

June 2012

Reports and public statements about the impact of financial regulatory reform on the economy, credit, consumers, and the industry, assorted by

The Financial Services Roundtable

Economist, "The Dodd-Frank Act: Too Big to Fail," February 18, 2012

Economic Impact of the Dodd-Frank Act

The health of the financial services industry has improved dramatically in recent months. Capital is at a record high, lending is at pre-crisis levels, and large financial companies are solvent and strong.

These changes have occurred despite only 30% of Dodd-Frank rules being finalized.

However, if requirements are carried too far, adverse economic consequences will far outweigh the benefits. Current cost estimates include:

- **By 2015, U.S GDP is projected to be 2.7% lower than it would otherwise be** <as a result of regulatory reform>, or 5.2% lower if reform is implemented rapidly. *Institute for International Finance Report,* September 6, 2011.

- **The Volcker Rule will cost American businesses up to $315 billion**, increase borrowing costs by up to $43 billion per year, and dramatically reduce liquidity. *Oliver Wyman Study*, January 2012.

- **Free checking has declined by 40%** as a result of the Durbin amendment and overdraft rules. *Roundtable Fast Facts: Decline of Free Checking,* June 1, 2012.

- **Dodd-Frank compliance costs for the industry are projected to be $7,092,471,000 each year according to Federal Register cost estimates.**

The Financial Services Roundtable has developed a public database of *over 125 independent studies and reports showing how the cumulative weight of new rules will negatively impact the economic recovery and industry.* The database can be accessed on the Roundtable,'s website, www.fsround.org. [1]

Last August, the Roundtable published a white paper based on these studies, entitled, "Cumulative Weight." The paper examined the projected impact of financial regulatory reform on the economy, credit, international competiveness, and cost of basic financial services. The paper, which included an overview of the Dodd-Frank Act, is also hosted on the Roundtable's website.[2]

Since that time, dozens of new reports have been released on the economic impact of Dodd-Frank. What follows is a collection of updated studies and reports, from September 2011 through June 2012.

Impact on the Economy

U.S. GDP is projected to be 2.7% lower than it would otherwise be as a result of regulatory reform, according to the Institute for International Finance

- The Volcker Rule will raise energy prices and reduce energy investment, resulting in 200,000 lost jobs. If the Volcker Rule is implemented, electricity costs will increase by $5.3 billion per year; gasoline prices will increase by $2 billion per year; natural gas investment will be reduced by $7.5 billion and ; two East Coast refineries will close. ***I.H.S. Study,*** March 2012.

- It is the risk that the Dodd-Frank apparatus will smother financial institutions in so much red tape that innovation is stifled and America's economy suffers. ***The Economist*****,** February 18, 2012.

- Dodd-Frank is the thing that is most harming the economy right now. Big business can deal with regulatory uncertainty, but it makes small businesses reluctant to take on risk and expand their operations. ***Todd Zywicki, Mercatus Center at George Mason University,*** September 21, 2011.

- By 2015, U.S GDP is projected to be 2.7% lower than it would otherwise be <as a result of regulatory reform>, or 5.2% lower if reform is implemented rapidly. ***Institute for International Finance Report,*** September 6, 2011.

[1] http://www.fsround.org/fsr/publications_and_research/cumulative-weight.asp
[2] http://www.fsround.org/fsr/publications_and_research/files/CUMULATIVEWEIGHTWHITEPAPER.pdf

- By 2015, 2.9 million jobs are projected to be lost in the U.S. <as a result of regulatory reform>, or 5.8 million jobs if reform is implemented rapidly. ***Institute for International Finance Report,*** September 6, 2011.

- Complexity risk - the burden on financial institutions and regulators of complex, cross-cutting and incomprehensible rules may now be the most significant impediment to financial-market recovery and robust economic growth. ***Karen Petrou, Federal Financial Analytics, Inc.*** November 2011.

Impact on Credit

> *The Volcker Rule will increase borrowing costs by up to $43 billion per year, according to an Oliver Wyman Study.*

- Based on responses from 75 financial institutions in 38 countries, 40% of banks expect to raise the price they charge companies for loans by between half and a full percentage point, while a further 26% expect to raise the price of loans by more than that <as a direct result of Basel III>. ***Institute for International Finance.*** June 21, 2012

- The Dodd-Frank Act "was a major overreach that has created uncertainty throughout the economy and threatens to make credit for consumers and businesses more expensive and less available" said ***Senator Bob Corker of Tennessee***, May 7, 2012.

- The [Volcker Rule of the Dodd-Frank Act] would result in a decrease in liquidity and increase in price instability in many markets in the U.S., but will also have negative effects on markets globally, as banks will be forced to reduce the quality of their market-making services to comply. ***Institute of International Finance Report***, February 2012.

- The Volcker Rule will cost American businesses up to $315 billion, increase borrowing costs by up to $43 billion per year, and dramatically reduce liquidity. ***Oliver Wyman Study***, January 2012.

- In our view, <the Volcker Rule> would result in a dramatic increase in volatility and reduction in market liquidity that would ultimately cause borrowing costs for all municipal issuers to rise. ***City Group Global Market Study***, January 2012.

- Relative to pre-crisis levels, banks would have to raise an additional 100% more capital ($525 billion) to meet Basel III's capital requirements. To meet these capital requirements, U.S. banks would have to either increase the borrowing costs to their customers by 60 basis points or reduce non-interest expenses by 19%. ***The Clearing House Report.*** September 26, 2011.

- <The Dodd-Frank Act> could have a negative effect on the ability of banks to extend credit and have a critical impact on our economy. ***Reginald Imamura, PNC Bank***, September 22, 2011.

- Real lending rates in the U.S. are projected to increase by 468 basis points, (or 701 basis points if reform is implemented rapidly), <exponentially increasing the cost of education loans, home loans, commercial loans, etc.> ***Institute for International Finance Report***, September 6, 2011.

Free checking has declined by over 40% in the last three years in large part due to the Durbin Amendment and overdraft rules, according to a Bankrate survey.

Impact on Consumers

- Free checking is on the decline, in large part due to overdraft changes and the Durbin Amendment . In 2011, less than half of checking accounts (45%) were free of maintenance charges and balance requirements. In 2009, 76% of accounts were free. ***Roundtable Fast Facts: Decline of Free Checking,*** June 1, 2012.

- Instead of investing in new products to meet the demands of customers, banks are paying for changes to software to ensure compliance with all the new rules. Even a small reduction in the cost of compliance would free up billions of dollars that could facilitate loans and other banking services. ***William B. Grant, CEO of First United Bank of Trust***, May 9, 2012.

- If regulators tighten restrictions on bank overdraft policies, it could threaten a major source of bank revenue and speed up the end of free checking accounts. ***Fitch Ratings Report.*** April 24, 2012.

- Consumers and small businesses are impacted in negative ways through the Dodd-Frank Act, such as: higher costs for financial products or limited products or limited credit availability at a higher cost. At some banks, certain types of credit will be completely eliminated and access to credit will be denied. ***Ignacio Urrabazo,***

Testimony before the House Subcommittee on Financial Institutions and Consumer Credit, March 14, 2012.

- Inflexible loan to value ratios and repayment ability criteria are likely to have the effect of putting home ownership out of reach for many Americans. ***Cliff McCauley, Testimony before the House Subcommittee on Financial Institutions and Consumer Credit,*** March 14, 2012.

- The Durbin Amendment will cause smaller institutions to cease offering <debit cards> to their consumers. ***Cliff McCauley, Testimony before the House Subcommittee on Financial Institutions and Consumer Credit,*** March 14, 2012.

- Elimination of fee incomes through Durbin and limitations of overdraft fees are hurting community banks. These fees are critical to the survival of community banking: it is key that noninterest income helps provide many of our banking products and services for consumers. ***Ignacio Urrabazo, Testimony before the House Subcommittee on Financial Institutions and Consumer Credit,*** March 14, 2012.

- Overdraft and interchange rules have cost the industry about $12.2 billion annually, translating into 20% higher fees for consumers. ***Javelin Study.*** February 2012.

- Retail prices have actually increased 1.7% since the Durbin Amendment became effective. ***Electronic Payment Coalition Report,*** December, 2011.

- It has become more expensive for consumers to use banks <as a result of regulatory reform>. ***Elizabeth Robertson, Javelin Strategy & Research,*** September 22, 2011.

- 41% of merchants reported they do not intend to pass on lower debit card costs to consumers, when asked about the Durbin Amendment. ***DFR Survey***, September, 2011.

- 54% of institutions report looking to re-structure or terminate rewards programs due to Durbin. ***Pulse Network's 2011 Debit Issuance Study,*** June 2011.

Impact on the Industry

- Dodd-Frank compliance costs for the industry are projected to be $7,092,471,000 each year and 52,696,738 paperwork burden hours, according to Federal Register cost estimates. ***American Action Forum,*** June 2012.

- <Basel III rules> are leading many banks to fundamentally rethink their business models, with 65% reporting that they are evaluating their portfolios, 45% reporting that they are moving out of complex or less liquid instruments, while 30% said they were planning to drop lines of business and 13% said they are preparing to leave particular countries. ***Institute for International Finance.*** June 21, 2012.

Compliance costs have increased over 240% in the last five years, one banker's Congressional testimony.

- Dodd-Frank will cost JP Morgan Chase roughly $1 billion a year, across technology, risk, credit, compliance, and all other lines. ***Jamie Dimon, CEO of JP Morgan Chase, Senate Banking Committee Testimony.*** June 13, 2012.

- Smaller banks could face "operational burdens" in implementing the <new capital> rules. ***Fed governor Elizabeth Duke.*** June 7, 2012.

- The new regulations are so complex that few people understand them, and it will cost them to figure it out. Companies will have to spend a lot to make sure they're aware of the details, since most don't have teams of attorneys to interpret them. ***Mitch Stebal of Busey Bank for the Washington Post***, May 23, 2012.

- Any one particular regulation may not be that onerous or expensive, but when you add them up, it raises the cost of doing business for banks, and ultimately the consumer ends up paying for it. ***Doug Cruickshanks, CEO of FirstBank***, May 7, 2012.

- Investment bankers and financial industry consultants estimated that Dodd-Frank would lower the return on equity of community banks with less than $500 in assets to between 6-8%. Bank investors usually look for returns near 11-14%. ***Reynolds, Bone, & Griesbeck***, May 6, 2012.

- Direct compliance costs have increased over 240% in that last five years – far exceeding the growth of the bank, its loans, investments and deposits. ***Les Parker, Testimony before the House***

Subcommittee on Financial Institutions and Consumer Credit, March 14, 2012.

Increasing regulation is the single largest factor of post-crisis bank profitability (or lack thereof) in the U.S. and Europe, according to a report by McKinsey.

- Annual compliance costs of Dodd-Frank are already over $7 billion for banks—even though only 27% of Dodd-Frank regulatory rules have been completed. The projected number of new personnel required to comply with Dodd-Frank is 26,447. ***American Action Forum data,*** March, 2012.

- Elimination of fee incomes through Durbin and limitations of overdraft fees are hurting community banks. These fees are critical to the survival of community banking: it is key that noninterest income helps provide many of our banking products and services for consumers. ***Ignacio Urrabazo, Testimony before the House Subcommittee on Financial Institutions and Consumer Credit,*** March 14, 2012.

- It took 20 million man hours to build the Panama Canal…we are with 22 million man hours only 1/3 of the way through major legislation. ***Congressman Randy Neugebauer,*** February 2012.

- Regulators' estimate that banks will have to spend 6.6 million hours to implement the Volcker rule. Over 1.8 million hours would be required every year in perpetuity. That translates into 3,292 years, or 3,000 bank employees to comply this rule. ***Frank Keating, President and CEO, American Bankers Association,*** October 2011.

- There is a widening gap between growing and non-growing markets. For example, Asian banks are likely to achieve annual revenue growth of around 10% over the next decade – double the rate of developed markets. ***McKinsey & Company Report.*** September 2011.

- Increasing regulation is the single largest factor of post-crisis bank profitability (or lack thereof) in the U.S. and Europe. U.S. banks will need to triple their net profits by 2015 to cover the cost of raising the capital required under Basel III and the Dodd-Frank Act. This is double the profit level that McKinsey forecasts U.S. banks are likely to achieve during this period. ***McKinsey & Company Report***. September 2011.

- Dodd-Frank has raised the cost of financial transactions in America and that encourages consolidation because it's the only way you can spread the costs over larger assets. ***Tom Hoenig, President of the Federal Reserve Bank of Kansas City.*** September 2011.

- Modifying systems for compliance with Dodd-Frank will drain resources and divert attention from projects that may help business growth. Firms do not plan to increase staff to handle requirements for Dodd-Frank, and are trying to meet demands with the same amount of people. ***Greg MacSweeny for Wall Street & Technology***, February 2011.

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More information about the Roundtable and its research can be accessed at www.fsround.org. If you have questions, please contact Abby McCloskey, Director of Research at the Financial Services Roundtable, at abby@fsround.org.

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