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Christopher Dodd on Dodd-Frank

The former U.S. senator defends financial regulation – and says we’re far better off today

One of the biggest lessons from the 2008 financial crisis was how dependent the overall U.S. economy is on the health of the banking sector. Capital provided by banks is lifeblood for consumers and businesses alike, and the main reason the crisis was so painful and so prolonged was that it originated in the financial services industry.

No one understands that better than Christopher Dodd. Dodd, the former U.S. Senator from Connecticut, was a principal author of the Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010 along with U.S. Representative Barney Frank of Massachusetts. As Washington’s policy response to the banking crisis, the law contained the most significant set of changes to U.S. financial services regulation since the Great Depression. The 848-page bill (supported by more than 13,000 pages of regulation, so far) affected nearly every aspect of financial services – from systemic risk oversight, to bank capital and leverage requirements, to mortgages, credit cards and payday lending.

Five years later, the bill has both fervent supporters and vehement critics. While opponents argue that Dodd-Frank has added significant unnecessary cost and complexity to financial services, its advocates believe it has not only solidified the American financial sector but serves as a model for financial services regulation globally.

OUTLOOK recently spoke with Dodd, who is now chairman and CEO of the Motion Picture Association of America, about the legacy of his namesake law. Dodd remains a passionate supporter of the legislation, but also acknowledged the critical need for global harmonization of financial services regulation and the political realities that affect the financial landscape to this day.

This Month's Expert

For 36 years, Christopher Dodd represented Connecticut in the United States Congress.

A Democrat, Dodd served in the House of Representatives from 1975 to 1981 and in the Senate from 1981 to 2011. Dodd was the author or co-author of a wide range of significant legislation, including the Family and Medical Leave Act in 1993; the Patient Protection and Affordable Care Act; the Help America Vote Act; and the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Dodd is now the Chairman and Chief Executive Officer of the Motion Picture Association of America, which serves as the voice and advocate of the U.S. motion picture industry around the world.

OUTLOOK: We are now seven years removed from the 2008 financial crisis. How confident are you that such a meltdown won't happen again?

Christopher Dodd: I would never predict that we won't have another banking crisis. In fact, I'm sure we will. But I believe that we've adopted a good law in Dodd-Frank – not a perfect bill, but a good law – that has minimized the chance that those problems could once again metastasize into what became the largest financial crisis since the Great Depression.

OUTLOOK: What economic factors out there might lead to a similar crisis?

CD: The issue now is that we live in a global marketplace where, for example, the recent stock market crisis in China had an enormous impact on our stocks. We can't control events in China, India, Brazil, Europe, or Russia – or anywhere else in the world – and problems in any one of those economies can almost immediately have an impact on what happens here.

We were lucky that the problems of 2008 were self-contained to a large extent between Europe and the United States. But we're living in a very different world today.

OUTLOOK: When you look at how the financial services sector has come along since 2008, what surprises you most?

CD: The good surprise is that a lot of financial institutions didn't wait around for rulemaking. They began to adopt the principles included in the bill and what ultimately emerged from the regulators. I had one official from a major lending institution call me and say, "I never thought I'd make this call, but I want to tell you we're a much better bank today as a result of your bill." I'm not suggesting they love every dotted 'i' and crossed 't,' but I think they're realizing that there are a lot of good things that are actually working to their advantage, such as requiring greater capital and better leverage requirements.

On the other hand, the political community and the various attempts to repeal Dodd-Frank truly dazzle me. Repealing all of this would be enormously counterproductive. My response is, What do you replace it with? Do you want to go back to what we looked like in 2007 and 2008, where people lost homes? Do you want to go back to a time with no Consumer Financial Protection Bureau or to a derivatives market that went from \$90 billion to \$900 billion, with no regulation, no transparency in the trading practices? I don't hear any alternatives being suggested as to what they put in place.

Today, consumers can have a lot more confidence when they sit across the table from their lender to buy their dream home.

OUTLOOK: The Consumer Financial Protection Bureau has been controversial, with critics saying it has too much power and too little accountability. Are you satisfied with the performance of the CFPB?

CD: Yes, it's exceeding my expectations. I think the CFPB has just done a fabulous job. On the date of the fifth anniversary of the bill, Barney Frank and I went down to the CFPB and spoke to the entire staff. It was a very emotional moment. To look at a room full of people who are making a difference in the lives of middle-income families every day – it took my breath away.

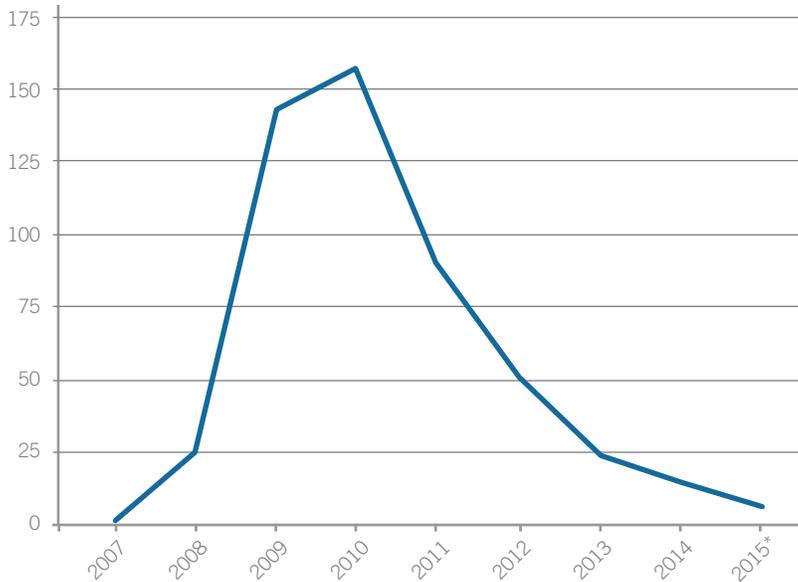
Prior to creation of the CFPB, you had to go to court to get anything done. But now, 25 million people have had more than \$11 billion returned to them in four years. More than 700,000 complaints have been handled by the staff. What a difference it has made for people to be able to turn to someone without hiring a lawyer, or drafting a new piece of legislation.

Of all the things we did, that was maybe the most important. But it's amazing to me how willing people were to be supportive of everything else we did in the bill if we just got rid of the CFPB. I think that speaks volumes about where the financial services sector was – frightened to death that consumers might actually have a place to go to solve their problems.

OUTLOOK: How has Dodd-Frank affected ordinary retail banking customers?

CD: Mortgage brokers are significantly more regulated today than they were in 2008. Today, consumers can have a lot more confidence when they sit across the table from their lender to buy their dream home. The lender also has to be far more careful about rewarding their employees who earn premiums for talking consumers into an adjustable rate mortgage without communicating what a fully indexed price will be. And certain other practices – the so-called “no doc” loans and liar’s loans, which didn’t require the borrower to provide any documentation of their income – are against the law today.

U.S. BANK CLOSURES BY YEAR



*Through 9/14/15
Source: FDIC

OUTLOOK: *A key aspect of the legislation is the body of additional banking regulations that was developed after its passage. How has that process gone in your opinion?*

CD: It's been five years, and the regulatory process has taken much longer to implement than I had hoped. But candidly, I'm more impressed with the fact that they took the time. If you have to make a choice between doing it quickly or doing it right, I'll take doing it right every time.

I think the success of the bill is supported by the numbers. Home sales are moving up, and the unemployment rate has dropped to around 5 percent from its high of 10 percent. Corporate profits are clearly up. Lending is up 30 percent, and confidence is coming back in our financial institutions.

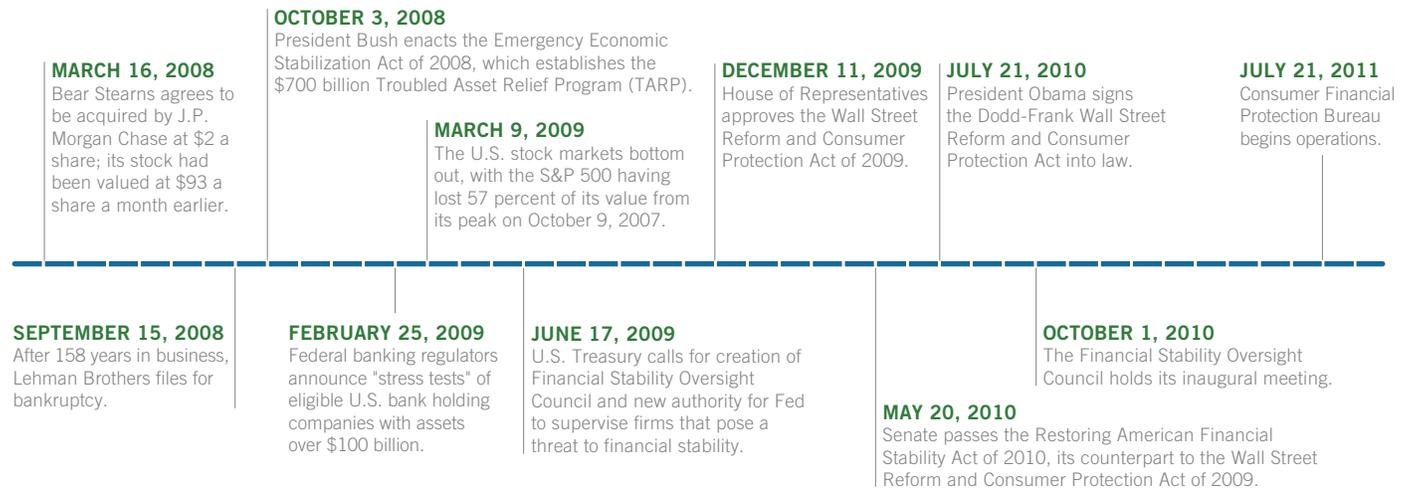
Legislators and regulators in other parts of the world are very interested in what we've done. I was in China recently and met with one of the chief banking regulators. For about three hours, he and his entire team grilled me in detail about Dodd-Frank. The Reserve Bank of India watched the entire markup of the bill on C-SPAN, and they are adopting some of the principles there.

OUTLOOK: *To what extent have we protected ourselves from economic events or crises in other economies?*

CD: When I wrote the bill, the G 20, which is an international forum for 20 major global economies, had issued a series of recommendations for financial reform. I didn't follow them to the letter in Dodd-Frank, but they were good standards, and one of my goals was to encourage global harmonization of rule making.

We had this geographical regulatory arbitrage occurring. It wasn't uncommon for U.S. financial institutions to say, "If you don't continue to deregulate, we're going to go to London." My peers in London were hearing a similar thing: "If you don't continue to deregulate, we're going to New York."

DODD-FRANK TIMELINE



Source: St. Louis Fed - "The Financial Crisis Full Timeline"; Mayer Brown - "Understanding the New Financial Reform Legislations: The Dodd-Frank Wall Street Reform and Consumer Protection Act"

Arthur Burns, the head of the Federal Reserve in the 1970s, used to call it a "race to the bottom" in terms of the regulatory environment. I was trying to avoid that, and I think we did, to a large extent.

The next crisis that occurs in the financial services sector is going to involve many more players than just the U.S. and Europe. But my hope is that what we've put in place here will be mirrored to some extent elsewhere, and there will be a greater appreciation of the global interaction of financial services that will at least minimize crises so they don't become the crisis that we faced in 2008.

OUTLOOK: Is there any piece of the legislation you're not satisfied with?

CD: It's important to note that I didn't write the Ten Commandments. I wrote a bill and I had to have 60 votes in the Senate. If I had lost one vote, the bill would have died. One vote – that's all it took to walk away from it.

Putting the bill together in that context, you end up having provisions you're not crazy about. But if you're going to pass a piece of legislation, you've got to get the Senate to go along with it, not to mention the White House, regulators, stakeholders, and 50 percent of the House of Representatives. While some on the Democratic side thought we didn't do enough, the Republican side thought we went way too far. We were criticized by both sides. Based on that measure, I think we probably got it about right.

I hope what we've done here will grow into a more universal set of practices that give people confidence when it comes to the stability of the financial system.

OUTLOOK: If you had gotten everything that you wanted, what would have been in the bill?

CD: First of all, I think we did pretty well. But there were a couple things I favored early on that didn't make it into the final version of the bill. I was very interested in establishing a single prudential regulator. People don't realize it, but our banking regulations don't come from a single authority. There is no unified decision-making process.

The regulatory environment has grown dramatically since the Great Depression. With every crisis that emerged, a new regulator emerged after it. It seemed to me that we could consolidate prudential regulation, which would have made for a much more efficient regulatory environment and avoided the kind of regulatory arbitrage that you saw some companies engage in. We eliminated one regulator, but we got two more out of the process. Unfortunately, we didn't do as good a job in creating efficiencies within the regulatory environment as I would have preferred.

OUTLOOK: Fifty years from now, what do think is going to be the biggest impact of Dodd-Frank?

CD: My biggest worries arise from the interconnectedness of the global financial system. Interconnectedness creates great opportunities for us, but as we have seen with China and Greece, a crisis in almost any country can cause havoc around the world despite all of our good efforts. I hope what we've done here will grow into a more universal set of practices that give people confidence when it comes to the stability of the financial system.

I hope the Consumer Financial Protection Bureau will be around for decades to come and will continue to provide resources and support for the average banking customer.

I've never seen people as angry as they were in the fall of 2008 over the notion that they had to write an \$800 billion check to bail out the institutions that had created the financial disaster in the first place. I never want to see that happen again. ■

Commentary in Outlook is for general information only and does not necessarily reflect the opinion of CoBank. The information was obtained from sources that CoBank believes to be reliable but is not intended to provide specific advice.

Interest Rates and Economic Indicators

The interest rate and economic data on this page were updated as of 8/31/15. They are intended to provide rate or cost indications only and are for notional amounts in excess of \$5 million except for forward fixed rates.

KEY ECONOMIC INDICATORS

Gross Domestic Product (GDP) measures the change in total output of the U.S. economy. The Consumer Price Index (CPI) is a measure of consumer inflation. The federal funds rate is the rate charged by banks to one another on overnight funds. The target federal funds rate is set by the Federal Reserve as one of the tools of monetary policy. The interest rate on the 10-year U.S. Treasury Note is considered a reflection of the market's view of longer-term macroeconomic performance; the 2-year projection provides a view of more near-term economic performance.

HEDGING THE COST OF FUTURE LOANS

A forward fixed rate is a fixed loan rate on a specified balance that can be drawn on or before a predetermined future date. The table below lists the additional cost incurred today to fix a loan at a future date.

FORWARD FIXED RATES

Cost of Forward Funds

Forward Period (Days)	Average Life of Loan			
	2-yr	3-yr	5-yr	10-yr
30	8	8	7	5
90	18	19	16	12
180	31	34	28	21
365	69	70	58	41

Costs are stated in basis points per year.

ECONOMIC AND INTEREST RATE PROJECTIONS

Source: Insight Economics, LLC and Blue Chip Economic Indicators

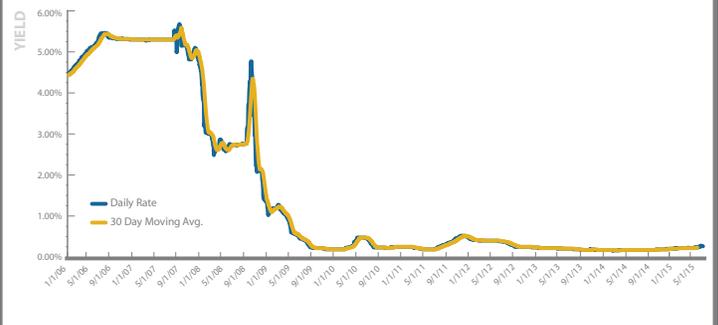
US Treasury Securities

2015	GDP	CPI	Funds	2-year	10-year
Q3	2.70%	2.10%	0.17%	0.89%	2.39%
Q4	2.80%	1.70%	0.29%	1.13%	2.55%
2016	GDP	CPI	Funds	2-year	10-year
Q1	2.70%	2.00%	0.38%	1.37%	2.70%
Q2	2.70%	2.30%	0.50%	1.60%	2.83%
Q3	2.70%	2.30%	0.63%	1.88%	2.97%

SHORT-TERM INTEREST RATES

This graph depicts the recent history of the cost to fund floating rate loans. Three-month LIBOR is the most commonly used index for short-term financing.

3-MONTH LIBOR



PROJECTIONS OF FUTURE INTEREST RATES

The table below reflects current market expectations about interest rates at given points in the future. Implied forward rates are the most commonly used measure of the outlook for interest rates. The forward rates listed are derived from the current interest rate curve using a mathematical formula to project future interest rate levels.

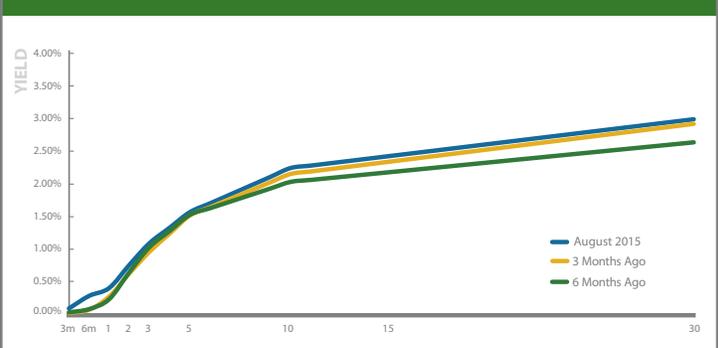
IMPLIED FORWARD SWAP RATES

Years Forward	3-month LIBOR	1-year Swap	3-year Swap	5-year Swap	7-year Swap	10-year Swap
Today	0.34%	0.54%	1.15%	1.60%	1.93%	2.23%
0.25	0.48%	0.67%	1.27%	1.71%	2.02%	2.28%
0.50	0.59%	0.81%	1.42%	1.82%	2.09%	2.34%
0.75	0.75%	1.01%	1.56%	1.94%	2.20%	2.44%
1.00	0.91%	1.19%	1.67%	2.02%	2.26%	2.47%
1.50	1.29%	1.50%	1.91%	2.22%	2.43%	2.61%
2.00	1.53%	1.72%	2.09%	2.36%	2.53%	2.68%
2.50	1.75%	1.92%	2.26%	2.49%	2.63%	2.75%
3.00	1.97%	2.12%	2.42%	2.61%	2.72%	2.83%
4.00	2.32%	2.44%	2.67%	2.79%	2.84%	2.93%
5.00	2.59%	2.70%	2.83%	2.93%	2.96%	3.00%

RELATION OF INTEREST RATE TO MATURITY

The yield curve is the relation between the cost of borrowing and the time to maturity of debt for a given borrower in a given currency. Typically, interest rates on long-term securities are higher than rates on short-term securities. Long-term securities generally require a risk premium for inflation uncertainty, for liquidity, and for potential default risk.

TREASURY YIELD CURVE





About CoBank

CoBank is a \$107 billion cooperative bank serving vital industries across rural America. The bank provides loans, leases, export financing and other financial services to agribusinesses and rural power, water and communications providers in all 50 states. The bank also provides wholesale loans and other financial services to affiliated Farm Credit associations serving more than 75,000 farmers, ranchers and other rural borrowers in 23 states around the country.

CoBank is a member of the Farm Credit System, a nationwide network of banks and retail lending associations chartered to support the borrowing needs of U.S. agriculture and the nation's rural economy. Headquartered outside Denver, Colorado, CoBank serves customers from regional banking centers across the U.S. and also maintains an international representative office in Singapore.

For more information about CoBank, visit the bank's web site at www.cobank.com.

CoBank Again Named to List of "World's 50 Safest Banks" by Global Finance Magazine

CoBank, a leading cooperative bank serving agribusinesses, rural infrastructure providers and Farm Credit associations throughout the United States, has been named to Global Finance magazine's list of the world's safest banks for a fifth consecutive year.

Global Finance, which covers the financial services industry, has published its "World's 50 Safest Banks" list annually for more than 20 years.

Banks are ranked using a methodology that includes total assets and an evaluation of long-term ratings from major rating agencies. CoBank was first named to the list in 2011.



Robert B. Engel

"Financial strength is a critical part of the value we offer to our customers," said Robert B. Engel, CoBank's chief executive officer. "Our customers operate in industries and markets where conditions can be both volatile and unpredictable, and they look to CoBank to provide them with dependable credit and financial services in good times and bad. We're very pleased to have earned this distinction for the fifth year in a row, as we believe it reflects our bank's consistent and sustainable commitment to sound stewardship and our mission in rural America."

The ranking will be published in the November issue of Global Finance. Further information is available at the magazine's web site at gfmag.com. ■