

# What's the Future (and the Past) of Dodd-Frank?

Tony Hughes, Managing Director

# Agenda

- » How will economic growth (both long- and short-term) be affected by repeal of Dodd-Frank?
- » How has Dodd-Frank shaped the behavior of the banking industry?
  - Lending growth and profitability
  - Mortgages
  - C&I loans
  - Capital
- » What should Dodd-Frank look like going forward?
- » Q&A

1

The Dodd-Frank Act and  
Economic Growth

# Does Dodd-Frank Curtail Growth?

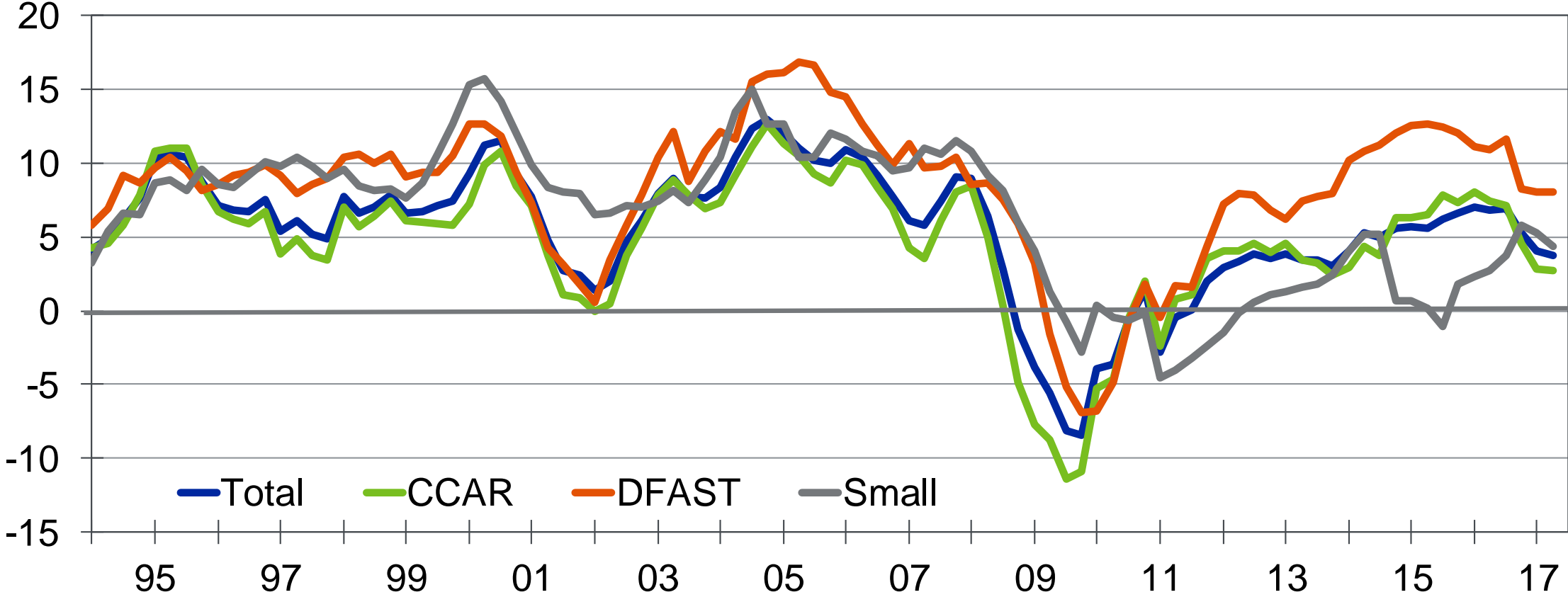
- » Short-run, microeconomic impact.
- » Short-run, monetary policy response, macro impact.
- » Long-run impact on probability of recession.
- » Through the cycle view of overall growth impact.
- » Conclusion:
  - Repeal of Dodd-Frank will have little impact, if any, on short-run growth.
  - Growth volatility will increase relative to status quo.
  - Probability, frequency and intensity of recession will increase.
  - Long-run economic growth will be lower.

# 2

## Impact of Dodd-Frank on the Structure of the U.S. Banking Industry

# DFAST Banks Are Growing Quickly

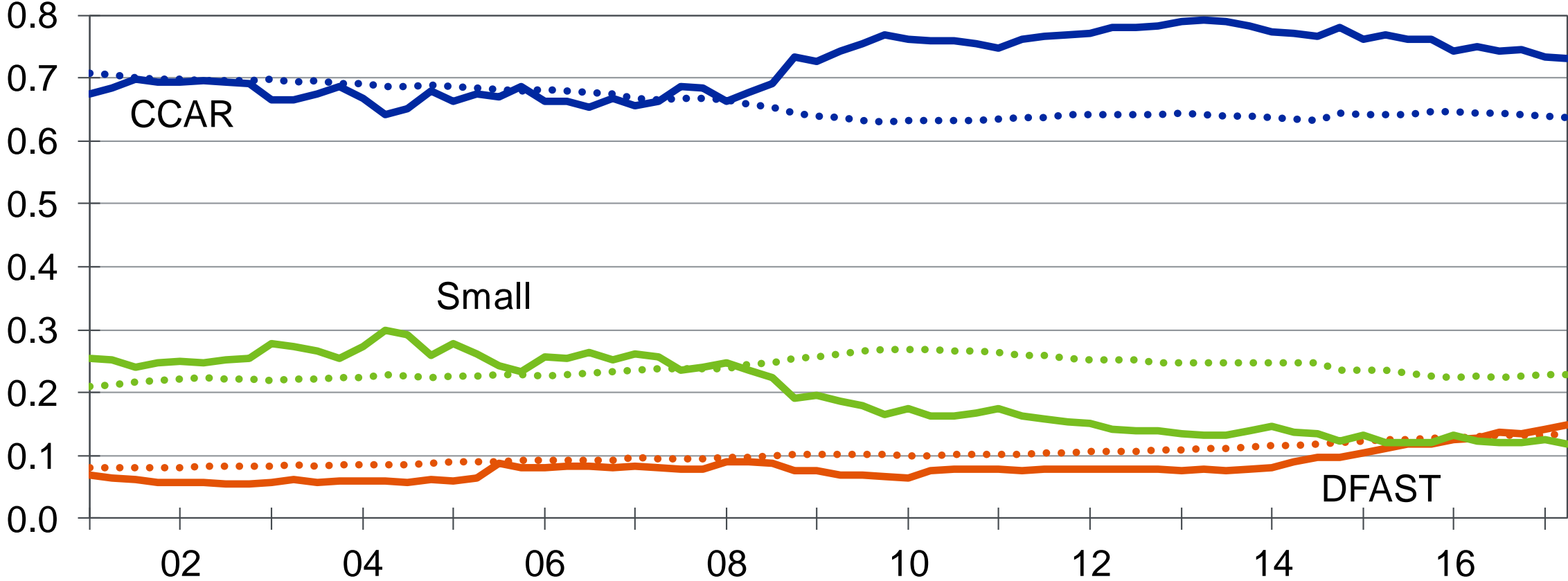
Net loans and leases, % change yr ago



Sources: FDIC Statistics on Depository Institutions, Moody's Analytics

# Small Banks Pose Too Little Risk

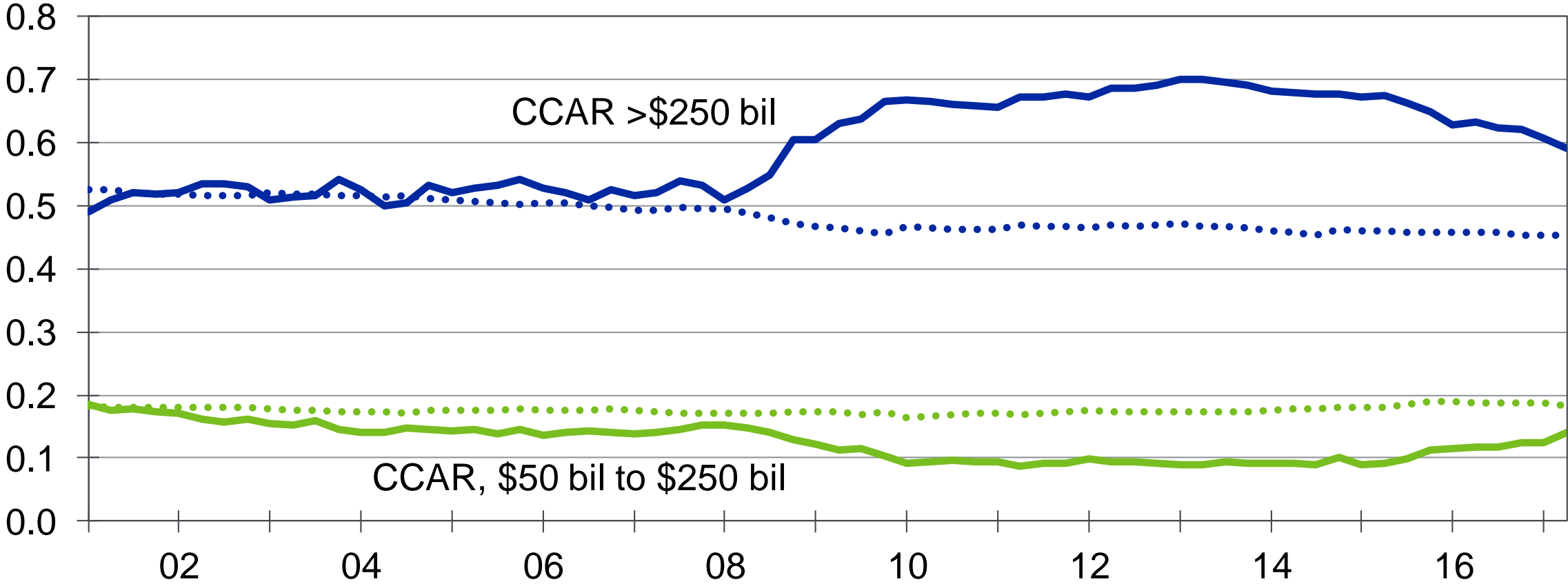
Loans and leases: Market share (dotted), share of impaired loans (solid)



Sources: FDIC Statistics on Depository Institutions, Moody's Analytics

# Banking Shares Slowly Normalizing

Loans and leases: Market share (dotted), share of impaired loans (solid)

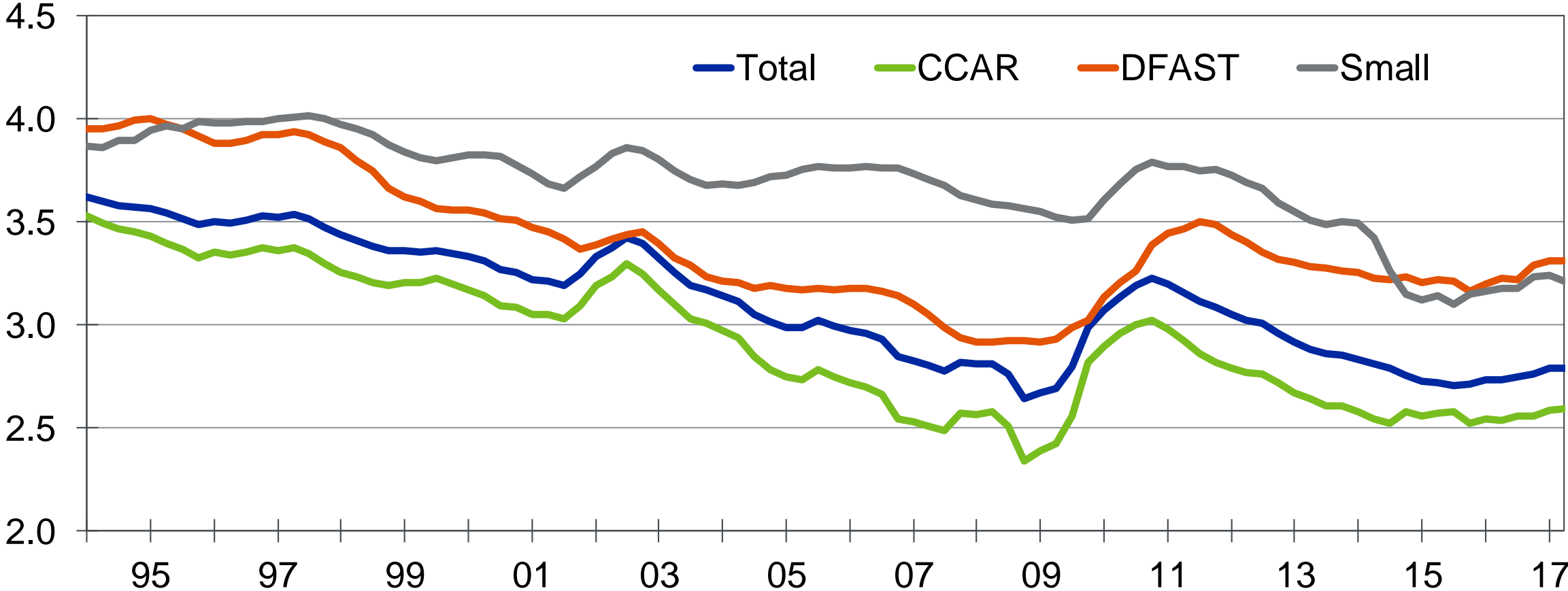


Sources: FDIC Statistics on Depository Institutions, Moody's Analytics



# DFAST Banks Now Most Profitable

Net interest margin, annualized, %



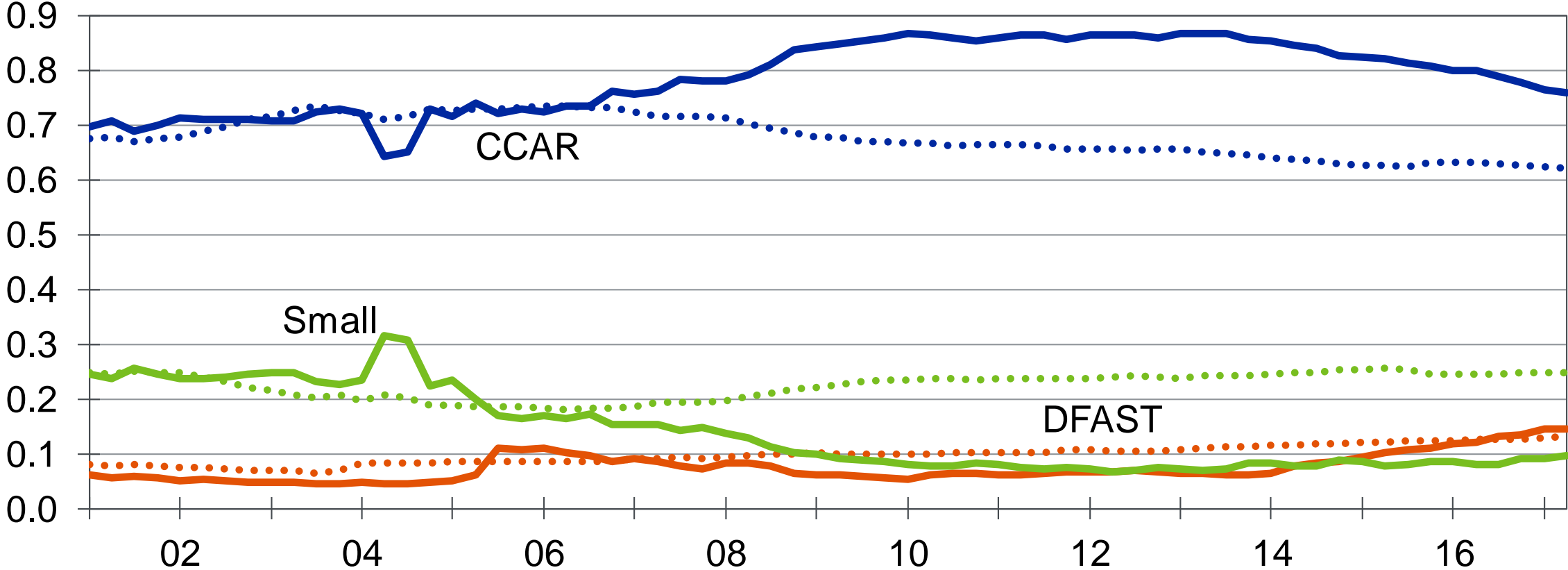
Sources: FDIC Statistics on Depository Institutions, Moody's Analytics

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Mortgages

# CCAR Mortgage Risk Is Declining

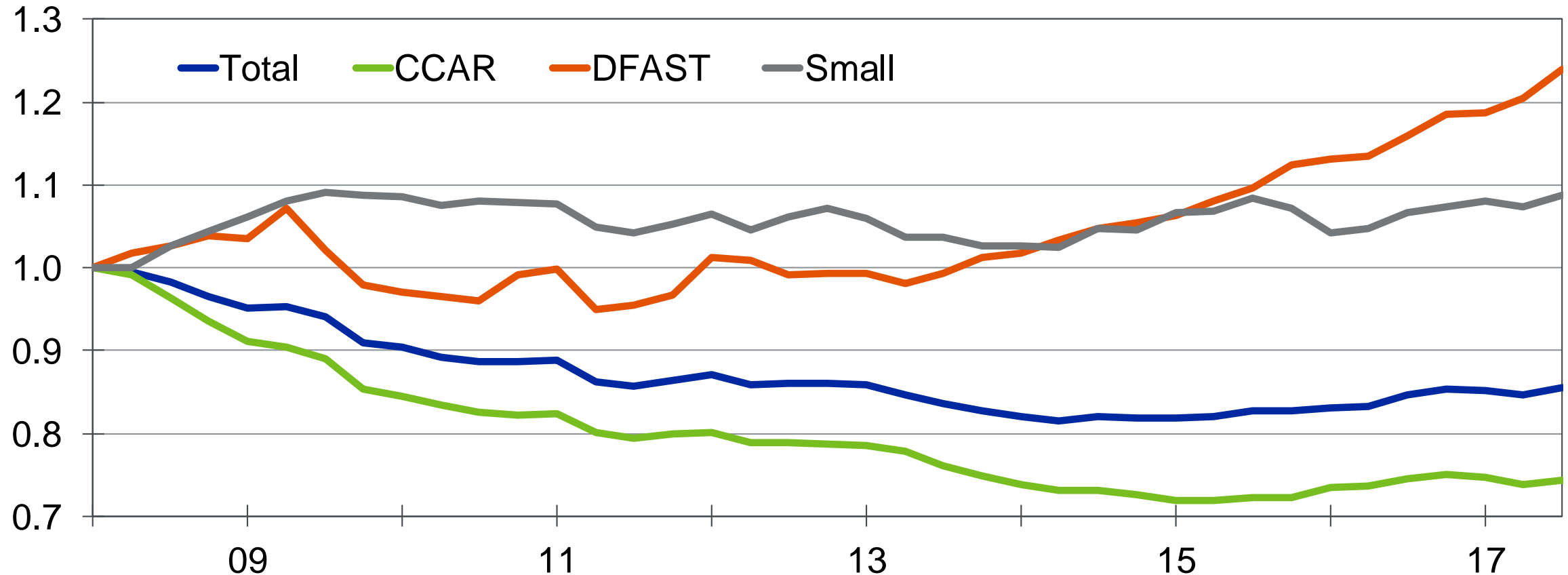
Mortgage products: Market share (dotted), share of impaired loans (solid)



Sources: FDIC Statistics on Depository Institutions, Moody's Analytics

# DFAST Mortgage Activity Boomed in 2013

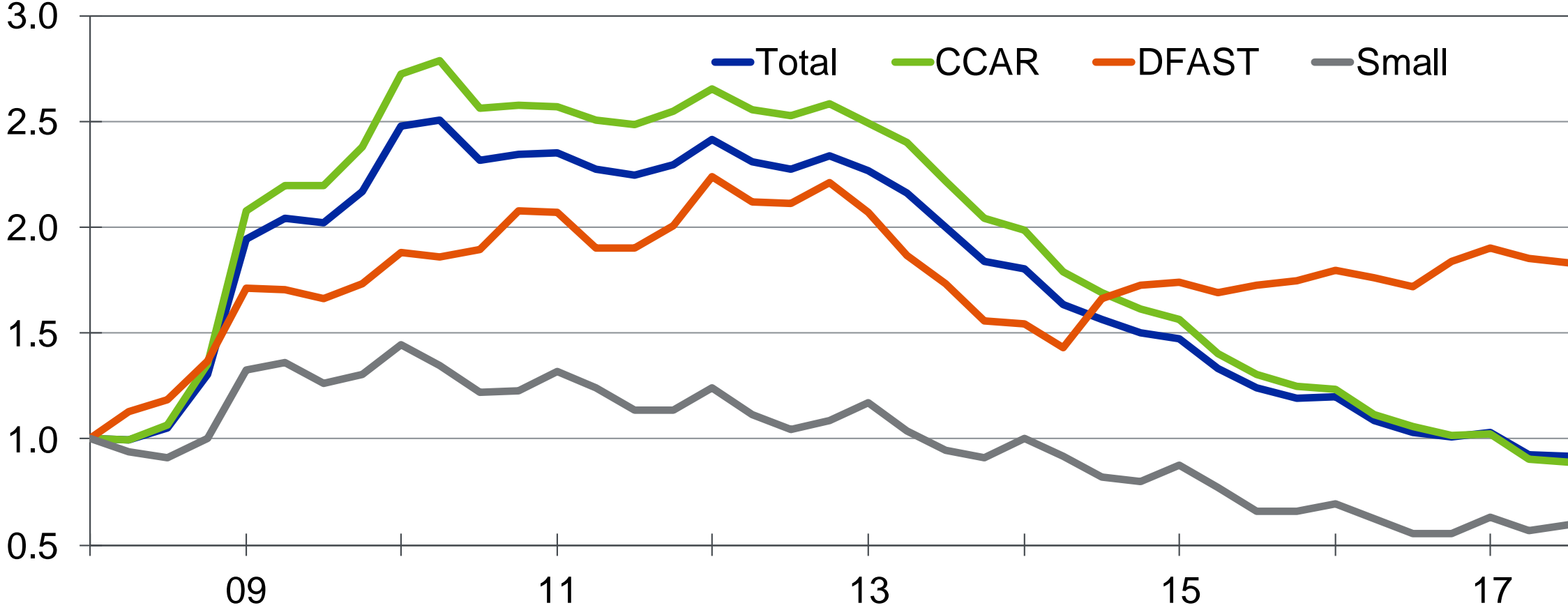
Mortgage loans, 2007Q4=1



Sources: FDIC Statistics on Depository Institutions, Moody's Analytics

# DFAST Bucks Trend on Bad Mortgages

Impaired mortgage loans, 2007Q4=1



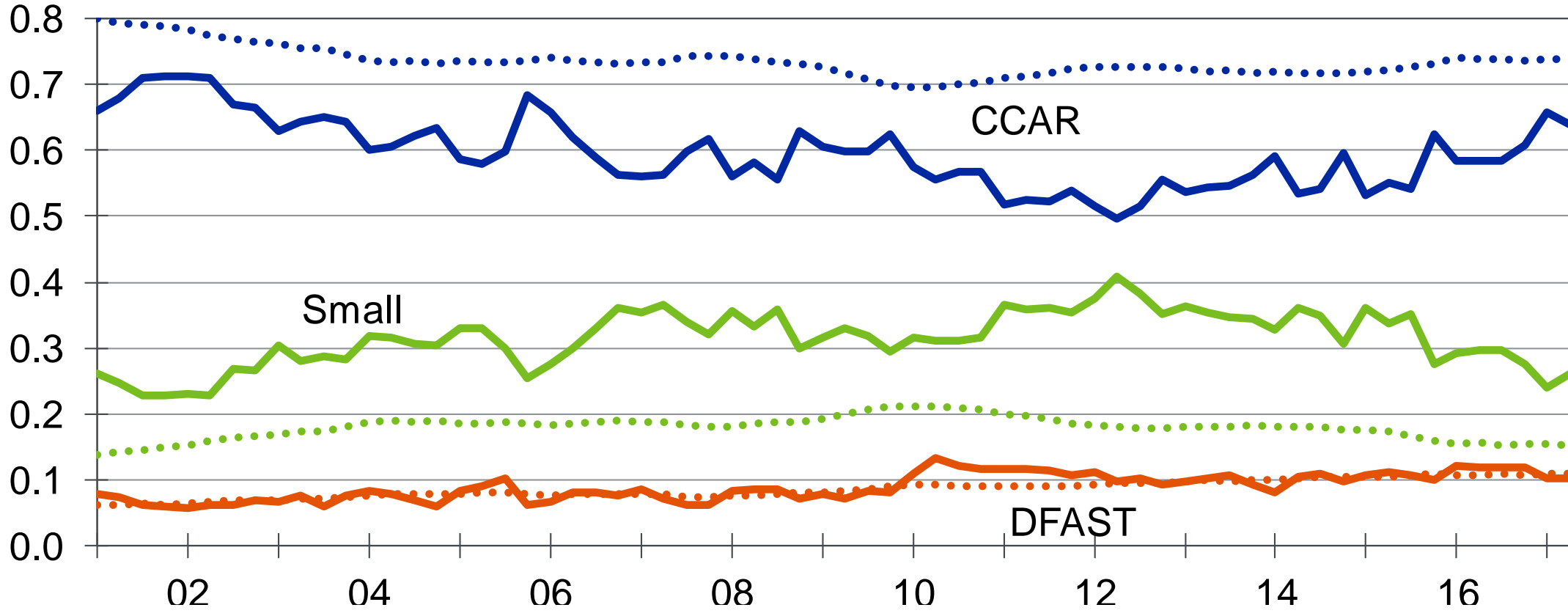
Sources: FDIC Statistics on Depository Institutions, Moody's Analytics

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Commercial and Industrial

# Higher C&I Risk for CCAR Banks

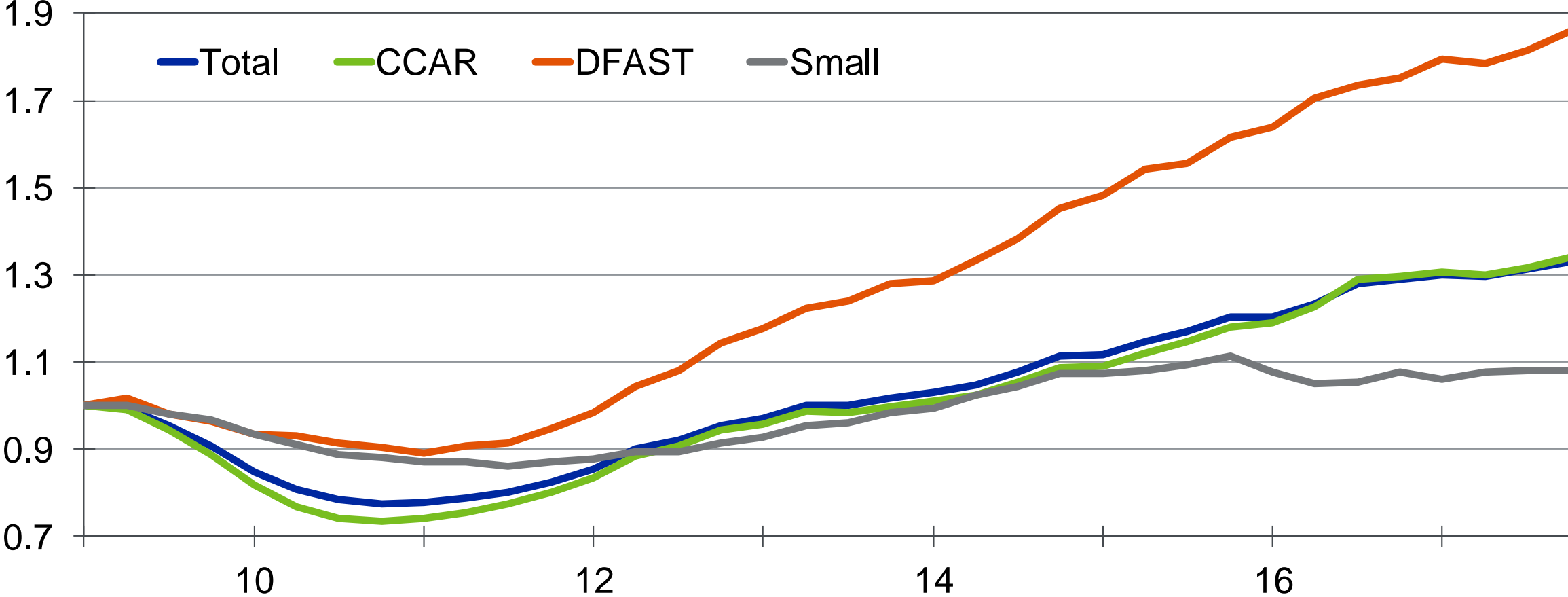
C&I lending: Market share (dotted), share of impaired loans (solid)



Sources: FDIC Statistics on Depository Institutions, Moody's Analytics

# Small Banks Losing C&I Prominence

Commercial and industrial loans, 2008Q3=1



Sources: FDIC Statistics on Depository Institutions, Moody's Analytics

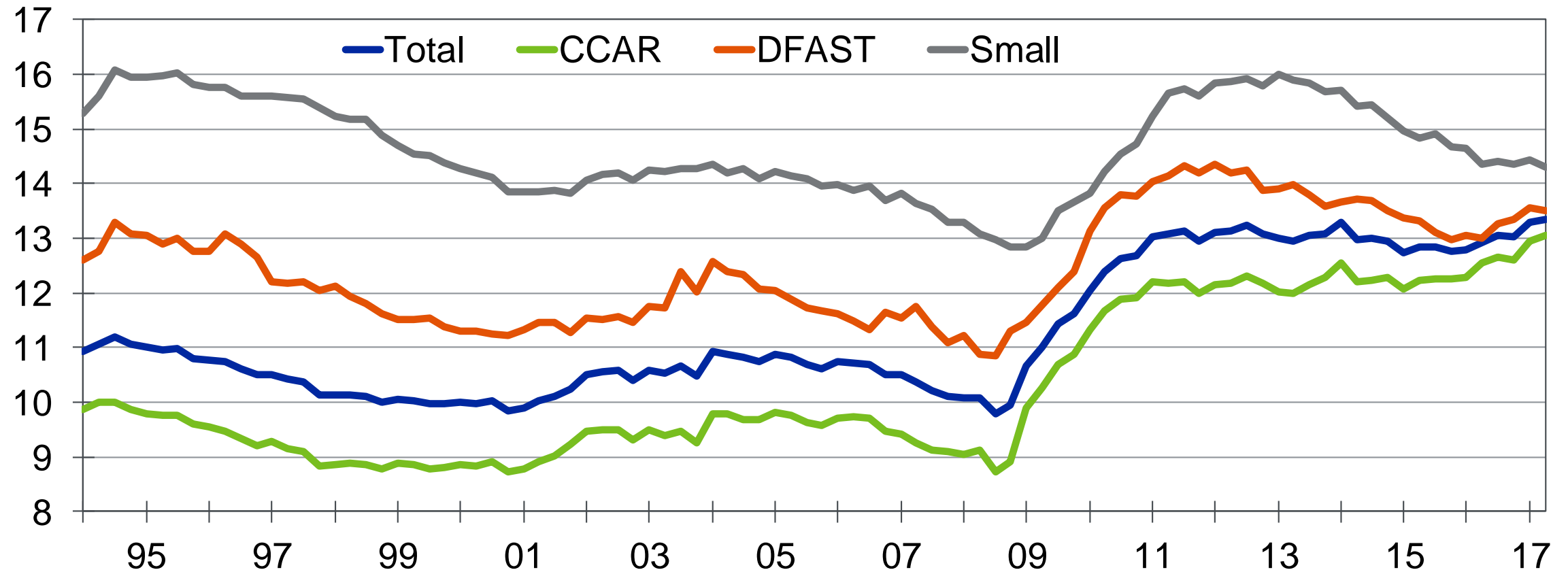


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Capital

# Only CCAR Banks Have a Lot More Capital

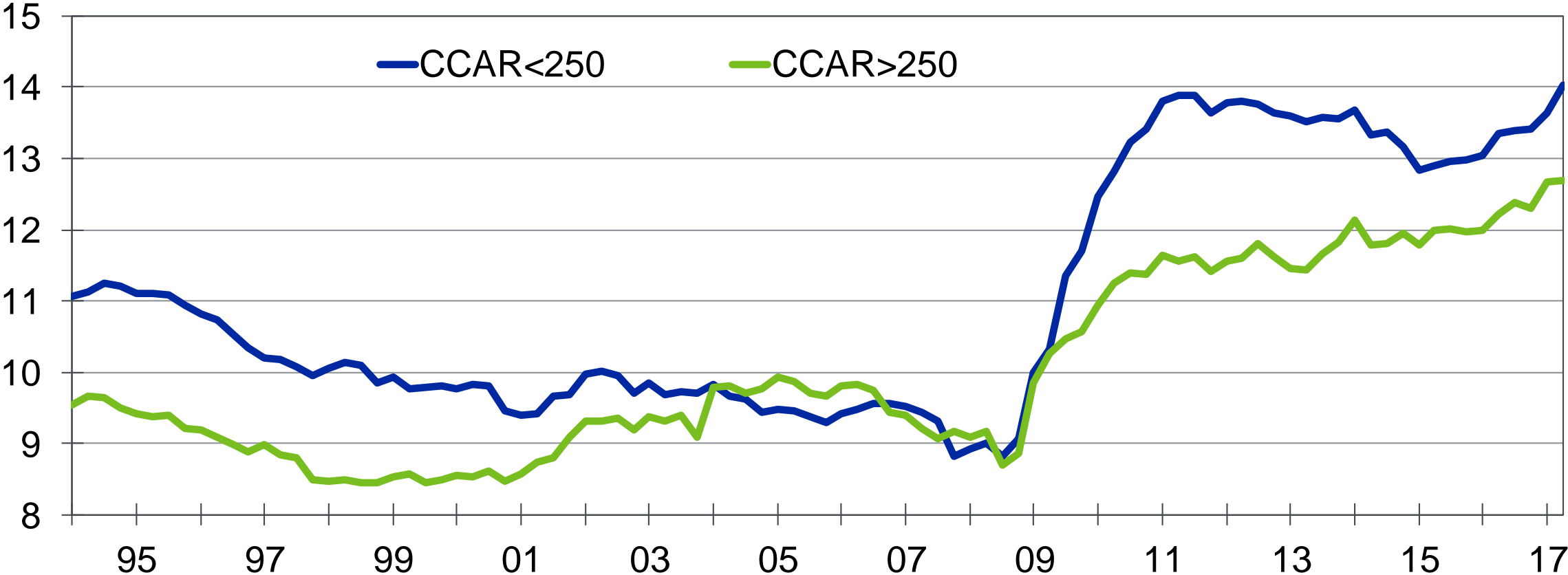
Tier 1 capital ratio, %



Sources: FDIC Statistics on Depository Institutions, Moody's Analytics

# Small CCARs Gained More Than the G-SIBs

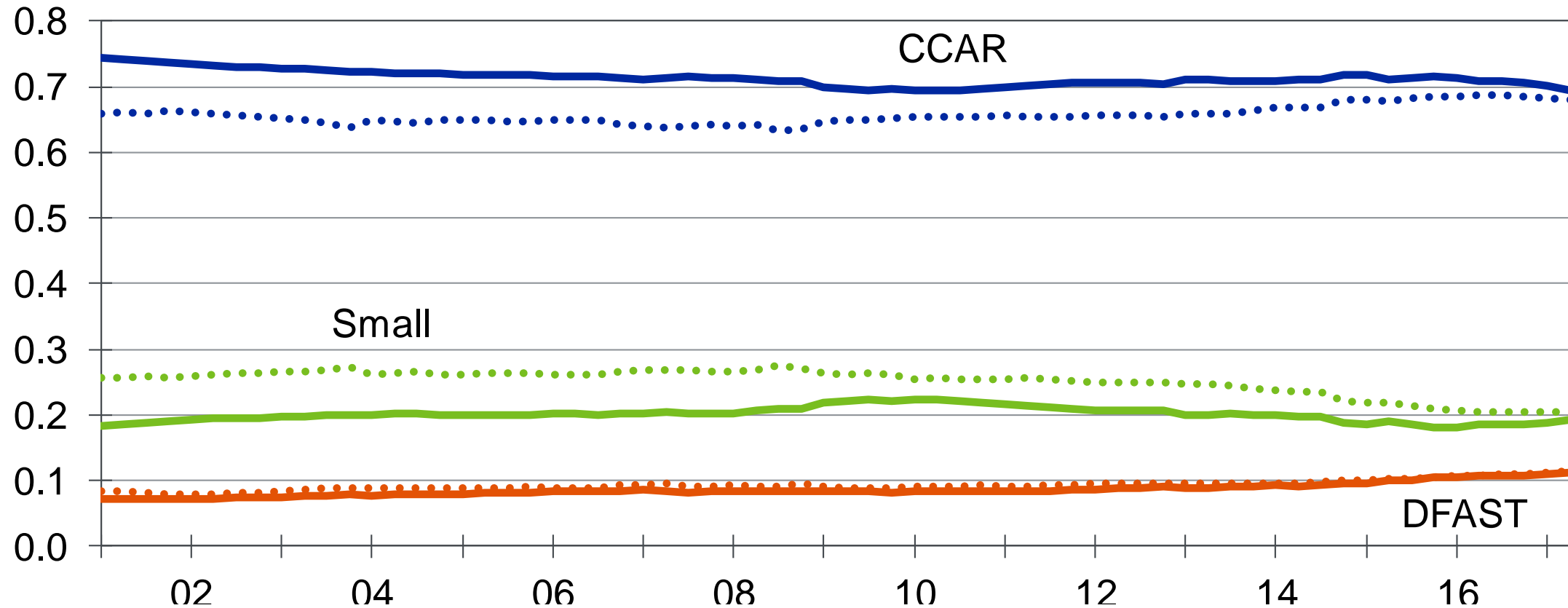
Tier 1 capital ratio, %



Sources: FDIC Statistics on Depository Institutions, Moody's Analytics

# Capital Now Equalizing Across the Industry

Market share: Tier 1 capital (dotted), RWA (solid)



Sources: FDIC Statistics on Depository Institutions, Moody's Analytics

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What Now for Dodd-Frank?

# What Should Dodd-Frank Become?

- » Big banks still have more risk to run off.
- » Impact of Dodd-Frank on small community banks is large, needs to be better understood, especially with regard to mortgages.
- » Evidence that smaller CCAR banks are disproportionately harmed.
- » DFAST banks are growing fast and gaining in terms of riskiness.
- » Dodd-Frank is succeeding in spreading out systemic risk.
- » Distinguish between the DFAST and CCAR stress tests.
- » Make CCAR procedurally more efficient without reducing capital controls or effectiveness of the stress test.

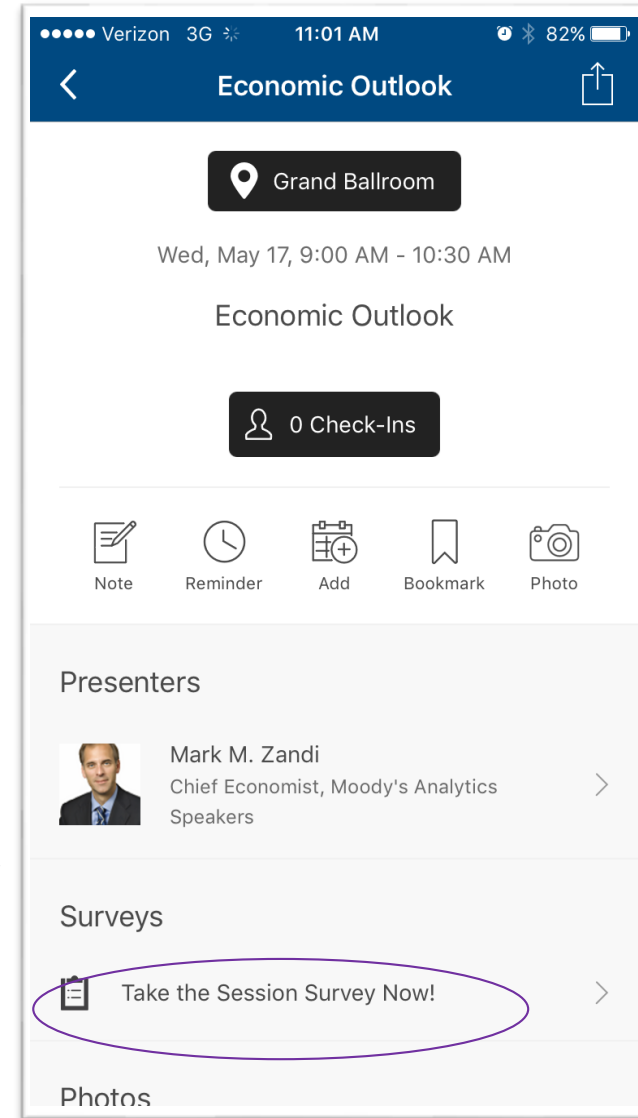
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Q&A

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