GAO Highlights

Highlights of GAO-16-169, a report to congressional addressees

December 2015

DODD-FRANK REGULATIONS

Impacts on Community Banks, Credit Unions and Systemically Important Institutions

Why GAO Did This Study

The 2010 Dodd-Frank Act requires or authorizes various federal agencies to issue rules to implement reforms intended to strengthen the financial services industry. The act, as amended, includes a provision for GAO to annually study these regulations. This report examines (1) the regulatory analyses federal agencies conducted in Dodd-Frank Act rulemakings and interagency coordination in the rulemaking process; (2) the possible impact of selected Dodd-Frank Act provisions and related rules on community banks and credit unions; and (3) the possible impact of selected Dodd-Frank Act provisions and their implementing rules on financial market stability.

GAO reviewed *Federal Register* releases for 26 Dodd-Frank Act rules that became effective July 23, 2014-July 22, 2015 to determine if agencies conducted the required regulatory analyses and coordination. Separately, GAO examined nine Dodd-Frank Act rules that were effective as of October 2015 for their impact on community banks and credit unions. GAO chose these rules because regulators and others expected them to affect these institutions. GAO analyzed data on community banks and credit unions from 2010 to 2015, reviewed studies, and interviewed staff from federal financial agencies and market participants. Additionally, GAO developed indicators on the impact of systemic risk-related provisions and rules and conducted an economic analysis to assess the act's impact on large bank holding companies.

Regulators provided technical comments, which were incorporated as appropriate.

View GAO-16-169. For more information, contact Lawrance Evans, Jr. at (202) 512-8678 or evansl@gao.gov.

What GAO Found

Federal financial agencies conducted required regulatory analyses for rules issued pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and also reported required coordination. These agencies also addressed key elements of Office of Management and Budget guidance for conducting cost-benefit analyses for rules considered major—rules likely to result in an annual impact on the economy of $100 million or more, among other things.

With regard to select Dodd-Frank Act rules expected to have impacts on community banks and credit unions, community banks, credit unions, and industry associations GAO interviewed cited an increase in compliance burden associated with these rules. This included increases in staff, training, and time allocation for regulatory compliance and updates to compliance systems. Some of these industry officials also reported a decline in specific business activities, such as loans that are not qualified mortgages, due to fear of litigation or not being able to sell those loans to secondary markets. The results of surveys we reviewed suggest that there have been moderate to minimal initial reductions in the availability of credit among those responding to the various surveys and regulatory data to date have not confirmed a negative impact on mortgage lending. However, these results do not necessarily rule out significant effects or the possibility that effects may arise in the future. Federal financial regulators are conducting retrospective analyses of Dodd-Frank Act rules on small entities. GAO developed indicators associated with resources used to comply with regulations and with business lines that may be affected by Dodd-Frank Act regulations to provide baselines against which to monitor future trends. For example, GAO's indicators suggest that residential mortgage loans as a fraction of assets have generally grown for banks of all sizes and for some smaller credit unions but have decreased for larger credit unions. However, changes in GAO's indicators may reflect factors other than the influence of Dodd-Frank Act rules, such as consumer demand for credit.

The full impact of the Dodd-Frank Act remains uncertain because many of its rules have yet to be implemented and insufficient time has passed to evaluate others. Using recently released data, GAO updated indicators from its prior reports that monitor key risk characteristics of large U.S. bank holding companies, and added new indicators that monitor interconnectedness. Although changes in the indicators are not evidence of causal links to the act's provisions, some indicators suggest companies' leverage generally decreased and liquidity generally improved since the act's passage. GAO's updated regression analysis suggests that the act has had little effect on the funding costs of these companies and may be associated with improvements in some measures of their safety and soundness. Indicators associated with the act's swap reforms suggest that holding companies have been requiring their counterparties to post a greater amount of collateral against derivatives contracts. GAO also developed indicators to monitor key risk characteristics of nonbank financial companies designated for supervision by the Board of Governors of the Federal Reserve System. Because few rules for these companies have been finalized or implemented, these indicators provide a baseline against which to monitor future trends.