

# **2018 Recap and 2019 Look-ahead: Financial Regulation**

Overview of congressional and administrative actions around infrastructure with potential agenda items for next year


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**Producer**

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# Roadmap

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- 2018 Recap: Congress
  - 2018 Recap: Trump Administration
  - Midterm Elections: Committee Impacts
  - 2019 Look-ahead: Congress
  - 2019 Look-ahead: Trump Administration
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# Major congressional actions in 2018 on Financial Regulation



## S. 2155 – Dodd-Frank reform

### Background

- Republicans worked with moderate Democrats to change some parts of the Dodd-Frank banking regulation
- The resulting bill significantly loosened regulations for medium-sized and regional banks
- Key outcomes included raising the threshold for banks' designation as systemically important and changed capital requirements for banks

**Status:** Signed into law on 5/24/18



## CFPB director confirmation

### Background

- Acting CFPB Director Mulvaney (also OMB director) instituted many reforms in 2018
- Mulvaney was a harsh critic of the CFPB before taking over as Acting Director. He sharply cut the bureau's enforcement work, saying he opposed "regulation by enforcement"
- Kathy Kraninger, who worked for Mulvaney at the OMB, became CFPB's Senate-confirmed director on Dec. 11<sup>th</sup>

**Status:** Kathy Kraninger took office 12/11/18



## JOBS Act 3.0

### Background

- Bipartisan effort by Rep. Maxine Waters (D-CA) and Rep. Jeb Hensarling (R-TX)
- House passed the bill (S. 488) with over 400 votes
- Package of 32 different bills mostly aimed at cutting regulations and promoting capital accumulation for smaller businesses
- Despite bipartisan House support, the Senate has not taken up the bill for consideration

**Status:** Passed House 7/17/2018, but stalled in the Senate

Sources: Congressional Research Service, "Economic Growth, Regulatory Relief, and Consumer Protection Act, and Selected Policy Issues," June 6, 2018. Mick Mulvaney, memo, January 23, 2018, accessed through ProPublica, Jeb Hensarling, House Floor speech, November 29, 2018.

# Trump administration 2018 recap: financial regulation



## Powell confirmed and stress tests relaxed

- The Federal Reserve proposed changes to stress testing of big banks
- Changes include making scenarios more consistent from year to year and taking public input into account when designing the tests
- Medium and regional banks may switch to a biennial schedule of testing



## Interest rate rises

- The Federal Reserve's board repeatedly raised interest rates this year, responding to strong economic data
- President Trump sharply criticized these raises, but Fed Chairman Powell has not directly responded in public
- The impact of rising interest rates on banks has been unclear, but some observers suggest that rising rates have slowed stocks' long bull market



## Capital requirements













- Several different proposals from regulatory agencies have included plans to adjust the capital that banks hold to protect their stability
- One proposal is to tailor the enhanced supplementary leverage ratio (ESLR) including a new risk-weighted standard
- Regulators also proposed changing the liquidity coverage ratio



In my opinion, we are doing really well. Our companies are doing really well. If the Fed is going to act reasonably and rationally, I think we'll go – I think we are a rocket ship going up.”

— President Trump

# Democrat's victory in House elections will put familiar Democrats in House Financial Services leadership roles

Committee	Chair	Ranking member
Senate Banking, Housing and Urban Affairs	 Mike Crapo (R-ID)	 Sherrod Brown (D-OH)
<ul style="list-style-type: none"> <li>Subcommittee on Financial Institutions &amp; Consumer Protection</li> </ul>	 Pat Toomey (R-PA)	 Elizabeth Warren (D-MA)
<ul style="list-style-type: none"> <li>Subcommittee on Securities, Insurance &amp; Investment</li> </ul>	 Richard Shelby (R-AL)	 Mark Warner (D-VA)
House Financial Services	 Maxine Waters (D-CA)	 Patrick McHenry (R-NC)
<ul style="list-style-type: none"> <li>Subcommittee on Capital Market, Securities &amp; Investment</li> </ul>	 Carolyn Maloney (D-NY)	 Bill Huizenga (R-MI)
<ul style="list-style-type: none"> <li>Subcommittee on Financial Institutions and Consumer Credit</li> </ul>	 William Lacy Clay (D-MO)	 Blaine Luetkemeyer (R-MO)

# Potential 2019 financial regulation agenda items for Congress



## Housing finance

### Background

- Retiring Rep. Jeb Hensarling (R-TX) made a last-minute push to reform federal housing finance, including Fannie Mae and Freddie Mac, which may be picked up by other policymakers in the new year
- Federal Housing Finance Agency Director Mel Watt's term ends in January, and his replacement could have a contentious confirmation process. Some reports have suggested that Mark Calabria, currently VP Pence's chief economist, will be the nominee

### Potential legislation: "Bipartisan Housing Finance Reform Act"

- Sponsored by Rep. Hensarling (R-TX), Rep. Delaney (D-MA) and Rep. Himes (D-CT)
- Moves many of Fannie Mae and Freddie Mac's functions to a newly-expanded Ginnie Mae



## Potential oversight actions

### Background

- Incoming House Financial Services Chair Maxine Waters (D-CA) identified several potential areas for oversight
  - CFPB's decrease in enforcements
  - Subpoenas to banks on lending practices
  - Anti-money laundering



I welcome the opportunity to continue the fight for consumers, investors, renters, homeowners, and the homeless into the 116<sup>th</sup> Congress as Chairwoman of the [Financial Services] Committee."

— Rep. Maxine Waters (D-CA)

# Potential 2019 financial regulation agenda items for the Trump administration



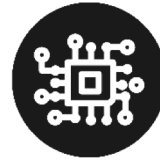
## Continued regulatory tailoring

- Although regulators released many proposals for rulemaking or revision to regulations, many of these actions have not yet been finalized
- Much of 2019 for financial regulation will be following through on this year's proposals



## S. 2155 implementation

- Much of S. 2155 provides discretion for regulators to tailor the implementing rules
- Some points of the law have not yet been proposed through regulatory rulemaking
- Republican lawmakers will likely press agencies to implement the law more quickly



## Fintech

- Regulators across agencies have identified promoting fintech innovation as a key priority, and will likely continue this push in the new year
- Possible actions include new fintech regulatory sandbox programs
- This effort will likely require cooperation between agencies as well as cooperation between state and federal policymakers



This is all about the Dodd-Frank disaster and [Congress] fixed it or at least have gone a long way toward fixing it.”

— President Trump