THE DODD–FRANK ACT

Reforming Wall Street And Protecting Main Street

U.S. Department of The Treasury

January 2017

WALL STREET REFORM: SAFER AND STRONGER

OVER SIX YEARS OF STEADY PROGRESS TOWARD A SAFER, STRONGER FINANCIAL SYSTEM THAT BETTER PROTECTS TAXPAYERS, CONSUMERS, AND MAIN STREET COMMUNITIES

In July 2010, Congress passed and President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act – the most comprehensive set of reforms to our financial system since the Great Depression.

Despite global uncertainties, the U.S. economy has demonstrated strength and durability. Today, nearly all of the major elements of financial reform are in place, our financial system is safer and stronger, and our economy continues to grow and create jobs. Wall Street Reform is serving as a building block for economic growth, providing Americans with safe places to invest their savings, and enabling banks to lend to individuals, businesses, and communities.

The Department of the Treasury continues to chart the progress made since the enactment of Dodd-Frank. This presentation has been updated with the most current data available.

These landmark reforms were built around **three pillars**:

1. **FINANCIAL STABILITY**—New rules put in place over the last six and a half years require banks to be better capitalized and more focused on the business of banking, so that they are better able to serve as safe places for families to deposit their savings and to extend credit to consumers and businesses. Wall Street Reform means that the costs of excessive risk-taking in the financial system will never again be borne by taxpayers. Further, the new Financial Stability Oversight Council remains vigilant—shedding light on potential emerging threats that were previously hidden and bringing large parts of the shadow banking system into the sunlight, subjecting them to stronger oversight and supervision.

2. **TRANSPARENCY IN FINANCIAL MARKETS**—Prior to Wall Street Reform, the $600 trillion derivatives market was a massive web of hidden interconnections. Losses connected to derivatives, and fears of widespread contagion, played a central role in the crisis—accelerating the panic dramatically after Lehman failed and AIG nearly collapsed. Today, standardized derivatives are required to be centrally cleared and traded transparently. Other efforts at transparency have increased disclosure of executive pay practices, and the new Office of Financial Research is highlighting activities across financial markets.

3. **CONSUMER PROTECTION**—In the run-up to the financial crisis, abusive lending practices and unclear underwriting standards resulted in risky mortgages that hurt consumers and ultimately threatened financial stability. Wall Street Reform bans many of the abusive practices in mortgage markets that helped cause the crisis, and requires lenders to determine that borrowers can repay their loans. To make sure these rules are followed and to safeguard consumers of other financial products, Wall Street Reform established the Consumer Financial Protection Bureau, the first-ever regulator dedicated to protecting consumers from predatory practices in consumer financial products and services.

THE RESURGENT ECONOMY

When the President took office the economy was shrinking at its fastest rate in 50 years, and businesses were shedding an average of more than 750,000 jobs per month. Though we avoided a depression, the damage from the crisis was immense, and the acceleration of the panic in 2007 and 2008 was a sobering reminder of how recklessness on Wall Street can lead to pain on Main Street.

As a result of the crisis:

- **Nearly 9 million jobs were lost, and the unemployment rate reached 10 percent, a level not seen in over 25 years;**
- **More than 5 million Americans lost their homes; and**
- **Over $10 trillion of household wealth was erased.**

And it could have been worse – during the Great Depression, the unemployment rate rose to 25 percent and an entire decade of growth was lost. Without emergency measures, the reckless behavior of financial institutions would have caused even greater losses. We should remember that amount of damage when financial institutions complain about the relatively modest costs of regulation.

Since that time, the policies put in place by this Administration and Congress have helped produce a sustained economic recovery and a dramatic decline in the deficit, while setting the stage for future, broadly shared growth.

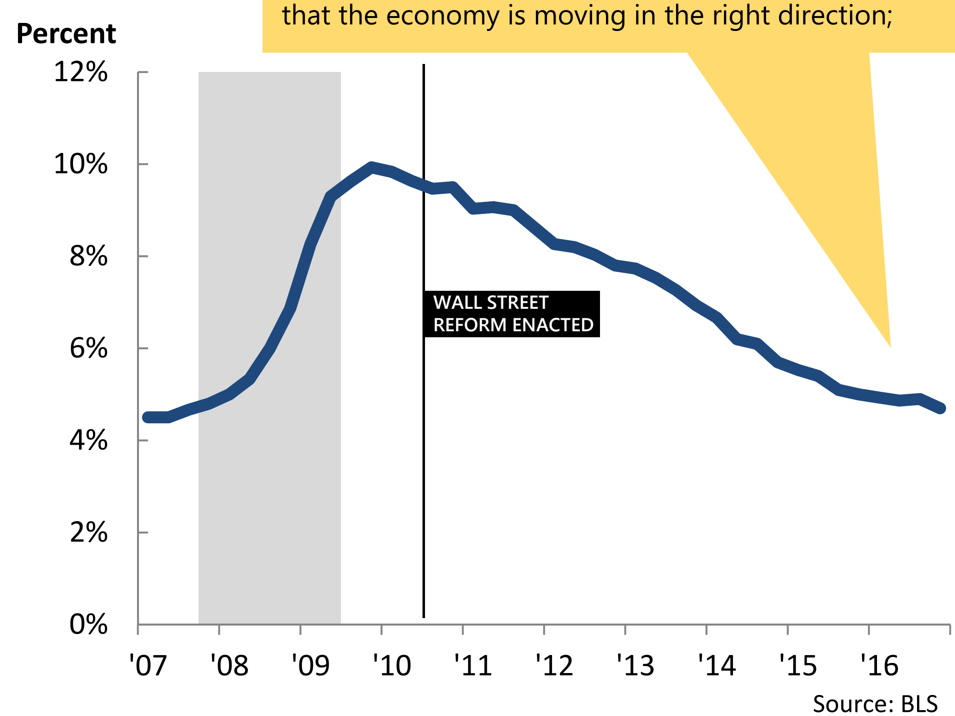
The Resurgent Economy: **Progress Made Since the Financial Crisis**

Over the past six and a half years, as Wall Street Reform has been implemented, an economic recovery has taken hold and economic conditions for households and businesses around the country have improved:

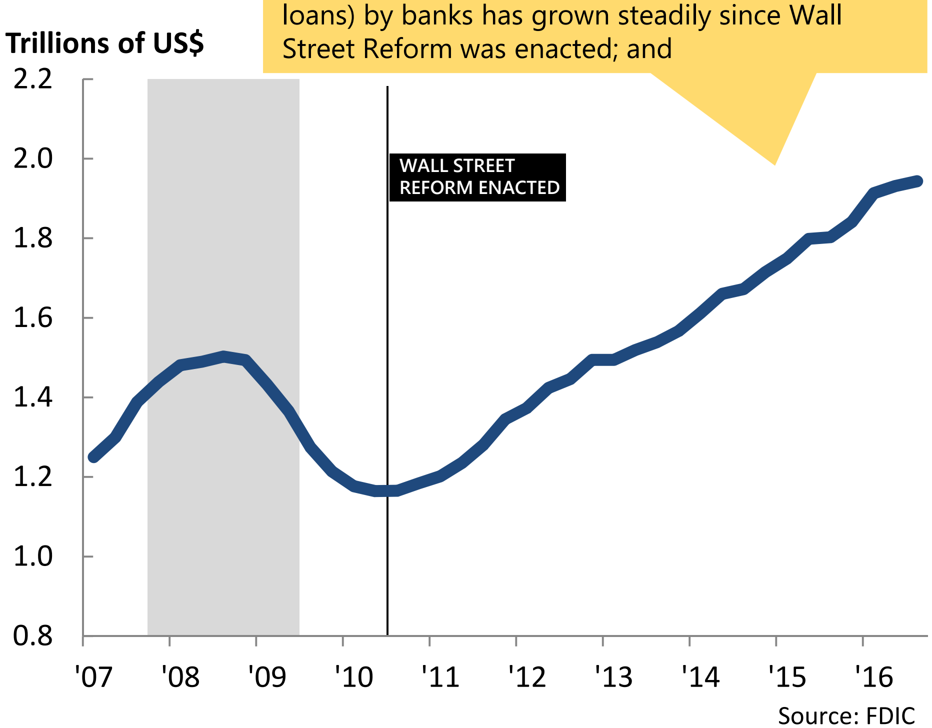
- The private sector has created more than **15 million** new jobs over the last 77 months;
- Nominal household net worth has grown by about **$30 trillion**, exceeding pre-crisis levels; and
- Business lending has climbed over **60 percent**.

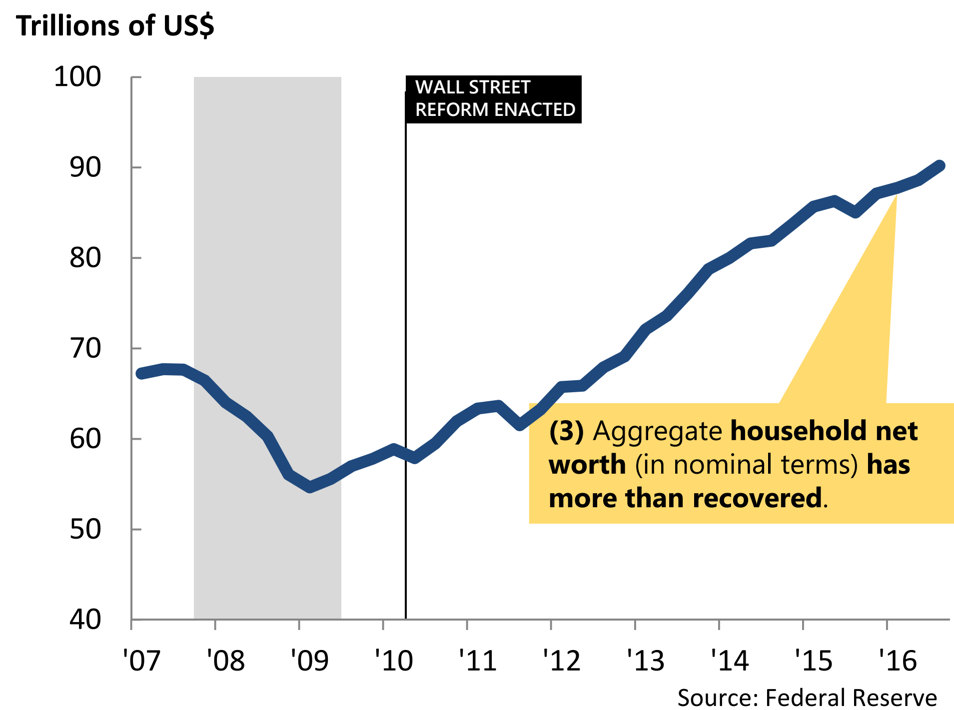
At the same time, the federal deficit has dropped from nearly 10 percent of GDP in 2009 to an average of less than 3 percent since 2014.

(1) Unemployment has declined to below 5 percent from its October 2009 peak of 10 percent, a strong sign that the economy is moving in the right direction;



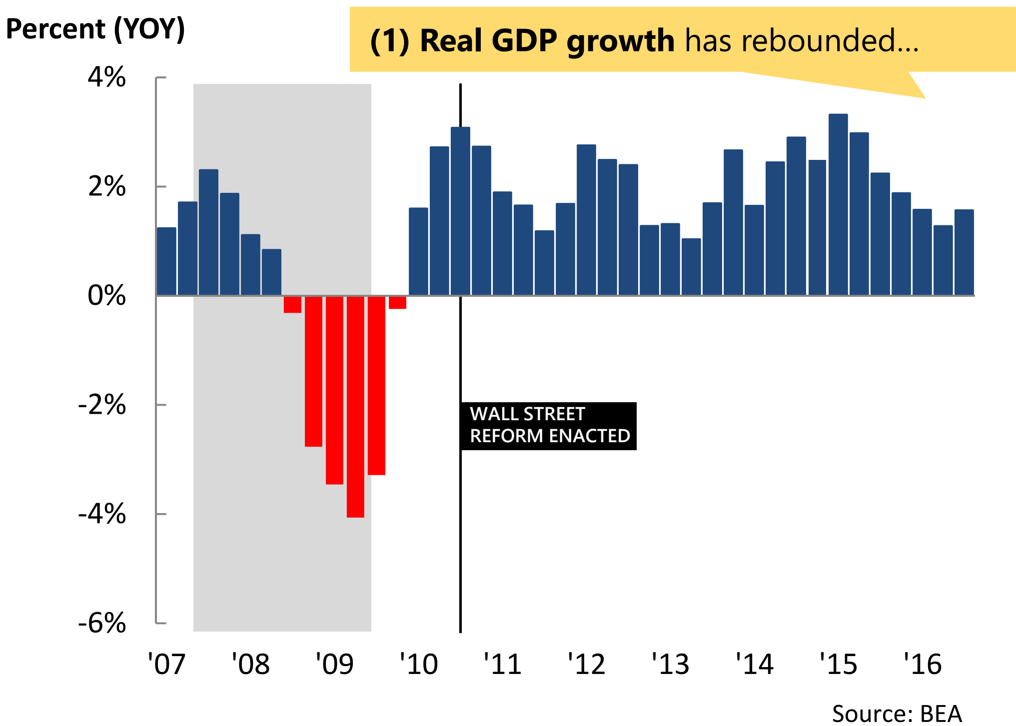
(2) Business lending (commercial and industrial loans) by banks has grown steadily since Wall Street Reform was enacted; and

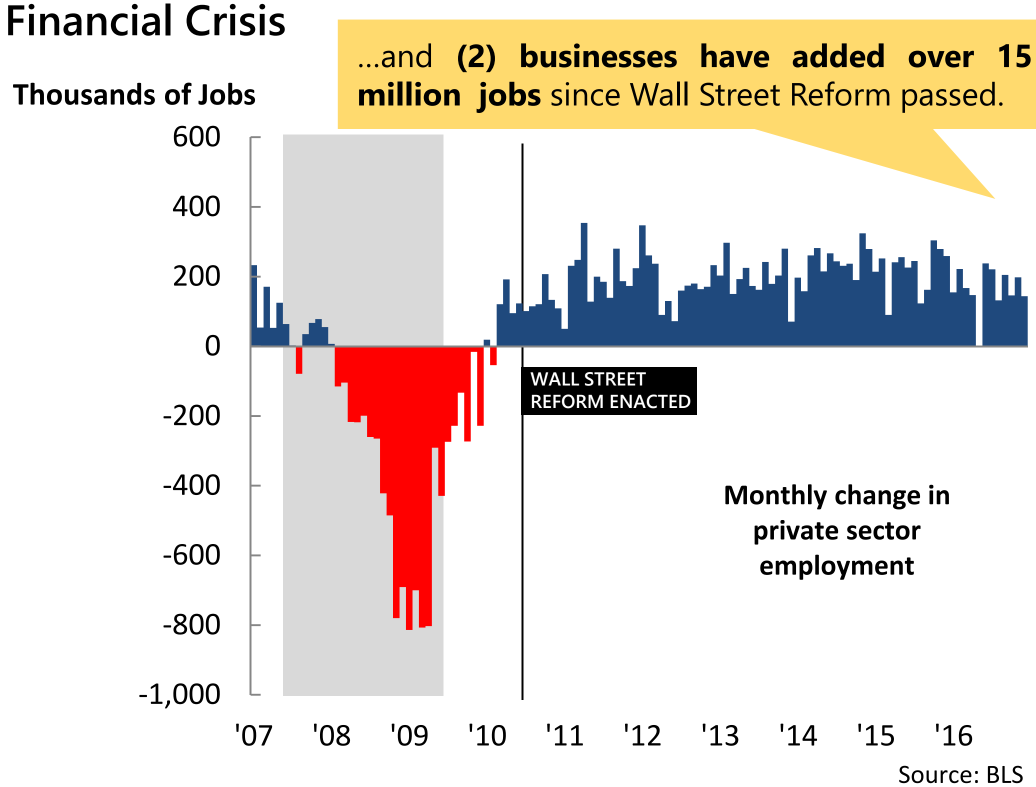


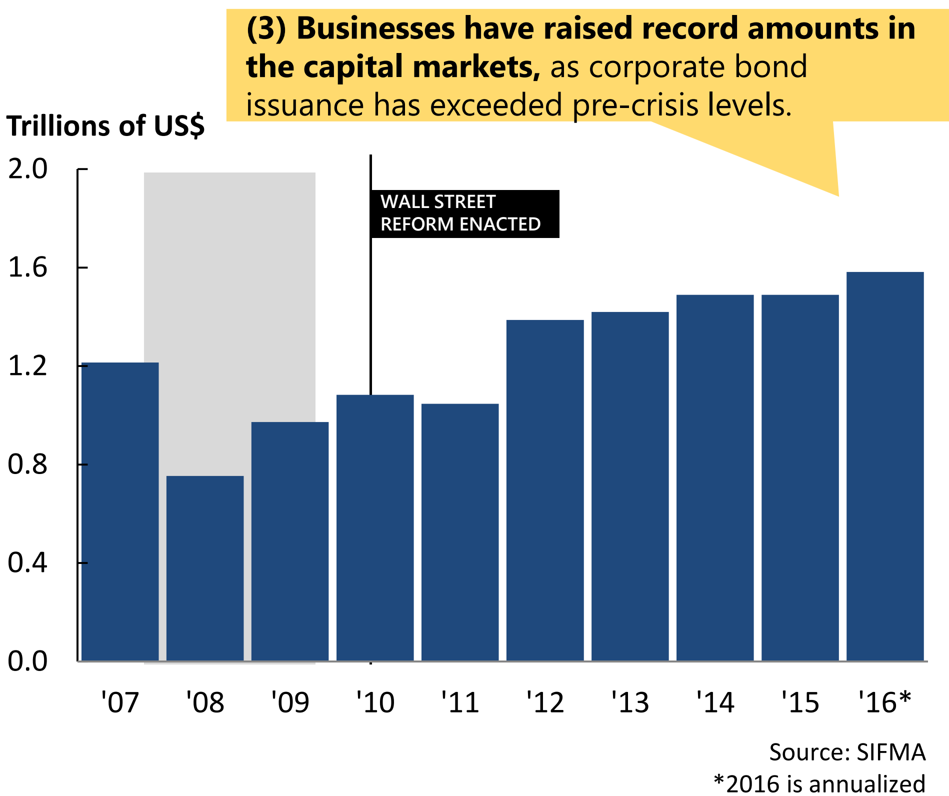


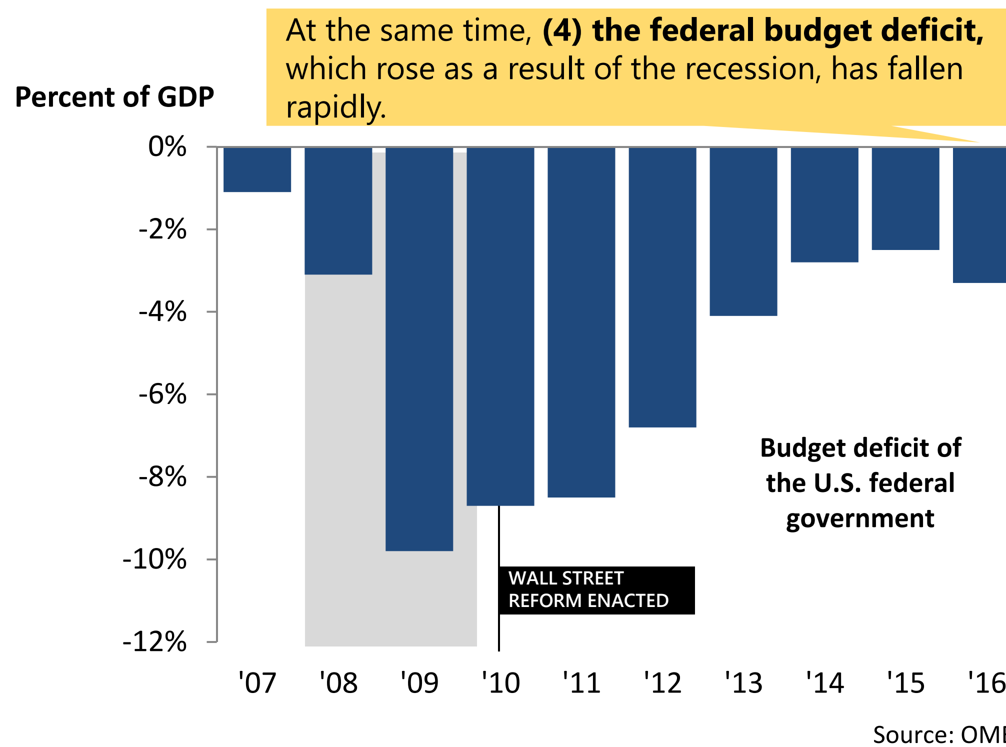
(3) Aggregate **household net worth** (in nominal terms) **has more than recovered**.

The Resurgent Economy: **Progress Made Since the Financial Crisis**









FINANCIAL STABILITY

In 2008 we saw how **financial instability** affects all Americans: how recklessness on Wall Street harms individuals, businesses, and communities on Main Street; how shoddy lending practices cost people their homes; and how unregulated firms and markets can derail our financial system.

Wall Street Reform has helped put the financial system on a firmer foundation by:

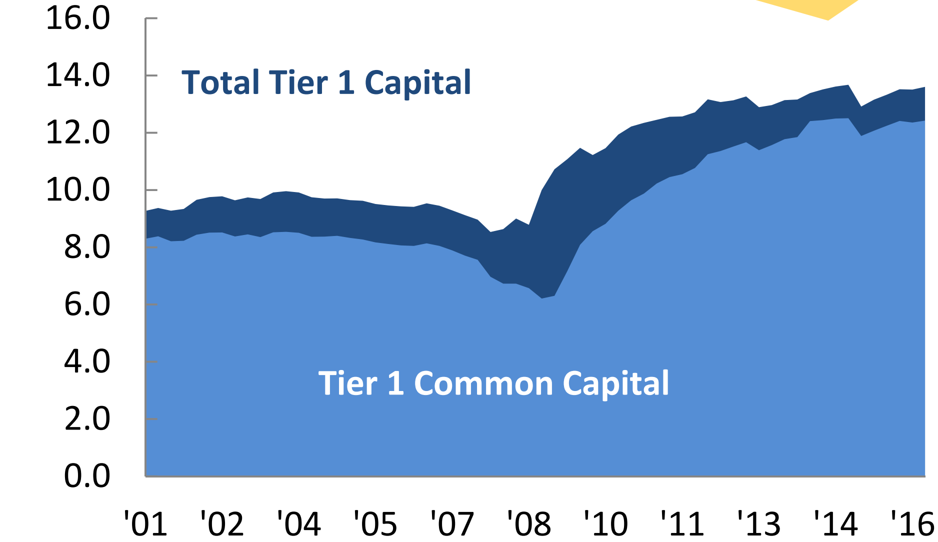
- **Requiring safer balance sheets**, more capital, more liquid assets, and less risky funding;
- **Promoting simpler structures**, **mandating the creation of living wills**, **and providing new tools for resolution** in the event of a possible failure, so that financial companies are not too big to fail;
- **Requiring that banks focus on the business of banking and serving their customers**, rather than speculating for their own gain; and
- **Fostering accountability for the stability of the financial system as a whole** through the efforts of the Financial Stability Oversight Council.

Financial Stability: **Making Banks Safer and Sounder**

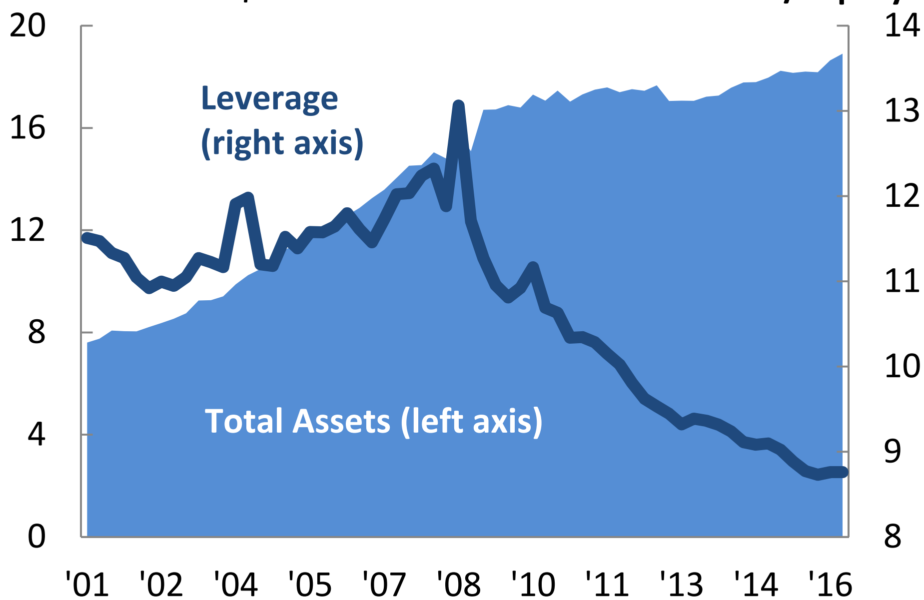
Wall Street Reform recognized that we must take action to reduce risk at the largest and most complex financial institutions. Leading up to the crisis, large financial firms took excessive risk without adequate capital, liquidity, and supervision. Wall Street Reform targets these problems directly, requiring "enhanced prudential standards" for certain large financial firms while also providing flexibility for regulators to tailor these rules based on firms' business models, riskiness, and size.

- Over the last seven years, banks have added more than **$700 billion of additional capital**, and can now withstand severe losses while still supporting the real economy.
- At the same time, banks have **reduced their leverage**, making them more stable and less reliant on borrowed money.
- Moreover, banks have also **increased their holdings of liquid assets** above pre-crisis levels, which increases their resilience to stress.

(1) U.S. banks hold significantly more capital and **(2)** have significantly less leverage than before the crisis.



Source: Federal Reserve

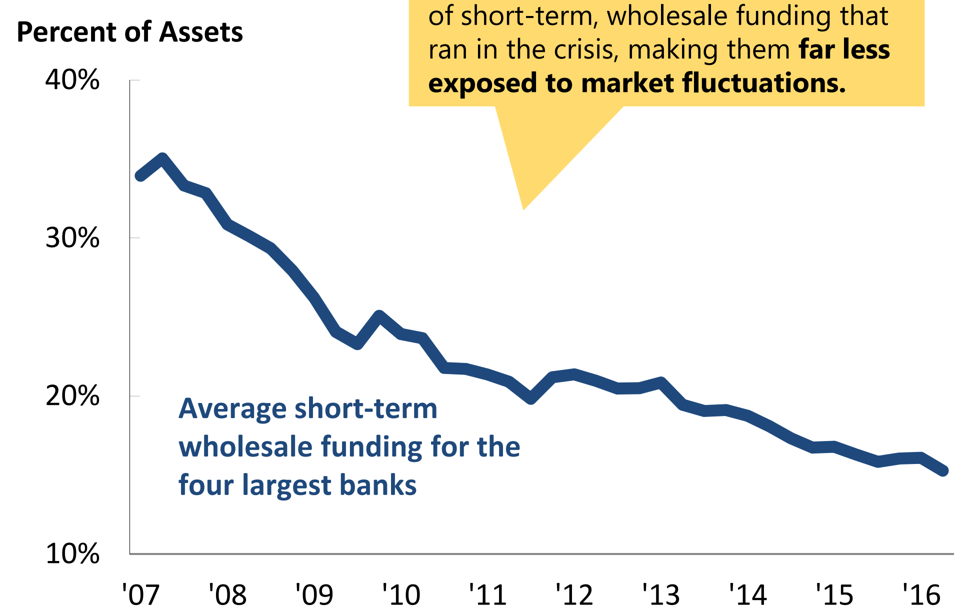


Source: Federal Reserve

Financial Stability: **Increasing the Resiliency of Firms**

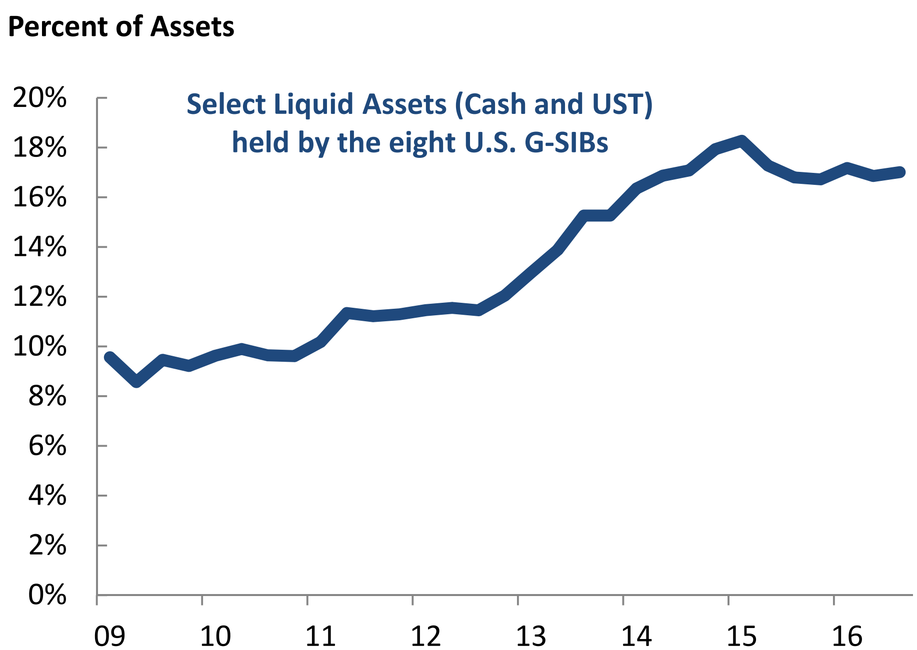
Banks have **reduced their reliance on short-term wholesale funding**, replacing this funding with more stable sources—such as deposits, long-term debt, and capital —that are less prone to runs during periods of stress in financial markets. Other reforms have led to a reduction in intraday credit in the tri-party repo market and the adoption of a floating net asset value and other reforms for certain money market mutual funds, **making the financial system less susceptible to runs and panics**.

(1) Banks are less reliant on the types of short-term, wholesale funding that ran in the crisis, making them **far less exposed to market fluctuations.**



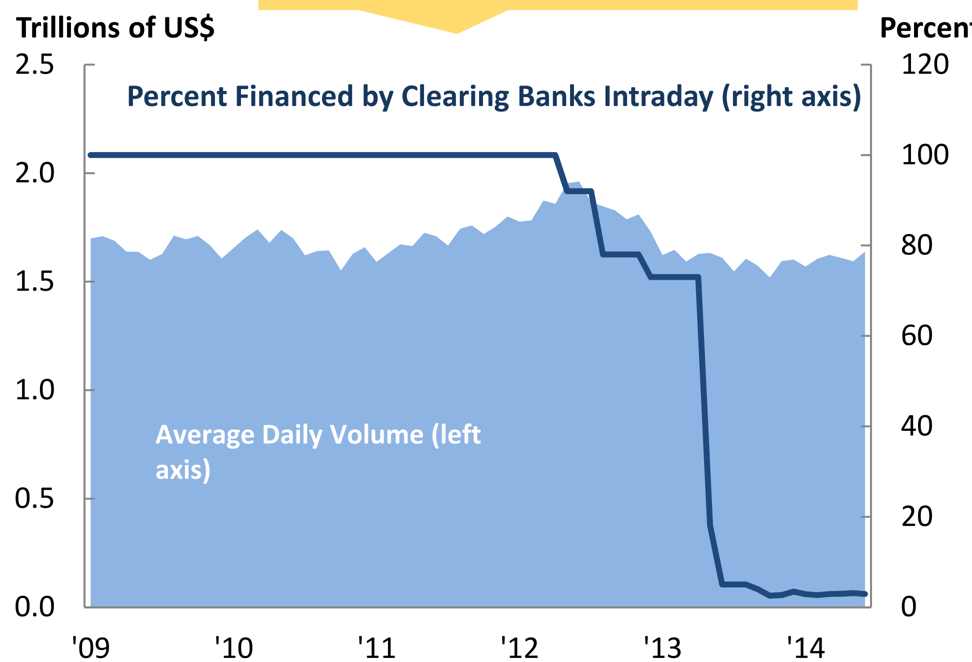
Source: SNL data

(2) Banks have **more liquid assets**, allowing them to more easily navigate a rocky funding environment.



Source: Federal Reserve

(3) Intraday credit has dropped **to less than 10 percent, making the repo market safer.**



Source: Federal Reserve Bank of NY

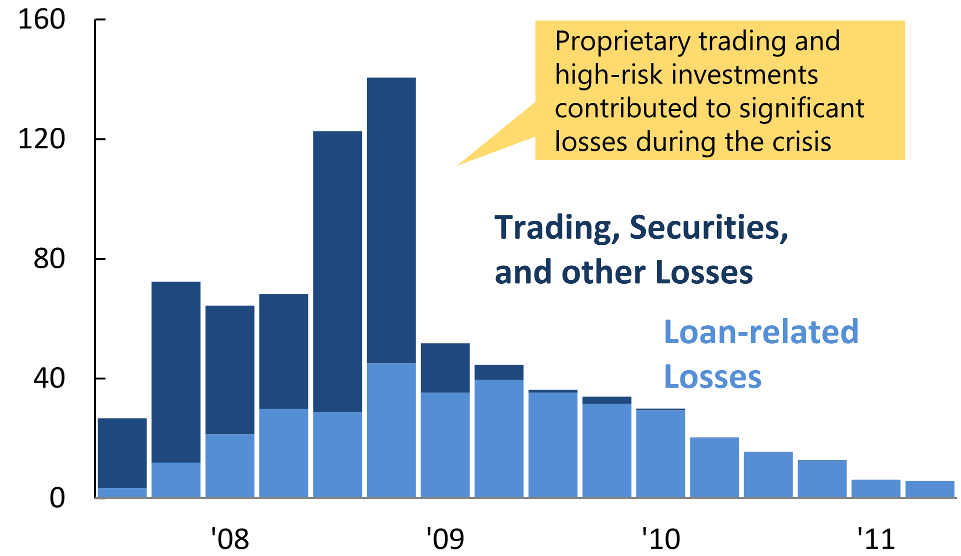
Note: % financed by clearing banks Intraday does not include GCF repo.

Financial Stability: **Serving Customers, Banning Proprietary Trading and Certain High-Risk Investments**

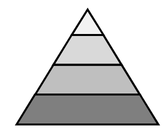
The Volcker Rule curbs excessive risk-taking by banks that enjoy the safety net of FDIC insurance and access to the Federal Reserve's discount window. With the Volcker Rule, banks are now required to focus on the business of banking rather than engaging in the types of risky behavior that helped lead to the crisis.

- It **prohibits proprietary trading** like the "London Whale" transactions while **protecting essential economic activities like market-making and underwriting**, and imposing tough restrictions on investing in private equity and hedge funds.
- The regulations implementing the rule establish a **tiered compliance regime** based on the nature and size of a banking entity's activities, focusing the most stringent requirements on the largest banks that can pose the greatest risks to financial stability.
- It **exempts smaller banks** that do not engage in a significant amount of proprietary trading or investments in funds from unnecessary compliance and reporting requirements.
- It **maintains depth and liquidity of U.S. capital markets while promoting stability** by explicitly permitting banks to engage in market-making, underwriting, risk-mitigating hedging, and trading in certain U.S. and foreign government obligations, among other activities.

Losses For Large U.S. Banks ($B)



Source: Bloomberg



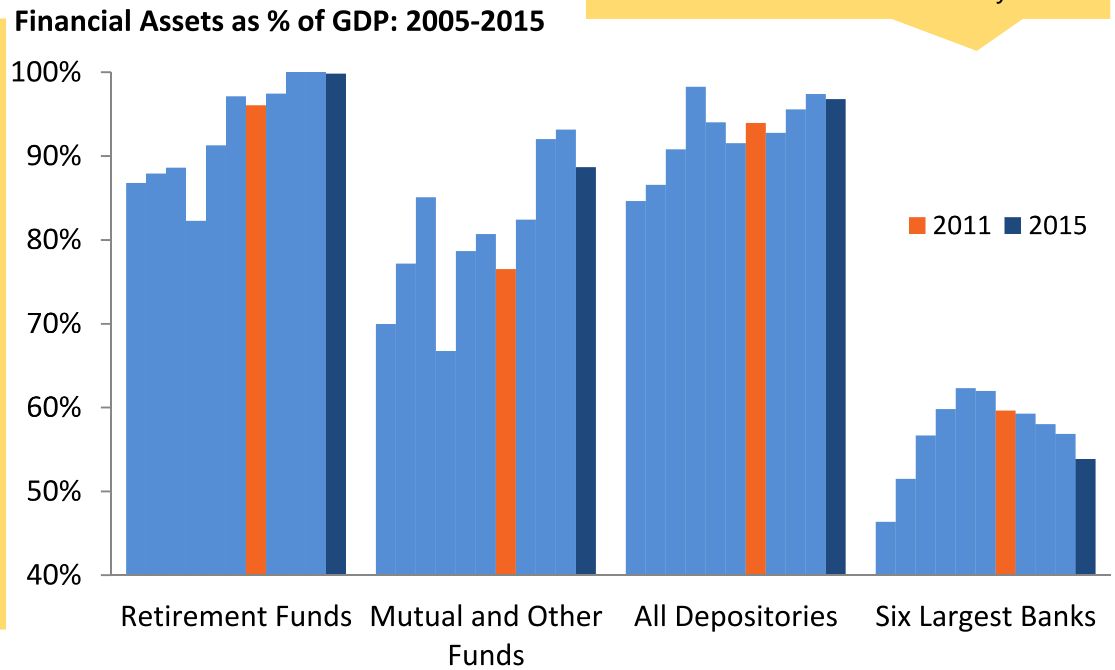
Tone at the Top

The regulations **require large bank CEOs to attest** to the maintenance and enforcement of their firms' compliance programs to promote effective implementation and to help foster a "tone at the top" that reinforces a firm-wide culture of compliance.

Financial Stability: **Ending "Too Big to Fail" and Taxpayer Bailouts**

The assets of our largest banks have declined relative to the economy

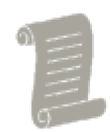
Wall Street Reform ends taxpayer bailouts and too big to fail as a matter of law. Large financial firms are now subject to regular stress-testing, and they must develop road maps for their own resolution, so they can be unwound with minimal disruption. These tools allow regulators to safely wind down a failing financial firm, preventing costs to taxpayers and damage to the economy. These steps make the system stronger and more stable by **forcing firms to bear the costs of their own risk-taking.**



Source: Federal Reserve

Stress Tests

- The Federal Reserve now conducts annual reviews of the nation's largest banks to assess their ability to weather a severe financial storm.
- Helps maintain investor confidence and encourages the flow of private capital into the banking system.



Living Wills

- Provides a blueprint for the bankruptcy of large financial institutions so that these firms and their regulators can make informed decisions in the event of distress or failure.
- As of today, the largest U.S. and foreign banking organizations have all submitted living wills to the Federal Reserve and FDIC.

Resolution

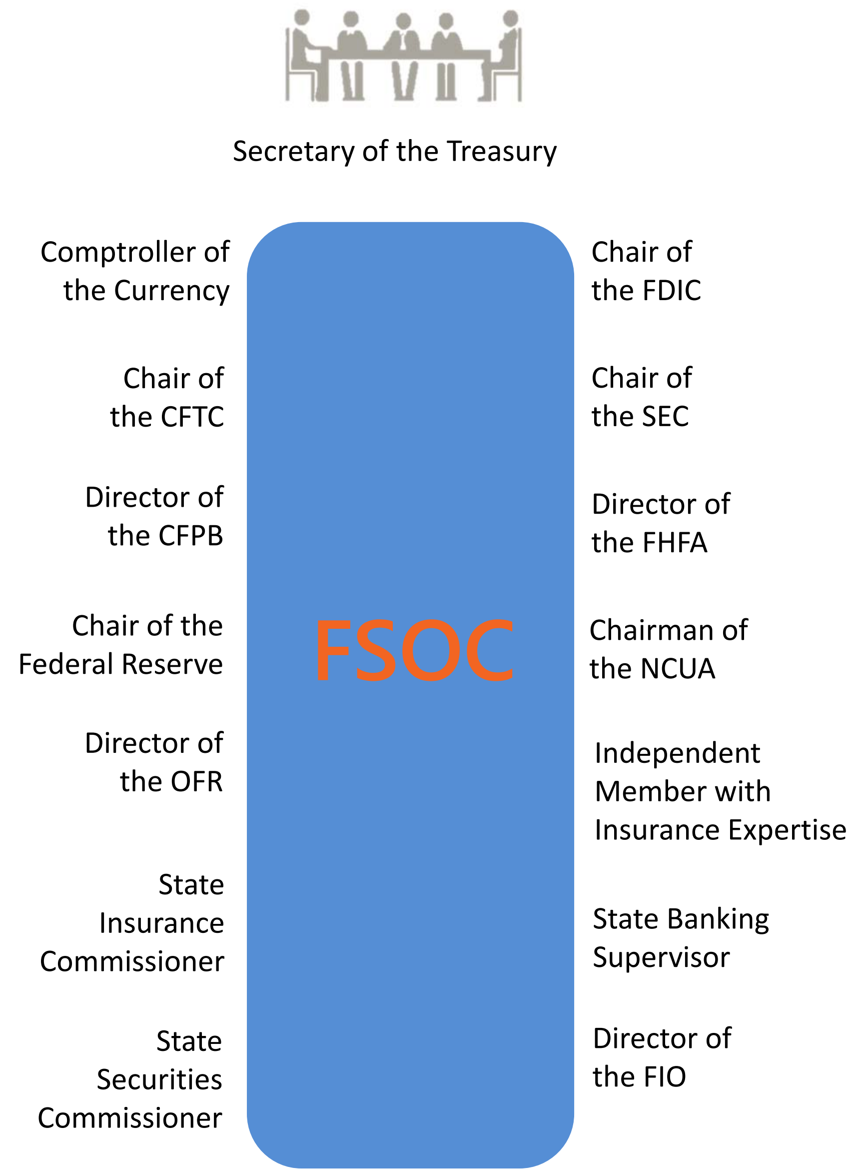
- Orderly liquidation authority gives regulators legal tools for winding down large financial companies, similar to the authorities they have long used to wind down banks, to:
  - Prevent serious adverse effects on U.S. financial stability, and
  - Prevent taxpayers from ultimately bearing the losses.

 Fostering Greater Regulatory Coordination and Focus on Financial Stability

The near-collapse of AIG showed how weaknesses in regulatory oversight can allow risks to grow, until those risks suddenly threaten financial stability.

To guard against regulatory silos and hidden risks, Wall Street Reform created the Financial Stability Oversight Council (FSOC), whose membership includes the heads of the financial regulatory agencies, and charged it with monitoring the financial system to identify risks to financial stability, promote market discipline, and respond to emerging threats to financial stability. Over the past six years, the FSOC has:

- **Designated financial market utilities** (firms critical to the financial system's plumbing) for enhanced risk-management standards **and nonbank financial companies** for heightened supervision by the Federal Reserve;
- **Rescinded the designation of a nonbank financial company** after it implemented fundamental changes to its balance sheet, funding model, and corporate structure in ways that significantly decreased its systemic footprint;
- Proposed recommendations on **structural reforms to money market mutual funds**, to reduce the potential for investor runs;
- Studied **potential risks related to asset management products and activities,** including liquidity and redemption risk in mutual funds, and established an interagency working group to further analyze risks related to the use of leverage by hedge funds;
- **Convened more than 60 times** to discuss potential risks across the entire financial system; and
- Published **six annual reports** highlighting potential emerging threats and making actionable recommendations.



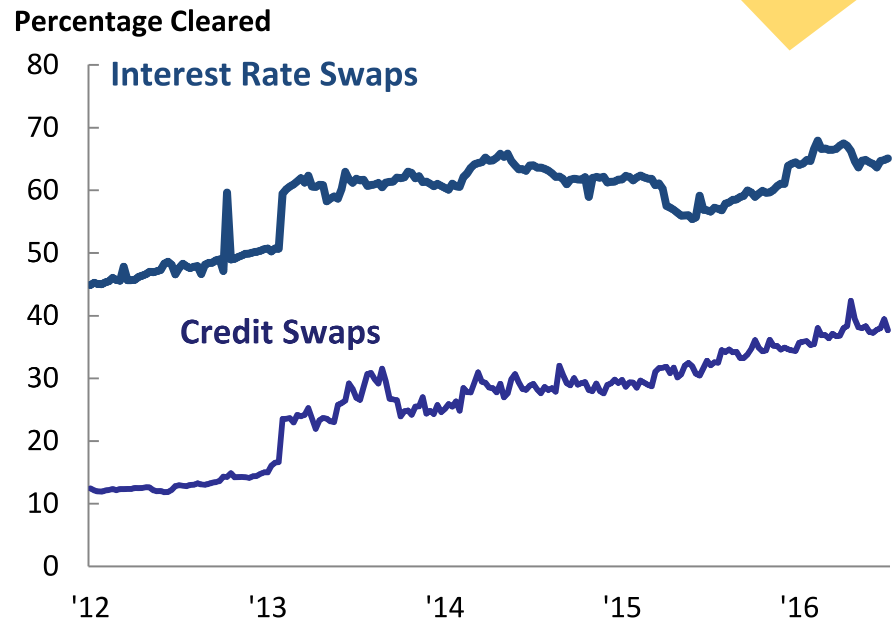
TRANSPARENCY IN FINANCIAL MARKETS

Transparency in Financial Markets: **Reforming the Broken Derivatives Markets**

Prior to Wall Street Reform, the $600 trillion dollar **derivatives market** was largely unregulated, and created a massive web of hidden interconnections. Losses connected to derivatives, and fears of losses rippling through that opaque network, played a central role in the financial crisis. In response, Wall Street Reform established a comprehensive framework to reduce their ability to disrupt the financial system:

- Standardized derivatives are required to be centrally cleared and **traded on exchanges or transparent trading platforms**, with appropriate margining, increasing transparency and reducing risk.
- Dealers, other major swap participants, hedge funds, and other private funds **must keep records** so that regulators and market participants are better able to understand risks in these markets.

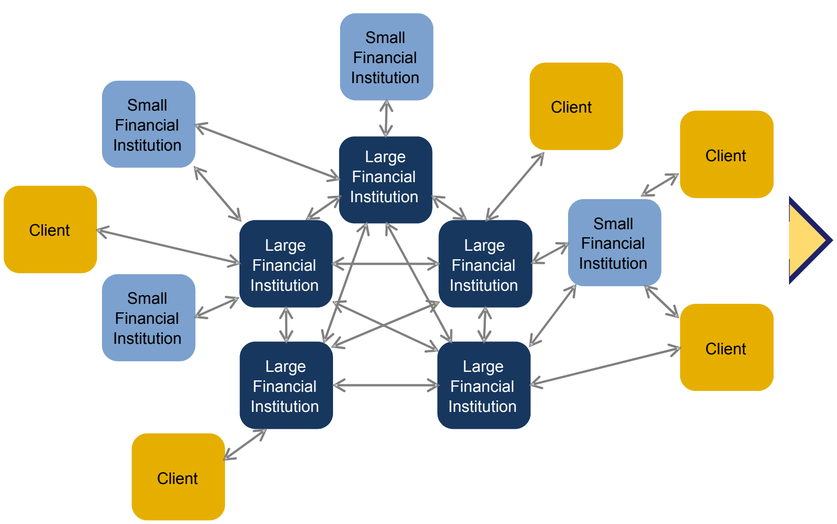
(1) Central clearing has helped **to reduce risk** in derivatives markets



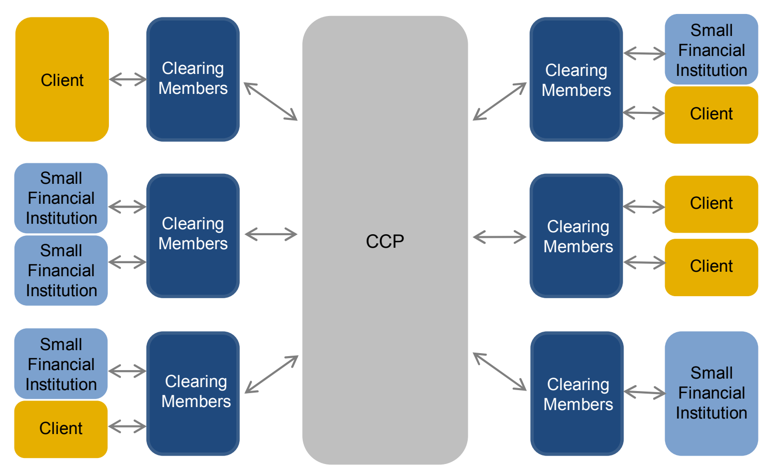
Source: CFTC

...and **(2) to increase transparency.**

Bilateral Derivatives Market (Pre-Dodd-Frank)



Centrally Cleared Derivatives Market (Post-Dodd-Frank)



Note: Clearing members consist mostly of large financial institutions.

Wall Street Reform recognized that **markets require transparency to work properly**. By shining a light on hidden business structures and increasing information for all participants, Wall Street Reform has helped to re-align incentives so that markets work for everyone:

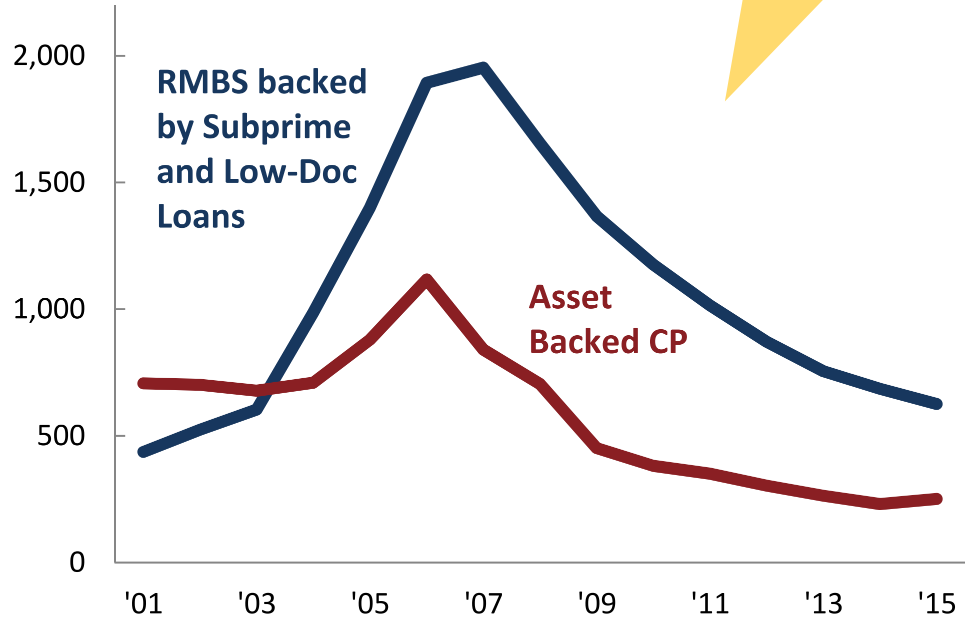
- Wall Street Reform works to align executive compensation with long-term value creation by **increasing disclosure of executive compensation** for publicly traded firms, giving shareholders an advisory "say on pay" for senior executives, and requiring that the board compensation committees are independent.

- Sponsors of asset-backed securities are now **required to provide consistent, asset-level information to investors**, improving clarity regarding the risks associated with these securities. Sponsors are also now required to **retain a portion of the credit risk** associated with the assets collateralizing the securities, better aligning the behavior of originators, securitizers, and investors, and addressing many of the perverse incentives that contributed to the financial crisis.

- New initiatives promote "know before you owe," leading to **clear and easy-to-understand credit card, student loan, and mortgage disclosures** that better inform consumers about the costs and key terms of these products.

Opaque and complex securitized products have continued to contract in size.

Complex Securitized Products Outstanding $B



Source: SIFMA, Federal Reserve

Office of Financial Research (OFR)

- Collects and standardizes financial data, performs essential research, and develops new tools for measuring and monitoring risk across the system.
- Fills gaps in financial data and addresses deficiencies in our understanding of the financial system that were revealed by the financial crisis.

CONSUMER PROTECTION

In the aftermath of the crisis, Federal regulators, the Department of Justice, and other law enforcement agencies have been working together to hold accountable firms that break the rules. The settlements they have reached and enforcement actions they have imposed have delivered real relief to financial consumers.

Wall Street Reform created the Consumer Financial Protection Bureau (CFPB), the first-ever regulator dedicated solely to protecting consumers of financial products and services.

- The CFPB has been establishing and enforcing **clear rules of the road and consumer protections** to prevent the kinds of predatory behavior that contributed to the financial crisis.
- The CFPB protects consumers of a wide range of financial products and services, including **mortgage loans, credit cards, student loans, car loans, deposit products.**
- The CFPB is developing landmark consumer protections for products often targeted to **the unbanked and underbanked, such as prepaid accounts, payday loans, and car title loans.**
- The CFPB also protects consumers with respect to other industry activities, such as **debt collection** and **credit reporting**.

The CFPB provided **$11.7 billion** in restitution for 27 million consumers harmed by financial institutions violating federal consumer financial protection laws, including:

- $3.6 billion in monetary compensation to consumers as a result of enforcement activity
- $7.7 billion in principal reductions, cancelled debts, and other consumer relief as a result of enforcement activity
- $347 million in consumer relief as a result of supervisory activity
    - $440 million to be paid in civil penalties as a result of enforcement work

Know Before You Owe Auto Loans Shopping Sheet provides online guide to help consumers evaluate costs and shop for auto loans

CFPB AUTO LOAN SHOPPING SHEET

Comparing auto loans

Directions: Bring this sheet with you to show you are serious about getting the best loan. The factors you can negotiate are indicated with an icon.

Determine your upfront costs	Example	Choice 1	Choice 2
A. Price of the vehicle	$20,000		
B. Additional features, services or add-ons These are optional and will increase the total cost of the loan.	+ $300	+	+
C. Taxes, title and non-negotiable fees State and local taxes, and title fees.	+ $1,400	+	+
D. Negotiable fees You can negotiate fees such as delivery charges, origination fees, document fees, and preparation fees.	+ $100	+	+
E. **Cost of the vehicle before interest** *(add rows A, B, C & D)*	= $21,800	=	=

Calculate how much you will need to borrow			
F. Down payment A larger down payment will lower the total cost of your loan.	– $3,000	–	–
G. Trade-in value (if you already have a vehicle) A higher trade-in value will lower the total cost of your loan.	– $3,000	–	–
H. **Total amount to finance** *(subtract rows F & G from row E)*	= $15,800	=	=

cfpb Consumer Financial Protection Bureau

Finish finding the total cost on page 2

New Student Loan Assistance Tools

- Published an Action Guide to help students choose the right loan.
- A "Financial Aid Shopping Sheet" that helps students and their families evaluate the cost of college, used by 3,400 colleges.

PAYING FOR COLLEGE

cfpb Consumer Financial Protection Bureau

Choosing a loan that's right for you

We're here to help you navigate the noise

ACTION GUIDE

1 Fill out the FAFSA

You must complete this form to be eligible for any federal student loans or grants. Submit the FAFSA as early as possible. Go to fafsa.ed.gov/deadlines.htm to see the deadlines.

THINGS TO TRY

- Fill out the FAFSA even if you're not sure you'll get the federal aid – schools often use it to award scholarships and other grant aid.
- If you are having trouble filling out the form, contact the Department of Education: studentaid.ed.gov/contact.

How often do student loan rates change?

Once you agree to a federal student loan, your interest rate remains the same until you have paid it off. Interest rates on private student loans are set by the lender and depend on the lender's evaluation of your creditworthiness.

2 Explore all your federal loan options first

If you need to borrow to pay for school, federal student loans almost always cost less than private student loans and have more protections when it's time for repayment.

THINGS TO TRY

- If you are choosing between schools, compare each school's aid offer.
- Take subsidized loans first, if you are eligible.

What's the difference between subsidized and unsubsidized student loans?

The government pays the interest on subsidized loans while you are in school. You pay the interest on unsubsidized loans. Subsidized loans are awarded to students based on financial need.

3 Shop around if your aid package doesn't cover the full cost of college

Talk to your school's financial aid office about alternative scholarships or loan options.

THINGS TO TRY

- Make sure you have exhausted all other options – additional scholarships, cutting costs, a part-time job – before taking out a private loan.
- Shop for lower interest rates and loans that offer flexibility if you have trouble making payments. Remember that whatever the advertised interest rate is, yours could be much higher depending on your creditworthiness.

Should I use a credit card to cover my education costs?

Don't replace student loan debt with credit card debt – it can be a much more expensive way to finance your education. Credit cards do not provide the flexible repayment terms or borrower protections offered by federal student loans.

CFPB provides clear, relevant, and actionable information to help you evaluate your options, navigate difficult decisions, and drive key conversations.

More help with your college finance decisions at consumerfinance.gov/paying-for-college.

In the lead up to the financial crisis, abusive lending practices and poor underwriting standards resulted in risky mortgages that hurt homeowners and borrowers across the country. Wall Street Reform:

- **Addresses abusive practices in mortgage markets**, including by improving disclosure requirements, curbing unfair servicing practices, restricting compensation practices that created conflicts of interest, and establishing protections for high-cost mortgage loans;
- Requires mortgage lenders to make **reasonable, good faith determinations** that a borrower is able to repay her mortgage loan;
- **More than 16 million mortgages are covered** by the CFPB's Ability-to-Repay rule's protections and that number grows every month; and
- **Protects service members** from deceptive mortgage advertising practices, predatory lending schemes, and hidden fees for automatic bill pay services.

Holding Mortgage Servicers Accountable

The CFPB has developed rules that require servicers to:

- Provide borrowers with clear monthly statements;
- Give borrowers earlier warnings about adjustments in interest rates; and
- Inform struggling borrowers about mortgage modifications and other foreclosure alternatives.

Helping Borrowers Obtain an Affordable Mortgage

The CFPB is making it easier to shop for and close on a mortgage by:

- Simplifying loan estimates and closing documents;
- Giving clear warnings about potentially risky features such as pre-payment penalties or rising loan balances; and
- Placing restrictions on closing cost increases, so consumers do not pay more than is listed on their loan estimate.

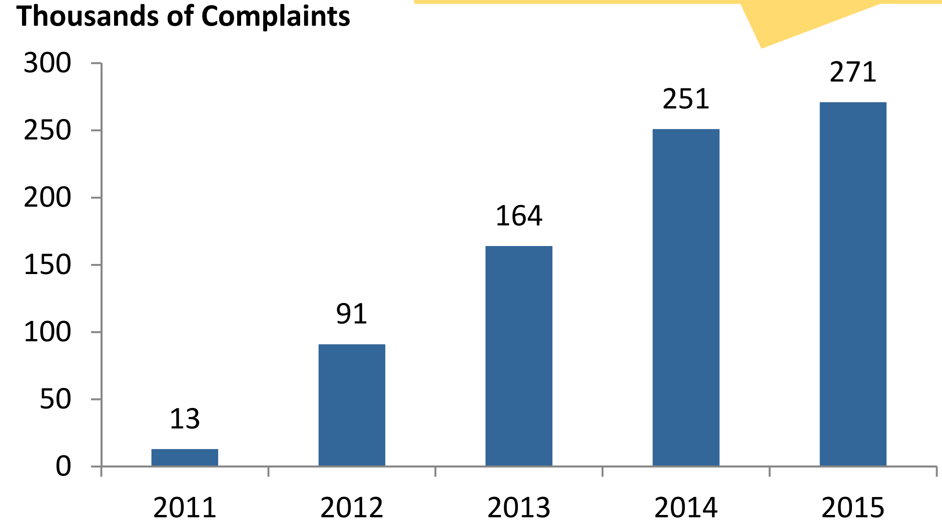
The CFPB's Know Before You Owe mortgage disclosure rules give consumers clear, easy-to-understand information so they can understand the terms of the deal and comparison shop.

Consumers closed on 1.9 million mortgages during the first quarter of 2016 by using the CFPB's new Loan Estimate and Closing Disclosure forms to help them understand the true cost of borrowing.

Consumer Protection: **Directly Responding to Actual Consumers**

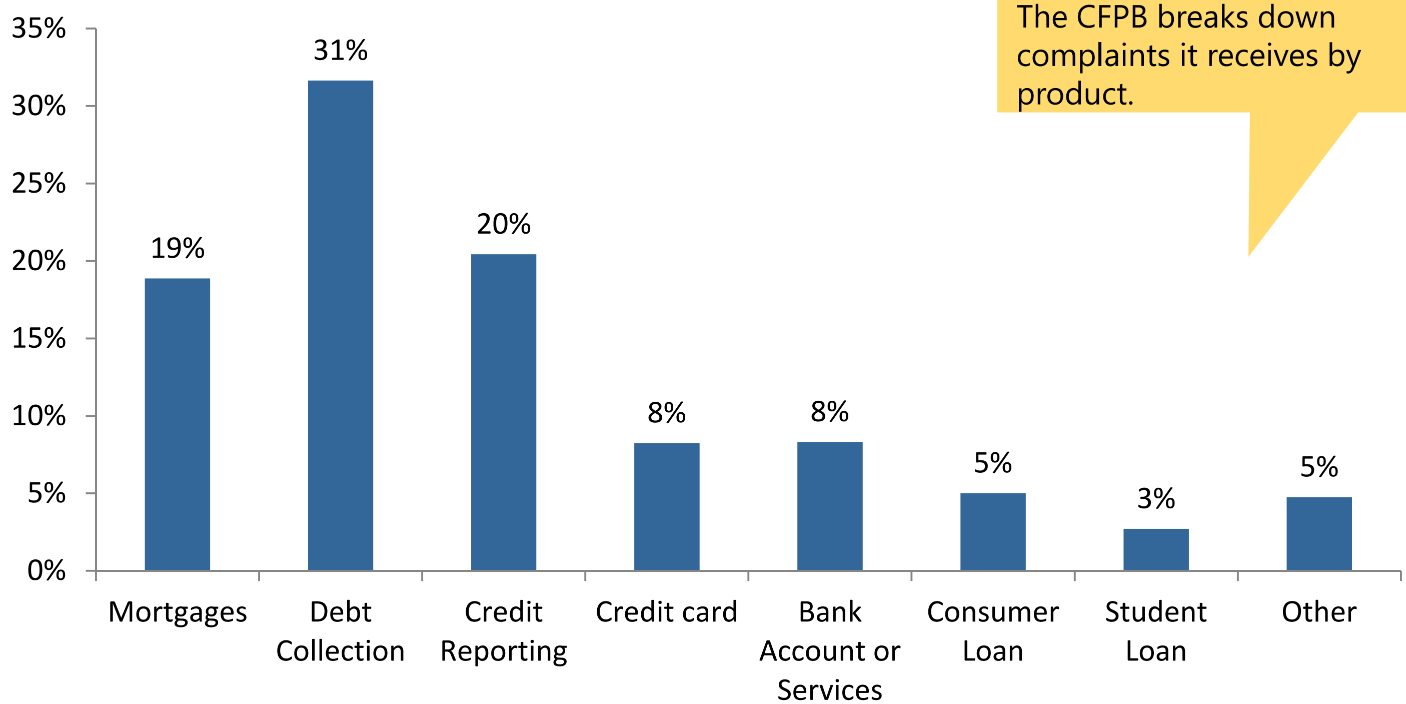
The CFPB set up the **Office of Consumer Response** which hears directly from consumers about the challenges they face in the marketplace. The Office works directly with companies to get consumers responses to their concerns as quickly as possible, and every year the Bureau reports to Congress on general trends.

The CFPB has handled approximately **1,035,200** consumer complaints as of November 1, 2016.



Source: CFPB 2015 Consumer Response Annual Report & Monthly Complaint Report, Vol. 17

The CFPB breaks down complaints it receives by product.



Source: CFPB 2015 Consumer Response Annual Report

MAINTAINING VIGILANCE

The safer and stronger financial system built by Wall Street Reform benefits individuals, business, and communities every day.

Because of Wall Street Reform, today:

- The banking system has been strengthened to withstand periods of stress.
- A consumer taking out a mortgage knows how much he or she will owe because of clear and transparent forms that indicate the key terms of the agreement.
- A homeowner will have a place to turn to if he or she is subject to abusive practices in the mortgage servicing market, and consumers will be protected from shoddy foreclosure practices.
- A student taking out a loan to pay for college knows how much he or she will owe because more than 2,000 colleges and universities have adopted a financial aid shopping sheet developed by the CFPB and the Department of Education to facilitate a student's understanding the terms of financial aid and to comparison shop between different packages.
- The CFPB has protected service members from predatory lending, as the agency has obtained millions in relief for military personnel who were targeted by illegal practices.
- Retirees, pensioners, and investors benefit from greater transparency in financial markets and reforms that prevent banks from trading for their own benefit.

Sustaining and building upon these benefits requires ongoing efforts to:

- Uphold progress made by FSOC to improve regulatory coordination and by OFR to shine a light on the less-transparent areas of the financial system
- Ensure that Title II's orderly liquidation authority remains in place, which eliminates "too big to fail" and the prospect of costly bailouts in the future
- Maintain and strengthen consumer protections put in place by CFPB
- Fund our regulators to keep pace with the changes and growth in the markets they oversee