DODD–FRANK AT FIVE YEARS

Reforming Wall Street And Protecting Main Street

U.S. Department of The Treasury

July 2015

WALL STREET REFORM: FIVE YEARS LATER

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

When President Obama took office in January 2009, the U.S. economy was in crisis. The nation was shedding more than 750,000 jobs per month, and confidence in our financial system had been shaken to its core. The worst financial crisis since the Great Depression exposed a toxic mix of excessive risk-taking, shoddy lending practices, inadequate capital levels, unstable funding, and weaknesses in regulatory oversight. A collapsing financial system choked off credit to consumers seeking to purchase a car, a home, groceries, or to finance an education. Nearly 9 million Americans lost their jobs, and over 5 million lost their homes. Nearly $13 trillion of families' wealth was destroyed, wiping out almost two decades of gains.

In response to the crisis, the Administration released a proposed set of reforms in June 2009. Congress held numerous hearings and crafted legislation based on the Administration's proposal, incorporating ideas from both Republicans and Democrats throughout the process. On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into law, a historic and comprehensive set of financial reforms, which put in place critical new protections for consumers, investors, and taxpayers. Five years later—as a result of Dodd-Frank and other Wall Street reforms—our financial system is stronger, safer, more resilient, and more supportive of sustainable economic growth. Regulators also have better tools to deal with financial shocks when they occur, to protect Main Street and taxpayers from Wall Street recklessness.

Critics of reform have claimed that Wall Street Reform would deter lending and choke off the recovery. But, today it is clear that the opposite is true. Reform has served 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. Only a financial system strong enough to withstand a major financial shock is capable of promoting sustainable economic growth. Five years after the President signed Wall Street Reform into law, nearly all of the major elements of financial reform are in place. Today, our financial system is safer and stronger as a result of these hard-won reforms, and our economy is in a far better position to continue growing and creating jobs.

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

1. **FINANCIAL STABILITY**—New rules put in place over the last five 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. Similar 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 which 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 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**
- **Nearly $13 trillion of household wealth was erased.**

And it could have been worse—we teetered on the brink of another Great Depression, when unemployment 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 weighing 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.

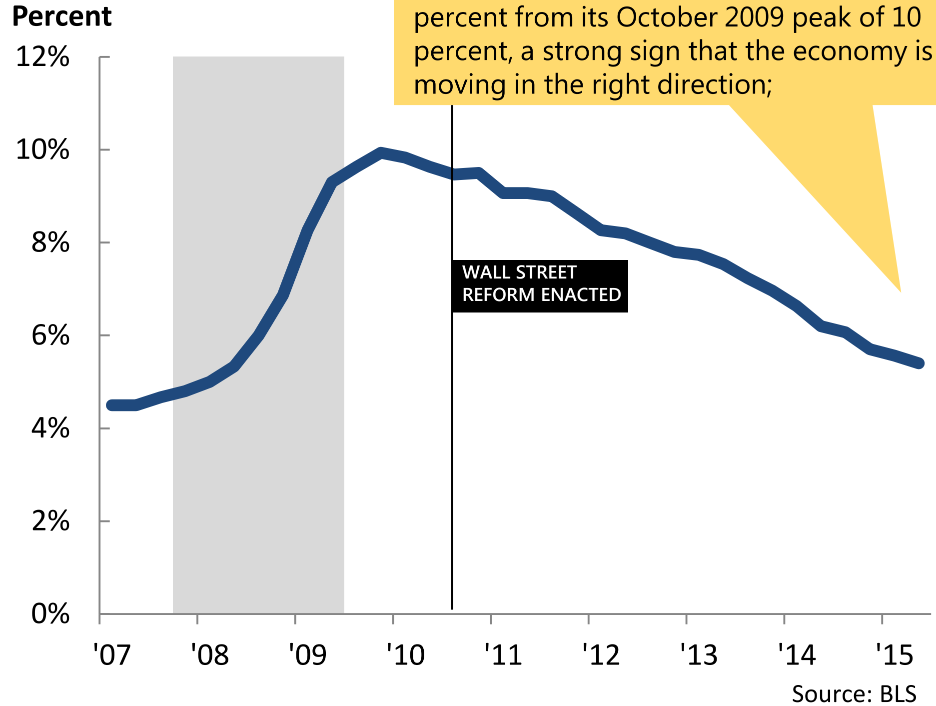
The Resurgent Economy: Progress Made Since the Financial Crisis

Over the past five 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:

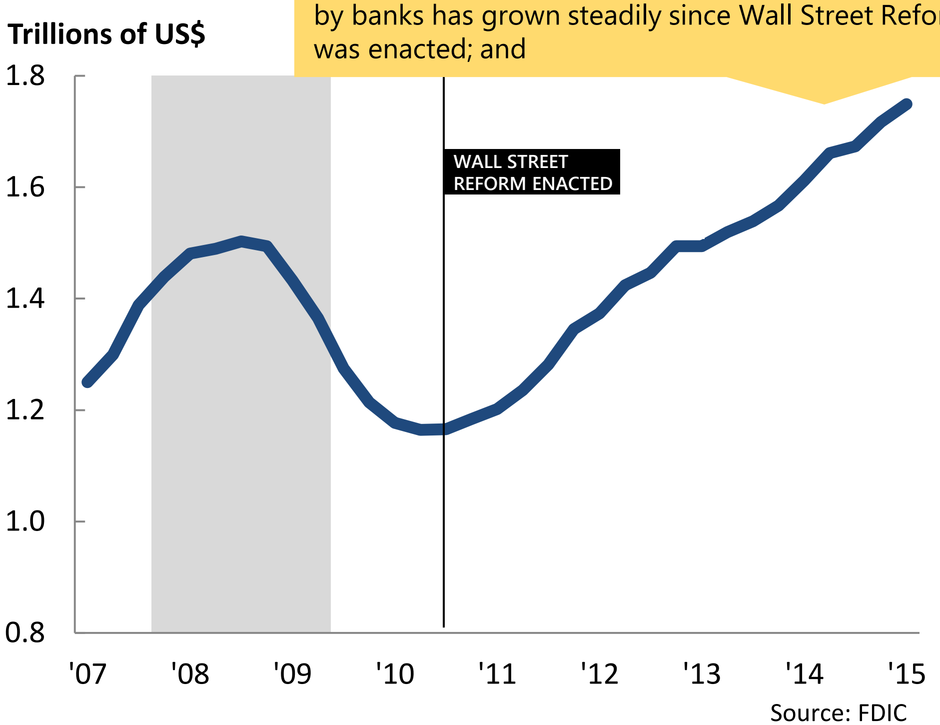
- The private sector has created 12.8 million new jobs over 64 consecutive months of job growth;
- Nominal household net worth has grown by about $30 trillion, exceeding pre-crisis levels; and
- Business lending has climbed over 30 percent.

At the same time, the federal deficit has dropped from nearly 10 percent of GDP in 2009 to less than 3 percent last year.

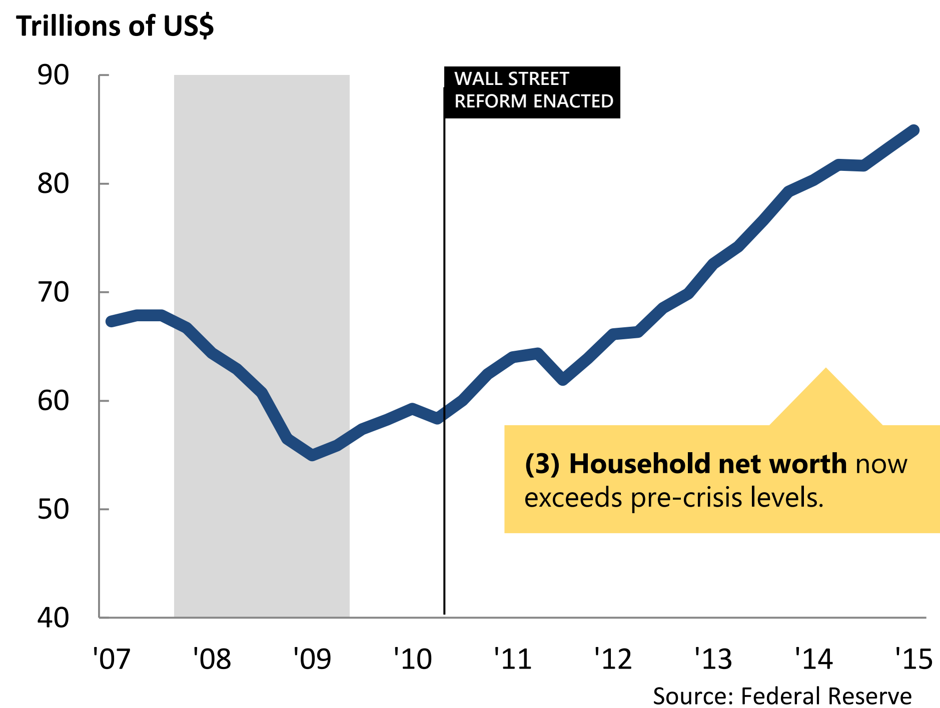
(1) Unemployment has declined below 6 percent from its October 2009 peak of 10 percent, a strong sign that the economy is moving in the right direction;



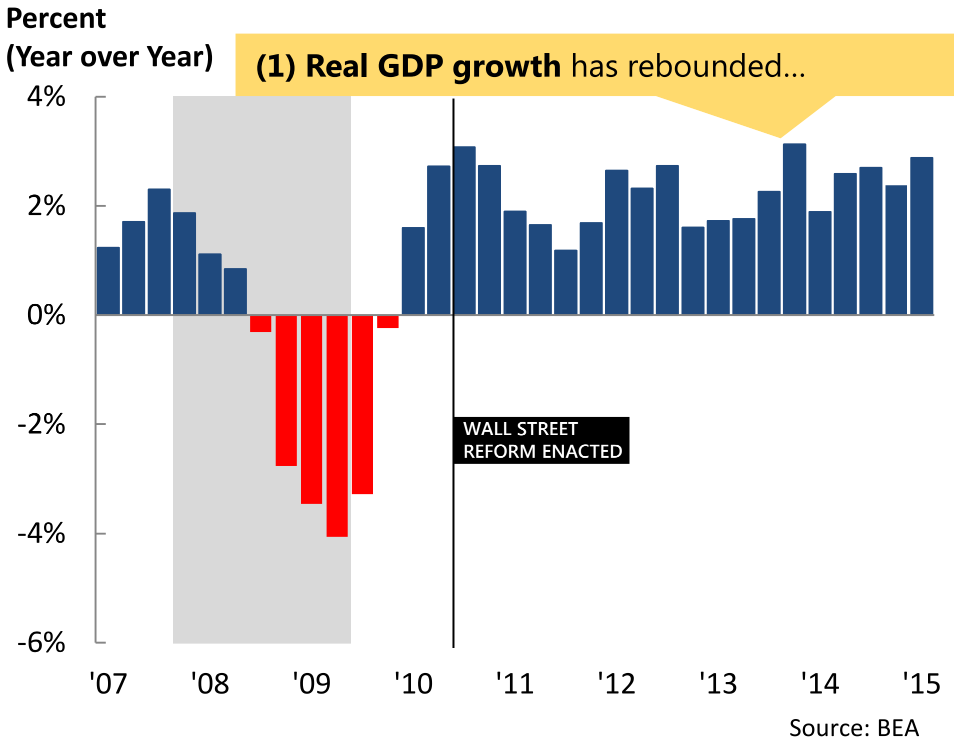
(2) Business lending (commercial and industrial loans) by banks has grown steadily since Wall Street Reform was enacted; and

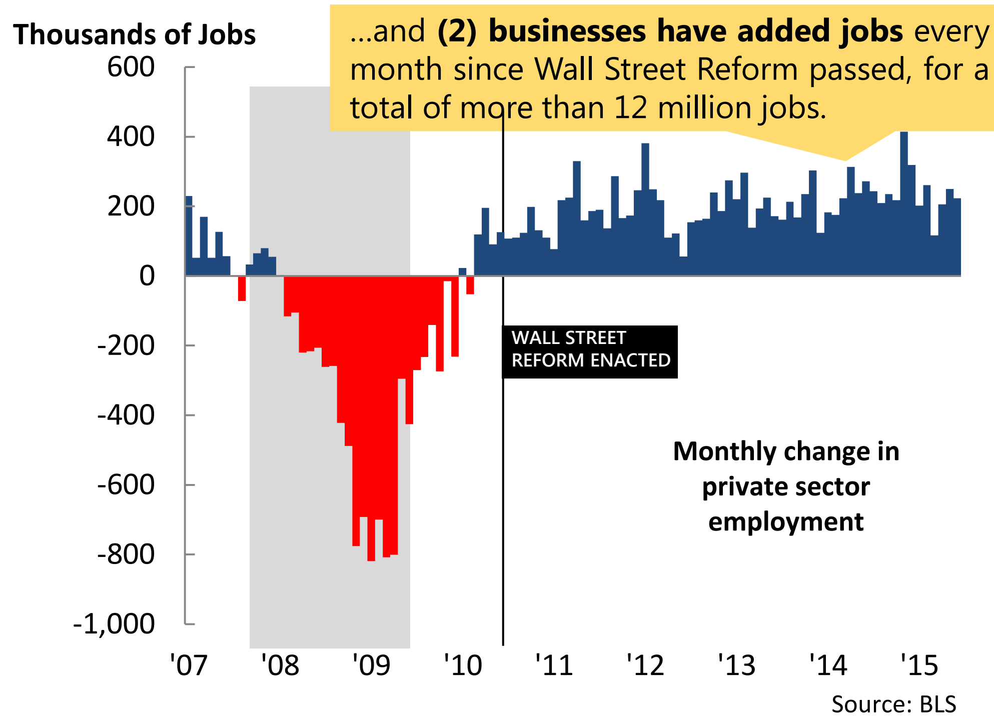


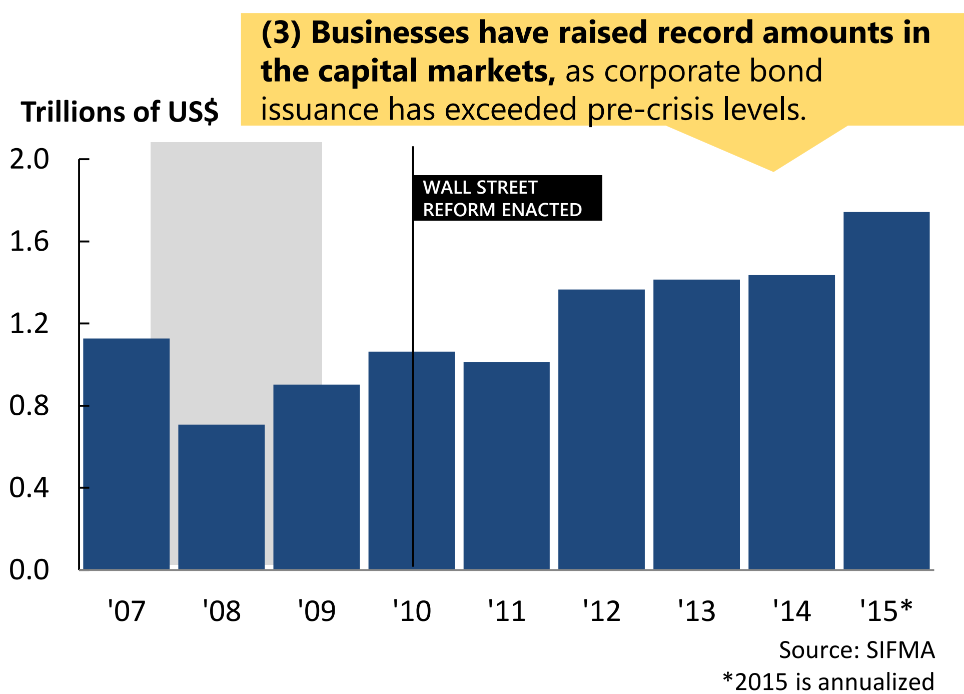
(3) Household net worth now exceeds pre-crisis levels.

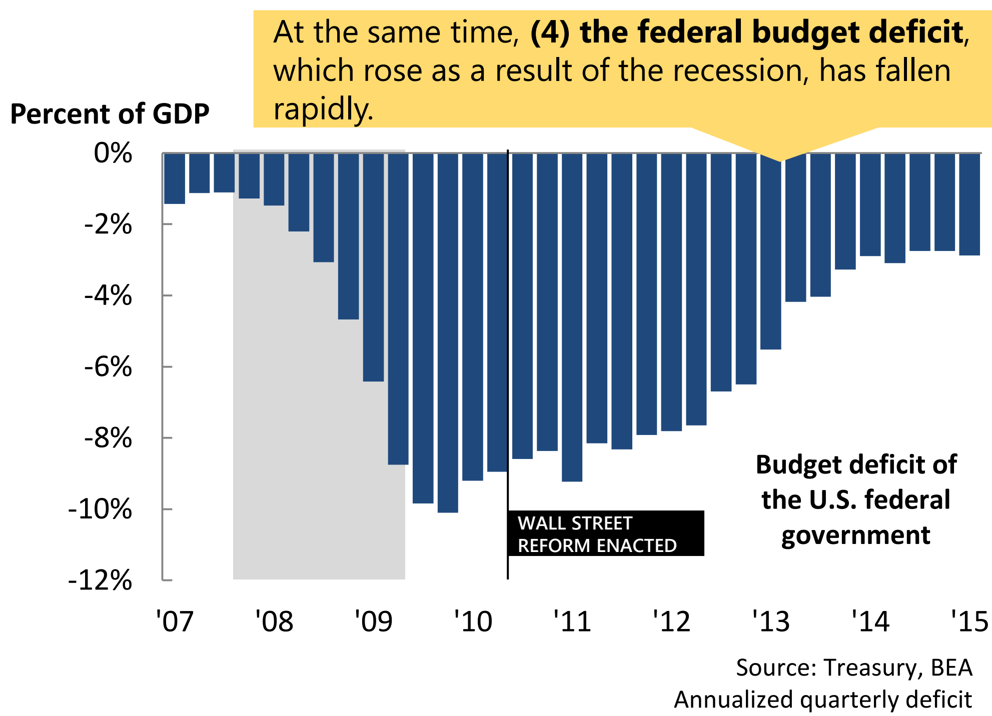


The Resurgent Economy: Progress Made Since the Financial Crisis









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
- **Closing regulatory gaps and fostering accountability for the stability of the financial system as a whole** through the creation of the Financial Stability Oversight Council.

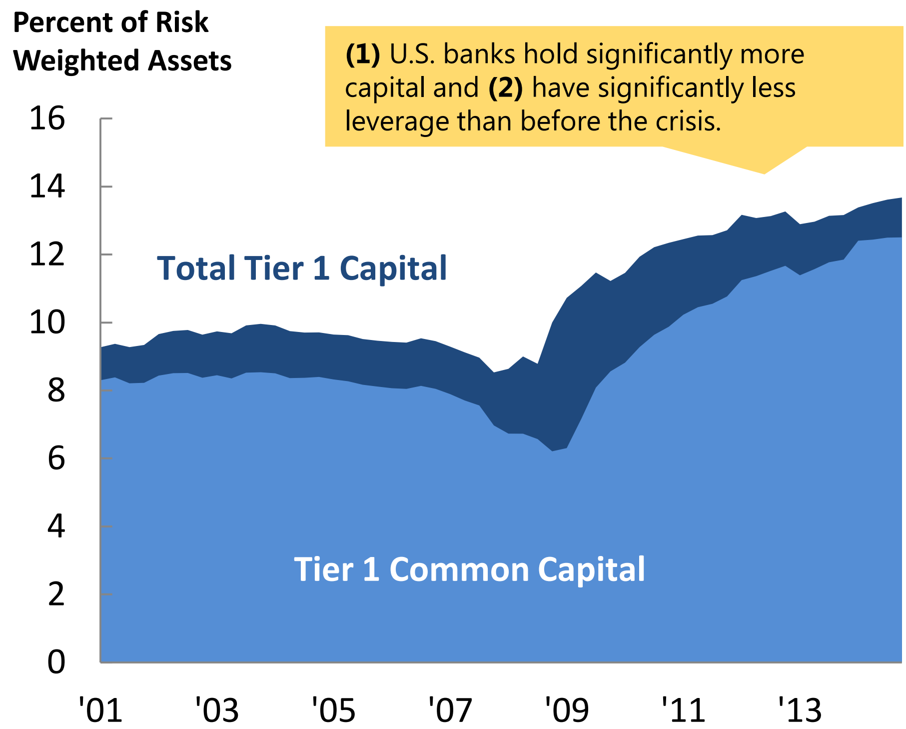
Financial Stability: **Making Banks Safer and Sounder**

Leading up to the crisis, large 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.

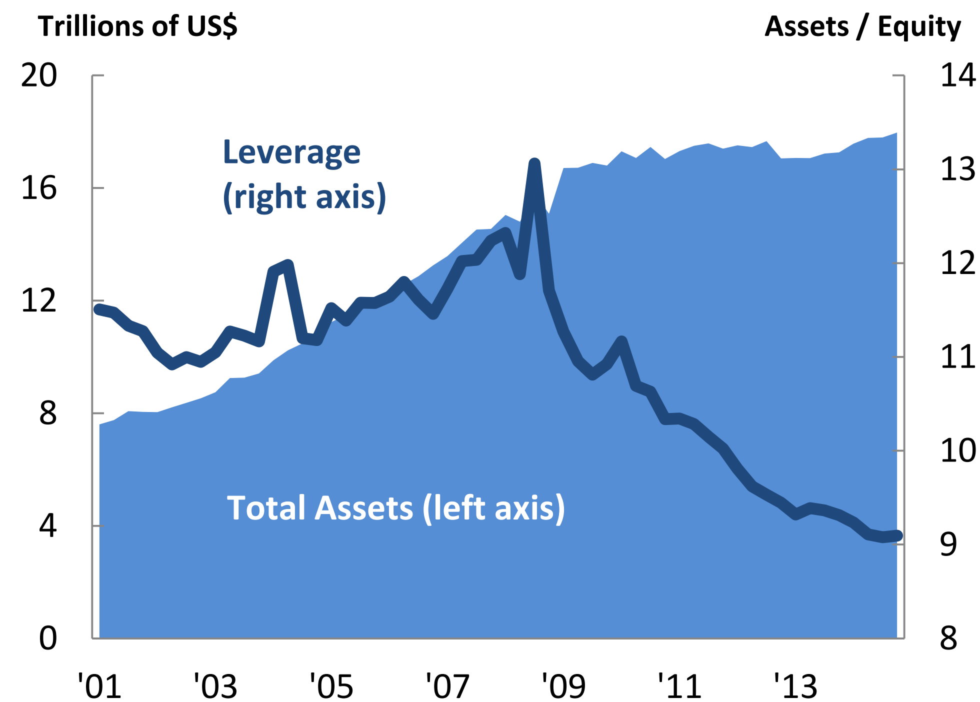
- Over the last six years, banks have added more than **$600 billion of additional capital**, which is money they can now lend out to consumers and businesses and which will make these institutions—and the entire financial system—more resilient if they experience unexpected losses.

- 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.



Source: Federal Reserve

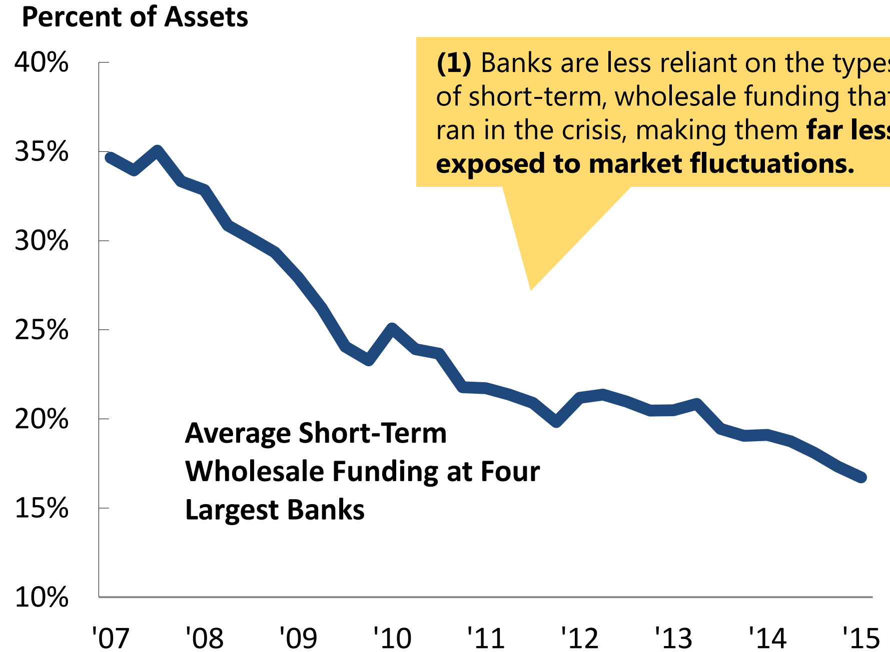


Source: Federal Reserve

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

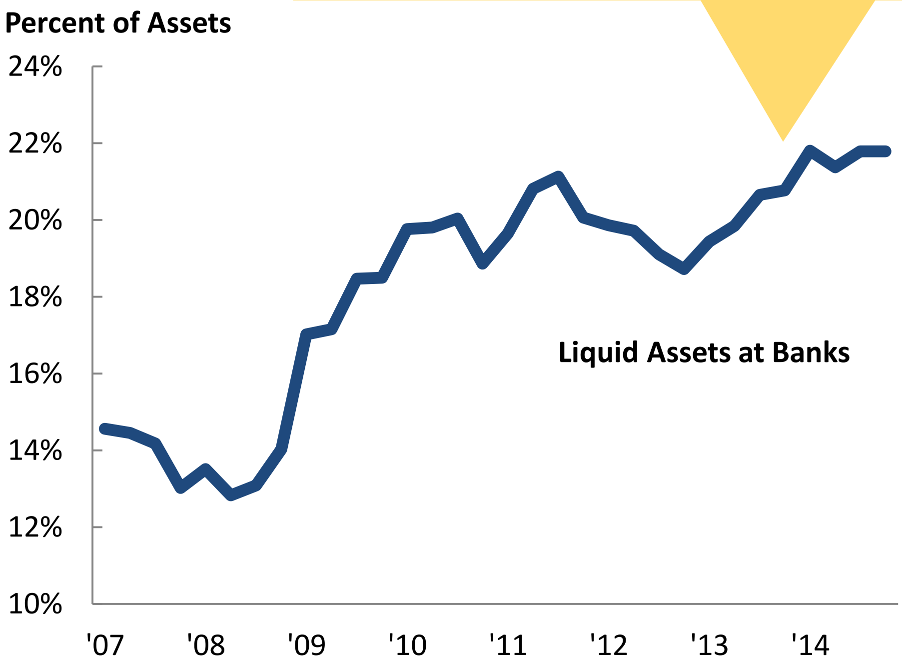
Banks have **reduced their reliance on short-term wholesale funding**, replacing this funding with more stable sources—such as deposits, long-term debt, and capital—that are less prone to runs during periods of stress in financial markets. Other reforms have reduced risk in the tri-party repo market and 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.**



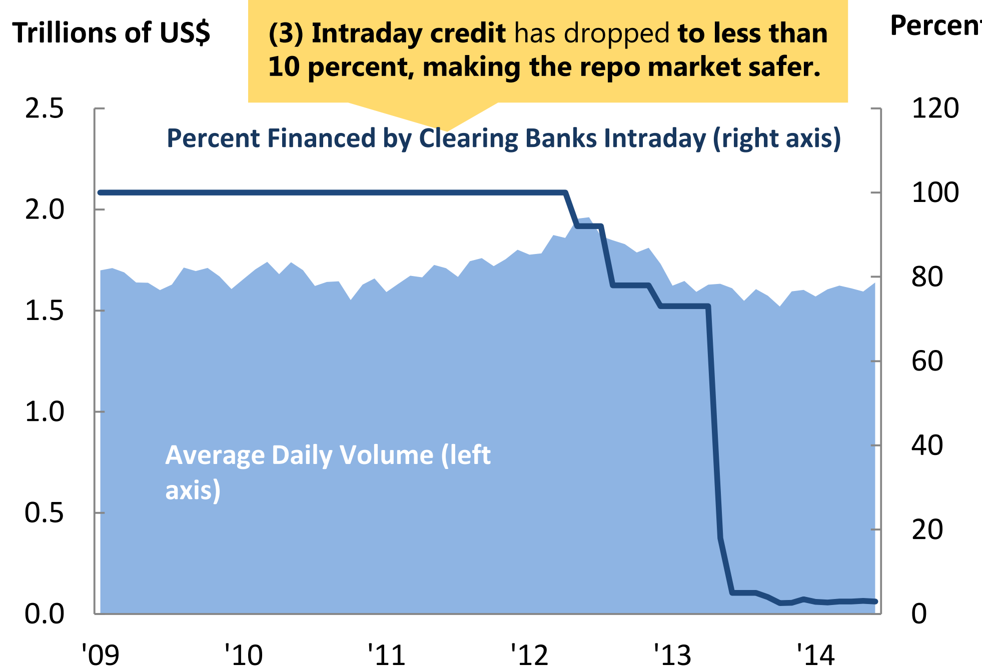
Source: SNL

(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.**



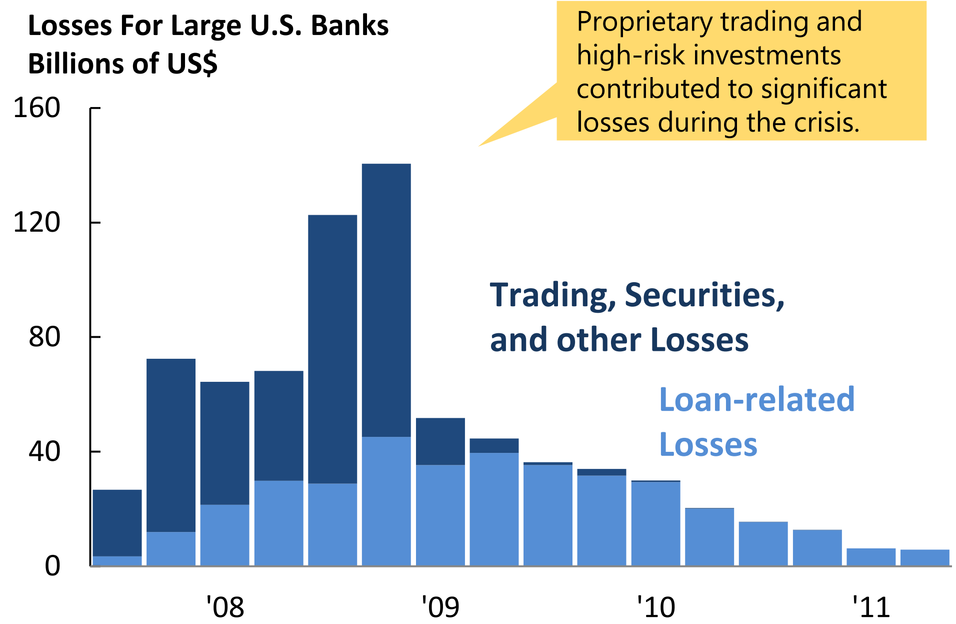
Source: Federal Reserve Bank of NY

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

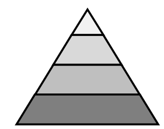
Financial Stability: **Serving Customers and Reducing Excessive Risk-Taking**

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. The Volcker Rule:

- **Prohibits proprietary trading** like the "London Whale" transactions and imposes tough restrictions on investing in private equity and hedge funds;
- Establishes a **tiered compliance regime** based on the nature and size of a banking entity's activities, focusing the most stringent requirements;
- **Exempts smaller banks** that do not engage in a significant amount of proprietary trading or investments in funds from unnecessary compliance and reporting requirements; and
- **Maintains the depth and liquidity of U.S. capital markets while promoting stability** by explicitly permitting banks to engage in market-making, underwriting, risk-mitigating hedging, trading in certain U.S. and foreign government obligations, among other activities.



Source: Bloomberg

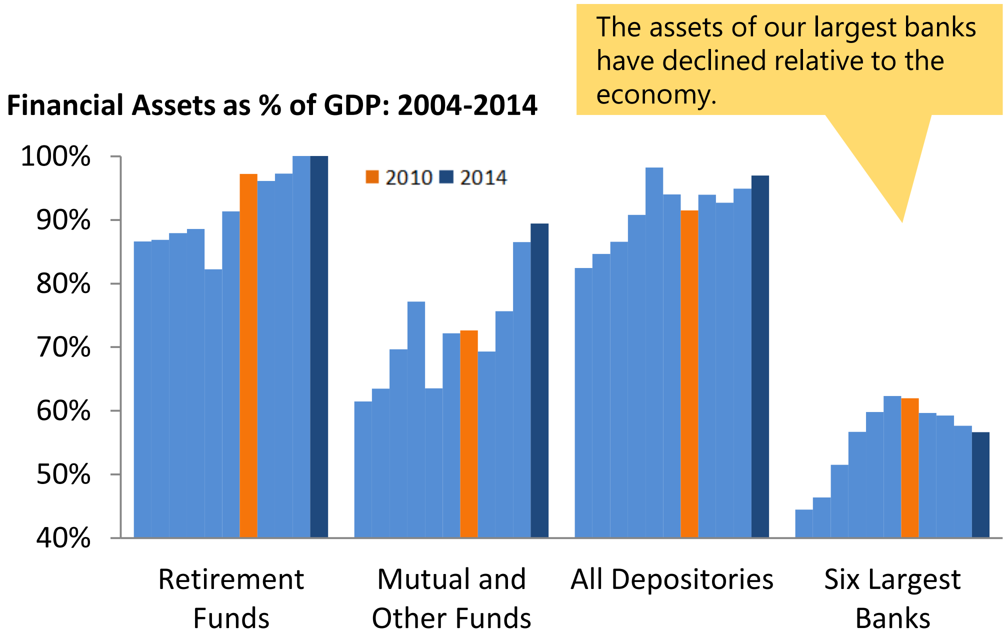


Tone at the Top

Requires 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**

Wall Street Reform ends taxpayer bailouts and too big to fail and provides regulators with tools 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

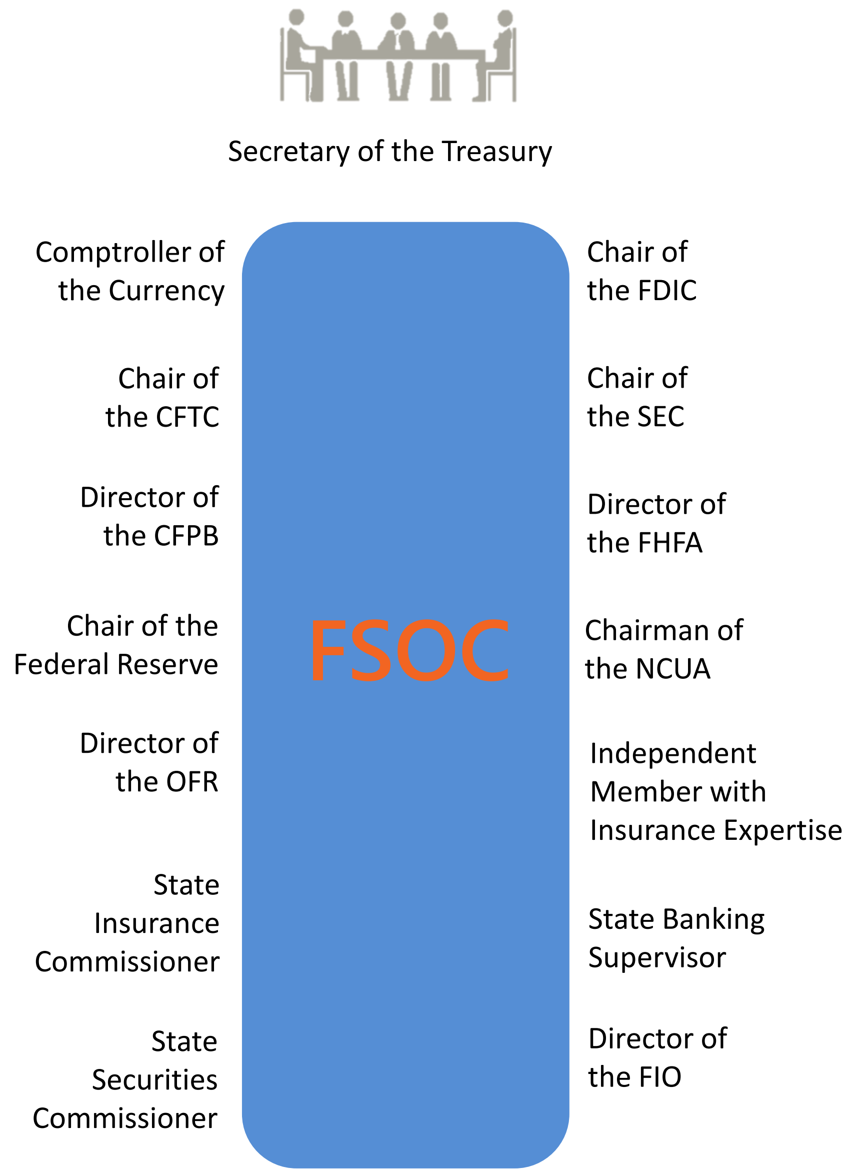
- Orderly liquidation authority gives regulators legal tools for winding down large financial companies, similar to the authorities they have long used to wind down banks, to:
  - Prevent serious adverse effects on U.S. financial stability, and
  - Prevent taxpayers from ultimately bearing the losses.

Financial Stability: **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 five years, the FSOC has:

- **Designated eight financial market utilities** (firms critical to the financial system's plumbing) for enhanced risk-management standards, **and designated four nonbank financial companies** for heightened supervision by the Federal Reserve;
- Proposed recommendations on **structural reforms to money market mutual funds**, to reduce the potential for investor runs;
- **Convened more than 50 times** to discuss potential risks across the entire financial system; and
- Published **five annual reports** highlighting potential emerging threats and making actionable recommendations.



TRANSPARENCY IN FINANCIAL MARKETS

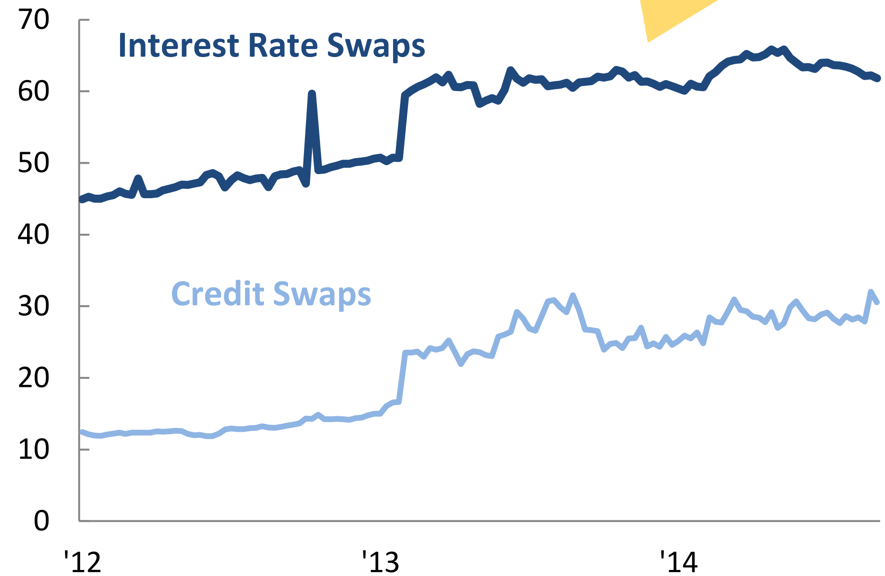
Transparency in Financial Markets: **Reforming the Broken Derivatives Markets**

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 and report every trade** to regulators.

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

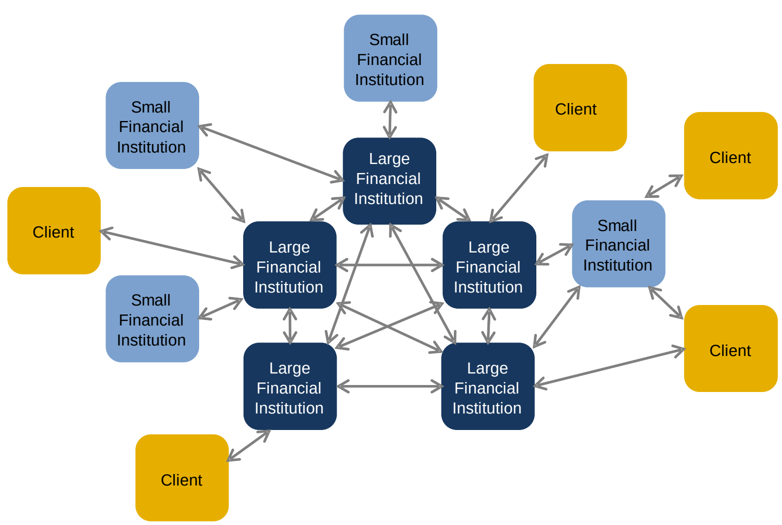
Percentage Cleared

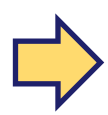


Source: CFTC

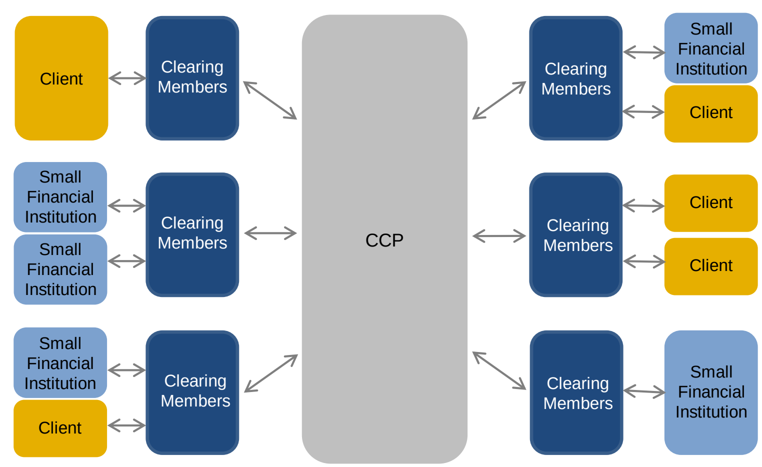
...and **(2) to increase transparency.**

Bilateral Derivatives Market (Pre-Dodd-Frank)





Centrally Cleared Derivatives Market (Post-Dodd-Frank)



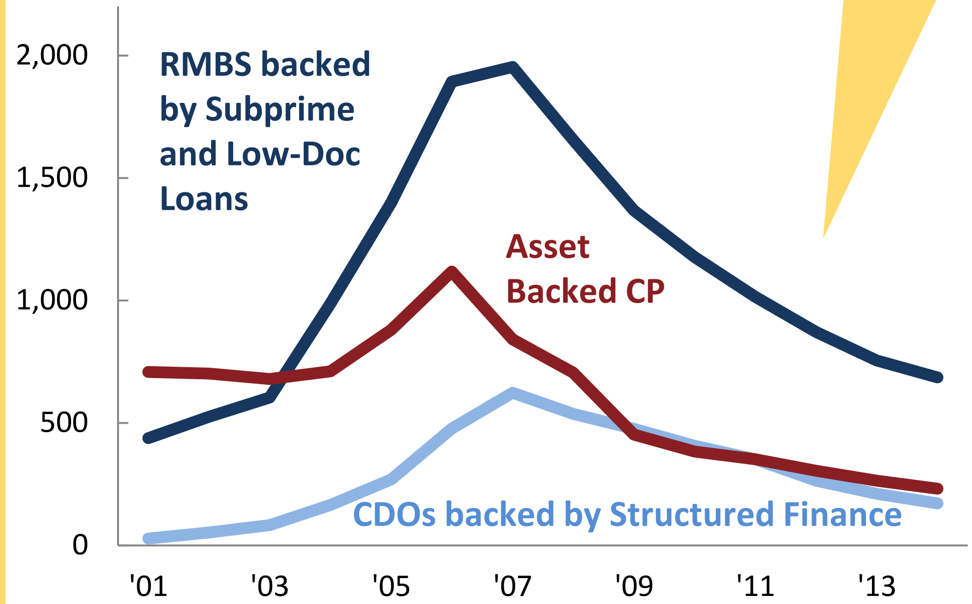
Note: Clearing members consist mostly of large financial institutions.

Wall Street Reform recognized that **markets require transparency to work properly**. 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 be independent.
- Sponsors of asset-backed securities are now **required to provide consistent, asset-level information to investors**. Sponsors are also now required to **retain a portion of the credit risk**, 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
Billions of US$



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

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

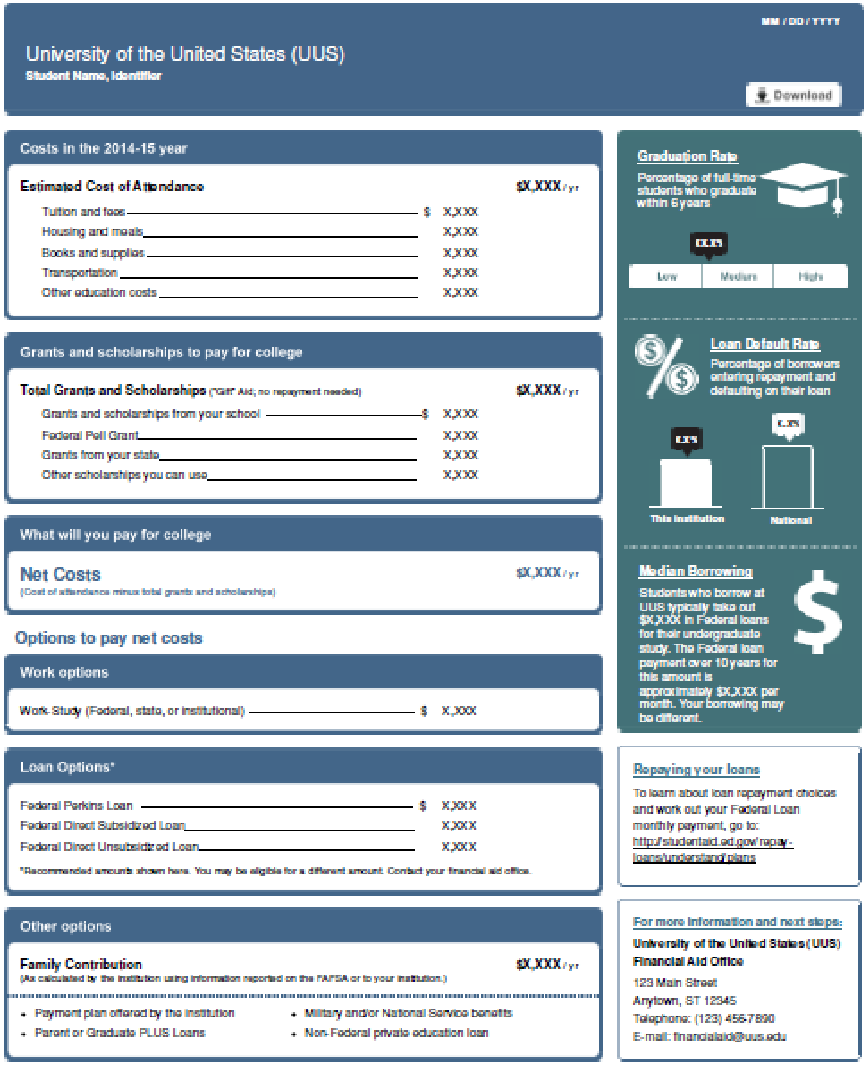
- The CFPB has been establishing and enforcing **clear rules of the road and consumer protections** to prevent the kinds of predatory behavior that contributed to the financial crisis.
- The CFPB protects consumers of a wide range of financial products and services, including **mortgage loans, credit 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**.

New, Simplified Credit Card Agreements

- Highlights rates and key terms.
- Eliminates legalese so borrowers "know before they owe."

New Student Loan Assessment Tools

- A "Financial Aid Shopping Sheet" that helps students and their families evaluate the cost of college.
- Already adopted by 10 major college systems representing roughly 1.4 million students.



MM / DD / YYYY

University of the United States (UUS)
Student Name, Identifier

Download

Costs in the 2014-15 year

Estimated Cost of Attendance $X,XXX / yr

Tuition and fees	$ X,XXX
Housing and meals	X,XXX
Books and supplies	X,XXX
Transportation	X,XXX
Other education costs	X,XXX

Grants and scholarships to pay for college

Total Grants and Scholarships ("Gift" Aid; no repayment needed) $X,XXX / yr

Grants and scholarships from your school	$ X,XXX
Federal Pell Grant	X,XXX
Grants from your state	X,XXX
Other scholarships you can use	X,XXX

What will you pay for college

Net Costs $X,XXX / yr
(Cost of attendance minus total grants and scholarships)

Options to pay net costs

Work options

Work-Study (Federal, state, or institutional) $ X,XXX

Loan Options*

Federal Perkins Loan	$ X,XXX
Federal Direct Subsidized Loan	X,XXX
Federal Direct Unsubsidized Loan	X,XXX

*Recommended amounts shown here. You may be eligible for a different amount. Contact your financial aid office.

Other options

Family Contribution $X,XXX / yr
(As calculated by the institution using information reported on the FAFSA or to your institution.)

- Payment plan offered by the institution
- Parent or Graduate PLUS Loans
- Military and/or National Service benefits
- Non-Federal private education loan

Graduation Rate
Percentage of full-time students who graduate within 6 years
Low Medium High

Loan Default Rate
Percentage of borrowers entering repayment and defaulting on their loan
This Institution National

Median Borrowing
Students who borrow at UUS typically take out $X,XXX in Federal loans for their undergraduate study. The Federal loan payment over 10 years for this amount is approximately $X,XXX per month. Your borrowing may be different.

Repaying your loans
To learn about loan repayment choices and work out your Federal Loan monthly payment, go to: http://studentaid.ed.gov/repay-loans/understand/plans

For more information and next steps:
University of the United States (UUS)
Financial Aid Office
123 Main Street
Anytown, ST 12345
Telephone: (123) 456-7890
E-mail: financialaid@uus.edu

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 create 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; 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:

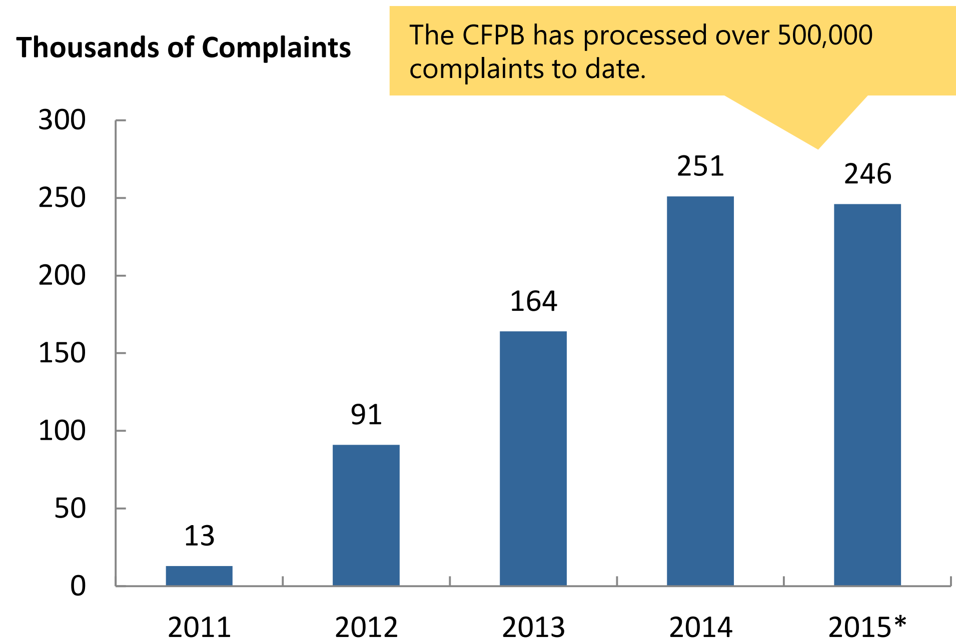
- Simplifying loan estimates and closing documents;
- Giving clear warnings about potentially risky features such as pre-payment penalties or rising loan balances; and
- Placing restrictions on closing cost increases, so consumers do not pay more than is listed on their loan estimate.

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

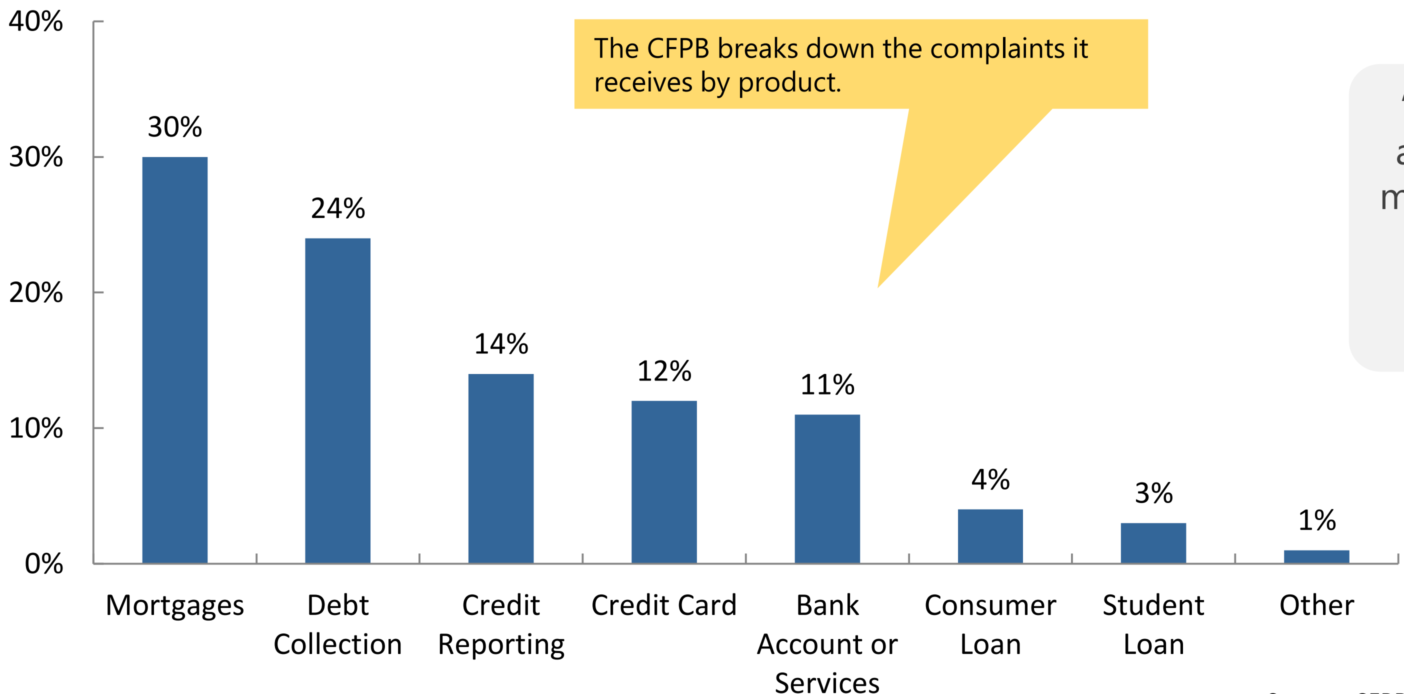
The CFPB set up the **Office of Consumer Response** which hears directly from consumers about the challenges they face in the marketplace. The Office works directly with firms to get consumers responses to their concerns as quickly as possible, and every year the Bureau reports to Congress on general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

People around the country have let the CFPB know how much they value this new office:

"It is a wonderful feeling to know there are parts of the U.S. government where their job is to listen to people and to help them." – Navid, Washington D.C.



*Annualized
Source: CFPB



Source: CFPB

"The fact that the CFPB took action in the name of service members across the country, it shows us that someone's in our corner." – Ari, Hull, Massachusetts

Consumer Protection: **Holding Firms Accountable**

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.

The CFPB provided more than **$5.3 billion** in restitution for more than 15 million consumers harmed by financial institutions violating federal consumer financial protection laws, including:

- Over $2 billion to homeowners subject to deceptive mortgage servicing practices;
- Over $200 million to consumers subjected to deceptive telemarketing practices;
- Over $90 million to service members targeted in predatory lending schemes; and
- Over $80 million to borrowers subject to discriminatory auto loan pricing.

Joint State-Federal National Mortgage Servicing Settlements

In 2012, the Obama Administration, working with 49 state attorneys general, reached an agreement with five major banks on the National Mortgage Servicing Settlement, which has provided **$50 billion** in gross consumer relief to distressed homeowners. In all, **$141 billion** has been paid by 14 banks to address numerous problems associated with the origination, servicing, or issuance of mortgages or mortgage-related assets, including mortgage-backed securities, in the lead-up to the financial crisis.

The Residential Mortgage-Backed Securities Working Group, part of President Obama's Financial Fraud Enforcement Task Force, has recovered **$36.65 billion** for consumers and investors, relating to fraud before and during the financial crisis.

In all, the Department of Justice has conducted more than **60 enforcement actions** against financial institutions, recovering more than **$85 billion** for taxpayers.

MAINTAINING VIGILANCE

Maintaining Vigilance: Defending **Wall Street Reform**

Since Wall Street Reform passed in July 2010, opponents have:

- Proposed dozens of bills and numerous amendments to undermine or roll back Wall Street Reform—including full repeal of the legislation;
- Mounted legal challenges that have blocked important investor protections, and could prevent derivatives rules from taking effect, dismantle the CFPB, and undermine the FSOC; and
- Sought budget cuts, which could further undermine implementation and enforcement of Wall Street Reform.

The House of Representatives has proposed to cut over $200 million from the President's Fiscal Year 2016 Budget request for the Securities and Exchange Commission (SEC) …

13% PROPOSED CUT

SEC FISCAL YEAR 2016 REQUEST

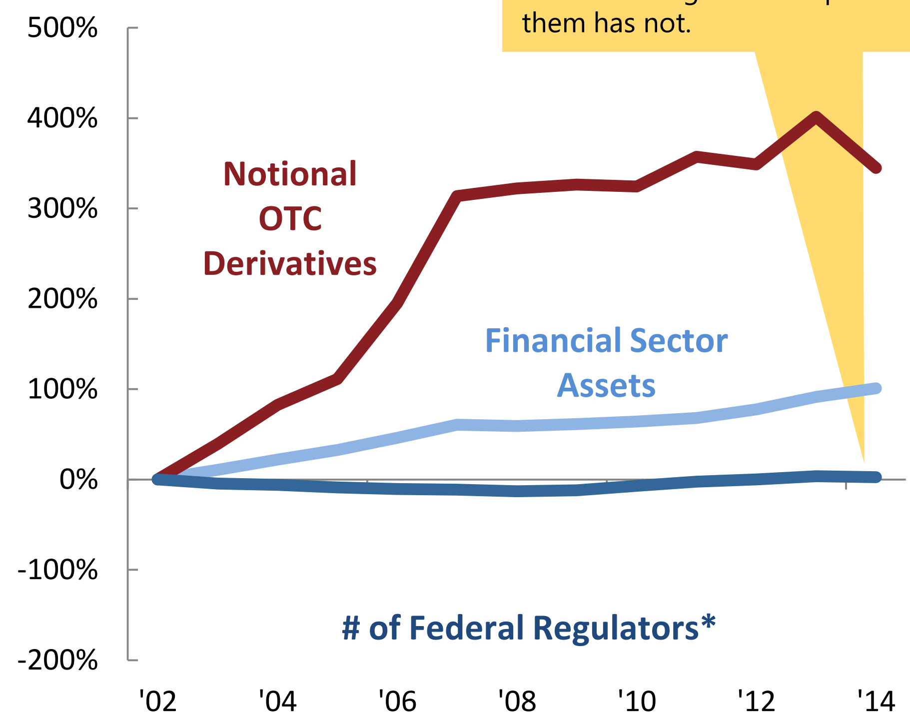
…and another $77 million from the President's Budget request for the Commodity Futures Trading Commission (CFTC).

24% PROPOSED CUT

CFTC FISCAL YEAR 2016 REQUEST

Cumulative change since 2002

While the size of financial markets has grown dramatically over the last decade, the number of regulators to police them has not.



* Includes CFPB, CFTC, FDIC, FHFA, FRS, OCC, NCUA, OCC, OFHEO, OTS, SEC, FSOC

Source: BIS, Federal Reserve, OMB

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

Because of Wall Street Reform, today:

- Households and businesses have more stable access to funding and deposits, because 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.
- 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 colleges and universities have adopted a financial aid shopping sheet developed by the CFPB and the Department of Education.
- The CFPB has protected service members from predatory lending, and 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:

- Fund our regulators to keep pace with the changes in the markets;
- Uphold progress made by FSOC and OFR to improve regulatory coordination and shine a light on the less-transparent areas of the financial system;
- Finalize rules like the ones that would (i) raise standards on those who provide retirement and investment advice; and (ii) reform compensation practices; and
- Defend against efforts to rollback Wall Street Reform.