The Dodd-Frank Act

And Its Impact On Agricultural Lending

by

Bradley D. Bettencourt

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Graduate Supervisory Committee:

Eric Thor, Chair

Mark Manfredo

Jeffrey Englin

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ABSTRACT

The Dodd-Frank Act was created to promote financial stability in the United States. However, no one is quite sure what it is yet. While action had to be taken and Dodd-Frank has some positives, Dodd-Frank, as it is deciphered today, has severe drawbacks. Since Dodd-Frank is only in its infancy, it is difficult to form an interim conclusion about its effects on agricultural lending at this point.

After passing Dodd-Frank in 2010, the government began trying to figure out what it means. Four years later, they are still trying and are about half way through making the rules. This law essentially replaces Glass-Steagall, which was repealed several years ago. Many believe repealing Glass-Steagall was a big reason for the financial collapse of 2008. While Glass-Steagall was a short, easily understood document, Dodd Frank adds many more regulations and pages. This creates a long, bulky, confusing law that seems to be extremely tough to comprehend legally or as a banker.

In this study, I try to balance the positives and negatives of Dodd-Frank to understand if it is more detrimental or beneficial to agricultural lending. While we find that Dodd-Frank does help keep banks from some of the risky investments that many believe led to the financial crisis, the added paperwork, compliance costs, and strain it puts on small banks can be worrisome.

I interviewed several agriculture-lending professionals who regularly deal with the rules and regulations of Dodd-Frank to discover the impact the new law has on banks, their customers, and the economy as a whole. These interviews give insight into what Dodd-Frank means to the agriculture-lending market and what changes have had to occur since the law was passed. These

interviews demonstrate that Dodd-Frank is largely looked down upon by the banking industry. The professionals interviewed are very experienced.

After the extensive research, interviews, and discoveries that came of this study, it was concluded that Dodd-Frank seems to hurt the lending industry much more than it helps. One major concern is the strain Dodd-Frank puts on small banks and how it makes "too big to fail" banks even bigger.

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Chapter 1

Introduction

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank" from now on) reformed the financial landscape of the United States in a way that affects most Americans. This controversial bill brought far-reaching regulatory changes to the financial industry. (Dodd-Frank Act Becomes Law) Some have argued that it went too far and could cause other problems, such as banks being unable to lend as they should. (Simkovic 2011) The stated aim of the legislation is: To promote the financial stability of the United States by improving accountability and transparency in the financial system, to end "too big to fail", to protect the American taxpayer by ending bailouts, to protect consumers from abusive financial services practices, and for other purposes. (Congressional Bills 111th Congress)

We will begin with a short overview of the history and political landscape surrounding the creation of Dodd-Frank. Then, a literature review is provided with an examination of the legislative background of what led up to the creation of Dodd-Frank. The Thesis will begin fleshing out the issues pertaining to this topic, paying particularly close attention to how Dodd-Frank affects small business. There are many concerns with how Dodd-Frank treats small business compared to large business, especially in the banking industry. This Thesis will also explore how the bill affects agribusiness firms, in particular agricultural lenders such as the Farm Credit System. It is also essential to understand the political points of view and the legal issues surrounding Dodd-Frank, including the lawsuits that have come from it. An interim conclusion is provided regarding this background review.

Then, we will examine with particular care the current effects of Dodd-Frank through an interview study of general lenders, agribusiness lenders, and other experts knowledgeable in financial regulation in the Central Valley of California and the Valley of the Sun in Arizona. The objectives are detailed in this introductory section. The methodology is detailed immediately after the introduction. The conclusions to be drawn from the interviews concludes the substance of this Thesis.

The Dodd-Frank Act was signed by President Obama on July 21, 2010. Dodd-Frank was developed in order to prevent more huge financial collapses like there were in 2008. This was when the housing market crashed, the stock market crashed, and the government stepped in to bail out companies who were failing. Dodd-Frank made changes in the American financial regulatory environment that affect all federal financial regulatory agencies and almost every part of the nation's financial services industry.

Dodd-Frank was created by some of the same congressmen who had ignored the important issues that caused the collapse. These congressmen had pushed for more lending to create more homeowners. Then, they ignored repeated warnings about the possibility of disastrous consequences to these actions.

Passed as a response to the Great Recession, Dodd-Frank brought the most significant changes to financial regulation in the United States since the regulatory reform that followed the Great Depression. (Paletta) Sarbanes-Oxley reformed accounting principles after the Enron scandal, while Dodd-Frank reformed the banking and financial services industries after the aforementioned issues in 2008. The pertinent question is whether, overall, these laws have done more to help or hurt the economy.

Dodd-Frank seems to negatively impact small banks, while not having much an impact on big banks. (Gray) Overall, this has helped the big banks, who can cover the added regulatory costs more easily. The Wall Street Journal reports: "Since the 2008 financial crisis, too big to fail banks got even bigger in terms of both assets and deposits." That trend points in a dangerous direction: "Less lending among smaller banks signals continued tough times for small businesses, typically an important contributor to economic growth," the Journal's David Reilly explained. (Gray) Big banks are outpacing the economy at large, with the five biggest banks' $8.5 trillion in assets at the end of 2011 equaling 56% of the entire U.S. economy, as opposed to 43% in 2007. (Gray)

Dodd-Frank's Section 1504 substantially increases compliance costs and headaches for companies that are already required to put into place huge FCPA (Foreign Corrupt Practices Act) policies and procedures. This section substantially increases paperwork, work hours, and work costs for these institutions. (Koehler)

Was Dodd-Frank a case of the Democrats overcompensating for the financial crisis by changing regulations so far from being too lax to being too strict? They supported Dodd-Frank strongly and have fought to protect it, (Schroeder) but some have spoken out against it. (Kasperowicz) On the other hand, Republicans strongly oppose Dodd-Frank because it strangles business activity and reduces the easy flow credit. (Wallison) They want to change the legislation, but do not have enough control in Washington right now to do it.

Smaller banks in the international community are slowing investment into the U.S. (Jeffs, Williams) There is a new law requiring any foreign country involved in more than $8 billion in U.S. swaps be regulated by both the U.S. and their own country. (Jeffs, Williams) This adds a

new level of bureaucracy that has sent smaller banks that are close to the $8 billion threshold running for investment opportunities elsewhere, in places such as London.

These new regulations have reached into Ag lending. Farm Credit, the national co-op focused on Ag lending, has been exempt from most of Dodd-Frank, while its competitors have not. These competitors: Bank of America, Wells Fargo, and Great Western Bank, for example, must strictly follow the new regulations. It is difficult to tell how much of an advantage this provides Farm Credit since the legislation is so new, but it does look like it may be significant in the future.

Lawsuits have been filed questioning the constitutionality of Dodd-Frank. Michigan, Oklahoma, and South Carolina have filed a lawsuit over how much power the Treasury Secretary has been given for future bailout situations. Financial industry members have also filed some lawsuits and have had a significant measure of success suing their regulators. (Protess)

The 2008 financial collapse was devastating and something had to be done. However, writing a 2,319 page law has caused many difficult issues for the finance industry. Letting the pendulum swing from highly deregulated to highly regulated has caused a reduction in available credit for consumers and high compliance costs for lending companies. Dodd-Frank has increased oversight on the financial services and banking industries, but is it worth the cost? Although it is too early to know, it bears future research as time provides the data with which we might determine the answer.

Objectives

This Thesis will help to evaluate the effects of the Dodd-Frank Act on lending in the United States through the lens of the media and the history of the act. More technically, we will

look closely at its effects on a sample of bankers and other professionals knowledgeable in agribusiness lending in either the Central Valley of California or the Phoenix Valley in Arizona. To do this, a series of interviews was conducted. Since Dodd-Frank is a relatively new law and different waves of regulations continue to come out, we believe the best course of action to determine its current effects is to go to the front lines to determine Dodd-Frank's effects.

These interviews consist of 9 guiding questions for each interviewee. The interviewees were general lenders, specialized agribusiness lenders, an economist, and a CPA. While interviews sometimes may go off on intriguing tangents, the guiding questions keep the discussion on track to determine what effects Dodd-Frank has on lending. These interviews, including the specific questions, will be further discussed in the methodology section of this report.

After discussing the methodology, the results segment will have the interview transcripts with the focus on pertinent pieces of each in-depth discussion. This is followed by an analysis of what we have heard. In this final analysis, we combine the interview information with the other data we have presented to determine what effects Dodd-Frank is currently having on lending in general and, specifically, agricultural lending.

Following the details and analysis of the in-depth interviews, our conclusion will briefly summarize this report. This will detail what was done to discover the effects of the Dodd-Frank Act on lending. This, along with a succinct overview of our literature review will complete this thesis.

This Thesis adds to the literature a very early analysis of the effects of Dodd-Frank, an important base point for future analysis of the effects of Dodd-Frank, and information on the

degree of its acceptance in the Central Valley of California and the Phoenix Valley. Later studies will be needed to determine the effectiveness and longevity of the original legislative action, and as rules and regulations are formulated and amended studies will be needed to reevaluate the effectiveness of the law as it will be administered. This Thesis can provide some baseline data for such further studies.

Chapter 2

Methodology

The methodology used in the research of this Thesis is heavily qualitative, since more objective quantitative results have not yet had time to occur. Therefore, we go to the front lines of the Dodd-Frank Act, the banking industry and specialty farm lenders, to determine its initial acceptance and effects on the U.S. agricultural sector. Six professionals with expert knowledge and substantial experience in commercial lending and the farm economy sector have given in-depth interviews about the changes Dodd-Frank has brought about. We were successful in using prepared interview materials, guiding questions, to steer the conversation back toward the topic at hand: Dodd-Frank and its effects on lending and the agribusiness sector.

The most striking difference between qualitative and quantitative analysis may be the way each tradition treats its analytical categories. The quantitative goal is to isolate and define categories as precisely as possible before the study is undertaken, and then to determine, again with great precision, any statistically determinable relationship between them. However, the goal of qualitative-based research is often to isolate and define categories during the process of research. The qualitative researcher expects the nature and definition of analytic categories to develop during the course of a project (Glaser and Strauss, 1965). For one field, pre-defined categories are the focus of research, for the other the determination of the appropriate categories are the object of the research.

Still more strikingly, qualitative research normally looks for patterns of interrelationship between many categories rather than the sharply delineated relationship between a limited, pre-determined set of them. This difference can be characterized as a trade-off between the precision of quantitative methods and a broader, complexity-capturing ability of qualitative ones. The

quantitative investigator uses a lens that brings a narrow strip of the field of vision into very precise focus. The qualitative researcher uses a lens that allows a less precise vision, but of a much broader research area, which makes qualitative research an excellent match for determining the acceptance and current effects of the Dodd-Frank Act on agribusiness finance.

Another difference between these methods is the data-reporting abilities of the respondent (interviewee). Some social scientific questions elicit easy and rapid responses from a respondent, while other questions are more difficult and demanding to answer. When the questions for which data are sought allow unambiguous, often numeric responses, the quantitative method can and should be used. When the questions are likely to cause the respondent greater difficulty and imprecision, the qualitative techniques are appropriate. (McCracken) This is another reason why, since Dodd-Frank is so new, qualitative research is the better option for our topic.

A final difference between the two approaches is the number and kind of respondents that should be recruited for research purposes. A quantitative analysis project seeks to generalize the population's parameters from the creation of numeric data through statistical sampling techniques. The result of qualitative investigation is not intended to be one of generalization. Rather, it is based on achieving access to knowledgeable actors or practitioners in a field and through such access gaining an understanding of the cultural categories and the information from which that cultural category construes the world. Qualitative research does not survey the terrain; it mines it. It is much more intensive than extensive. (McCracken)

Unfortunately, there is no single source for us to turn to for a summary statement of the research standards in the humanities. According to Bunge, an explanation of qualitative data research must exhibit the following "symptoms of truth": (Bunge)

"1. It must be exact, so that no unnecessary ambiguity exists

2. It must be economical, so that it forces us to make the minimum number of assumptions and still explain the data.

3. It must be mutually consistent, so that no assertion contradicts another.

4. It must be externally consistent, so that it conforms to what we independently know about the subject matter.

5. It must be unified, so that assertions are organized in a manner that subsumes the specific within the general, unifying where possible discriminating when necessary.

6. It must be powerful, so that it explains as much of the data as possible without sacrificing accuracy.

7. It must be fertile, so that it suggests new ideas, opportunities for insight." (Bunge)

The development of the long interviews used here have four stages to them. The first stage is a review of analytic categories applied to interview design. The second stage is a review of cultural categories applied to interview design. The third stage is allowing and searching for the discovery of additional or new cultural categories applied to the all-important interview. Stage four will be to use the five stages of analysis after the interviews are conducted.

The first part of stage one involves research which is included in this paper's literature review. This research comes from a combination of newspapers, banking journals, economic journals, books, etc. Stage two includes a determination of probable categories of interest, such as general lending, agricultural banking, politics, law, and agricultural practitioners (farmers) to

discover whether and how they relate to or might be affected by Dodd-Frank. The second part of both stages one and two is using the above information in designing the information gathering through the design of our long interview.

Stage three includes the discovery of possible additional, unforeseen cultural categories of interest which may be impacted by Dodd-Frank. Therefore, the questionnaire should include not only topical questions about the effect of the Act or its acceptability at present, but should include biographical questions, grand-tour questions, and should allow natural answers to questions while keeping on target with the guiding questions. (McCracken) There should be eight respondents or less according to The Long Interview. (McCracken)

The fourth stage includes five stages of analysis. These stages go from determining the most particular to most general answers. First, we will look at simple utterances from the interviewees as they are. Second, the observation will be analyzed in tandem with the transcript. Third, we will look at the interconnection of observations among interviewees. Fourth, this information is gathered together and analyzed to find a theme or themes, and any patterns in the responses that have been observed. The fifth and final step will be to develop a conclusion with the patterns and themes we discovered. (McCracken)

Interviews were conducted with general banking lenders, some agricultural lenders, and a CPA. The CPA can give us a unique and detailed view from a different perspective and has a large Ag clientele. CPAs are affected by the Dodd-Frank Act, as it leaks outside of banking specifically. However, the regulators regulate those who give loans to the farmers. Therefore, the lenders are the people who can most probably supply us with the information on acceptability of the Act and its effects within the agribusiness lending community.

These interviews will be compared with other information from the academic community to enable us to compare and contrast academic predictions with researched facts on the ground. We do this also by interviewing academic professors in this field. We will delve into what academics believe the Dodd-Frank Act has done to lending and the economy at large. We will see the similarities and differences of how the banking community and the academic community view the Dodd-Frank Act and its effects.

The questions on the following page will be asked during the banker interviews:

1. How has the Dodd-Frank Act affected (interviewee's bank and customers)?

2. What effects has the Dodd-Frank Act had on compliance costs?

3. Has it given (interviewee's bank) a significant advantage or disadvantage against competitors (due to exemptions)?

4. Can you describe the different waves Dodd-Frank has come in and how they have affected customers?

5. How do you believe the Dodd-Frank Act has affected small banks as opposed to large banks?

6. What has Dodd-Frank done to help or hurt the banking industry?

7. Has Dodd-Frank been more of a benefit or detriment to the banking industry and its customers?

8. Would you say Dodd-Frank was the right course of action to take?

9. How have legal disputes affected (interviewee's bank)?

Chapter 3

Literature Review

The Dodd-Frank Act: Preventing Financial Collapse, Causing Headaches, and Ag Lending

Background

Glass-Steagall

In 1933, the Glass-Steagall Act was introduced by Democratic Senators Carter and Glass. In the early part of the century, individual investors were seriously hurt by banks whose overriding interest was promoting stocks of interest and benefit to the banks, rather than to individual investors. Glass-Steagall banned commercial banks from underwriting securities, forcing banks to choose between being a simple lender or an underwriter (brokerage). The act also established the Federal Deposit Insurance Corporation (FDIC), insuring customers' bank deposits and strengthening the Federal Reserve's control over credit. (Frontline)

Throughout the 1980s and 1990s, the restrictions on Glass-Steagall were loosened and unsuccessful attempts were made to repeal it. (Frontline) In August 1987, Alan Greenspan—formerly a director of J.P. Morgan and a proponent of banking deregulation—became chairman of the Federal Reserve Board. One reason Greenspan favored greater deregulation was to help U.S. banks compete with big foreign institutions. (Frontline)

In December 1996, with the support of Chairman Greenspan, the Federal Reserve Board issued a decision permitting bank holding companies to own investment bank affiliates with up to 25 percent of their business in securities underwriting, shattering the previously allowed 10 percent. This expansion of the loophole created by the Fed's 1987 reinterpretation of Section 20

of Glass-Steagall effectively rendered Glass-Steagall obsolete. Virtually any bank holding company wanting to engage in securities business would be able to stay under the 25 percent limit on revenue. However, the law remains on the books, and along with the Bank Holding Company Act, does impose other restrictions on banks, such as prohibiting them from owning insurance-underwriting companies. (Frontline)

After 12 attempts in 25 years, Congress finally repealed Glass-Steagall. This rewarded financial companies for more than 20 years and $300 million worth of lobbying efforts. (Frontline) Supporters hailed the change as the long overdue demise of a Depression-era relic. On Oct. 21, with the House-Senate conference committee deadlocked after marathon negotiations, the main sticking point was partisan bickering over the bill's effect on the Community Reinvestment Act, which set rules for lending to poor communities. Sandy Weill, a former banker, financier, and chief executive of Citigroup, called President Clinton in the evening to try to break the deadlock after Senator Phil Gramm, chairman of the Senate Banking Committee, warned Citigroup lobbyist Roger Levy that if Weill did not get the White House moving on the bill, he would shut down the House-Senate conference. Serious negotiations resumed, and a deal was announced at 2:45 a.m. on Oct. 22. The House and Senate approved a final version of the bill on Nov. 4, and President Clinton signed it into law later that month. (Frontline)

Dodd and Frank

Representative Barney Frank and Senator Chris Dodd had been in office many years prior to the Dodd-Frank Act's creation. In the 2003 House Financial Services Committee and

the 2004 Senate Banking Committee, Frank and Dodd spoke about the financial situation at the time.

Here are a couple excerpts from the House Financial Services Committee taken from The Wall Street Journal: What They Said About Fan and Fred: (The Wall Street Journal 2008)

Rep. Barney Frank (D., Mass.): I worry, frankly, that there's a tension here. The more people, in my judgment, exaggerate a threat of safety and soundness, the more people conjure up the possibility of serious financial losses to the Treasury, which I do not see. I think we see entities that are fundamentally sound financially and withstand some of the disaster scenarios…

Rep. Frank: I do think I do not want the same kind of focus on safety and soundness that we have in OCC (Office of the Comptroller of the Currency) and OTS (Office of Thrift Supervision). I want to roll the dice a little bit more in this situation towards subsidized housing…

Here is an excerpt from the Senate Banking Committee: (Wall Street Journal 2008)

Sen. Thomas Carper (D., Del.): What is the wrong that we're trying to right here? What is the potential harm that we're trying to avert?

Federal Reserve Chairman Alan Greenspan: Well, I think that that is a very good question, senator. What we're trying to avert is we have in our financial system right now two very large and growing financial institutions which are very effective and are essentially capable of gaining market shares in a very major market to a large extent as a consequence of what is perceived to be a subsidy that prevents the markets from adjusting appropriately, prevents competition and the normal adjustment processes that we see on a day-by-day basis from functioning in a way that

creates stability. . . . And so what we have is a structure here in which a very rapidly growing organization, holding assets and financing them by subsidized debt, is growing in a manner which really does not in and of itself contribute to either home ownership or necessarily liquidity or other aspects of the financial markets…

Sen. Richard Shelby (R., Ala.): [T]he federal government has [an] ambiguous relationship with the GSEs (Government Sponsored Entities). And how do we actually get rid of that ambiguity is a complicated, tricky thing. I don't know how we do it. I mean, you've alluded to it a little bit, but how do we define the relationship? It's important, is it not?

Mr. Greenspan: Yes. Of all the issues that have been discussed today, I think that is the most difficult one. Because you cannot have, in a rational government or a rational society, two fundamentally different views as to what will happen under a certain event. Because it invites crisis, and it invites instability. . .

Sen. Christopher Dodd (D., Conn.): I, just briefly will say, Mr. Chairman, obviously, like most of us here, this is one of the great success stories of all time. And we don't want to lose sight of that and [what] has been pointed out by all of our witnesses here, obviously, the 70% of Americans who own their own homes today, in no small measure, due because of the work that's been done here. And that shouldn't be lost in this debate and discussion…

Financial Collapse

The near-collapse of the world financial system in the fall of 2008 and the global credit crisis that followed gave rise to widespread calls for changes in the regulatory system. (Financial Regulatory Reform) A year and a half later, in July 2010, Congress passed the Dodd-Frank Act which expanded the federal government's role in the markets, reflecting a renewed mistrust of

financial markets after decades in which Washington stood back from Wall Street with wide-eyed admiration. In its broad outlines, the bill resembled the sweeping reform legislation President Obama had proposed in June 2009. Its progress was marked by fierce industry lobbying and partisan battles, as almost all Republicans voted against the measure. (Financial Regulatory Reform)

Basel III

Basel III is often mentioned alongside the Dodd-Frank Act. Since this report is focused on the Dodd-Frank Act and its effects on lending and, particularly, agribusiness lending, Basel III will be mentioned at times. Basel III will not be deeply dissected in this report; however, it is important to know that it is an important part of the general scheme of regulation of banking and lending and will affect the ever evolving bank issues discussed here.

The Basel Committee on Banking Supervision (BCBS) provides a forum for regular cooperation on banking supervisory matters. Its objective is to enhance understanding of key supervisory issues and improve the quality of banking supervision worldwide. The Committee also frames guidelines and standards in different areas - some of the better known among them are the international standards on capital adequacy, the Core Principles for Effective Banking Supervision and the Concordat on cross-border banking supervision. (Bank for International Settlements)

The Committee's members come from Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The Committee's Secretariat is

located at the Bank for International Settlements (BIS) in Basel, Switzerland. However, the BIS and the Basel Committee remain two distinct entities. (Marrison 2002).

Basel III (or the Third Basel Accord) is a global, voluntary regulatory standard on bank capital adequacy, stress testing and market liquidity risk. It was agreed upon by the members of the Basel Committee on Banking Supervision in 2010–11, and was scheduled to be introduced from 2013 until 2015; however, changes from April 1, 2013 extended implementation until March 31, 2018. (Financial Times report Oct 2012)

The Dodd-Frank Act

Dodd-Frank was voted on largely along party lines, with Democrats voting the bill through and Republicans voting against. On July 21, 2010 President Obama signed it into law. This was the largest overhaul of financial regulations since Sarbanes-Oxley in 2002. Sarbanes-Oxley reformed accounting principles after the Enron scandal, while Dodd-Frank reformed regulations of the financial industry. Sarbanes-Oxley was thought to be very long at 66 pages. The Dodd-Frank Bill is 2,319.

Dodd-Frank was created to prevent an enormous financial collapse, like the one in 2008, from happening again. It raised the FDIC's insurance protection for depositors from $100,000 to $250,000, which was supposed to help prevent runs on banks like there were during The Great Depression. This change was meant to ease the nerves of customers and seems to have had a positive effect, according to Bruce Maloch, a regional president for Magnolia-based Farmers Bank & Trust Co. (Brock) However, Dr. Mark Manfredo, an agricultural economist at Arizona State University, believes this partially relies on the notion that customers trust the government to follow through on their obligations in a timely manner.

There are some other positives and negatives of Dodd-Frank. The Act seems to hurt small banks, while big banks can more easily acclimate themselves to the new law. Also, there are huge concerns about certain parts of the Act. Paperwork and compliance costs in the finance industry have risen dramatically since the implementation of Dodd-Frank. It has even caused a stir in international banking. (Jeffs, Williams)

Big Banks/Small Banks

Three years after President Obama signed the Dodd-Frank Act, it is impossible to ignore the fact that the new regulatory regime primarily helps the big banks while placing its heaviest burdens on community banks and other small financial institutions. The Wall Street Journal has reported: since the 2008 financial crisis, "too-big-to-fail banks got even bigger in terms of both assets and deposits. They also seem to be reaping the lion's share of what business-lending growth there is in the U.S.," particularly in the second half of 2011. This trend points in a dangerous direction: "Less lending among smaller banks signals continued tough times for small businesses, typically an important contributor to economic growth," the Journal's David Reilly explained. And big banks aren't just outpacing small banks — they're outpacing the economy at large. According to Bloomberg News, the five biggest banks' $8.5 trillion in assets at the end of 2011 equaled 56 percent of the entire U.S. economy — an enormous jump from the big banks' 43 percent share of the economy just five years earlier. (Washington Times)

Dodd-Frank did not end the advantage for "too big to fail" banks — quite the opposite. Dodd-Frank empowers regulators to officially deem big banks and other financial institutions as systemically important. This will take what was an implicit "too big to fail" designation, and make it official — and not just for big banks, but for other large financial institutions. In short,

Dodd-Frank and other regulations will make big banks bigger, while crippling the community banking culture that brought wide prosperity to the American middle class — community banks that, unlike the big banks, had nothing to do with the financial crisis that Dodd-Frank was purported to rectify. (Washington Times) This has been a major concern of the author and is a substantial part of the incentive for this Thesis.

Today, with the implementation of the Dodd-Frank Act, which regulates banking and financial services, every banker is under pressure. Many estimate before increased regulatory reform, about 5% of the banking activities were related to regulatory compliance. Today, many banks estimate that one-third of a banker's time is spent in regulatory compliance. Some state this is taking the fun out of banking because of the additional paperwork. Bank of America laid off 40,000 employees, which is related to the regulatory burden. (Kohl 2011) Smaller community banks are facing issues as well, leading to the sale or merger of some banks. (Kohl 2011) As will be discussed in the Interview section, some line-producing people have been laid off to add compliance employees.

As a general principle, if complex and expensive regulatory requirements are placed on all competitors in a market, the burden will be disproportionately heavier for small competitors and large firms will be relatively advantaged. (Pollock) Large firms already have internal bureaucracies accustomed to complicated paperwork, reporting and regulatory relationships, the costs of which they can spread over large volumes of business. These economies of scale are not available to smaller competitors. Congress recognized this general problem in Dodd-Frank itself, when it reduced the burden on small public companies from the notorious bureaucracy of Sarbanes-Oxley's Section 404.

As Tom Hoenig (then-president of the Federal Reserve Bank of Kansas City and now a director of the FDIC) said, "Dodd-Frank has raised the cost of financial transactions in America and that encourages consolidation because it's the only way you can spread the costs over larger assets."

The CEO of M&T Bank said in 2011 that the paperwork of Dodd-Frank had so far required their bank to hire 18 full-time employees-that is before implementation of many other regulations now in some stage of development, including whatever the Consumer Financial Protection Bureau mandates, and before the arrival of the complicated new risk-based capital requirements. Compare this to the total staff of the median regional bank, which is 37 employees. (Pollock)

The complex new risk-based capital requirements, which are being applied to all banks, large and small, are an interesting result of the Act. Banking consultant Bert Ely concluded that "the highly granular features of many specific provisions in the regulatory capital proposal will mandate a substantial increase in the number of both financial and nonfinancial data items banks will have to collect on individual assets in order to generate the numbers. Data of the type now generally found in a bank's accounting records will not be sufficient. Inadvertent compliance errors, when calculating capital ratios, will increase." Ely speculates that these costs "could drive [smaller] banks to exit lines of business." (Pollock)

It is not unreasonable to think that Dodd-Frank's effects will impede the ability of small banks to raise capital. "Investors are concerned with a smaller bank's ability to respond to regulatory obligations," wrote the Conference of State Bank Examiners. "As investors vote

with their money on the regulatory burden issue, policymakers should take notice that this is a very real issue with a potentially adverse economic impact."

Community banks can be very successful managers of residential mortgage credit to their own customers in their own towns. A healthy, competitive residential mortgage sector, in Alex Pollock's opinion, should feature mortgage credit risk widely dispersed among knowledgeable local lenders, who also have the ability to share credit among themselves.

What did the American Government Sponsored Entity (GSE)-centric mortgage system create instead? A duopoly system of Fannie and Freddie, with mortgage credit risk, a system once claimed in congressional testimony and elsewhere to be "the envy of the world." The result was that Fannie and Freddie lost every penny of all the profits they had made in the 35 years from 1971 to 2006, plus another $150 billion. They have been transformed in substance from insolvent GSEs to government housing banks, but they are still there and more dominant than before in mortgage finance. (Pollock)

One of the most important competitive effects of Dodd-Frank results from a lack of action: its well-known failure to address the concentrated, duopoly system of Fannie and Freddie in any way. Thus, concentration in the mortgage business and mortgage credit risk bearing continues and grows. Indeed, some people are now calling for Fannie and Freddie to be combined into a single mortgage securitizer-to turn their conforming mortgage duopoly into a monopoly. (Pollock)

In the meantime, all actors in the residential mortgage market, including the community banks, are involved in the continuing complex development of two mortgage regulations in particular, arising from the requirement of Dodd-Frank: the qualified mortgage and qualified

residential mortgage rules. By establishing top-down formulas and escalating the legal risks to the lender of making mortgage loans, these regulations will certainly increase the bank's burdens and reduce the role of local judgment in the mortgage business.

The QRM rule will determine whether mortgage competitors are required to retain credit risk in mortgages sold into securitizations-the "skin in the game" idea. Pollock believes having mortgage lenders retain credit risk in the loans they make, when they are paid for being in the mortgage credit business, is an excellent idea.

The Dodd-Frank regime is not a voluntary market arrangement, but a mandatory and formulaic requirement. The better approach would be to facilitate and encourage mortgage credit risk retention by lenders, but not mandate it. (Pollock)

Another much-debated provision of Dodd-Frank is the designation of very large financial firms (formerly considered the "too big to fail" banks) as SIFIs-Systemically Important Financial Institutions. What will the competitive effects of this be? SIFIs will be subject to special regulatory requirements and oversight-an additional regulatory burden. On the other hand, this may cause them to be perceived as safer. Moreover, they will most probably benefit from being designated as of special interest and significance to the whole financial system and to the government. (Pollock 2012)

Compliance Costs/Headaches

Dodd-Frank's section 1504 substantially increases compliance costs and headaches for numerous companies that already have extensive FCPA (Foreign Corrupt Practices Act) compliance policies and procedures by requiring disclosure of legal and legitimate payments to foreign governments. (Koehler) Rep. Neugebauer said, "Private companies will have to spend

more than 24 million work hours every year to comply with just the first 224 new rules resulting from the passage of Dodd-Frank. Its red tape reaches deep into the wallets and pocketbooks of millions of Americans and small businesses that had nothing to do with the financial crisis." (C-SPAN) Charts of compliance cost issues can be seen on the following pages and in the appendix.

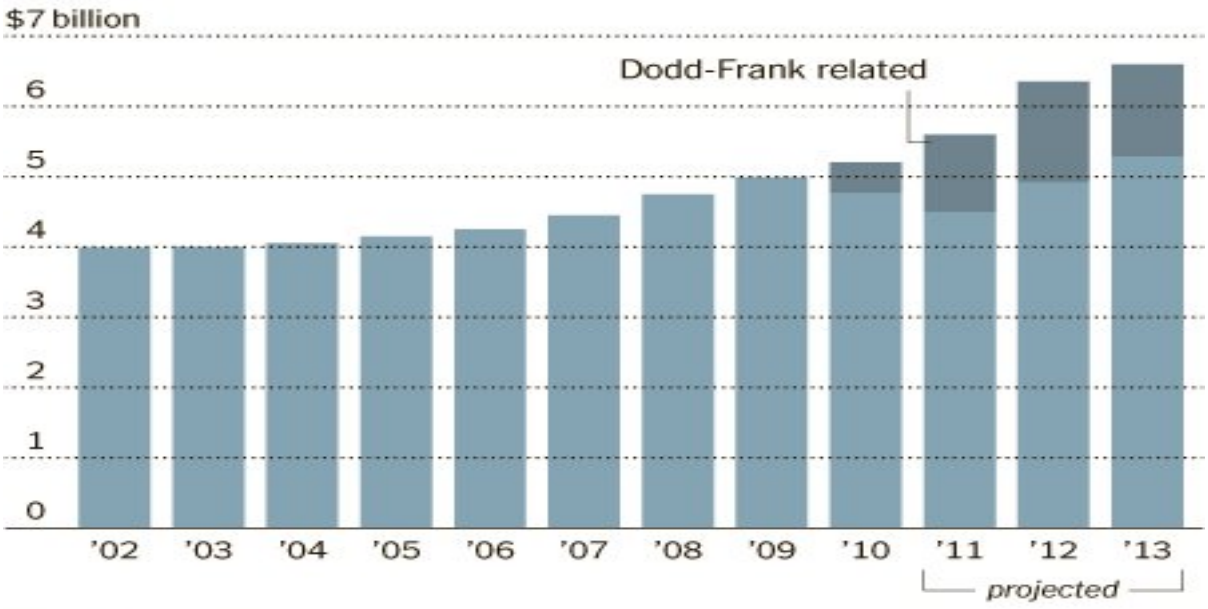
The graph on the following page comes from:

http://www.aei-ideas.org/2011/09/dodd-frank-act-aka-the-2010-full-employment-act-for-lawyers-accountants-and-consultants/

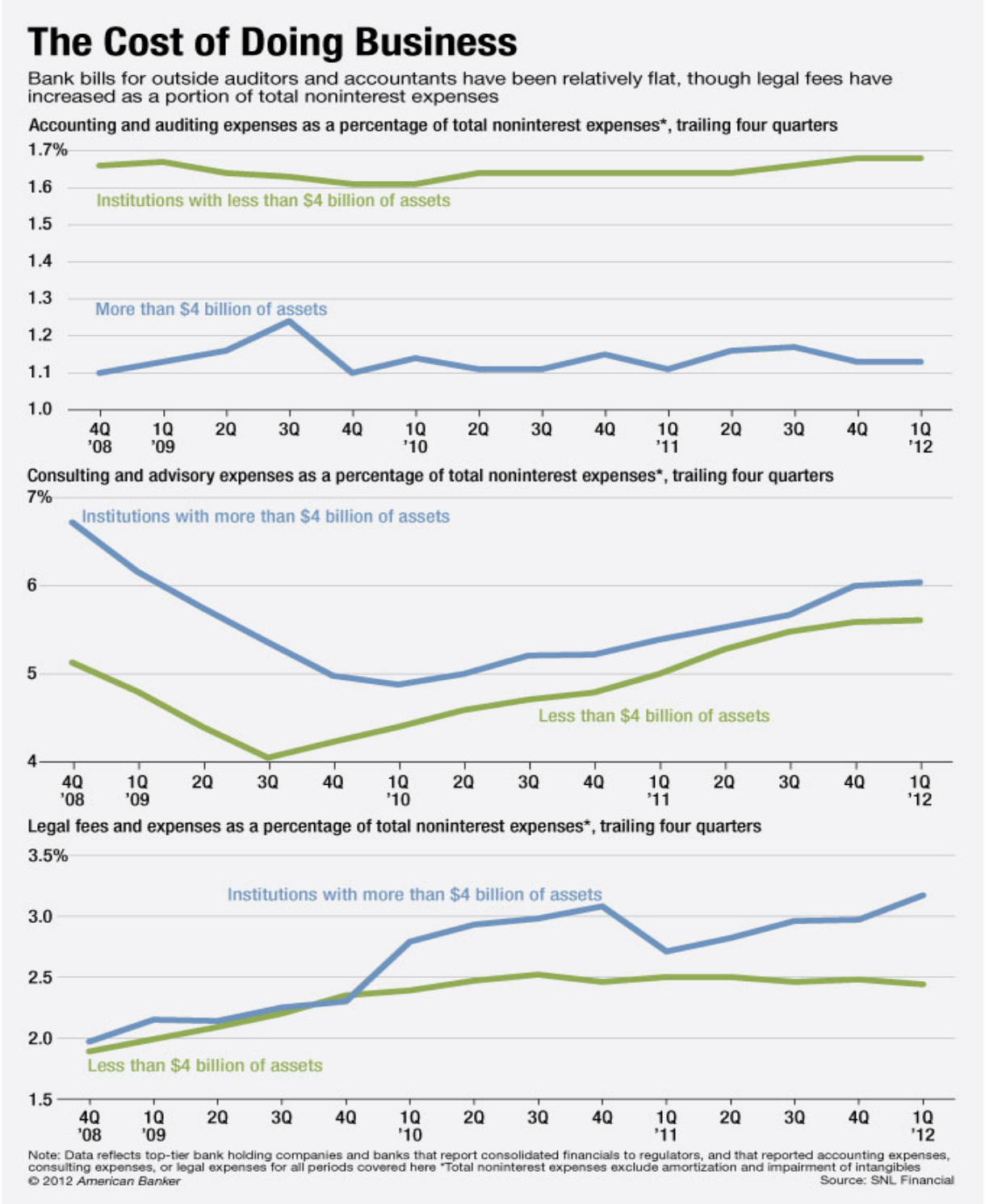
Spending to Keep Up With Regulations

Analysts say Wall Street businesses will have to spend more on technology to comply with the Dodd-Frank regulations, including an estimated $1.1 billion this year.

Technology spending by Wall Street banks and asset managers for compliance with government regulations



Source: TowerGroup



(American Banker 2012)

“When President Obama signed Dodd-Frank into law, he promised it would provide ‘certainty to everyone from bankers to farmers to business owners to consumers,’” HFSC Chairman Spencer Bachus said. “The layers of red tape Dodd-Frank piles on our economy cause more uncertainty for American businesses and hinder their ability to grow and create jobs.” Bachus, who has been a vocal critic of Dodd-Frank, announced a tentative schedule of the upcoming Dodd-Frank hearings. (Villarreal 2012)

Two years after Congress enacted sweeping reforms intended to rein in risky practices on Wall Street, only a third of the new rules were actually in force. The rest of the so-called Dodd-Frank rules are either stuck in a regulatory purgatory, ready-to-go but delayed, or substantially weaker than originally envisioned after pressure from financial industry lobbyists, according to data compiled by the law firm Davis Polk. Former FDIC chief Sheila Bair said the reforms are "drowning in a sea of complexity." Regulators charged with carrying out the rules aren't doing their job in a "muscular enough" way, she added. Even some top bank CEOs recognize that the regulatory process has been slow after Congress delegated many of the more controversial decisions to regulators. (CNN Money)

"A lot of Dodd-Frank, as a bill, was skeletal and a lot of the very, very important details were left to the regulatory process," said Lloyd Blankfein, chief executive of Goldman Sachs, which has spent $15 million lobbying since 2009. "The regulators themselves are having problems coming to the right conclusions and filing those in." With so much on their shoulders, regulators have been meeting regularly with bank lobbyists, many of whom are experts but also have an agenda to ease or roll back parts of Dodd-Frank. (CNN Money)

A recent analysis of public records by the watchdog group the Sunlight Foundation chronicled the number of meetings between regulators and some of the nation's most powerful banks. Goldman Sachs: 181 meetings. JPMorgan Chase: 175. And Morgan Stanley: 150. "All the lobbyists come in and they want this exception or that exception, and [regulators] are accommodating that and they shouldn't," said Bair, who ran the Federal Deposit Insurance Corp. during the financial crisis and its aftermath. "They need to just tell these folks no." Wall Street's representatives say lobbying is not only their right, but necessary to ward off unintended consequences that could squelch credit and choke the financial system. (CNN Money)

Volcker Rule

The rule is named for Paul Volcker, the former Fed chairman credited by some with calming rampant inflation in the 1970s and who served as a top adviser to President Barack Obama. Volcker, 86, proposed the ban as a means of restoring stability to Wall Street following the 2008 financial crisis, arguing that banks that benefit from federal deposit insurance and discount borrowing shouldn't be permitted to take risks that could trigger a taxpayer-funded government bailout. (Brush, Hopkins, Hamilton)

"This provision of the Dodd-Frank Act has the important objective of limiting excessive risk-taking by depository institutions and their affiliates," Fed Chairman Ben S. Bernanke said in a statement. "The ultimate effectiveness of the rule will depend importantly on supervisors, who will need to find the appropriate balance while providing feedback to the board on how the rule works in practice."

The Fed and FDIC voted unanimously to adopt the rule December 2013. The Securities and Exchange Commission and Commodity Futures Trading Commission votes split on party

lines, with Republicans criticizing the rule-making process as flawed. Comptroller of the Currency Thomas Curry adopted the rule on behalf of his agency with a signature. The Fed gave banks a delay until July 21, 2015, to comply with the rule. Beginning June 30, 2014, banks with $50 billion in consolidated assets and liabilities must report quantitative information about their trading. (Brush, Hopkins, Hamilton)

The rule, enshrined by the Dodd-Frank Act of 2010, allows exemptions for market-making and some hedging, and defines limits for banks' investments in private equity and hedge funds. The version issued today is 71 pages long, with an additional 850-page preamble. "This rule is so complex and massive that it is essential that the regulators not conflate inadvertent mistakes with purposeful violations," H. Rodgin Cohen, senior chairman of the Sullivan & Cromwell LLP law firm, which represents Wall Street banks, said in an e-mailed statement. (Brush, Hopkins, Hamilton)

Wall Street's five largest firms had as much as $44 billion in revenue at stake on the outcome of just the market-making provision, according to data for the year ended Sept. 30. JPMorgan, the biggest U.S. lender by assets, had as much as $11.4 billion riding on the answer. The Volcker rule bans banks from trading to profit for their own accounts while allowing them to continue making markets for clients. Distinguishing between those two practices has been one of the most difficult tasks for regulators.

In the final rule, regulators eased the criteria banks must meet to qualify for the market-making exemption. To receive the exemption, a trading desk must both buy and sell contracts or enter into both long and short positions of those instruments for its own account.

Regulators will require banks to demonstrate on an ongoing basis that their trades hedge specific risks in order to win an exemption from the Volcker rule ban. The hedging provision became central to the Volcker rule debate after JPMorgan lost $6.2 billion last year in bets on credit derivatives known as the London Whale. The trades, conducted in the U.K. by the bank's chief investment office and nicknamed for their traders' penchant for taking huge positions, were described by JPMorgan executives as a portfolio hedge. (Brush, Hopkins, Hamilton)

The buying and selling of securities backed by a foreign sovereign (nation) will not fall under the proprietary trading ban in most circumstances. That exemption includes securities issued by foreign central banks and applies to U.S. banks with overseas operations as well as foreign firms with affiliates in the U.S. The initial Volcker rule draft drew international criticism for its reach into banks based overseas as well as for its impact on foreign sovereign debt markets. Michel Barnier, the European Union's financial services chief, complained about the rule's "extraterritorial consequences." Canadian and Mexican bankers and government officials said the proprietary trading ban would violate the North American Free Trade Agreement's guarantee that banks be allowed to deal equally in U.S. and Canadian debt obligations. (Brush, Hopkins, Hamilton)

Regulators also allowed more flexibility for overseas banks. They will be exempt from the ban for trades accounted for outside the U.S. so long as their employees deciding to buy and sell contracts are also located outside the country. The final rule also frees overseas banks from the ban for trades they conduct on U.S.-based exchanges and clearinghouses, and for trades they have with foreign operations of U.S. banks.

The proprietary trading rule seeks to limit banks' speculative bets in another way: by curbing their investments in private equity, hedge funds and commodity pools. Regulators granted broader exemptions for some types of funds. Under the final rule, joint ventures, issuers of asset-backed securities and wholly-owned subsidiary. (Brush, Hopkins, Hamilton)

Apart from the specific limits on bank investments and trading practices, the Volcker rule includes efforts to change the culture of trading on Wall Street. Toward that end, the rule tells banks' boards and top managers that they "are responsible for setting and communicating an appropriate culture of compliance." The wording will be a relief to Wall Street chiefs who were concerned they would have to personally guarantee that their firms were in compliance with the rule, according to people familiar with the banks' thinking. Executives already file a similar certification with the Financial Industry Regulatory Authority, a self-regulatory group for brokerage firms.

In the end, after hundreds of pages outlining numerous what-if's, exemptions and special circumstances, the rule reiterates that banks will now have to prove to supervisors that they are adhering to the overriding principle that Volcker and Obama put forward in 2010 as a way to prevent another financial meltdown. (Brush, Hopkins, Hamilton) According to documents released by the Fed, the rule prohibits "any transaction or activity" exposing banks to high-risk assets or strategies "that would substantially increase the likelihood that the banking entity would incur a substantial financial loss or would pose a threat to the financial stability of the United States." (Brush, Hopkins, Hamilton)

The American Bankers Association dropped its request for a federal judge to temporarily block Volcker Rule restrictions on collateralized debt obligations backed by trust-preferred

securities. The industry group said the temporary restraining order it had requested is no longer needed after regulators said Dec. 27 they are reviewing challenged aspects of the rule, according to a filing yesterday in federal court in Washington. The bankers group isn't withdrawing the lawsuit it filed Dec. 24 and asked the judge to approve a schedule for it to proceed with seeking to halt the rule's implementation for the duration of the lawsuit.

The American Bankers Associations, which represents mostly community banks, alleged in its complaint against the Federal Deposit Insurance Corp. and other regulators that small banks will suffer about $600 million in losses because the final version of the Volcker Rule requires them to divest their holdings in some Collateralized debt obligations (CDOs). (Pettersson 2013)

Relevant Political Issues

Did the liberals overcompensate in the Dodd-Frank Act? They were trying to fix a problem they helped to create or, at least, ignored by allowing the continuing deregulation of the financial markets. The intentions of the legislation are good because something had to be done to address some of the issues of the 2008 crash, but the liberals have been criticized for letting the pendulum swing too far to the other side, causing different problems.

Most Democrats support the Dodd-Frank Act, but some have spoken out about the act. For example, Governor Schweitzer of Montana, a Democrat, said that Montana banks have been punished for following the rules. Many banks in Montana are smaller and the larger banks clearly get an advantage from Dodd-Frank, as discussed above.

Conservatives strongly oppose Dodd-Frank and want reforms to the bill and less regulation. Many financial institutions sided with Republicans in the 2012 Presidential election as Mitt Romney pledged to repeal Dodd-Frank. Since Barack Obama won and the Democrats have control of the Senate, it is unlikely any large reforms are coming.

Legal Issues

There have been several significant lawsuits filed over Dodd-Frank, largely from financial institutions and Republicans. A lawsuit by 11 states and a Texas bank challenging the Dodd-Frank law's financial regulation overhaul was dismissed by a federal judge. The case is State National Bank of Big Spring v. Geithner, 12-cv-01032, U.S. District Court, District of Columbia (Washington). U.S. District Judge Ellen Segal Huvelle in Washington ruled that the states and the State National Bank of Big Spring, Texas, didn't have legal standing to bring their claims. The plaintiffs "did not come close" to showing they would suffer financial injury as a result of the overhaul, Judge Huvelle wrote.

The lawsuit was filed in June, 2012, by the bank and the Competitive Enterprise Institute, a group that advocates for limited government, alleging that the law establishing the Consumer Financial Protection Bureau violates the U.S. Constitution because Congress doesn't appropriate its budget, the president has limited ability to remove its director and the courts face restrictions in reviewing its actions. In September 2012, states including South Carolina and Michigan joined the suit challenging the constitutionality of the 2010 Dodd-Frank Act that overhauled financial regulation. (Rosenblatt 2013) The main issue was the power given to the Treasury Secretary. The lawsuit directly challenged a provision that lets the Treasury Secretary call for the liquidation of a financial entity whose failure would threaten U.S. financial stability. The

goal was to prevent future bailouts of financial firms. The states argued that the process would have little government oversight and restrict the ability of a company and its creditors to be heard. The attorneys general from the states involved in the lawsuit are largely Republicans.

In another case, the CME Group, the giant Chicago exchange, sued its regulator over a new rule that aims to shed light on the murky derivatives trading industry. The regulator, the Commodity Futures Trading Commission, drafted the rule in January 2012 under the Dodd-Frank Act. The case is part of the financial industry's broader legal assault on Dodd-Frank. As regulators hash out the final details of some 400 rules, Wall Street has shifted the fight from backroom lobbying to the courtroom. The trading commission was sued twice over Dodd-Frank rules prior to this CME Group suit. Until now, the cases have come from groups that represent the nation's biggest banks and mutual funds that were battered by Dodd-Frank. CME Group is an unlikely foe, having reaped significant new business from Dodd-Frank's decision to push once-unregulated trades onto public exchanges, but they are only grateful to a point.

The lawsuit takes aim at a rule that requires CME Group and other financial firms to report a battery of data about the trades they process. Under the rules, CME Group must turn over public and private information to outside data warehouses. The so-called swap data repositories, named after the type of derivative contract that is tied to the value of commodities and other assets, will in turn release the information to federal regulators like the trading commission, which can use the information to monitor the market. In the lawsuit filed in United States District Court for the District of Columbia, CME complained that the trading commission overstepped its authority under the law. While Dodd-Frank requires CME to release the public data, the law does not explicitly force it to turn over the private information to the data warehouses, the suit argues. The rules, CME said, "would impose costly, cumbersome, and

duplicative requirements." The lawsuit also painted the data warehouses as gratuitous middlemen, noting that CME already releases some data directly to the trading commission. The new process is "wholly redundant, and does not justify the costs incurred in doing so," CME said in the complaint. (Protess) CME Group withdrew its lawsuit against the Commodity Futures Trading Commission on November 29, 2012, after the regulator dropped its insistence that swaps traders be given a choice of venues to report their transactions. (Foley 2012) This was less than a month after CME Group filed the lawsuit.

The financial industry has had a significant measure of success suing its regulators. A federal appeals court struck down the Securities and Exchange Commission's proxy access rule, a Dodd-Frank policy that would have empowered shareholders to oust company directors. The court has tossed out S.E.C. rules six times in seven years. The trading commission is another favorite target. The CME Group case was the third Dodd-Frank lawsuit filed against the agency. (Protess)

International Banks

The U.S. banking industry isn't the only group that struggles with Dodd-Frank. The international banks now have cause for concern also. Some European banks are ordering their brokers to rein in and even quit trading derivatives with U.S.-based peers in a protest against tough new American rules. The Dodd-Frank regulations, which came into force in early 2013, will subject non-U.S. banks to foreign as well as domestic regulatory scrutiny in derivatives trading, imposing a fresh bureaucratic burden. U.S. regulators want all banks annually trading more than $8 billion of swaps—financial instruments used to bet on movements in interest and

currency rates—with U.S.-based companies to register as active participants in the U.S. derivatives market.

The world's largest swaps trading banks, such as Barclays (BARC.L) and Deutsche Bank (DBKGn.DE), are expected to comply with the U.S. demands. But some mid-sized non-U.S. banks have told their brokers to stop doing trades with U.S. firms, in the hope of avoiding the $8 billion threshold and the burden of becoming a U.S.-regulated dealer. "Numerous counterparties in Europe and Asia have requested they do not face U.S.-based counterparties so they do not build up any swap volumes towards the threshold," said a senior European swaps broker, who declined to be named in line with client confidentiality constraints. (Jeffs, Williams) Because most derivatives are traded "over the counter" in private transactions, trading data is not readily available. But the broker said "dozens" of his clients had ceased trading interest-rate swaps with U.S. firms, citing worries over how they might be impacted by the new rules. "We are seeing clients in Asia and also down in Latin America looking at alternatives to trading with U.S. entities. It's some of the smaller banks and dealers," said David Lucking, a partner at law firm Allen and Overy in New York.

Such moves come despite pledges by the U.S. authorities to exempt or water down some of the Dodd-Frank requirements for non-U.S. banks, after trade body the International Swaps and Derivatives Association (ISDA) and some European politicians including British finance minister George Osborne objected to their scope. The U.S. Commodity Futures Trading Commission (CFTC) temporarily delayed a number of rules that would have come into force on October 12, 2012 in response to requests from the industry for more time. Most of the rules kicked into force at the start of 2013.

Nordea (NDA.ST), a Nordic bank, and DBS Group Holdings (DBSM.SI), Southeast Asia's largest bank by assets, have already said they do not want to become a U.S.-regulated dealer. Kenneth Steengaard, managing director, currency, money markets and commodities trading at Nordea Markets, confirmed to Reuters his bank "did not intend to register as a swap dealer in the United States under Dodd-Frank." (Jeffs, Williams) One of the side-effects of Dodd-Frank may, therefore, be to push more business towards London, already the world's biggest center for swaps trading. European-issued swaps account for half the $500 trillion global market, according to the Bank of International Settlements. (Jeffs, Williams)

But some traders have privately questioned whether non-U.S. firms will cut off U.S. counterparties indefinitely, given they are among the main liquidity providers in the market. Bank of America (BAC.N), Citigroup (C.N), Goldman Sachs (GS.N), JP Morgan (JPM.N) and Morgan Stanley (MS.N) alone handle more than a third of swaps trading, data provided by ISDA shows. Traders have also stressed that European regulators are set to introduce rules akin to Dodd-Frank, so European traders will likely only gain temporary relief by boycotting U.S. names. (Jeffs, Williams)

Agricultural Lending

Some questions have arisen about how Dodd-Frank is implemented, with some institutions getting exemptions from much of the bill. In particular, Farm Credit's exemption may give the organization a significant advantage. Farm Credit was developed as a GSE (Government Sponsored Entity) in 1916 to lend to farms, since banks would not give reasonable loans to farmers and ranchers. Now, the Farm Credit System is a nationwide network of borrower-owned lending institutions and specialized service organizations. Farm Credit provides

more than $174 billion in loans, leases, and related services to farmers, ranchers, rural homeowners, aquatic producers, timber harvesters, agribusinesses, and agricultural and rural utility cooperatives. (http://www.farmcreditnetwork.com/about)

While Farm Credit is exempt from most of Dodd-Frank, most of their competitors are not. Bank of America, Wells Fargo, and Great Western Bank all compete for the same business from farmers, ranchers, and agribusinesses. However, these three banks fall under the rules and regulations of the Dodd-Frank Act. Is this a significant advantage for Farm Credit? (Main, Villarreal) According to John Barkell, CFO of Farm Credit Services Southwest (FCSSW), it is too soon to tell. It has not seemed to be a significant advantage since the bill is so new, but he believes it could be in the future. Since only one-third of the regulations have been implemented, we will have to wait and see.

However, if Farm Credit can save time and money by being exempt from the compliance costs that Dodd-Frank requires and successfully lend to businesses that would not or could not be lent to under Dodd-Frank, it could give them a significant advantage and also greater risk.

If you want to increase the blood pressure of any agricultural lender, mention "review by the federal examination team." (Kohl 2011) Tension mounts as lending regulation and compliance intensifies due to the Dodd-Frank Act's mandates as a result of the recent financial crisis. This, in turn, will impact the amount and depth of financial reporting required by a producer in the upcoming loan renewal season, and when producers request loans for long-term financing of land or expansion.

At the 59th ABA National Agricultural Bankers Conference in Indianapolis, IN, a session led by the FDIC provided insight on what one can expect in financial documentation requirements.

The session was well conducted by two experienced regulators. They were quick to point out that agricultural loans, for the most part, are performing quite well in many regions of the country. That being said, here are some topics on their radar screens.

First, they are examining the concentration of portfolios: i.e. grain, dairy, hogs and beef. Within each area of concentration, they are identifying large customers that could cause major disruption of the lender's total agricultural portfolio if they face financial difficulty.

The examiners are looking for evidence of economic shock testing for revenue declines, cost increases, interest-rate increases and land-value changes to ascertain the soundness of individual loans.

The regulators admit they are fans of a lender having evidence of a borrower's profits that can be turned to cash flow to service debt. They want to see some degree of financial liquidity and working capital as a backup with collateral as a secondary or tertiary backup in the case of adversity.

They are looking for breakeven prices on commodities, strong credit scores, and evidence of risk-management plans by producers. Financial trend analysis with reasonable family living withdrawals and positive earned net worth were on the radar screen as well.

Finally, the conference session leaders say, get used to making accrual adjustments to one’s income statement from one’s tax records, and understanding their implications on business decisions, loan terms and arrangements. (Kohl 2011)

Dodd-Frank, Basel III, and the Effects on Community Ag Banking:

Matt Williams was well aware of the daunting challenges facing the industry as he prepared to become chairman of the American Bankers Association. Williams is ready for whatever lies ahead. A former Nebraska Bankers Association chairman, he recalls a memorable experience on the state level. Topping the list of challenges facing the banking industry are the continued implementation of Dodd-Frank and the Basel III proposals. It has become increasingly clear that Dodd-Frank affects all banks, he points out, and small banks have fewer resources to devote to the compliance issues. He sees Basel III as a way of recognizing that banks need to have capital that is more risk-based on their business models. With the credit unions' end run around the lending cap coming on top of still-evolving Dodd-Frank regulations and now Basel III, Williams notes that the ABA's list of priorities is not static. (Poquette) "This works very well potentially at large financial institutions," he says, "but for many smaller banks it is going to be difficult to devote the resources to be able to do the modeling and everything that will be required. Most of our banks, especially smaller banks, are carrying fairly high capital levels anyway."

But the ABA chairmanship will have its satisfying moments, too. "I clearly enjoy the social aspect of being with bankers, who I believe are great people and great community leaders," he says. "I think satisfaction will come from working absolutely as hard as we can on these issues and recognizing that we will have some effect. But we can't get tied up in wins and losses and we have to just keep pushing the industry forward. I'm less concerned about any personal satisfaction than I am about doing the right thing and the best thing for the industry."

As an Ag banker, with 75 percent of Gothenburg State's loans directly or indirectly tied to agriculture, Williams is closely attuned to that business. Williams is president and CEO at Gothenburg State. He is convinced that Ag faces a bright future as the world population continues to expand and third-world countries emerge that want to feed their people correctly. "The statistics show that our world-class farmers are going to be called upon to feed the world," he says.

Williams acknowledges that agriculture will continue to have up and down cycles. "We've gone through a fairly lengthy cycle of good times right now and those of us who are in Ag banking have enjoyed that," he says. "It is up to us as bankers to monitor the risks in agriculture going forward." About land values he suggests that each banker look at his own portfolio and see what would happen if there was a significant decline in the underlying value of farmland. "We've done that in our shop and I would encourage other bankers to do that."

Gothenburg is a rural community of 3,800 surrounded by fields of corn, soybeans and alfalfa hay, but thrives in spite of being far from any big cities, 300 miles east of Denver and 250 miles west of Omaha. Four Fortune 500 companies have major facilities there, including Frito Lay and Monsanto. He takes pride in the community's leadership and his bank's role in it. "That leadership has recruited new industry, new jobs, new investment capital," he says. "All of those things have led to continuing population growth in Gothenburg when many rural areas are losing population." (Poquette)

Williams wants to make sure community banks are around for coming generations, too. He is aware that it is often said a bank the size of his - $118 million in assets - can't survive

without merging or expanding. He's not buying it, nor is he fooling himself that it is going to be easy.

"I think that is a discussion that has been around especially with the advent of Dodd-Frank," he says. "I'm less concerned about a specific size as I am a bank having a succession plan that allows it to survive and a business model that works in its area. I'm not going to throw out a number that you have to have X dollars of total assets. I look at our size bank and right now we're doing very well. We're able to handle the cost of compliance thus far.

"I know that is going to be a challenge going forward," he continues. "Our spreads are narrowing. But I believe that with our business model, sitting in the location we are with a family succession plan, we will be OK with that." Williams is the fourth generation of his family to be associated with Gothenburg State, and the fifth generation is strongly involved. A son is on the board, a son-in law is a senior lender and also a stockholder and director, and a daughter plays a role as well.

"I'm not sure of an industry that isn't on a consolidation trend," he adds. "We see it with our farmers all the time. We have the same acres of land out there, but they are being farmed by fewer people today than they were 10 or 20 years ago. I think we will continue to have consolidation, and consolidation has probably been quickened by the current regulatory climate."

On the competitive front, Williams sees technology as an equalizer for community banks with the likes of Wells Fargo Bank, which has a branch 35 miles away. "One of the things that I think that has been so great about our industry is that the technology is there to allow nearly every bank to offer the same suite of products that the very largest banks want to offer," he says. "We've always had a philosophy in our bank that no one should have to take a step backwards in

products and services to bank with us versus banking with Wells Fargo or U.S. Bank. Our industry has made that technology affordable enough that most banks can make that choice and we certainly have." (Poquette)

Williams would never say community banking is for the faint of heart. "I think people react in one of three ways when they are given difficult situations like we have right now," he suggests. "They quit, they blame or they step up and they accept responsibility and work for positive change. The plain fact is, we all have to recognize we are custodians of our industry. And it's our responsibility to step up."

Banking likely will not be the same in the future as it has been in the past, in his view, but it will surely survive; how and in what form will depend on bankers' willingness to make a commitment.

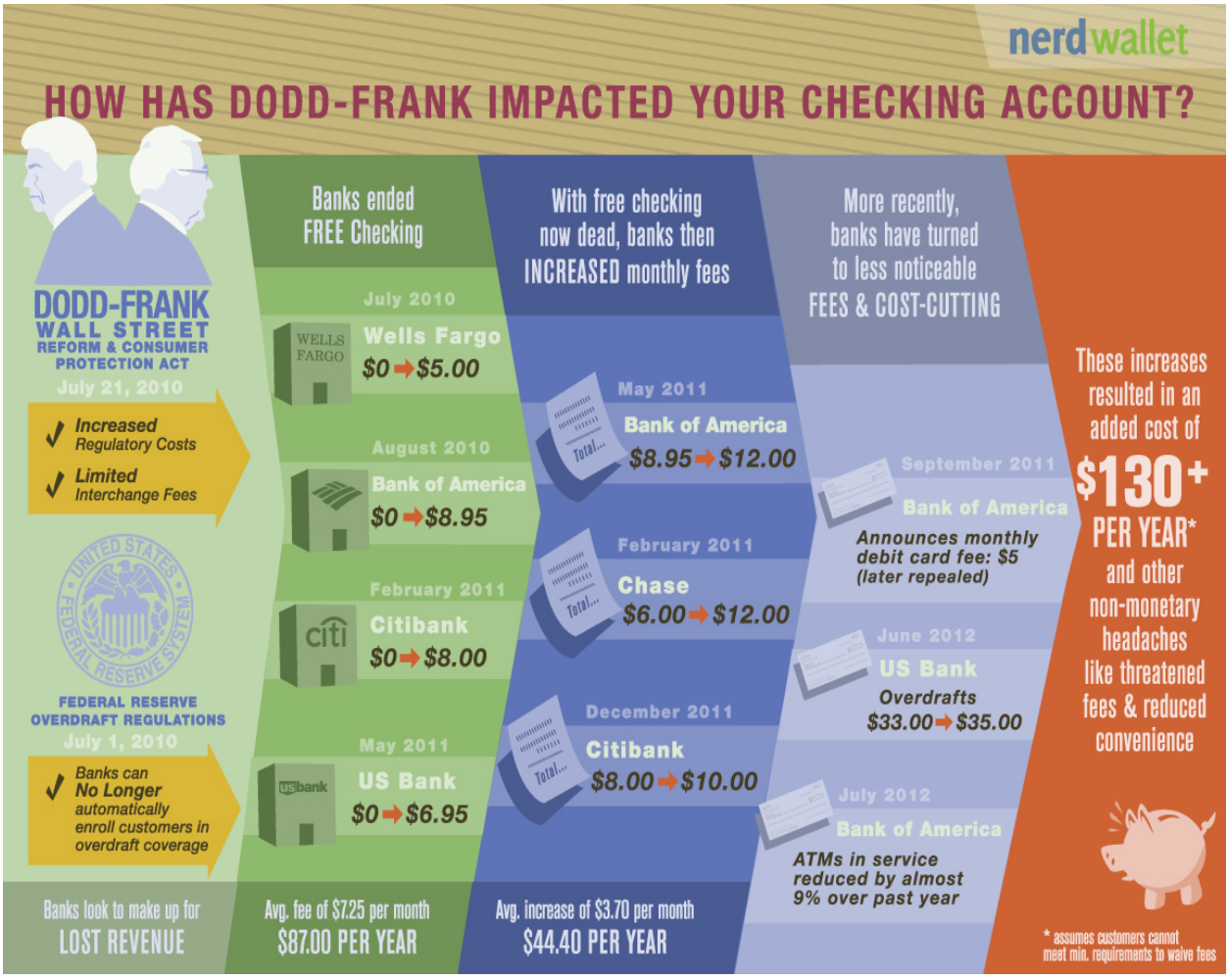
"What I would ask bankers to do is step up," Williams concludes. "Don't step to the side and don't step back. Leaders don't take credit, leaders accept responsibility." (Poquette 2012)

Conclusion on the Review of Dodd-Frank

The Dodd-Frank Act has reached into every corner of the banking and financial services industries somehow. Whether it is a small bank or a big bank, a customer or an employee, a regulator or a judge, everyone has been affected by this new legislation. Big banks and Farm Credit have gained advantages through Dodd-Frank, while small banks, small business, and Ag lending competitors have been dealt a losing hand. This could ultimately hurt the U.S. economy because of the blows to small business and the withdrawal of some international banks from the U.S. markets.

Politicians will continue to be divided on what to do about Dodd-Frank. The rest of the regulations will be put in place over the next several years and, in the meantime, the courts will attempt to clarify the one third of Dodd-Frank's regulations already in place.

In conclusion, the 2008 financial collapse was devastating and required introspection. However, writing a 2,319 page document called the Dodd-Frank Act has caused many more issues in the finance industry. Letting the pendulum swing from highly deregulated to highly regulated has caused reduced credit for consumers and high compliance costs for companies. Dodd-Frank has increased oversight on the financial services and banking industries, but is it worth the cost? We will have to wait and see.



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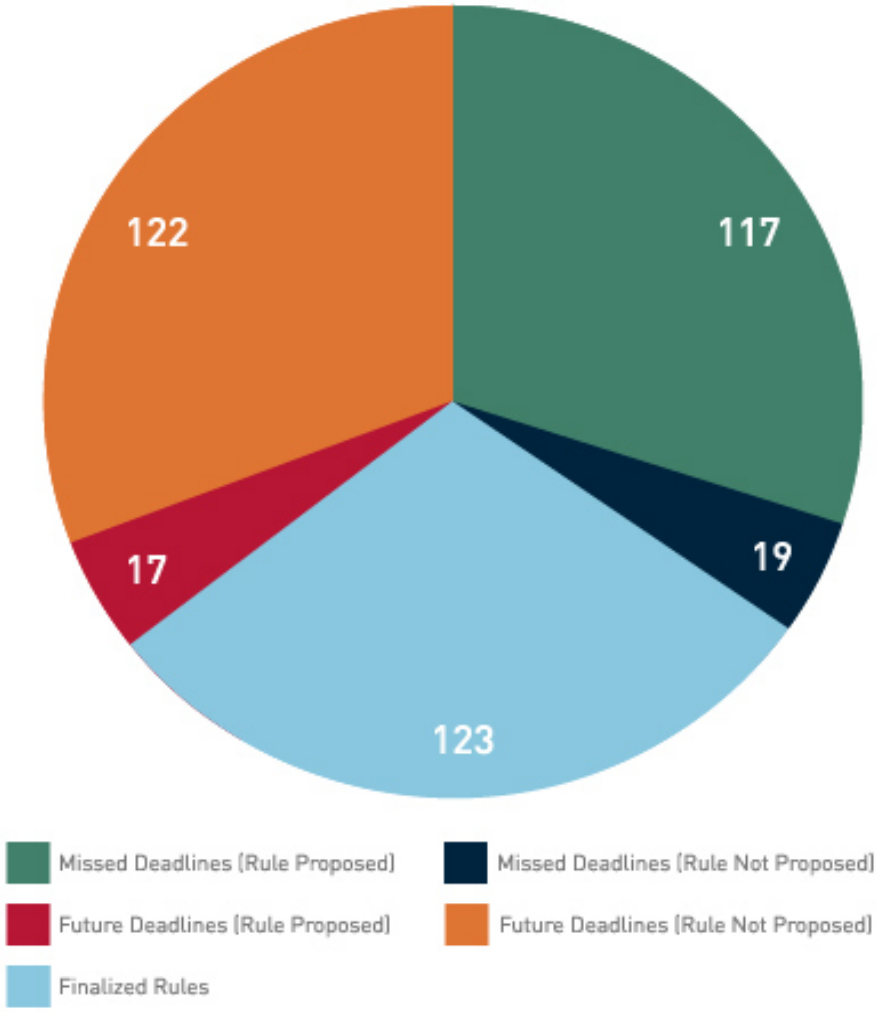
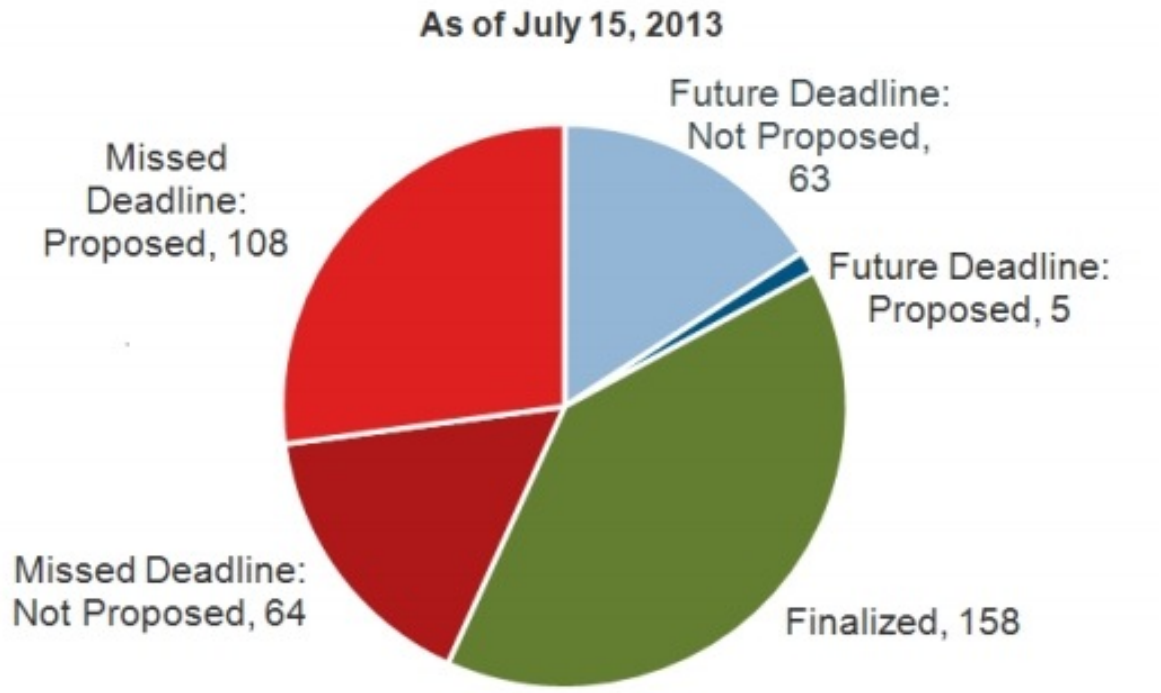


Where the rules stand by Summer 2012 (2-year anniversary)

http://www.parkerpoe.com/news/dodd-frank-act-progress-report-summer-2012-with-a-jobs-act-update-for-good-measure/



Where the rules stand by Summer 2013

http://www.nationalreview.com/corner/356262/obama-admin-has-missed-over-60-percent-dodd-frank-deadlines-patrick-brennan

Chapter 4

Interviews and Results

Responder 1: Economics Professor from a major university

Interview Method: Email

Overregulation, Bureaucracy, and Crony Capitalism

One of the experts that was reached out to was an economics professor who has been in the Department of Economics at her university for three decades. She gave her general opinions about the Dodd-Frank Act's effects on the U.S. economy. While it was difficult to keep her strictly responding to the guiding questions, she did have strong opinions and clearly gave us what she thinks about the act and its effects on the economy. She began by describing herself as a free enterprise economist and proceeded to discuss the absurdity and ridiculousness of the Dodd-Frank Act, referring to it as overregulation, bureaucracy, and crony capitalism. A summary of her interview follows.

Dodd-Frank spawned a massive network of bureaucracy responsible for creating hundreds of new financial sector regulations. Proponents promised it would create economic growth, but it has only placed additional burdens on the economy. The Congressional Budget Office has estimated that within ten years the direct costs of Dodd-Frank, the costs of running regulatory agencies and costs of unexpected fines, fees, and assessments, will be over $27 billion. This does not include the 2.2 million work hours per year these regulations will cause

companies to pay. Dodd-Frank promises to pile up an ever increasing amount of bureaucracy and regulation.

As these regulations continue, the heaviest costs are likely to fall on mid-sized and regional banks. Some regulations will apply only to large banks, but the majority of Dodd-Frank regulations affect large and small banks equally. The largest national banks have more capital to weather the costs of regulation. Small local banks with less available funds and smaller staffs will struggle to keep up with the regulations.

President Obama said: Because of this reform the American people will never again be asked to foot the bill for Wall Street's mistakes. There will be no more taxpayer-funded bailouts-period."

In reality, Dodd-Frank preserves a system of corrupt crony-capitalism where Washington picks the winners and losers at taxpayers' expense. Dodd-Frank includes provisions which allow the FDIC to purchase assets from failing firms or guarantee a failing firm's dangerous assets with taxpayer money. According to Dodd-Frank the FDIC is permitted to borrow up to 90% of a failing firm's assets.

There's a reason the financial regulation law has been called "Dodd-Frankenstein." It will swell the ranks of regulators by 2,849 new positions, according to the Government Accountability Office. It created another new bureaucracy called the Consumer Financial Protection Bureau (CFPB) that has truly unparalleled powers.

The CFPB is supposed to regulate credit and debit cards, mortgages, student loans, savings and checking accounts, and most every other consumer financial product and service. It's not even subject to congressional oversight. Its regulatory authority is just as vague as it is

vast. More than half the regulatory provisions in Dodd-Frank state that agencies "may" issue rules or shall issue rules as they "determine are necessary and appropriate." This means, as *The Economist* put it, "Like the Hydra of Greek myth, Dodd-Frank can grow new heads as needed."

Dodd-Frank Section 953(B):

She believes reactionary laws are bad laws. When Congress runs across a particularly unforeseen problem, it tends to over-legislate in order to solve the problem. This could be a reason why Section 953(b) of Dodd-Frank exists. The requirements seem simple with each issuer to provide three items:

1. The median total annual consumption of all employees, not including the CEO,
2. The total annual compensation of the CEO
3. The ratio of that median compensation to that of the CEO.

The third number is intended to be the key. It is supposed to give the reader of the proxy a hint as to whether the CEO is appropriately paid or not.

Section 953(b) is overly complicated and the rules are too cumbersome. Some of the issues are:

1. The pay ratio is backwards
2. Executive pay is more volatile than broad-based pay.
3. Global companies have significant issues related to having employees in multiple countries.
4. Companies that sponsor defined benefit plans will have additional complications, especially those that have plans in multiple countries.

Let's take a closer look at the problem of executive pay being more volatile. It would not be unusual for the CEO to have a TAC composed of all these elements. I'm sure one can see the problems this could create:

1. Base pay,
2. Bonus (annual incentive),
3. Long-term incentives, including stock grants and awards,
4. Increase in the present value of accumulated benefits in a broad-based pension plan, and
5. Increase in the present value of accumulated benefits in an executive pension plan.

The problems continue into global companies. Trying to add up compensation of every employee, including Third World countries, is not easy to do. Then, it must be converted to U.S. dollars. Adding up all these and pension plans, then creating a ratio to find out whether or not the CEO is being paid correctly becomes extremely complex and is excessively simplified by the wording.

Our responder proposed a solution. She admitted it is not perfect, but believes it to be a better option than what is currently there:

1. Centralize as many functions as possible to the extent that those functions inform the process. Putting everyone on a single payroll feed and consolidating all pension calculations and equity valuations will save considerable time, effort, and cost.
2. Make sure all actuaries are prepared for this calculation. Ideally, it would be a single actuary.
3. Have all equity grants and awards for the year in a single file.

4. Have files from foreign countries set up to come to the United States with currency converted.
5. The SEC may allow issuers to exclude certain employees from the calculation. Have identifiers set up to handle such exclusions. Possible exclusions could be employees who work on some particular part-time basis, certain seasonal employees, and those who work less than some specified number of hours during the year.
6. Have one person internally in charge of the process. That person should work with outside consultants to develop a budget and a work plan for the project. Ideally, that person should have some knowledge of every one of the components of compensation that will go into the process including cash, equity, and qualified and nonqualified retirement plans.

There were several websites she referred to during this discussion. They will be detailed after the works cited page.

Responder 2: Senior Management of Ag lending institution

Interview method: in person, audio-recorded

This interviewee has spent 33 years in the banking industry and has risen to upper management in an institution that specializes in Ag lending. He is the man in charge of coordinating the adoption of regulations and began by telling us his institution is one that is excluded from much of Dodd-Frank, but that that does not matter because their regulator has adopted some of these same regulations. He explained that this company does not deal with stocks. So, those laws do not affect them. He went on to discuss how these regulations take lots of time and how there are costs that do not show up as numbers.

His company went from lending to a few homes to none at all because they have similar housing regulations to Dodd-Frank. Because of the new regulations, they either had to ramp up home lending to get bigger market share or get rid of it altogether. Their expertise is in Ag lending and those loans would have been subsidizing the housing loans.

The disclosure and compliance issues in Dodd-Frank greatly increased compliance costs; one can also see evidence of this in the literature review and in the figures. He says that all regulations he has seen increase compliance costs and this is no different. With each wave comes new regulations and new disclosure issues. Since his company is not subjected to Dodd-Frank, he only focuses on the issues that have trickled down from their regulator. Therefore, when asked how the Dodd-Frank Act has affected small banks as opposed to large banks, he did not have a clue.

He spends time on regulations when he could be working on a project to help customers. He could be working on something to increase efficiency. Instead he has to use his time to

research bylaws and procedures, explain new regulations to the board and staff, and train the staff. These are all expensive and time-consuming hidden costs. This does not show up as a number, but is a hidden compliance cost.

His overall impression of Dodd-Frank is that it is a "typical Washington knee-jerk reaction. When the horse is already out of the barn, you try to close the barn door." He believes it is no different than the Enron and Sarbanes-Oxley situation. Enron was in compliance and if someone is going to cheat and lie and steal they should go to jail. The cost of doing business is having these regulations because "some less than reputable people might be around." He appreciates the fact that the government tried to fix the issue, but there are a lot of unintended consequences.

Responder 3: Financial Advisor major bank

Interview type: In-person, audio-recorded

This interviewee has spent approximately 2 decades as a financial advisor in the Central Valley of California. He began by discussing how he believes taking down Glass-Steagall was a contributing factor to the meltdown in 2008 because the walls between the banks, brokerages, and insurances all came down and they were on the "greed honor system". Dodd-Frank is an attempt to go back and patch it up without putting up those firewalls between banks and brokerages combining. Therefore, "too big to fail" banks will remain.

Due to the dynamic nature of the industry, it is not always certain what is from Dodd-Frank and what may be from something else. One effect on his side of the business is the new Know Your Client (KYC), which includes documenting customer interests, paying close attention to and documenting irregular customer activity, and, overall, being more responsible for the client, as opposed to being more of a salesman. There must be a fiduciary understanding between the broker and the client.

As the figures above indicate, he said a lot of these rules are just being written and it is the only act where things weren't decided. He also says, "every regulation seems like closing the barn door after the horse had already left." Unfortunately, he does not see it dealing with the actual problem.

Customers have to provide more data, which leads us into compliance costs. Any government regulation will increase compliance costs. Compliance costs include regulatory agencies paying someone to come into the office, creation of new regulatory agencies, and taking more of his time. The initial time cost is much more, but the monetary costs are ongoing.

He believes all of the bigger brokerages are in the same boat, but it has probably put a squeeze on the smaller brokerages. He showed stocks of several companies to compare. Wells Fargo recovered well from the crash, while Oak Valley bank is just beginning to recover. Oak Valley is a smaller local bank and this trend is similar to other small local banks he has seen. He says that Dodd-Frank occurred from government angst over a problem and was followed by lobbyists being sent in so Dodd-Frank appeased the lobbyists business. That's where reelection dollars come from and the big banks contribute much more with the lobbying effort.

He believes scrutiny is good for any organization. When he was in seminary, he had a highly controversial civil rights speaker one time who had been labeled an agitator. When asked about being an agitator, the speaker explained when doing the laundry the agitator is the most important part to get the clothes clean. Therefore, he believes Dodd-Frank is a necessary evil and any kind of scrutiny is helpful to clean up the industry. However, he would much rather see Glass-Steagall brought back.

He hopes that Dodd-Frank will level out the natural cycles of booms of busts. He used the example of Tulip mania, which occurred hundreds of years ago. These cycles are a repetitive human nature and can often be partially avoided by using common sense. He says that when one group makes a rule, the other one tries to figure out how to get around it. This is part of the law of unintended consequences and he wonders what other unintended consequences will come from Dodd-Frank.

Responder 4: Senior Management at Ag lending institution: four decades experience

Interview type: Phone, audio-recorded

Our next interviewee has worked in banking for approximately 40 years. He has worked in big banks and small banks with many different titles. He is currently in senior management for a larger bank that specializes in Ag lending and deals with troubled Ag credit.

He says that Dodd-Frank has made massive additions to payroll, but he has no idea of how to quantify that. There is a lot more reporting required by banks and they are still making it up as they go. "It's a noble idea, but sometimes the medicine is worse than the actual illness. Slows down everything and does not know what it solves."

It will likely take another crisis to see how much it helped. He believes there should be some regulation and parts like the Volcker Rule are good, but the cost on the industry to do that is too severe. Dodd-Frank impedes commerce because banks cannot respond to their customer needs readily. There is job elimination for line producing people so compliance jobs could be added. What will happen when the rest is implemented? Will there be fewer and fewer banks causing the "too big to fail" banks to get even bigger?

Treasury and regulators encouraged commercial banks to absorb investment banks. Then, stuck them with the bill and "kicked them in the groin" for not recognizing risk properly.

Larger banks can spread compliance costs over more assets. Small banks get some dispensation. They are merging together because of today's world and regulatory requirements. Dodd-Frank makes it harder for small banks to keep up with regulations financially. However, the larger the bank is, the more regulations they have to comply with.

He believes Dodd-Frank was a noble idea, but the politicians had no idea what they were adding and should be careful when making laws about things they do not know about. He thinks they missed the mark on trying to fix the financial industry. It does not help the politicians cause that they still have not figured out what it means four years later.

Responder 5: Chase Mortgage Banker

Interview type: In-person, audio-recorded

The next interviewee has about a decade of experience in banking. He currently holds a mortgage banker position at Chase and is at the ground level of dealing with Dodd-Frank.

Dodd-Frank creates more busywork for the employees. This creates "loan cholesterol" with all the new checks and balances and puts more pressure on underwriting. First-time and self-employed borrowers have a tougher time borrowing. Closing on a house has gone from 30 days to 40-45 days. Sellers are moving to cash buyers in Europe and Asia; this is big in California and Florida. One good thing is it helps the consumers already in a loan. Overall, lending has become more costly to the customer.

We have continually discussed how Dodd-Frank is increasing compliance costs throughout this paper, and Chase is no different. People have been hired for the regulations, some employees have been reallocated to new positions because of it, there has been time spent preparing for and taking new training, and time spent ensuring things are completed.

From his point of view, he believes it is too soon to tell if anyone has an advantage from Dodd-Frank. He believes it is likely an even playing field, but the small banks may be able to streamline the regulations quicker because the bigger banks have more to deal with.

Out of all our interviewees, he had a unique view of the waves Dodd-Frank has come in since he is at the ground level. The latest wave includes stricter limits on verifiable income. Other waves include stricter demonstration of character laws for employees, which differ from state to state and include criminal background and credit scores. With each wave comes

additional paperwork, largely to clear up disclosure practices. He said this new wave even includes physical fitness tests for job applicants.

He says we now have, "Barney Frank saving the real estate market." He has clients living in hotels waiting for a house. One is a millionaire with an 800 credit score and cannot get a house. Lots of money spent reallocating people to deal with these new regulations and Chase has likely spent about $25,000 on the mortgage banker alone.

Cannot be sure if it is the right call yet, but it seems like it has been more detrimental than beneficial. As we have discussed throughout this paper, he said Dodd-Frank added excessive paperwork and compliance costs to the banking industry.

Responder 6: CPA

Interview type: Phone, audio-recorded

Our final responder is a CPA with a largely Ag based clientele. He has over 40 years experience and has been the top CPA in his firm for the past 29 years in a row. He began by saying that Dodd-Frank has caused more paperwork to come across his desk. It requires the banks to provide him with more information and details and is time consuming.

To him, banks seem more interested in staying out of trouble with the regulators than loaning money. From his side there is more work required and financial statements take longer to get out because banks want more information from the potential borrowers. Dodd-Frank is trying to protect the customer, but it is causing much more effort from the banks to make sure they are safe. This is causing banks to not have the relationships with customers they previously did.

Compliance costs have gone up. People who did not need a financial statement before, need to have it now. They have to pay an accountant to prepare the financial statement. This could require a review or an audit and cause higher level work by the bank. If he has a client with four accounts, it is now likely he'll get four sheets of paper from the same source. It previously would have been zero. He looks at and throws away much of the paperwork.

He believes the larger banks would have an advantage over smaller banks because the cost of the compliance is spread over more loans than smaller banks. The compliance costs would take a bigger share of the small bank's profit. The long-term effects of Dodd-Frank will be a tougher time getting businesses going because more homework will need to be done. On the other hand, it will be tougher to fail a current business.

Dodd-Frank hopefully will reign in the banks from going too far over the edge when times get really good. If they go too high, that high will be followed by a low. However, he sees Dodd-Frank as more of a detriment than a benefit to banking. We had a very good system after the Great Depression (the Glass-Steagall Act), but because of the sheer size of Dodd-Frank, it is hard to comply with.

He believes there should be some regulation, but would rather have seen the Glass-Steagall Act reinstated because it worked and was understandable. On the other hand, Dodd-Frank may work but is extremely long and complex.

There were many people that helped cause the meltdown in 2008. The bankers pushing loans, consumers taking loans they could not afford, and politicians pushing these loans all had a part. However, Dodd-Frank looks to place blame solely on the bankers.

He says dishonest people will always find ways to be dishonest and can find a way to cut corners even with Dodd-Frank. One cannot teach ethics. One cannot regulate honesty.

Note: Unfortunately, when asked for numbers or percentages of how their bank's costs had changed due to compliance costs, they did not have that information at the time of the interview.

Analysis

Each of the interviewees has a different perspective on the Dodd-Frank Act and its effects. These different perspectives allow us to have a broader view of the bill and its effects on banking and the economy at large. Each individual has certain insights that pertained more to them and their specialty. On the other hand, there are some questions they had no clue about. The answers to our questions were responded to with irritated interest. While they are glad to discuss their livelihood and the current atmosphere, they seem to be very troubled with the regulations imposed by the bill.

Most apparent in our discussions, is the consensus of disapproval for Dodd-Frank. This is mildly tapered by comments like, "it has not been around long enough for us to know if it is good or bad." This comment that looks non-committal is, for the most part, surrounded by a disdain for the bill and, at times, those who made it. Multiple interviewees refer to the Dodd-Frank Act as "closing the door after the horse is already out of the barn."

Throughout this process, there is an obvious dislike for "knee-jerk" bills created by politicians in response to a current problem. This is mentioned by multiple interviewees. One interviewee refers to the bill as "Barney Frank saving the real estate market." Another interviewee discussed how Barney Frank was a huge part of the problem and should have been, essentially, excommunicated after the housing meltdown, but wound up writing the bill to "fix" the problems.

Despite the fact that the bill itself is thought of so negatively, most of the interviewees agree that some regulation is necessary. They simply see the Dodd-Frank Act as extremely excessive. So excessive, in fact, that our CPA interviewee posed the question, "Could bankers

get in trouble for not knowing if they are following Dodd-Frank?" He believes they might truly make their best effort to comply, but the size and confusing nature of the bill could cause serious issues.

The fact that as of July 15, 2013 less than half the rules had been finalized only adds to the concern. That is three years after the bill was passed. As of that date, there were 158 finalized rules, 172 rules had missed their deadline (proposed or not proposed), and 68 had a future deadline (either proposed or not proposed). This gives concrete evidence to the complaints from interviewees about passing Dodd-Frank and then figuring out what it means.

The changes continue to come. According to our Mortgage Banker, the most recent wave of Dodd-Frank includes physical fitness tests for new job applicants. He wondered if they were including the fat test he used to take in P.E. These new regulations are constantly changing the banking environment. This creates a lot of uncertainty in the industry.

This uncertainty includes possible job loss. Our Troubled Ag Assets interviewee stated that he knows for a fact some line producing people have lost jobs to create room for compliance jobs. The Chief Credit Officer interviewee mentions that they have spent much more time training people on the new regulations, having meetings, and preparing for these trainings and meetings. He believes this takes valuable time away from doing productive work. For example, he could be finding ways to make the company run more efficiently, but he is required to spend time concentrating on the new regulations.

There is a disagreement among those interviewed on the question of whether or not Dodd-Frank gives an advantage or disadvantage to anyone. Some believe that it gives no advantage because everyone is in the same boat. Others believe that it gives big banks an

advantage over smaller banks because they can deal with the regulations much easier. This may simply reflect how each interviewee reads into this question. This leads into another one of our questions: How do you believe Dodd-Frank has affected small banks as opposed to large banks?

The Chief Credit Officer does not have a clue because it is outside the scope of what he does. Our Financial Advisor believes that it tends to help big banks more than small banks; he gives examples in his interview section. The Troubled Ag Assets interviewee has worked for both big banks and small banks. Therefore, he has seen the effects of regulations on both. He says both have advantages and disadvantages, but gives the large banks a bigger advantage. Our mortgage banker, who is on the ground level of this, believes that small banks can usually streamline things quicker because of less checks and balances. The CPA believes larger banks get the advantage because compliance costs are more easily absorbed with larger institutions. On the other hand, compliance costs eat into more of a small bank's profits. The evidence seen throughout personal research has shown that big banks have definitely benefitted more from Dodd-Frank.

One of the biggest issues in the Dodd-Frank discussion is the effects it has on customers. Interviewees mentioned how Dodd-Frank's regulations have slowed everything down. They agree that it has caused more problems than it has solved so far. The Troubled Ag Assets interviewee said, "I don't know what it solves," in an annoyed tone.

The Mortgage Banker said we have gone from closing in 30 days to 40-45 days and international investors from Europe and Asia are buying up a much larger quantity of the properties in California and Florida with cash. The Troubled Ag Assets interviewee believes banks cannot respond to their customers in a timely manner now. Our Financial Advisor

discusses how Dodd-Frank means more paperwork and more time spent on regulations. For example, he must now be more vigilant in documenting irregular activity from clients and look into it. He is now more responsible for the client's gains and losses, as opposed to just being a salesman. Our Chief Credit Officer believes the time spent going through the regulations could be better spent working on products for productivity and efficiency for customers. The economic professor dislikes these regulations because they do not allow the market to move naturally.

Overall, we have seen a more negative than positive reaction to Dodd-Frank. The interviewees mention some positives, such as the government trying to help and how some regulations are necessary. One interviewee likened it to putting up walls between the boys' dorms and girls' dorms at college. It does not completely solve the problem, but it is a deterrent. However, what is thought to be the good part is only a small part of the bill. The rest is either considered harmful or still trying to be sorted through.

Chapter 5

Conclusion and Recommendations

Dodd-Frank, meant to fix the financial issues that caused the 2008 crash, has been more detrimental than beneficial to the lending industry and the economy as a whole. While there are some good sections and there were wrongs that had to be righted, the Dodd-Frank Act is not the best way to go about it. The law is simply too big and confusing to become what it was meant to be.

The stated aim of the legislation is: To promote the financial stability of the United States by improving accountability and transparency in the financial system, to end "too big to fail", to protect the American taxpayer by ending bailouts, to protect consumers from abusive financial services practices, and for other purposes. (Congressional Bills 111th Congress)

The research has shown that Dodd-Frank is not on track to end "too big to fail." In fact, Dodd-Frank is causing "too big to fail" institutions to become even bigger. Since Dodd-Frank causes "too big to fail" institutions to become even bigger, it follows that they could require a bailout in a future economic downturn. This means the Act is failing to accomplish two of the four stated reasons it is supposed to promote the financial stability of the United States. In actuality, Dodd-Frank is doing the exact opposite of what it is meant to do. Compliance costs are a huge part of this. We will discuss compliance costs more below.

Another part of the stated aim of Dodd-Frank is, "to protect consumers from abusive financial services practices." It seems ironic that the same men who wanted "to roll the dice a little bit more in this situation towards subsidized housing" and believed that 70% of Americans owning a home "is one of the great success stories of all time" wrote this piece into the law.

These are the same men who pushed for aggressive lending verbally and legislatively. In this part of the stated aim, it appears that Chris Dodd and Barney Frank are placing the blame solely on financial institutions. While the finance industry definitely had their part in the financial collapse, there were also consumers irresponsibly taking out loans and government officials, such as Dodd and Frank, pushing for aggressive lending. Even with other congressmen and Alan Greenspan warning them, Dodd, Frank, and others decided to push their luck in the lending market. Therefore, this author does not believe Barney Frank and Chris Dodd can successfully protect consumers with Dodd-Frank.

The financial industry has been reigned in by Dodd-Frank to the point where they almost seem scared to lend at times. Banks seem to be more concerned with avoiding problems with the regulators and following this massive set of new rules than they are with lending to customers. This is one compliance cost that may not be directly seen on paper. Who can blame the banks? If they do not follow the regulations, they can be shut down. Is this truly protecting consumers? This author does not believe so.

On the other hand, there are some positives to the Dodd-Frank Act that do protect consumers. Raising the level of insured accounts from $100,000 to $250,000 is a positive. Parts of the law such as the Volcker Rule are positive. The Volcker Rule is aimed at separating banks from risky investments, which Paul Volcker believes played a key role in the financial meltdown. This makes banks safer institutions, which they should be. Risky investments can and should be done somewhere else.

Lastly, we will cover the aim to promote the financial stability of the United States by improving accountability and transparency in the financial system. Of the four points discussed

in this Conclusion, this is the one where Dodd-Frank seems to have really hit where they were aiming. We have seen evidence throughout this paper that Dodd-Frank adds excessive paperwork to improve accountability and transparency. However, the cost is the entire banking system slowing down and bankers being unable to respond to their customers in a timely manner. The regulations and paperwork to improve accountability and transparency hit extremely hard on compliance costs. These compliance costs strain smaller banks and give bigger banks an unreasonable advantage. Once again, Dodd-Frank was supposed to end "too big to fail".

Since what Dodd-Frank means is still being determined, this can only be considered an interim conclusion. We can only hope it turns out to be better than it appears. So far, it seems like we were better off with the Glass-Steagall Act.

Recommendations for further studies include:

1. Tracking the effects of the Dodd-Frank Act as it continues to be implemented to give us a better perspective on what it means to the finance industry and the economy as a whole.
2. As Dodd-Frank is more fully implemented and more useful data comes out, there should be studies involving quantitative analysis to determine the effects of Dodd-Frank. New areas that we have not covered may be excellent research candidates as the Dodd-Frank Act is more fully implemented.
3. After Dodd-Frank is fully implemented, there should be studies to determine the effectiveness of the Dodd-Frank Act versus the effectiveness of Glass-Steagall. Studying the time between the Glass-Steagall Act being repealed and the Dodd-Frank

Act being passed may also shed some light, or could simply be an example of what not to do.

4. Future studies should try to determine the effects of small banks versus big banks and how compliance costs tie into this. Quantitative analysis could be invaluable in this.
5. Future studies should also include analysis of whether or not the fully implemented Dodd-Frank Act has slowed down the banking process and by how much. This, along with an analysis of how hesitant banks are to lend in comparison to previous years, may help answer how effective Dodd-Frank is.

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APPENDIX

DATA COLLECTED FEBRUARY-APRIL 2014

(Pierce, Robinson, Stratman)

Figure 33. Histogram of Personnel Added Due to CFPB

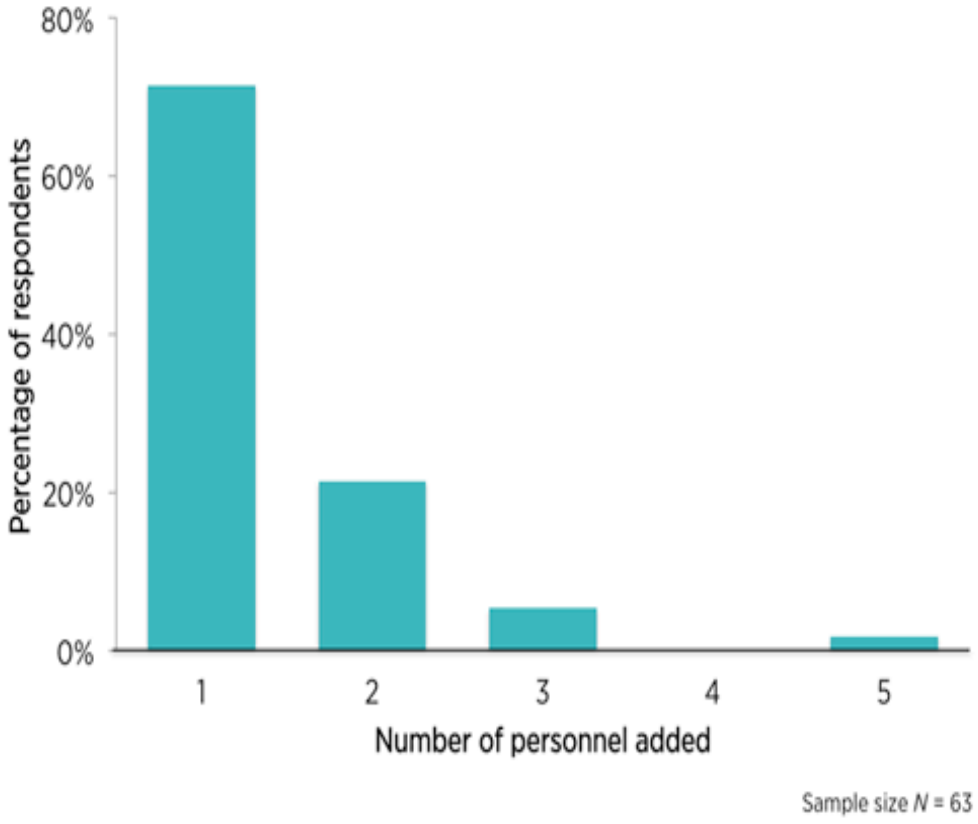
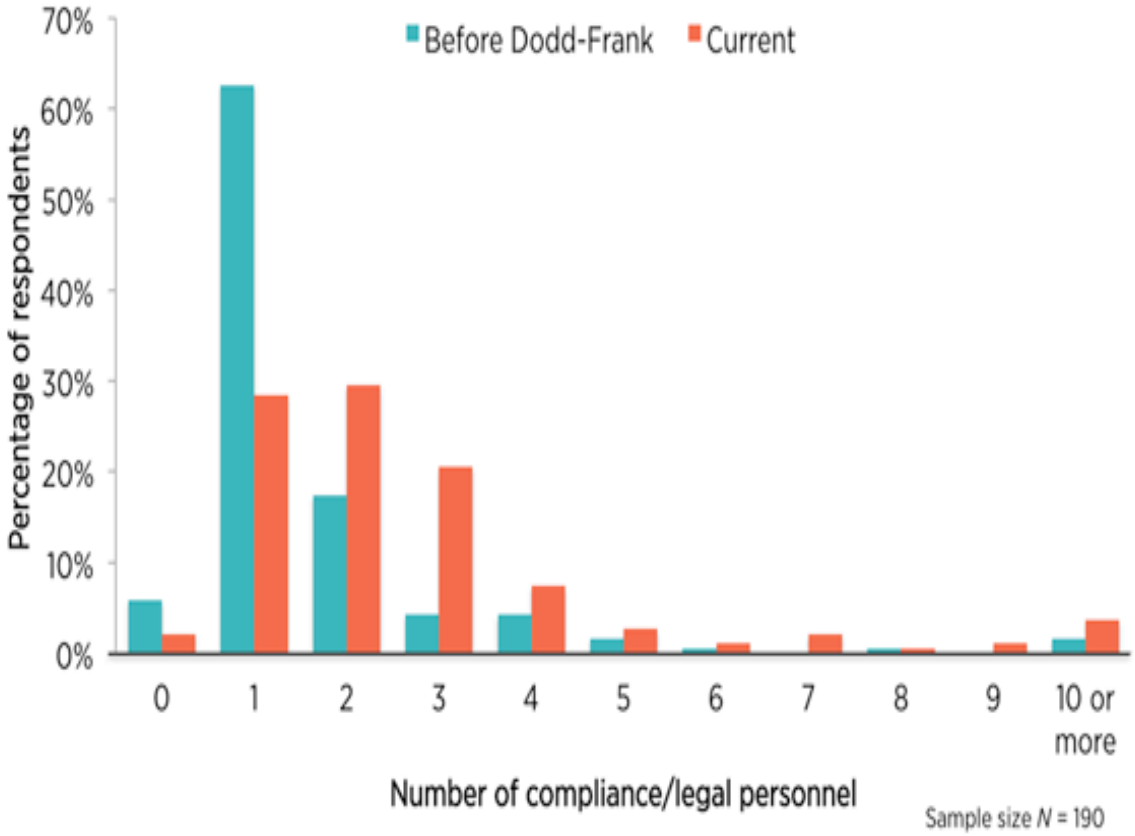
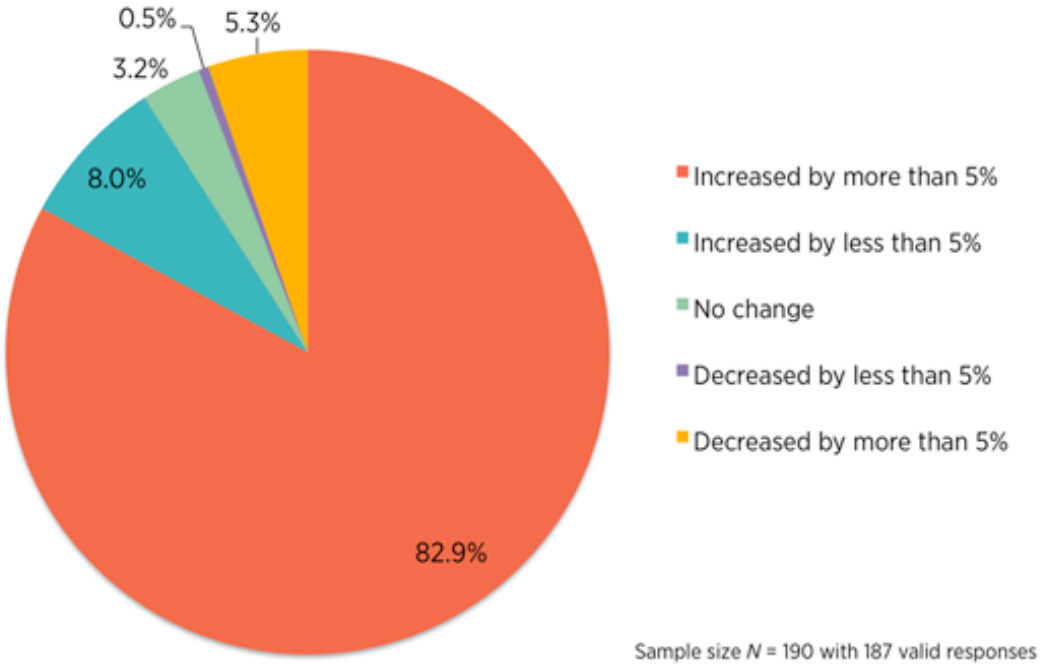


Figure 20. Histogram of Compliance/Legal Personnel



(Pierce, Robinson, Stratman)

Figure 19. Change in Annual Compliance Costs since Dodd-Frank



(Pierce, Robinson, Stratman)