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Congress Approves First Big Dodd-Frank Rollback

By Alan Rappeport and Emily Flitter

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WASHINGTON — A decade after the global financial crisis tipped the United States into a recession, Congress agreed on Tuesday to free thousands of small and medium-sized banks from strict rules that had been enacted as part of the 2010 Dodd-Frank law to prevent another meltdown.

In a rare demonstration of bipartisanship, the House voted 258-159 to approve a regulatory rollback that passed the Senate this year, handing a significant victory to President Trump, who has promised to "do a big number on Dodd-Frank."

The bill stops far short of unwinding the toughened regulatory regime put in place to prevent the nation's biggest banks from engaging in risky behavior, but it represents a substantial watering down of Obama-era rules governing a large swath of the banking system. The legislation will leave fewer than 10 big banks in the United States subject to stricter federal oversight, freeing thousands of banks with less than $250 billion in assets from a post-crisis crackdown that they have long complained is too onerous.

Republican lawmakers and the banking industry cheered a measure they said would help unshackle banks — and the economy — from regulatory burdens.

Paul D. Ryan, the House Speaker and Wisconsin Republican, said the bill's passage was a step toward "freeing our economy from overregulation."

"Our smaller banks are engines of growth," he said in a statement. "By lending to small businesses and offering banking services for consumers, these institutions are and will remain vital for millions of Americans who participate in our economy."

The push to alter even a portion of Dodd-Frank so soon after the crisis and just ahead of the midterm elections has pitted Democratic lawmakers against one another. Party leaders are eager to present a united front to voters in November and are wary of losing a signature issue — holding Wall Street accountable.

"It's a bad bill under the guise of helping community banks," Representative Nancy Pelosi of California, the Democratic minority leader, said during debate on the House floor on Tuesday. "The bill would take us back to the days when unchecked recklessness on Wall Street ignited an historic financial meltdown."

[Read more about the Dodd-Frank rollback.]

The Dodd-Frank bill was a Democrat-led initiative that passed with the support of just three Republicans and it has been under constant attack from Republicans ever since. Left-leaning lawmakers like Senator Elizabeth Warren of Massachusetts and Senator Sherrod Brown of Ohio have blasted their more moderate colleagues, like Heidi Heitkamp of North Dakota, for supporting the legislation, and Democratic leaders have tried to prevent any lawmakers from crossing the aisle to support the bill.

"For years, armies of bank lobbyists & executives have groaned about how financial rules are hurting them," Ms. Warren wrote on Twitter ahead of the House vote. "But there's a big problem with their story — banks are making record profits. Congress has done enough favors for big banks — the House should reject the #BankLobbyistAct."

Ms. Pelosi and Representative Maxine Waters of California, the ranking Democrat on the House Financial Services Committee, wrote a letter to their House colleagues urging them not to support the bill. "We must not allow the G.O.P. Congress to drag us back to the same lack of oversight that ignited the Great Recession," they wrote.

The overtures did not prevent several Democrats from crossing party lines in favor of the legislation — 33 Democrats voted for it, and one Republican, Walter B. Jones of North Carolina, voted against it.

Democrats have pointed to record profits on Wall Street, saying banks do not need relief from rules given how flush they are with cash. A report from the Federal Deposit Insurance Corporation on Tuesday said that the combined net income of the nation's commercial banks and savings institutions reached $56 billion in the first quarter of 2018, a 27.5 percent increase from a year ago.

Once the bill is signed by Mr. Trump, small and medium-sized banks will no longer be required to undergo "stress tests" aimed at measuring their ability to withstand a severe economic downturn. The legislation also offers a reprieve to big — but not behemoth — banks, allowing large institutions like American Express and BB & T to no longer be deemed "systemically important" and subject to stricter oversight.

The bill also exempts some loan originators, including small lenders, from certain disclosure requirements under the Home Mortgage Disclosure Act. Democrats say this will open the door to discriminatory practices because the rules required collection of credit scores, loan amounts and interest rates in an effort to expose redlining and lending discrimination.

While the legislation does little to help the very largest banks like JPMorgan Chase, Goldman Sachs and Citigroup, the Trump administration has been working behind the scenes through its regulatory agencies to weaken capital requirements and ease other restrictions on such firms.

Later this month, five regulators are expected to release a plan to water-down the Volcker Rule, which bans banks from making risky bets with depositors' money. Regulators have already proposed easing limits on how much the largest banks can borrow, a change that was opposed by Obama administration appointees at the Fed and the Federal Deposit Insurance Corporation, who argued it was too soon to reduce capital requirements for the biggest banks. And the Consumer Financial Protection Bureau, which is run by Mr. Trump's budget director, has halted the agency's continuing investigations into finance companies.

Republicans saw Tuesday's vote as merely the beginning, not the end, of the Dodd-Frank legislative rollback.

For years, House Republicans have been pushing for a more significant overhaul of Dodd-Frank and last year passed the Financial Choice Act, which would have crippled the consumer bureau and revoked the Volcker Rule. However, that bill stood no chance of gaining Democratic support in the Senate and Republicans, looking to score a victory before the midterm elections, ultimately chose the pragmatic path of approving the bipartisan Senate legislation.

Republicans, and some Democrats, say that the Dodd-Frank law has unnecessarily hurt small- and medium-sized banks that did not play a role in the financial crisis and have been collateral damage in Washington's campaign to corral their bigger brethren. They say the regulations have cut off the flow of credit to many Americans who depend on smaller banks for business and personal loans.

Representative Jeb Hensarling of Texas, the Republican chairman of the House Financial Services Committee, said the bill was a victory for Americans who depend on small banks and credit unions.

"The Main Street banks and credit unions that these people depend on, they've been suffering, they've been suffering for years under the weight, the load, the volume, the complexity and cost of heavy Washington bureaucratic red tape," he said.

Mr. Hensarling said he remained hopeful that the Senate would consider some of the other, smaller deregulation bills that the House has passed, but their fates remain uncertain.

Aaron Cutler, a former senior policy adviser to House Republicans and now a partner at Hogan Lovells, said the bill was just a first step. "Hopefully this is the first of many legislative pieces to come that improve financial regulations," he said.

Conservative groups that have been strong opponents of Dodd-Frank say more must be done to fix the regulatory overreach created by the crisis.

“The legislation unfortunately leaves intact the bulk of Dodd-Frank, including its most crushing burdens on consumers, investors, and entrepreneurs,” said John Berlau, a senior fellow at the Competitive Enterprise Institute, a libertarian think tank. “To provide real financial relief for Americans, much more is required of Congress, the president and regulatory agencies.”

To those who lived through the financial crisis, the deregulatory efforts have prompted concern.

Sarah Bloom Raskin, who was deputy Treasury Secretary during the Obama administration, said she was worried about the cumulative effect of the Trump administration’s deregulatory efforts. She said that there has been a troubling lack of economic analysis about the policies that are being put in place.

“Overall resilience is being weakened in unexamined ways,” Ms. Raskin said.

Senior White House officials said after the bill passed that they hoped to get it to Mr. Trump’s desk for signing before Memorial Day. While they would not say that it fulfilled the president’s promise of repealing Dodd-Frank, they called it an important step toward ridding the economy of regulations that have held back growth.

Correction: *May 23, 2018*
Earlier versions of this article incorrectly identified the name of the think tank where John Berlau is a senior fellow. It is the Competitive Enterprise Institute, not the Conservative Enterprise Institute.

Thomas Kaplan contributed reporting.

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