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Dodd-Frank Law Loosened by the House; Volcker Rule Changes Proposed by the Fed

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On May 22, by a vote of 258-159, the House approved a Senate-passed bill to free thousands of small and medium-sized banks from strict rules that had been enacted in 2010 as part of the Dodd-Frank law intended to prevent another financial crisis. The bipartisan passage in both the House and the Senate handed a significant victory to President Trump, who promised to undo the Dodd-Frank regulations. The bill stopped short of unwinding the toughened regulatory regime put in place to prevent the nation's biggest banks from engaging in risky behavior, but it still represents a substantial change to the Obama-era rules governing a large swath of the banking system. The legislation will leave fewer than ten big banks in the United States subject to stricter federal oversight, freeing thousands of banks with less than $250 billion in assets from the restrictions.

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 a number of large banks, allowing 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.

On May 30, the Federal Reserve Board proposed a sweeping set of changes that would relax the Volcker Rule, a major regulation introduced at the same time as the Dodd-Frank bill in 2010. The Volcker Rule, which went into effect in 2015, bans proprietary trading. Banks trade regularly to meet the demands of customers and to hedge their own risks. The Volcker Rule allows that sort of trading, but regulators had to ensure a bank was not speculating for its own gain under the guise of serving customers or hedging. To do that, the rule included requirements that forced banks to show that they were only engaging in legitimate types of trading. However, banks objected to the rule's complexity, and regulators claimed that the rule was difficult to enforce. The new proposed changes would provide banks with considerable clarity and flexibility on the types of trading that would be permitted, including when banks seek to trade for hedging and other purposes. Banks with smaller trading operations would have reduced requirements, with many banks afforded the presumption that they are in compliance with the Volcker Rule. The proposal is now open for a 60-day comment period as part of the rule-making process before the changes are finalized.