Testimony of Dr. Lisa D. Cook
Associate Professor of Economics and of International Relations
Michigan State University
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Chairman Hensarling, Ranking Member Waters, and eminent Members of the Committee, thank you for the opportunity to testify today about the Financial CHOICE Act of 2017.

Americans are still hurting from the significant slowdown in economic activity that started in December 2007, the worst financial and economic crisis since the Great Depression. Recall that From my research on foreclosure in Michigan, I know that Michigan was particularly hit hard by the foreclosure crisis due to mass layoffs in the auto industry in the mid-2000's and weak regulation of the mortgages. The fall in earnings rendered families incapable of meeting their mortgage payments, which set off a chain of events at Bear Stearns and which ultimately led to the financial crisis.

The irresponsible lending practices that characterized this period and a welter of agencies overseeing consumers proved to be unsustainable. In the wake of this crisis, this body passed the Dodd-Frank Wall Street Reform and Consumer Protection Act, which attempted to address weaknesses in the financial system, with respect to macroprudential regulation and consumer protection.

It is laudable and warranted that this body is concerned about robust economic growth, the smooth functioning of the financial system, and vigilance in the protection of consumers and is now reviewing the Dodd-Frank Act. The problems it attempts to address were a long time in the making. It is very complex and, like most complex legislation, imperfect. Much criticism has been leveled against various aspects of the Dodd-Frank Act, which the Financial CHOICE Act seeks to undo.

One charge against the Dodd-Frank Act is that higher capital requirements – through capital ratios and risk-weighted ratios – constrain lending activity and, therefore, economic growth. More capital on hand when lenders lend means that more of their money is at risk than before Dodd-Frank.

If higher capital requirements constrained lending and therefore economic growth, we should see a fall in both since the passage of Dodd-Frank in 2010. Instead, we see both increasing.

According to the latest data available, commercial and consumer loans grew between 0.5 percent and 12 percent annually since 2012.[1] Household debt at the end of 2016 stood at

[1] https://www.federalreserve.gov/releases/h8/Current/

$12.6 trillion, which is 0.8 percent below its peak of $12.6 trillion in the third quarter of 2008.[2] The economy has expanded between 0.2 percent and 6.7 percent since the first quarter of 2011.[3]

It has also been suggested that regulation pertaining to consumer protection is onerous and should be scaled back. The recent evidence does not suggest that regulators should be less vigilant in protecting consumers. The Consumer Financial Protection Bureau has been critical in bringing to light and punishing abusive and illegal behavior by banking institutions, such as in the case of Wells Fargo, whose employees opened over two million fake accounts, engaged in discriminatory lending practices, and participated in illegal student-loan servicing practices.[4] Indeed, with respect to my own industry of higher education, the CFPB has been instrumental in putting the student debt crisis on the country's radar screen, as well as pursuing scams and abusive practices in student-loan servicing.[5] It appears that the CFPB has been very active in ensuring consumer protection in the financial services sector and that this should be at least sustained, if not augmented.

Some critics of Dodd-Frank believe that measures constraining the activities banks can engage in are burdensome and diminish economic growth. Some of these measures included constraints on lending activity, especially related to financial derivatives. The lack of regulation of derivatives prior to the crisis and the size of the market, over $400 trillion in 2015, suggest that the Commodity Futures Trading Commission's work, which was empowered by the Dodd-Frank Act, is and will continue to be important to financial stability.[6]

A fourth critique of Dodd-Frank is that the Federal Reserve's activities are too far-reaching and deserve more oversight. As a macroeconomist who has researched or advised various countries on financial crises and reform, this criticism of the Federal Reserve is difficult to understand. Preventing financial crises and restoring safety and soundness to the financial system should be addressed by the Federal Reserve system experts in monetary policy and macroeconomics and who have a broad sense of the financial linkages throughout the economy. Fighting fires requires the expertise of firefighting professional who have a sense of not just individual homes, structures, and property but also of the terrain, regional water resources, and the like. I saw this first hand in the Rockridge-Oakland Hills fire of 1991 when fire officials had to quickly address public safety concerns, as well as individual homeowner

[2] https://www.newyorkfed.org/newsevents/news/research/2017/rp170216

[3] https://fred.stlouisfed.org/series/A191RP1Q027SBEA

[4] See testimony of Richard Cordray, April 5, 2017, https://www.consumerfinance.gov/about-us/newsroom/written-testimony-of-cfpb-director-richard-cordray-before-the-senate-committee-on-banking-housing-and-urban-affairs-20160407/ and Lisa D. Cook, http://knowledge.wharton.upenn.edu/article/how-the-wells-fargo-scandal-will-reverberate/.

[5] https://www.consumerfinance.gov/about-us/newsroom/cfpb-halts-student-loan-debt-relief-scam/

[6] See https://www.gsb.stanford.edu/insights/anat-admati-are-banks-safe-now.

concerns. Experts in fighting wildfires and financial fires should be given as many tools as possible to combat fires and prevent them from spreading.[7]

To be sure, there are features of financial regulation that can be refined for the purpose of promoting financial reform. Some reporting requirements under are likely burdensome to the smallest banks. While close monitoring and supervision of systemically important banks is still a major concern, it may be worth this body's considering whether some reporting requirements may be streamlined without compromising bank stress tests. Particular attention may be given to smaller banks with capital under $1 billion, such as community banks. Indeed, simpler and tiered Basel III capital requirements may be in order.

Certainly, as this example illustrates, the evidence suggests that continued financial reform is needed along with vigilance in execution of the provisions of financial reform. What is less desirable is completely rolling back measures in the Dodd-Frank Act and putting the American people, and their hopes and opportunities, at risk again.

[7] See comments of current and former Federal Reserve Bank Chairs Janet Yellen and Ben Bernanke on the role of economists in resolving crisis in the past and in the future: https://www.federalreserve.gov/newsevents/speech/files/yellen20160826a.pdf and https://www.federalreserve.gov/newsevents/speech/bernanke20100924a.htm.