Unintended Consequences of Federal Banking Reforms;
Time to Rethink Dodd-Frank
By Senator Pete Campos

The financial crisis revealed great weaknesses in our nation's oversight of huge Wall Street financial institutions and the federal reaction was relatively swift and bold: enactment of a law known as the Dodd-Frank Wall Street Reform and Consumer Protection Act.

In some ways, passage of the act was long overdue. Big banks had clearly engaged in high-risk lending practices, putting their borrowers at risk of defaulting on loans, putting their investors at risk of losing hard-earned money and sending the national economy into a tailspin from which it is just starting to recover. While many say Dodd-Frank didn't go far enough to fix those problems, it is also clear the act has had some dire and unintended consequences for small community banks across New Mexico that have made it more difficult for credit-worthy New Mexicans to get the loans they need to buy cars and homes and to start or expand small businesses.

In late 2009, less than a year before Dodd-Frank was signed into law and at the height of the financial crisis, New Mexico's four dozen community banks held outstanding loans totaling $6.401 billion — a sign that New Mexicans were getting the loans they needed to make important purchases and to invest in their businesses. But just two years later, after Dodd-Frank was on the books, that figure dropped to $6.178 billion and the growth rate of the amount of the average loan plummeted from 420 percent in 2009 to minus 17 percent in 2011.

New Mexico's community banks report that New Mexicans have essentially stopped borrowing from their community banks — not because they aren't credit-worthy; not because they can't use the money to spur economic activity; and not because community banks don't have money to lend — but simply because it's now more difficult, due to the resulting federal regulatory climate, for New Mexico community banks to lend to New Mexicans.

Dodd-Frank is a massive piece of federal legislation, totaling nearly 2,400 pages, that creates more than one dozen new regulatory agencies and that the Congressional Budget Office estimates will cost financial institutions about $2.9 billion. It gives unelected federal regulators the authority to adopt burdensome rules that have the effect of law, but that have not and will not be vetted by federal lawmakers. Worst of all, it imposes unnecessary burdens on small community banks that were not part of the federal financial meltdown.

For example, Dodd-Frank requires every financial institution to ask every business applicant that seeks a loan whether the business is minority- or woman-owned and whether it is a small business under federal definitions. Then Dodd-Frank requires financial institutions to report that information, along with related information about whether the financial institution granted the business the loan, and to keep that information available for public inspection pursuant to yet-to-be-adopted regulations designed to keep some of that information private.

It is worth stating again that New Mexico's community banks are responsible lenders and did nothing to contribute to the federal financial meltdown. New Mexicans are 1,800 miles away from Wall Street. Congress and the president should revamp Dodd-Frank to solve the problems that needed to be solved and leave the rest of us alone, and Washington should become more informed of our situation.