To: Fast Facts List

On June 7, 2011, Federal Reserve Chairman Ben Bernanke was asked if anyone had studied the cumulative effect of new rules. He responded, "I can't pretend that anybody really has. You know, it's just too complicated."

The safety and soundness of our financial system undoubtedly has improved as the result of recent changes made by Congress, supervisors, and financial institutions themselves. In particular, risk has been reduced, capital and liquidity have improved, and failed firms can be resolved without imposing loss on taxpayers. These are positive developments for the U.S. and the future of financial services.

However, as hundreds of new rules are written – both here and abroad – it is critically important for the sake of our economy, consumers, and the competitiveness of the financial services industry that the cumulative weight of new rules is understood.

The Roundtable has collected over 65 independent reports, testimonies, speeches, and statements about the cumulative weight of new rules. Over the next four weeks, we will send out weekly notices about themes that emerge from this research.

If you have questions or comments, please don't hesitate to contact Abby McCloskey, Director of Research, at abby@fsround.org.

Special Edition Fast Facts - Week 2 of 4

Cumulative Weight: IMPACT ON CREDIT

Many studies claim that the cumulative weight of new rules will impact the cost and availability of credit for consumers and small businesses. Quantitative estimates include:

- Over 75% of surveyed economists expect a negative impact on credit availability;
- Increase in bank lending rates of about 193 basis points by 2014;
- 100 basis point rise in borrowing costs;
- Direct costs would increase by approximately 75% to 195% for certain investors.

- "Because banks believe that Dodd-Frank will probably hurt their bottom line, they're already working on a range of offsets. These initiatives will likely take the form of additional charges for products and services that are currently now either free or at a lower cost for the consumer." ***Standard & Poors Report,*** What Financial Reform Could Cost The Largest U.S. Banks. November 2010

- "Failure to consider and balance the combined impact of all of the changes will have real consequences to the extent that constraints on liquidity translate into constraints on bank lending and the availability of credit within the economy." ***Mr. John Walsh, Acting Comptroller of the Currency, Office of the Comptroller of the Currency,*** Testimony at the House Financial Services Hearing: "Financial Regulatory Reform: The International Context." June 2011

- "Economic output is mainly affected by an increase in bank lending spreads as banks pass a rise in bank funding costs, due to higher capital requirements, to their customers." ***OECD,*** Macroeconomic Impact of Basel III. February 2011

- "This, and a variety of other changes in funding costs, would lead to an increase in bank lending rates of about 193 basis points by 2014." ***Institute for International Finance,*** Interim Report on the Cumulative Impact on the Global Economy of Proposed Changes in the Banking Regulatory Framework. June 2010

- "In short the impact of Dodd-Frank look similar to a roughly 100 basis point rise in borrowing costs." ***Dr. Douglas Holtz-Eakin, President, American Action Forum,*** Testimony at the House Financial Services Hearing: "The Costs of Implementing the Dodd-Frank Act: Budgetary and Economic." March 30, 2011.

- "Over 75 percent of survey respondents expected a negative impact on credit availability and nearly 60 percent expected a negative impact on the cost of credit for households. The forecast for impact on the business sector was only slightly less negative, with 65 percent and 53 percent predicting a negative impact on the availability of credit and cost of credit, respectively." ***SIFMA,*** SIFMA Roundtable of Economists Sees Economic Growth Steady at a Subpar Rate, Deficit Reduction Debate Continues for 2011. July 2011

- "The uncertainty created by the Act is potentially toxic to any financial services start-up, in that it affects the ability of small and early stage companies to secure necessary capital." ***Mr. John M. Schaible, Chairman, Atlas Federal Holdings*** House Financial Services Hearing: "The Effect of Dodd-Frank on Small Financial Institutions and Small Businesses." March 2, 2011

- "High dependency on banks of small and medium sized businesses, which typically create 70% of new jobs, presents another key issue." ***Institute for International Finance,*** Interim Report on the Cumulative Impact on the Global Economy of Proposed Changes in the Banking Regulatory Framework. June 2010

- "According to our analysis and research, banks and credit unions will pass on much of the $33.4-$38.6 billion reduction in interchange fees to consumers and small businesses in the form of higher fees or reduced services during the 24 month period following the implementation of the regulations." ***David S. Evans, Robert E. Litan, Richard Schmalensee,*** Economic Analysis of the Effects of the Federal Reserve Board's Proposed Debit Card Interchange Fee Regulations on Consumers and Small Businesses. February 2011

- "Efforts to regulate credit card networks in other countries have not produced net benefits, even though they may have benefited merchants at the expense of some consumers and banks." ***Todd Zywicki, Mercatus Center,*** THE ECONOMICS OF PAYMENT CARD INTERCHANGE FEES AND THE LIMITS OF REGULATION. June 2010

- "In the study sample, estimated direct costs would increase by approximately 75% to 195% for these investors." ***Oliver Wyman,*** Assessment of the impact of the Department of Labor's proposed "fiduciary" definition rule on IRA consumers. April 2011

For more studies, please view the cumulative weight database here.

Next week, the research will focus on the impact of new rules on industry competeviness.