Roll Call

# Opinion: Bipartisanship Still Exists and Financial Reform Is Proof

Senate bill isn't perfect, but it can have a lasting effect

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As U.S. politics descends ever further into partisanship, there are still signs that old-fashioned legislating is not dead. This week, the Senate Banking Committee will mark up one of the first significant pieces of financial regulatory legislation in years with real bipartisan support. That means an opportunity for lasting, incremental progress that we should welcome.

The proposed bill, which has 10 Republican and 10 Democratic co-sponsors, would not revolutionize the U.S. financial regulatory system, and that's a good thing. The Dodd-Frank Act and other post-financial crisis reforms have made the financial system and Americans safer overall, but like most major reforms, they have also created unintended consequences. The Senate bill would address some of these, while retaining the overall post-crisis framework that is generally working.

For one thing, the proposed legislation would ease the compliance burden on smaller community banks, as experts of both parties have urged. The number of commercial banks in the United States has dropped by about two-thirds since the 1980s, for a variety of reasons. Since community banks have historically lent more to the small businesses that create so many jobs in the U.S. economy, the health of community banks is a reasonable focus of policymakers. The proposed legislation recognizes that some of the compliance requirements on small banks either are unnecessary or do not reflect the difficulty that many community banks, especially in rural areas, face in complying with them.

The Bipartisan Policy Center was among the first to call for raising the threshold above which banks face Dodd-Frank's extra prudential requirements, such as stress testing and resolution planning. BPC proposed raising the threshold to $250 billion in assets from $50 billion — a size at which it would be difficult for a bank to be systemically important — and giving regulators some discretion in applying the threshold to banks above and below it. This would allow financial regulators to devote their limited resources to banks that are most likely to pose systemic risk and shift their focus from an arbitrary size threshold to the risk of banks' activities.

The proposed legislation closely mirrors much of BPC's proposal. It would raise the threshold to $250 billion and give regulators discretion on banks with between $100 billion and $250 billion in assets.

The authors of the Senate bill also addressed a problem with the supplementary leverage ratio, which was created to act as a backstop to risk-based capital requirements with the aim of ensuring the safety and soundness of banks. The leverage ratio applies capital charges to all of a bank's assets, even those that are essentially risk-free, such as cash held by a bank at the Federal Reserve. Over time, this may negatively impact the extension of credit, which is why BPC questioned whether risk-free assets should be exempted. The Senate bill would exempt cash held at the Fed from the calculation for so-called custodial banks, which hold a high percentage of their assets in cash and low-risk securities.

Bipartisan in substance, the bill includes additional protections for veterans, tenants subject to foreclosure and senior citizens, and authorizes loan guarantees and credit enhancements to help with lead and asbestos removal. It further orders studies on cyber risk and threats to financial firms, along with the risks and benefits of algorithmic trading.

These are not major changes. Yet taken together, they are constructive and should provide greater incentives to extend credit, particularly to Main Street small businesses, without undermining the progress made since the crisis in making the financial system safer.

Of course, the proposed legislation could be improved in many ways. Post-crisis reforms have still not addressed the fragmented and duplicative U.S. financial regulatory structure. Congress should reform the process for addressing systemic risk generated by nonbank financial firms, enhance the emergency authority of financial regulatory agencies and create a regular process for independently assessing the effectiveness of the U.S. financial regulatory system and making recommendations to improve it.

The key to evaluating legislation is to ask not whether it is perfect, but whether it is significantly better than the status quo. While we do not endorse all the provisions in the bill, there is much to like. Just as important, the bipartisan process that led to this agreement is the kind that lets Congress reach policy solutions that have a chance to last.

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