The Cost of Dodd-Frank Implementation

By
William L. Pittenger, MAI, SRA
Senior Director , Economic & Consulting Services
FOCUS Valuation Advisors
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Congress left a lot to the imagination when it finalized The Dodd-Frank Wall Street Reform and Consumer Protection Act in December 2009. It was the most sweeping piece of financial legislation to be proposed since the Great Depression of the 1930s, some seventy or more years earlier. Despite its length, at around 2,000 pages and inclusion of 16 titles, the Act left gaping holes and created enormous uncertainty throughout the financial services industry. Nevertheless, it was signed into law by the President -- gaping holes and all -- on July 21, 2010.

The holes in the legislation meant 22 affected agencies were required to create some 243 rules and conduct as many as 67 studies to interpret the will of Congress and determine how to proceed. Those numbers, however, are just the tip of the iceberg. Because many of the rules affect more than one agency, the requirement for new rules suddenly grew to around 400 when the impact on all of the affected agencies is considered. Additionally, the 67 required studies grew to 87.

The Act also included numerous statutory deadlines which agencies have been scrambling to meet ever since. The initial deadlines were as early as October 2010 and proposed deadlines reach into 2013. Since many deadlines have already been missed it is likely that the rule-making process and the accompanying industry uncertainty will extend past mid-decade.

The number of rules to be created together with the number of agencies affected results in an extraordinarily costly undertaking. While estimates of direct cost of implementation have been made, the indirect cost, opportunity cost and cost to institutions and consumers is much more difficult to gauge. It is likely, however, that the direct cost pales in comparison to all the additional indirect costs. Moreover, the uncertainty created by the absence of definitive rules has made many institutions slow or reluctant to innovate or try to comply for fear of guessing wrong and perhaps being penalized retroactively.

The Government Accountability Office (GAO) recently estimated that Dodd-Frank implementation could cost the federal government as much as $2.9 billion over the next five years. First year implementation funding was estimated at around $974 million. Not all funding expense will come from taxpayers as at least six agencies receive funding from assessments on institutions they regulate. Those institutions are predominately banks however the timing is clearly poor for banks to bear additional costs of regulation when the industry as a whole still remains recession weary.

The newly created Consumer Financial Protection Bureau (CFPB), gets 100% of its funding from the Federal Reserve. The GAO estimates that the bureau will need to hire another 1,225 full time equivalent employees and all of the affected agencies combined will need to hire another 2,600 new employees just to implement Dodd-Frank rules. In addition, the Federal Reserve reported that it reassigned 69 of its existing employees to Dodd-Frank implementation and that it planned to hire 290 more and spend $77.5 million on implementation. The Office of Financial Research, another newly created agency, with broad powers to force financial institutions to provide data on their financial condition, has $74.5 million to work with and expects to hire another 135 full time staff. All in, Dodd-Frank is not only the most sweeping piece of legislation but the most expensive as well.

William L. Pittenger
E-Mail
bill.pittenger@focusvaluation.net

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