Center for American Progress

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MEMORANDUM

To: Members of Congress, staff
From: Center for American Progress
Date: June 5, 2017
Re: Financial CHOICE Act would gut Wall Street reform, put U.S. at risk of another financial crisis

The Financial CHOICE Act, which will be on the floor this week, represents a thorough dismantling of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Passed in the wake of the devastating 2007-2008 financial crisis that cost 8.7 million jobs, $19 trillion in wealth, and almost 10 million homes, the Dodd-Frank Act put in place consumer and financial stability safeguards to respond to the clear and unmistakable lessons learned during the crisis. The CHOICE Act eviscerates these safeguards and poses a direct threat to consumers, investors, and U.S. financial stability.

- **The CHOICE Act increases the chances of more taxpayer funded bailouts.** The bill repeals the Orderly Liquidation Authority (OLA), removing the new tool that Dodd-Frank gave regulators to wind down a complex financial institution in an orderly manner. Without this tool, regulators' only options will be Lehman Brothers-style catastrophic bankruptcies or AIG-style bailouts.

- **The CHOICE Act would leave the U.S. financial sector vulnerable to systemic risk.** The Financial Stability Oversight Council (FSOC)—established to bring regulators together to analyze and respond to emerging threats to financial stability—would no longer have the power to subject complex nonbanks like AIG to heightened regulation and oversight. FSOC's budget would be cut in half and its data-driven research arm, the Office of Financial Research, would be eliminated.

- **The CHOICE Act opens the door to deregulate banks of all sizes.** The bill gives banks the choice to opt out of most of Dodd-Frank's enhanced banking regulations—like stress tests, living wills, liquidity requirements and more—if the bank maintains a leverage ratio of 10%, which research shows is a far from sufficient level to justify such drastic deregulation. The bill also repeals the Volcker Rule, which would once again allow banks and their affiliates to make swing-for-the-fence proprietary bets.

- **The CHOICE Act leaves consumers less protected from toxic financial products and predatory practices**. The bill removes the independence of Americans' new consumer watchdog, the Consumer Financial Protection Bureau (CFPB), by politicizing its director and subjecting it to appropriations. The bill additionally renders the CFPB largely unable to fulfill its mission by taking away its supervision authority and shrinking its ability to regulate and enforce fair market practices. Other provisions in the bill, including repealing the Department of Labor's fiduciary rule, will erode investor protections and accountability, decreasing confidence in both markets and in agencies charged with overseeing them.

- **The CHOICE Act waters down key protections that help prevent the predatory mortgage lending practices that sparked the housing crisis**. The bill allows a financial institution of any size to once again make most mortgages without regard to a consumer's ability to repay the loan, as long as the institution holds the mortgage in its portfolio. Many dangerous, predatory mortgages that cost families their homes during the crisis were held in the institutions' portfolio.

For more information on the CHOICE Act, please see our op-ed in Morning Consult, "The Financial CHOICE Act is the Wrong Choice for the U.S. Economy," or our in-depth report on the bill, "President Trump's Dangerous CHOICE."