

Wall Street reform: Who won, who lost

By Jennifer Liberto, senior writer

May 25, 2010: 4:08 PM ET

WASHINGTON (CNNMoney.com) -- With Congress perhaps just weeks away from finishing Wall Street reform, the key financial players are just now realizing who's poised to win and lose from the legislation.

The Senate passed its bill last week, and the House finished in December. Only a few questions remain in play, as key lawmakers from both chambers begin the process of reconciling differences in an effort to gain final passage and a presidential signing ceremony by July 4.

Experts believe the biggest losers are Wall Street banks, and the biggest winners are consumers, as well as credit unions and smaller community banks.

"It was quite a success," White House economic adviser Austan Goolsbee said in an interview last Friday, heralding gains for consumers. "It's the toughest, strongest consumer protection we've ever had in this country on financial stuff."

However, wins and losses are not absolute. Wall Street banks scored some success, beating back a couple of tough measures such as powers to break up banks. And consumers are poised to weather a loss with an [increasingly likely](#) shield protecting auto dealers from tougher new consumer rules.

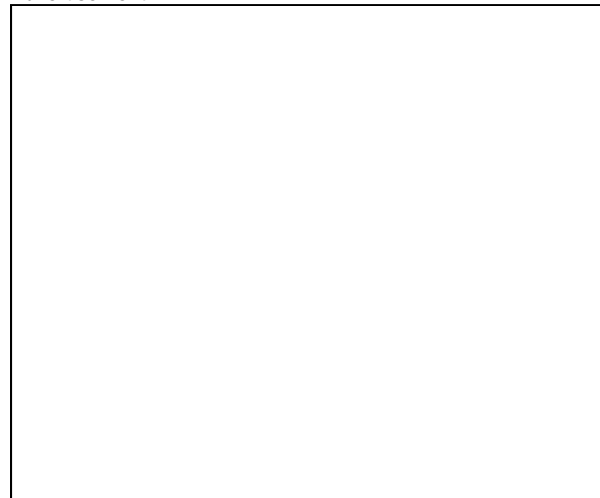
Ultimately, the final score will depend on regulators, who will be charged with implementing and policing the new policies. Regulators will set rules for bigger capital cushions. They will choose which dangerously weak banks are dismantled. They will decide what kind of lending fees abuse consumers.

Big Wall Street banks: The big banks knew that they were going to have to abide by new rules forcing them to beef up capital cushions and cut down on leverage and risky moves. But they also could lose the ability to engage in what's called proprietary trading for their own accounts, although the Senate bill gives regulators some leeway to water it down after a study.

One of the biggest ways the big guys lose is with complex financial products called derivatives. Derivatives are financial bets on the rise and fall of other investment tools, including interest rates, mortgages and commodities such as corn.

The Senate bill forces big banks to spin off their departments that trade derivatives.

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Derivatives expert Michael Greenberger called the measure the "nuclear weapon" of Wall Street reform.

"Right now, the banks are sweating bullets over it," said Greenberger, a law professor at the University of Maryland who worked at the Commodity Futures Trading Commission during the Clinton administration. "The bill is overwhelmingly tough. . .It's going to very much pinch the profits of the banks."

Additionally, both bills force big derivatives players to trade on clearinghouses and exchanges, which means more people will know what a particular bet is worth, cutting into the profits of those organizing the bets.

"It's kind of hard to know how it's ultimately going to affect banks," said Phillip Swagel, business professor at Georgetown University and former Treasury Department chief economist under President George W. Bush. "But if the regulators have a race to see who can be the toughest, that's going to have the biggest impact on bank profitability."

Visa and Mastercard: One unexpected loss could be in store for credit network operators Visa and Mastercard, as well as all the banks, over so-called interchange fees. The Senate decided to crack down on swipe fees that retailers pay when customers use debit cards. But the House doesn't address the issue, so the matter needs to be resolved in conference.

The fees comprise 1% to 3% of every transaction run through a debit or credit card, and go to cover the operational cost of transferring money from one account to another. Network operators such as Visa (V,

Fortune 500) skim off a fraction of the fee, while the rest goes to the financial institution that issued the card.

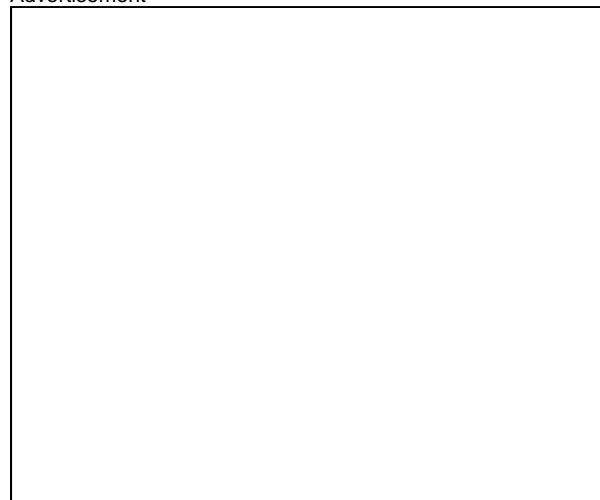
The Senate steps in and directs the Federal Reserve to make debit card fees "reasonable and proportional" to costs. The Senate also allows retailers to give price cuts to customers who pay with debit cards that carry lower transaction fees.

Consumers: Both the Senate and House bills create a federal agency in charge of setting rules to curb unfair practices in consumer loans, such as mortgages and credit cards, as well as those made by big nonbanking lenders, including payday loan chains.

The regulator would have the authority to come up with "model disclosures" to simplify paperwork involved with any kind of financial product. The regulator is also tasked with culling penalty fees consumers often face when they pay off mortgages, particularly subprime ones, early.

Consumers also scored an extra win in the Senate bill, which ensures that they get a

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copy of their credit score when they get one free credit report each year.

"It's a crucial step toward delivering on the promise Congress made when it called on taxpayers to bail out the big banks," said Travis Plunkett, chief lobbyist for the Consumer Federation of America.

Community banks and credit unions:

Smaller banks and credit unions were also winners, especially compared to their big brothers in the industry.

Thanks to the Senate, community banks are poised to pay less to the federal insurance fund that backs up their deposits. That would save community banks \$4.5 billion over the next three years, according to the Independent Community Bankers of America. The bigger banks would pay more, although the House bill does not address the issue.

In the House bill, community banks and credit unions escape having to pay into the \$150 billion fund that finances the government takedowns of failing financial firms. The Senate dropped a similar fund.

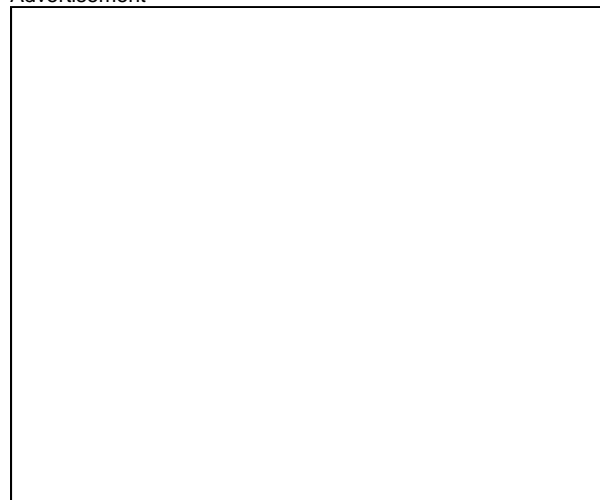
Both bills also allow credit unions and community banks to keep their existing regulator when it comes to getting policed about abiding by new consumer protection rules.

The Fed: The Federal Reserve beat back a couple of measures pruning and checking its power. While its emergency lending powers got narrowed, the Fed retained a lot of its original oversight powers over smaller and state-chartered banks, which had been threatened in earlier bill drafts.

Also, the Senate watered down a measure to subject the Fed to new congressional checks in favor of a one-time audit of the central bank's role making cheap loans to ailing Wall Street banks during the financial crisis. The House's version has a broader audit of the Fed.



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