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CAPITAL RULES AIMED AT WALL STREET CUT OFF MAIN STREET'S CREDIT

Under ordinary conditions, tough capital rules don't crimp credit, but 2017's conditions are anything but ordinary. Banks aren't lending to Main Street firms even though they are profitable because profits come from many sources and lending increasingly isn't one of them. Data presented by Chair Yellen to assert ample credit availability are in fact far more equivocal. Extensive data presented in a new paper show how the new capital rules have unintentionally reduced credit without necessarily making American finance any safer.

WASHINGTON, DC, March 2, 2017 – In mid-February hearings before the U.S. Congress Janet Yellen, Federal Reserve Board Chair, defended the Dodd-Frank framework by pointing to ample credit for America's small businesses. Although she said that a study proved that only four percent of small businesses don't get the credit they need, the study in fact shows that more respondents think credit is now harder to get, with other data in her study also showing significant credit-availability challenges. Given the critical importance of the question about the impact of capital rules on credit availability, a Washington-based analytical and advisory company, Federal Financial Analytics, has totaled up the evidence on both sides. As with any important question, the answer isn't easy. However, on balance and given current market, monetary policy, and economic conditions, the study finds that the new capital rules play a material role making it harder for average Americans to get the credit they need.

In this new paper, Federal Financial Analytics provides a comprehensive survey of data from a wide array of public sources. These in fact show significant gaps in credit availability as well as demonstrable evidence from surveys – including some from the Fed – showing that the new capital rules have a significant, adverse impact on the sources of credit most urgently needed to reduce income and wealth inequality.

"Many have suggested that there's lots of lending which shows that there's little adverse impact from all the new rules," said Federal Financial Analytics' managing partner Karen Shaw Petrou. "However, a look below top-line, gross data shows significant shortages, shortages that are particularly surprising given the fire power the Fed has thrown at the U.S. economy in hopes of getting lending going again. Banks can and do lend for higher-profit customers, but these customers aren't the Main Street borrowers on which the U.S. economy depends for stable, sustained recovery. For them, the capital rules make a meaningful, demonstrable, and negative difference," Petrou continued.

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