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South Florida finance executives respond to potential unraveling of Dodd-Frank

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President Donald J. Trump signed two actions Friday which could greatly affect the financial industry's regulatory environment. One, an executive order, establishes Core Principles to "empower Americans" and enable competition, and is largely seen as a first step to scaling back the Dodd-Frank Act. The second, a presidential memorandum, asks the U.S. Department of Labor to review the upcoming Fiduciary Duty Rule, which is supposed to take effect in April.

For some South Florida financial professionals, these actions aren't unexpected. But both financial professionals and people living in the tri-county should keep a close eye on potential changes to financial regulation. After all, South Florida was one of the region's that took a huge hit during the financial crisis, the very event that prompted the Dodd-Frank Act.

South Florida was one of the five U.S. regions hit hardest by the housing foreclosure and financial crisis, according to a 2015 city of Miami market analysis. One only had to look at the slew of vacant properties. The amount of foreclosures and vacant buildings was highest between 2007 and 2009, and property values plunged 50 to 60 percent, reaching their lowest levels in April 2011, according to the city.

Trump is signaling a desire to end the regulatory environment that came about after the financial crisis. Dodd-Frank, as Trump has explained, is hurting businesses, and his executive order demands a thorough vetting of existing financial regulation and a report within 120 days as to which laws promote – or hurt – the Core Principles the order outlines.

“We expect to be cutting a lot out of Dodd-Frank,” Trump said at a Friday briefing. “I have so many people, friends of mine, with nice businesses, they can’t borrow money, because the banks just won’t let them borrow because of the rules and regulations and Dodd-Frank.”

Dodd-Frank, known officially as the Dodd–Frank Wall Street Reform and Consumer Protection Act, was signed into law by former President Barack Obama in July 2010. The act is a suite of legislation that is intended to safeguard the financial industry, protect the consumer, and ensure that a financial crisis of a similar nature to the 2008 catastrophe doesn’t happen again. It’s a far-reaching set of legislation that the Trump administration says didn’t actually solve any of the problems that led to the financial crisis.

“Despite all of its overreaching, Dodd-Frank did not address the causes of the financial crisis, something we all know must be done,” said Trump’s press secretary Sean Spicer at a press briefing Friday afternoon. “It did not solve the ‘too big to fail,’ and we must determine conclusively that the failure of a large bank will never again leave taxpayers on the hook.”

Some parts of Dodd-Frank and a new fiduciary requirement are in the cross-hairs, and for markets like South Florida, which is home to a fleet of community banks, private wealth advisors, financial advisors and more, regulatory changes could make a big impact. Right now, Trump’s executive order only demands a review of existing legislation, but big changes could be coming down the pipeline.

“In some ways, it’s not a surprising thing. This was been talked about during the during the campaign trail and now he is delivering on it,” said Mason Williams, CIO of wealth management firm Coral Gables Trust. “It sets the stage – nothing is going to happen now, nothing is going to happen in three months, but it starts the process.”

The thing about Dodd-Frank is that it’s an act that’s already almost seven-years old. The financial industry has operated under Dodd-Frank for years, and undoing the act could have hidden costs.

“Basically, there is not going to be a huge repeal of Dodd-Frank. We’re talking about a $15 trillion industry that is already well on the way of implementing parts of Dodd-Frank,” Williams said. “Eventually he is going to push his executive order to the limit. Anything major is going to go through a congressional process.”

South Florida is home to nearly 50 community banks, many of them smaller financial institutions that have had to bear the same regulatory requirements of large global institutions. Supporters of community banks say that requiring small banks to adhere to the same regulation is unfair. A lessening of Dodd-Frank requirements for smaller banks could have a positive outcome in South Florida.

“Smaller banks don’t usually have the large capital bases or earnings capital that other banks have. A lot of banks depend on lending as their only earnings source. So if lending is bogged down by regulation that is going to affect community banks,” Williams said.

Stock in South Florida banks that trade on the NYSE and NASDAQ exchanges has gone up since Friday. Pompano Beach-based Stonegate Bank (NASDAQ: SGBK) was up 0.37 percent, the parent company of Weston-based Florida Community Bank (NYSE: FCB) was up 1.87 percent, and Miami Lakes-based BankUnited (NYSE: BKU) was up 2.66 percent as of Monday afternoon.

Trump's second Friday financial act was a presidential memorandum that specifically addresses a new fiduciary rule that is supposed to take effect in April. Supporters of the rule say that it will ensure that financial advisors only present customers with investments in the customers best interest while critics of the rule say it will limit choice.

"Obama was looking out for the consumers' best interest, at least he thought so," said Adam Bergman, president and founder of the IRA Financial Group & IRA Financial Trust Company.

The intention behind the fiduciary duty rule was the financial advisors would be required to present their clients with investment opportunities that were in the clients' best interest. In some instances advisors may have presented clients with the investment opportunities that the advisors would most greatly benefit from, whether form a fee agreement or something else.

"The Trump administration is saying, hey, a broker under these rules may not provide the client with the investment option even though it would have been a great option," Bergman said. "Obama was focused on feeds, and that's good. But in this case, it's up to an individual to decide what they way to buy."

A Boca Raton financial executive, Julian Rubinstein, president and CEO of American Asset Management, did not look kindly on the proposed change.

"The American investor needs protection from financial advisors who may not have their best interests at heart. This is like telling medical doctors not to practice the best medicine that they can," Rubinstein said.