President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into law in July 2010. It has been described as the "...most sweeping and comprehensive reform of the financial regulatory system since the great depression" and at the same time as "haphazard and dangerous... it looks like they're just blowing up everything for the sake of change", (Ed Yingling).

It was developed as a response to the recent financial crisis, with sections labeled in terms such as "Pay it Back Act" and "Anti-predatory Lending Act". The final version contains 16 titles and occupies roughly 2,300 pages of text. The point: it is not simple and impacts a vast set of lending and borrowing situations. There has been some concern that the 'shotgun' nature of the response could have serious effects in areas not originally targeted for reform. Agricultural credit markets and their participants represent a largely-ignored-in-name, but possibly affected group.

Major components include: (1) creation of a broad-authority Consumer Protection Agency; (2) consolidation of regulatory entities and the creation of a Financial Services Oversight Council responsible for both bank and nonbank financial service providers; (3) major revisions/clarifications to capitalization requirements of banks and insurance companies; (4) ostensible limits on "Too Big to Fail"; (5) (symbolic) limits on executive compensation; (6) "Rating the Raters" rules for the use of ratings-based risk measures; and (7) broad reform of and reclassification of "hedging" and "swap" activities, requiring different clearing and margining conduits.

How might these impact agricultural and rural financial markets? While it will take years for the provisions of the Act to play out, a few observations and opinions may be useful. While Consumer Protection components often get top billing, most observers consider the main impacts to be additional documentation and some minor additional costs in compliance. Interestingly, the Farm Credit Administration is explicitly excluded in passages referring to "consolidation" of regulatory agencies, and the securities issued by the System's Funding Corporation are also explicitly protected from certain provisions in trading book reforms. Farm Credit Associations and certain credit unions are exempt from the definition of "nonbank financial companies" and from provisions referred to as "retained risk" requirements in securitized transactions. Of particular concern by agricultural producers is the degree and extent of reclassification of hedging activities under requirements of "regulated financial securities" and whether there will be a confounding of traditional agricultural hedging activities with financial swaps and derivatives. The growing consensus is that sensible interpretations of section 1256 and related true hedging contracts will not be meaningfully impacted. Of greater concern is the uncertainty about the ability of banks to directly manage interest rate risk through
interest rate swaps and derivatives -- an indirect effect of which could be added funding costs for loans. Again, it was not the intent to limit legitimate hedging applications, and the sense seems to be that there will be sensible solutions on this front despite the blanket description of contracts falling under CFTC scrutiny in the Act. Finally, the intentional emphasis on stress testing loan portfolios and on holding capital commensurate with risk categories is generally viewed as highlighting and making intentional the monitoring and management of credit risk. In total, it appears that the "sweeping reforms" contained in the Dodd-Frank Act may "brush" institutions serving agriculture and rural America relatively less than in other sectors.