April 14, 2010

JOIN THE BAILOUT BILL ACTION TEAM!

Floor consideration of the Bailout Bill is expected to begin soon in the Senate. This bill must be defeated in the Senate, and we can help Republicans in the Senate with this fight!

ACTION ITEM 1: INFORM YOUR CONSTITUENTS WHO ALREADY CALL YOUR OFFICE

- After the passage of the health care bill, many constituents are engaged like never before, calling about issues related to government expansion. Use this opportunity to alert them to this massive growth in government.
- Develop action items to give constituents when they ask, "What can we do to help this effort?" Make a "What Can You Do?" sheet with information on how to submit Letters to the Editor of the local paper, as well as contact information for local TV producers and local radio shows to ask for their station to run stories about this topic.

ACTION ITEM 2: SPREAD THE MESSAGE

- Democrats and Republicans in the Senate need our support and encouragement to oppose this Bailout Bill. Be active in your statewide media, and don't shy away from national media opportunities.

ACTION ITEM 3: HOLD THE MEDIA ACCOUNTABLE – WHERE IS THE COVERAGE OF THE REPUBLICAN PLAN?

- Financial Services Reform is a complicated subject, but that doesn't mean we can give our friends in the media a pass. Do not let them perpetuate the myth that Republicans have no substantive alternative on this issue. Do not let them perpetuate the myth that Republicans are beholden to Wall Street. **We have a plan, and unlike the Democrats, our plan puts an end to the Wall Street bailouts.**
- Make sure your press secretaries email bookers of programs that fail to represent the Republican side, pitching YOU as a guest. Additionally, print journalists always need fresh content for their publication's web edition – don't hesitate to have your press shop send your thoughts on an article they wrote – or better yet, give them a call.

Americans Want an End to Bailouts!
A new Hamilton Place Strategies/YouGov Polimetrix poll of 1,001 adults finds support for financial reform is tempered by economic concerns. **Preventing new bailouts is viewed as more important than the consumer protection agency**. Among the findings: **"44% of Americans generally support a Congressional overhaul of financial regulation compared to 30% who oppose it,** but more than half worry about harmful effects on the economy and nearly three quarters doubt it will accomplish much. … On the key issues of preventing future bailouts and protecting consumers, **70% have little or no confidence that Congress will pass new financial regulations that 'reduce or eliminate' the need for future bailouts while 72% lack confidence that the law will 'significantly improve' the way 'financial institutions treat customers by giving customers more rights.'"**

The components of the Republican financial services regulatory reform proposal are as follows:

- No more bailouts: banks that fail should be subject to our bankruptcy laws
- Creation of a Market Stability and Capital Adequacy Board to monitor risks in the financial system
- Regulatory restructuring to ensure for greater effectiveness in financial oversight
- Reform of the Federal Reserve which refocuses the Fed on monetary policy
- Ending taxpayer subsidies of Fannie Mae and Freddie Mac
- Consumer protection through the Financial Literacy and Education Commission
- Strengthening anti-fraud enforcement

WHAT TO SAY

- While millions of Americans are unemployed, Congress continues to pass job-killing legislation that will further cripple the economy.
- This bill creates a permanent bailout authority for the continued rescue of Wall Street firms; when will they rescue the taxpayers from this economy?
- A massive tax will be imposed on companies through this bill that could limit a company's ability to create jobs, thus prolonging and potentially deepening the current recession.
- The powers of the Federal Reserve will be greatly expanded, including the responsibility of controlling a "government watch list" on which businesses may be placed for any reason. Once on this list, the government can fire a business's CEO, set wages for ALL employees, force the liquidation of assets and mandate general business practices for the company.
- This bill limits the ability of Main Street businesses to protect themselves from risk, which could mean the continued failure of businesses across the country and continued job losses. Wall Street firms will get government bailouts, but small businesses will be forced to suffer.

For more information contact Chris Russell at 5-4465 or Brad Watson at 6-9719

THE WALL STREET JOURNAL

The Dodd Bill: Bailouts Forever

The Lehman Brothers liquidation shows that bankruptcy works fine. The FDIC has no experience with such large institutions.

By PETER J. WALLISON AND DAVID SKEEL
April 7, 2010

There are many reasons to oppose Sen. Chris Dodd's (D., Conn.) financial regulation bill. The simplest and clearest is that the FDIC is completely unequipped by experience to handle the failure of a giant nonbank financial institution.

The country should be grateful for the determination with which the FDIC Chair, Sheila Bair, has thus far guided the agency through the financial crisis. But it is wrong to think that because the FDIC can handle the closure of small banks it is equipped to take over and close a giant, nonbank financial firm like a Lehman Brothers or an AIG.

Consider first that the largest bank the FDIC closed in the recent financial crisis, IndyMac, had assets of $32 billion. The largest bank ever to fail, Continental Illinois in 1984, had assets of $40 billion. At $639 billion, Lehman Brothers was nearly 15 times bigger; AIG had over $1 trillion in assets when it was kept from failing by the Federal Reserve.

The assets of a large, nonbank financial institution are also different. Neither Lehman nor AIG had insured depositors—or depositors of any kind—and their complex assets and liabilities did not look anything like the simple small loans and residential and commercial mortgages the FDIC deals with.

Moreover, the policies the FDIC follows when it closes small banks would be positively harmful if they were used to close a huge nonbank financial institution. The agency is used to operating in secret, over a weekend; its strategy is always to find a buyer. When applied in the case of a large, failing nonbank financial institution, this means that some other large, "too big to fail" institution will only become that much larger.

When the FDIC can't find a buyer, it can usually transfer a failed bank's deposits to another bank, because deposits have real business value for banks. This is not true of the liabilities of large financial institutions, which consist of derivatives contracts, repurchase agreements, and other complex instruments that no one else is interested in acquiring.

The real choice before the Senate is between the FDIC and the bankruptcy courts. It should be no contest, because bankruptcy courts do have the experience and expertise to handle a large-scale financial failure. This was demonstrated most recently by the Lehman Brothers bankruptcy.

It didn't get a lot of media attention, but an important financial event occurred on March 15, when Lehman Brothers offered a blueprint for its reorganization and exit from Chapter 11—18 months to the day after it filed its bankruptcy petition. In the course of Lehman's resolution, its creditors, shareholders and management all took severe losses.

The firm's principal assets—its broker-dealer, investment-management and underwriting businesses—were all sold off to four different buyers within weeks of the filing of its petition. At the time of its failure, the firm had over 900,000 derivatives contracts, more than 700,000 of which were canceled and the rest either enforced or settled, if its creditors agreed, in the blueprint for the firm's reorganization.

The FDIC has no significant experience with broker dealers, investment management, securities underwriting, derivatives contracts, complex collateral arrangements for repos, or the vast number of creditors that had to be included in the Lehman settlement. Is it at all likely the agency could have done any better?

There is another lesson in the Lehman bankruptcy. Mr. Dodd claims his bill cures the too-big-to-fail problem because it requires the liquidation of a failing firm. But Lehman has been liquidated; what is left is a shell that may or may not struggle back to profitability.

The difference between the Lehman bankruptcy and what the Dodd bill proposes is important to understand. The Dodd bill provides for a $50 billion fund, collected in advance from large financial firms, that will be used for the resolution process. In other words, the creditors of any company that is resolved under the Dodd bill have a chance to be bailed out. That's what these outside funds are for. But if the creditors are to take most of the losses—as they did in Lehman—a fund isn't necessary.

Which system is more likely to eliminate the moral hazard of too big to fail? In a bankruptcy, as in the Lehman case, the creditors learned that when they lend to weak companies they have to be careful. The Dodd bill would teach the opposite lesson. As Sen. Richard Shelby (R., Ala.) wrote in a March 25 letter to Treasury Secretary Tim Geithner, the Dodd bill "reinforces the expectation that the government stands ready to intervene on behalf of large and politically connected financial institutions at the expense of Main Street firms and the American taxpayer. Therefore, the bill institutionalizes 'too big to fail.'"

Mr. Shelby is right on target. It doesn't matter where the money comes from—whether it's the taxpayers or a fund collected from the financial industry itself. The question is how the money is used, and if it is used to bail out creditors of large firms—reducing their lending risks—it will encourage large firms to grow ever larger.

Like Fannie and Freddie, these large financial firms will be seen as protected by the government and, with lower funding costs, will squeeze out their Main Street competitors. Then, if these financial giants are on their way to failure, they are handed over for resolution to a government agency that has no experience with firms of this size or complexity. Surely the Senate will see the flaws in this idea.

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