RSC Republican Study Committee
Financial Services Working Group
Congressman Scott Garrett (R-NJ), Chairman
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There They Go Again – Democrats Protect Special Interests in Reg Reform Bill

Remember the Cornhusker Kickback that plagued the health care bill? Well, Democrats are at it again with the financial services regulatory reform legislation.

> *"That's one of the reasons I ran for President: because I believe so strongly that the voices of ordinary Americans were being drowned out by the clamor of a privileged few in Washington."*
>
> -President Barack Obama, May 1, 2010

When President Obama spoke of the "privileged few", was he talking about his friend George Soros? What about his friends at Goldman Sachs, his largest corporate donor? And the folks over at Citigroup, the largest donors to Senate Banking Committee Chairman Chris Dodd?

The Democrats' legislation allows the government to pick winners and losers in the marketplace. Hmmmmm….wonder who will come out on top?

Here are some of Obama's "privileged few" that will obviously be winners with the Democrats' legislation:

First Prize: The Biggest Banks

- Dodd's legislation creates a special class for the biggest banks, protecting them from failure because of their size. As a result, the biggest banks are free to take excessive risks, all the while knowing they will receive special treatment from the government that will protect them from failure. The government will be picking winners and losers among U.S. companies by providing an implicit guarantee for the biggest banks that small businesses do not have.

Runners Up: Fannie Mae and Freddie Mac

- One of the most glaring errors of the Dodd legislation is its failure to address Fannie Mae and Freddie Mac, the mortgage giants whose proximity to the financial crisis is anything but coincidental. Fannie and Freddie are the largest recipients of government assistance since the crisis began and are projected to cost taxpayers almost $400 billion. The Democrats refuse to even begin discussions on how best to reform Fannie and Freddie, all the while committing unlimited taxpayer support through 2012 to bail them out.

Third Place: Wall Street – well, some of it.

- Not only do the Democrats like to pick who wins and loses, they also want to lay judgment on who's good and who's bad, just for easy messaging.
    - **Bad, but not really: Banks** (Apparently the Democrats told the banks "Just let us scream at you at our hearings and on TV and we'll give you a pass in the legislation.")
    - **Good: Hedge Funds** (The bill exempts hedge funds from the Volcker Rule that establishes investment restrictions on depository institutions, the tax imposed on banks and the massive new regulatory structure being imposed on other financial firms. Is it a coincidence that multibillionaire hedge fund manager George Soros is a big Democrat supporter?)
    - **Bad: Derivatives** (The financial crisis was exacerbated by the failure of many companies to adequately manage their risk…..so….the Democrats' solution is to ban risk management tools….)

Miss Congeniality: The Government

- Regulators have failed to anticipate so many crises and scandals over the years (e.g. Savings and Loan Scandal, Enron, WorldCom, Madoff, etc), yet the Democrats feel that the answer to this problem is to simply add more bureaucrats to the mix. Brilliant! Surely this will defy the previous trend of ineptitude and actually work this time…or…maybe not…

Loser: Consumers

- While the Democrats give a lot of lip service to protecting consumers, it really drives them nuts that Americans won't just shut up and do what they want them to. Proponents of the Dodd bill favor "behaviorally informed regulation" – regulation aimed at controlling human behavior. Michael Barr, Assistant Secretary of the Treasury Department, has said that when left to their own devices, "Individuals consistently make choices that...diminish their own well-being in significant ways", "households fail to optimize their savings decisions" and credit cards "may encourage sub-optimal borrowing behavior." In other words, this legislation is designed to protect you from yourself, because statistics suggest you are not able to adequately accomplish this task. The creation of the consumer financial protection bureau in the bill will limit access to credit for consumers and small businesses, by determining the "appropriateness" of financial products issued by institutions already regulated by the government.

While the Democrats are busy carving out special provisions for their friends, Republicans have an alternative that will enhance corporate responsibility, regulatory efficiency and consumer protection, all while limiting government interference in the private sector. We should put an end to the bailout mentality that has gripped our government during this crisis, hold companies accountable for the risks they take and be more accountable to taxpayers.

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

THE WALL STREET JOURNAL

Losses Lurking in Fannie's Balance Sheet

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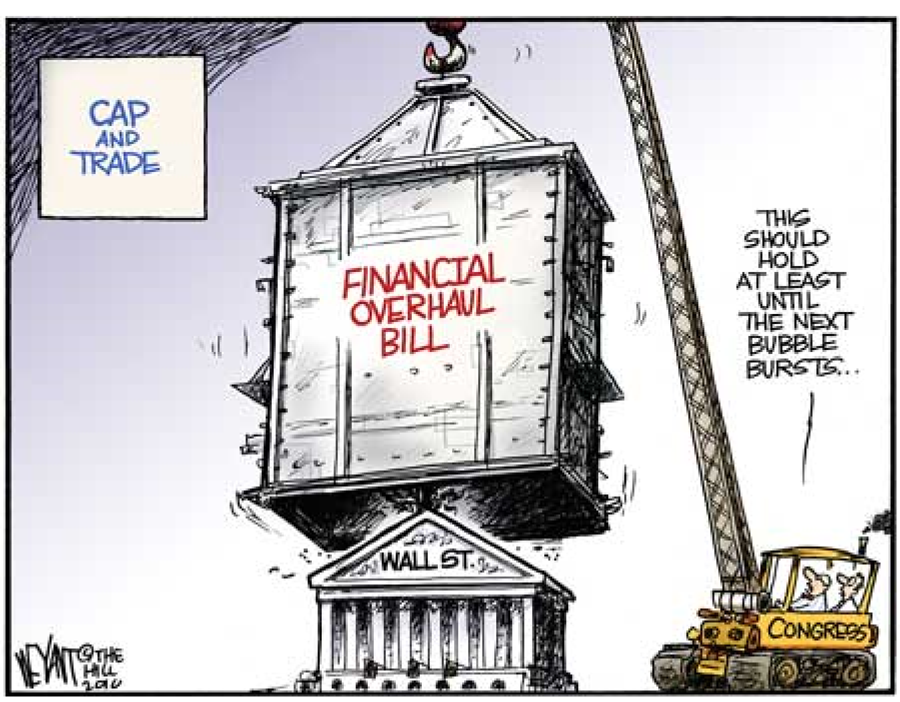
By PETER EAVIS

How much bigger could the Fannie Mae money pit get?

When reporting first-quarter results Monday, the government-controlled mortgage-buyer said it is requesting $8.4 billion from the Treasury Department so it can remain solvent. When that is disbursed, total taxpayer infusions into Fannie would reach an eye-watering $84.6 billion.
But new disclosures Monday suggest Fannie's balance sheet could be even weaker than it appears. Here's why: Each quarter, Fannie presents one balance sheet compiled under standard accounting rules and another using estimated market values. Under the market-value approach, Fannie's equity—what is left after subtracting liabilities from assets—was minus-$145 billion at the end of March, far worse than the minus-$98.8 billion at the end of 2009. (Under the standard approach, equity was minus-$8.4 billion March 31.)

Fannie used to calculate the estimated market value of the company's obligation to pay out on its guarantees for defaulting home loans. As a result of an accounting-rule change, Fannie now estimates what it would get if it sold the past-due loans in the market. This primarily accounted for a $52.3 billion hit to the market-value balance sheet, Fannie said. Before the accounting change, skeptics had wondered whether the guarantee liability was big enough to cover potential losses. The new accounting approach suggests it wasn't.

The U.S. isn't necessarily on the hook for losses implied by the "market value" deficit. Fannie says the market understates the value of the nonperforming loans, and it intends to maximize the value of distressed loans. That may happen. But in the meantime, the Treasury and the taxpayer have to wonder how big Fannie's final bill will be.



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