RSC Republican Study Committee
Financial Services Working Group
Congressman Scott Garrett (R-NJ), Chairman
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Financial Services Reg Reform Update: Headed to Conference

Last Thursday, the Senate voted 59-39 to pass the financial services regulatory reform bill. As the bill is headed to Conference, there is one upside: House Members will now be relevant in the media debate. There are many downsides, however, to the legislation. **Chief among them is that it is a massive 1,600 page job killer.**

Below is the Democrats' *Tentative* Conference Timeline

Tuesday, June 8th – House conferees appointed

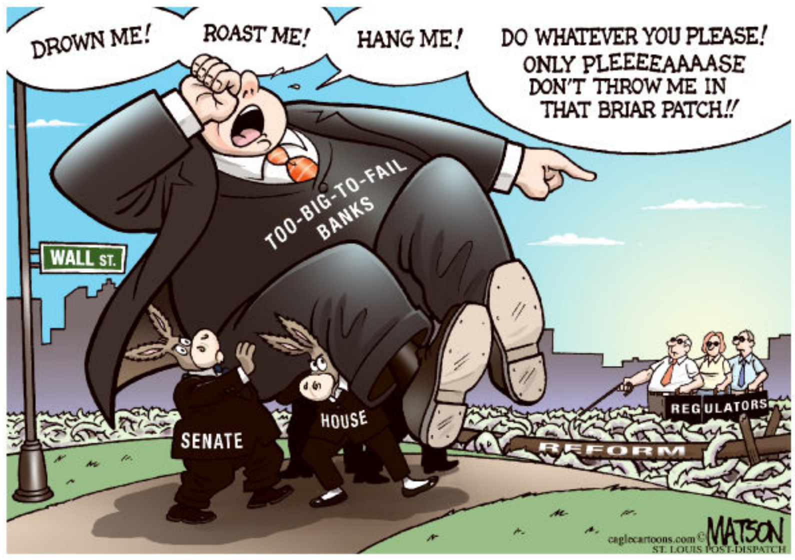
Wednesday, June 9th – first open meeting of the conference; organizational matters and opening statements only

Tuesday, June 15th – Wednesday, June 23rd- conference meets on substantive issues

Thursday, June 24th – conference concludes with formal signing ceremony; conference report filed shortly thereafter

Monday, June 28th – Rules Committee meets to grant rule

Tuesday, June 29th – House consideration of conference report; House passage gives the Senate three days to pass it before the beginning of the July 4th recess.



And Still No Fannie and Freddie?

The big issue that puts the Democrats on defense is their failure to address the problems with **Fannie Mae** and **Freddie Mac**, the mortgage giants projected to **cost the American taxpayers at least $400 billion**. Journalists, of course, don't want to talk about them, because they feel Fannie and Freddie aren't relevant. I know many constituents feel differently though, when they find out that Fannie and Freddie have been given **an unlimited taxpayer bailout through 2012.**

Democrats want to blame derivatives, credit rating agencies and Republicans for the financial collapse**. In reality, a system-wide misjudgment of mortgage risk caused the financial crisis, yet the Democrats refuse to address this issue.**

More than a trillion dollars of losses accrued when virtually every institution in the housing finance chain, including mortgage lenders, securities underwriters, rating agencies, Fannie Mae and Freddie Mac, investors, and the federal regulator at each step of the process underestimated the likelihood of an increase in defaults by mortgage borrowers. Yet the Democrats have instead used this bill as **another liberal wish list of punitive regulations for our financial markets**.

POLITICO

Financial reform flashpoints

By: Carrie Budoff Brown and Eamon Javers

The financial reform bill isn't done yet, but that isn't stopping the parties from testing their pitches to midterm voters.

To Democrats, the bill is a consumer-friendly Wall Street comeuppance. To the GOP, a market-stifling Obama overreach, just like health care.

But like any bill, the details will tell the story of who's got it right, and Thursday's Senate passage sends the bill to a House-Senate conference to hash it out. It's the last chance for financial firms to weigh in too, with their "hordes of lobbyists and millions of dollars," as the president scoffed Thursday. They won't go quietly.

Here are the key issues where the House and Senate bill diverge, and how they could play in the fall campaign.

Consumer Financial Protection Agency

In his remarks Thursday, President Barack Obama stressed a part of the bill that received little attention during the Senate debate – new provisions requiring companies to provide more information about loans, curb hidden fees and the like. Expect to hear Obama's phrase Thursday — "the strongest consumer protections in history" – a lot between now and November.

Republicans don't see a benevolent financial force but a bill that "promises more government, more costs, slower economic growth, and fewer jobs," as the top GOP negotiator, Sen. Richard Shelby (R-Ala.), put it.

But the biggest piece of the consumer protection language is still up in the air – will a new federal consumer protection agency have real teeth?

The Senate bill would move a proposed consumer protection bureau into the Federal Reserve – a move that angers some liberals who want the body to be independent.

The House bill would create it as a standalone agency with more latitude to implement regulations. House Speaker Nancy Pelosi (D-Calif.) is expected to push hard for an independent agency – and House Financial Services Committee Chairman Barney Frank (D-Mass.) predicted the conference report would go that direction, especially since the Fed doesn't want it anyway.

"The Fed feels it's like, you know, having your ex-wife's brother living in the house after you got a divorce," Frank said.

The Senate bill put the agency in the Fed to win over Sen. Bob Corker (R-Tenn.). But he's already voted no, so Frank predicted, "you'll have an independent CFPA."

Democrats would love to bash Republicans as anti-consumer for trying to water down the agency's authority. But Republicans charge that a sprawling new agency could reach into Mom-and-Pop businesses that give credit to customers – and will certainly play up small business opposition to the agency.

Car-dealer carve-out

Here's another place where Republicans will argue they're trying to defend Main Street from a presidential power-grab – in this case, local auto dealerships.

The House exempted auto dealers with financing operations from falling under the purview of the new consumer protection agency. Auto dealers would be regulated under the Senate bill.

Sen. Sam Brownback (R-Kan.) attempted to insert a similar exemption in the Senate bill, arguing that auto dealers did not cause the financial crisis. But the amendment never came up for a vote.

Obama took the unusual step this month of issuing a statement in opposition to excluding auto dealers from the consumer agency review, saying it was a loophole that could allow dealers to "inflate rates, insert hidden fees into the fine print of paperwork, and include expensive add-ons that catch purchasers by surprise."

Senate Banking Chairman Chris Dodd (D-Conn.) – who'll be sitting across from Frank at the conference committee — is also opposed to the exemption, and signaled he would work to keep it out of the final bill. "I still feel strongly about it. Just because it is in, doesn't mean it has to stay," Dodd said Thursday.

But the auto dealers are politically powerful bloc, as small business employers located in most every House member's district. This sets up a potentially contentious fight in conference – and could send the dealers' into the arms of Republicans who are trying to protect them.

Derivatives

Along with a tanking Dow, another thing is making Wall Street very nervous these days – the Senate bill's crackdown on derivatives. It's a type of investment few people who make less than seven figures actually understand, but one that is vitally important to the banks' bottom lines.

The Senate bill — for now at least – contains tough language from Sen. Blanche Lincoln (D-Ark.) that would essentially require banks to spin off their derivatives trading desks into separate companies, at a cost of billions in lost revenues.

The House bill has no such measure, and lawmakers will face considerable pressure from the banking industry to simply excise that provision in conference, while progressives will fight to keep it in.

"You'll have strong rules on derivatives, maybe a little stronger than we've had," Frank predicted to reporters.

Banks are fighting back against Lincoln's bill, saying derivatives deals could simply be pushed offshore.

"The net result is going to be a shift in the competitive balance in favor of international banks and unregulated entities, which would be very detrimental to the U.S. banking system and economy," Mike Cavanagh, chief financial officer of JPMorganChase, said in an interview.

Now Wall Street is looking to some Democrat to be "the political adult," as another Wall Street official put it – and kill the Lincoln language, perhaps even Obama himself. The Treasury Department has, in fact, raised serious qualms with Lincoln's language.

But any move by Democrats to gut Lincoln's bill is sure to bring strong complaints from progressives that the party is merely kowtowing to Wall Street's bottom line instead of cracking down on the very financial instruments at the heart of the 2008 global meltdown.

Volcker Rule

The Senate bill contains a version of the so-called Volcker Rule – another liberal favorite, named for the former Federal Reserve Chairman Paul Volcker. He wants to bar banks from proprietary trading – the practice of making speculative bets with their own money. Volcker and other critics of this practice say it destabilizes the financial system, allowing banks to make reckless bets, knowing they can fall back on assistance from the Federal Reserve as federally insured institutions.

The House bill passed in November — before the president embraced the Volcker Rule in January. As a result, it is silent on banning proprietary trading. But Frank has signaled support for the idea.

Sens. Carl Levin (D-Mich.) and Jeff Merkley (D-Ore.) pushed hard to strengthen the Volcker Rule in the Senate bill, but their attempts fell victim to last-minute procedural maneuvering on the floor. Their amendment would have eliminated language in the Senate bill providing flexibility to regulators to waive certain Volcker Rule restrictions.

Democrats are likely to push hard for the Levin-Merkley language in conference, but they will be limited from going too far if they hope to maintain the support of some Senate Republicans.

Sen. Scott Brown (R-Mass.), for example, agreed to vote for the Senate bill only after winning assurances that the Volcker Rule would not restrict the investment options of insurance and mutual fund companies based in Massachusetts, such as Fidelity and State Street Corp.

Ben White contributed to this report.

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