RSC Republican Study Committee

# Financial Services Working Group

Congressman Scott Garrett (R-NJ), Chairman | Congressman Tom Price (R-GA), RSC Chairman

**December 17, 2009**

## BAILOUT BILL PASSED THE HOUSE; WE MUST STOP IT IN THE SENATE

Last week, the House of Representatives passed Barney Frank's massive regulatory reform package. While it contained several provisions which only serve to grow government, most notably, it allowed for the creation of permanent bailout authority to bail out Wall Street and broadened the power of the Federal Reserve.


All hope is not lost, however, as Senate consideration looks like it could be a tough battle. In the House, Republicans were unified in their opposition, and were joined by 27 Democrats. In the Senate, there may be some possibility of Democrat opposition as well.

POLITICO reports on the harsh climate for the bill in the Senate: "[Senate Banking Committee chairman Chris] Dodd not only must keep every Democratic vote on h is side but is also under pressure to find common ground with Republicans. …Democrats on his committee are suffering what's being described as 'partisan fatigue' from the health care debate and have urged Dodd to report a bipartisan bill out of the Banking committee. … At the top of [Dodd's] tricky to-do list: strengthening consumer protection in the financial system. … Senate Banking Republicans unanimously oppose the idea of separating consumer protection into its own agency."

### ACTION ITEMS

Even though the bill has passed the House, there are still ways that we can stop this massive expansion of government from being approved by the Senate.

#### ACTION ITEM 1: SPREAD THE MESSAGE TO YOUR CONSTITUENTS WHO ALREADY CALL YOUR OFFICE

- Many constituents are calling about issues related to government expansion such as health care, cap and trade, and the ever-expanding national debt. 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: ALERT YOUR STATE AND LOCAL LEADERS ABOUT THE DANGER OF THIS BILL TO THEIR AUTHORITY

- Components of this bill have the ability to preempt the authority of state and local leaders. Rally the other Members in your delegation, and write letters to your governor. Send press releases to your local media to alert them of your efforts.
- Recruit State officials within your state to hold press conferences denouncing the intrusion of the federal government into the state's jurisdiction. This issue has the potential for bipartisan concern on the local and state levels.
- Hold conference calls with local business leaders in you district to inform them of the potential impacts on their small businesses. Explain the danger of government bailouts to small businesses and jobs.

### KEY MESSAGES AND THEMES

- 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.
- Small business owners that have worked hard to build their businesses will soon find the government as their unwelcome, not-so-silent partner.
- This permanent bailout authority results in a government takeover of big business, and destroys small business. The end result is a bigger government in need of higher taxes to fund its growth, and a weaker economy with fewer jobs.

THE WALL STREET JOURNAL.
WSJ.com

**Banker Baiting 101**
## *Obama's latest populist turn won't help the recovery.*

The Obama Administration desperately wants a strong economic recovery, or so it says, but does it have any idea how to encourage one?

It says it wants job growth, but its policies keep raising the cost of creating new jobs. It says it wants small business to take risks, but it keeps reducing the rewards if those risks succeed. And it says it wants banks to lend more money, even as it keeps threatening to punish bankers if they make too many bad loans or make too much money.

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The last contradiction is again on display as President Obama rolls out his latest populist blame-the-bankers campaign. This is becoming a White House financial staple. Recall how the President joined the Congressional posse amid this year's earlier AIG bonus uproar, until it threatened to run out of control. Later Mr. Obama targeted Chrysler's bond holders who weren't eager to accept the government's meager dictated terms. The bond holders rolled over, but everyone in financial markets got a message about what this Administration thinks about the sanctity of contracts.

Now, amid Democratic panic over 10% unemployment heading into an election year, the President is attempting a double populist play: Blame the bankers for causing the financial crisis and recession by lending too much, and blame them again for causing high joblessness now by lending too little.

"I did not run for office to be helping out a bunch of fat cat bankers on Wall Street," Mr. Obama said in an interview on CBS's "60 Minutes" on Sunday. "They're still puzzled why it is that people are mad at the banks. Well, let's see," he said. "You guys are drawing down $10, $20 million bonuses after America went through the worst economic year that it's gone through in—in decades, and you guys caused the problem. And we've got 10% unemployment."

He followed up that warm encouragement yesterday by hauling the bankers in to the White House to receive the command that "we expect an extraordinary commitment from them to help rebuild the economy."

This blame-the-bankers rhetoric is worse than a distraction as the recovery tries to gain solid footing and become a durable expansion. It risks obscuring two critical and related problems: Federal policy is discouraging both lending and borrowing.

If there is a lack of lending by banks to small businesses, the President might consider cutting out the CEO middlemen and speaking directly to the regulators who work for him, as well as to the Federal Reserve Chairman he recently nominated for a second term.

Forcing banks to write down the value of small-business loans that are still performing has become the specialty of bank regulators who are now trying to make up for the bubble years. Whenever a commercial building serves as collateral, no matter the quality of the borrower, the loan becomes suspect.

The result is a reduction in bank capital, a disincentive to make the next loan and perhaps even a calling of the loan, forcing a sale of the property. Operating with perfect pro-cyclical precision, regulators who were asleep during the housing boom and its epidemic of liar loans now target current loans to companies with steady cash-flow. This does not encourage new lending.

Meanwhile, Fed Chairman Ben Bernanke's near-zero-rate interest policy encourages banks to borrow cheaply and then invest in safe long-end Treasurys instead of riskier commercial loans. The Obama Treasury has explicitly supported this Fed policy as a way for banks to play the yield curve to rebuild their balance sheets.

But if Mr. Obama wants the banks to lend more, he should tell the Fed to start to rein in its excessively easy credit now that the financial crisis is over and the economic recovery gains steam. The longer the Fed keeps rates artificially low, the longer banks will get used to this implicit subsidy and the rougher their adjustment when it inevitably ends. Meanwhile, weren't higher bank profits to raise capital a major goal of the bailout?

Regarding small business, not everyone agrees that lack of credit is the main economic problem. William Dennis of the National Federation of Independent Business says that for most small companies the problem is a lack of customers, not credit. "There aren't a lot of folks who want to borrow. Our challenge is getting people in the front door," he says.

A recent NFIB survey of small-business owners found only 10% reporting problems obtaining financing. The government's own data tell a similar story. The Federal Reserve reports that business loan demand remains at depressed levels, while data from the Federal Deposit Insurance Corporation show $6 trillion of unused lending commitments at FDIC-insured institutions.

Mr. Dennis reports that small-business owners are much more concerned about other Washington issues, namely the uncertainty created by the Obama policy agenda: When will the taxes arrive to pay for Washington's spending binge? How much will health-care reform cost? What will be the impact of cap-and-trade legislation to address climate change?

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Mr. Obama summed up his White House meeting with the bank CEOs by once again blaming them for the financial crisis and suggesting that they have an obligation to support new regulation being written by Barney Frank (D., Mass.) and Senator Chris Dodd (D., Conn.).

You have to smile at that irony. No two Members of Congress did more to encourage the financial crisis, by preventing reform of the government-sponsored housing behemoths Fannie Mae and Freddie Mac. By ignoring Washington's role in creating the credit mania, Mr. Obama is hardly offering confidence that his financial reform efforts will prevent a repeat.

Yet none of this seems to count for much at a White House that is reading the polls and sees a political opening because bankers aren't popular. Someone in that power palace ought to consider that you don't encourage capitalism by beating up capitalists, and you aren't likely to encourage more lending by whipsawing lenders.

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