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January 1-15, 2010

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[\(USA Today\) Obama: 'We want our money back;' critics decry new bank 'tax'](#)

[\(Yeshiva World News\) Obama May Tax Banks](#)

Neel Kashkari's Quiet Path to Pimco
The New York Times
Devin Leonard
January 1, 2010

The financial crisis did not produce many stars. One of the few was Neel T. Kashkari, the former Bush administration bailout chief.

A onetime investment banker at Goldman Sachs, Mr. Kashkari became an instant celebrity in October 2008 when he was tapped by Henry M. Paulson Jr., then the Treasury secretary, to run the Troubled Asset Relief Program for banks. He was christened "the \$700 billion man" for overseeing such a huge amount of banking aid.

Power attracts attention. People magazine called Mr. Kashkari, a 35-year-old with a hawk nose and a shaved head, one of the sexiest men alive. When he resigned his post as assistant Treasury secretary on May 1, a few months after the transition to the Obama administration, he seemed to be a highly marketable commodity.

Shortly after leaving government, he was a guest on the Charlie Rose television program on PBS.

"What's the chance," Mr. Rose asked pointedly, "you are going to go back into the financial sector and make a ton of money?"

"I'm going to take several months off," Mr. Kashkari replied. "I do plan to go back into the private sector, likely in finance in some capacity, but I have no idea what that's going to be."

For a time, Mr. Kashkari did indeed decompress, in a cabin in California, not far from Lake Tahoe.

Then on Dec. 14, he went to work as head of new investment initiatives at the Pacific Investment Management Company, or Pimco, the powerful bond investment company based in Newport Beach, Calif., whose top executives have boasted of their access to government officials. Alan Greenspan, a former chairman of the Federal Reserve, is among its consultants.

In hindsight, it's easy to understand Mr. Kashkari's reluctance to discuss his job hunt. He was in a bit of a bind after leaving government. Landing a job at a bank that had taken bailout money would have drawn criticism.

But even though Pimco was not a recipient of government aid, Mr. Kashkari's career move raised eyebrows. Bloggers joked about how — in their view — he had all along been doing the company's work in Washington.

During the crisis, William H. Gross, the founder and co-chief investment officer of Pimco, who is known for his witty letters to investors and his appearances on CNBC, frequently offered advice to the Treasury about how to handle the bailout.

At the same time, Pimco's publicly stated strategy was to invest money in areas that would benefit from the government's rescue efforts. The company called this its "shake hands with the government" plan.

The strategy paid off. The company's flagship Total Return Fund turned in a strong performance in 2008. The fund's Class A shares, available to individual investors, were up 4.3 percent — nine percentage points ahead of comparable bond funds, according to Morningstar. And by late September 2009, Pimco's assets under management had swelled 32 percent, to \$940 billion, from the end of 2008.

Outsiders consider Mr. Kashkari's addition a natural strengthening of Pimco's ties to government.

"Kashkari brings a great deal of potential benefit to Pimco in terms of government knowledge and connections to both parties," said Douglas J. Elliott, a Brookings Institution fellow and former managing director at J.P. Morgan. "He understands what the government is likely to do and has a good understanding of the financial sector. So I can really see why Pimco would want him."

Scott Talbott, senior vice president for government affairs with the Financial Services Roundtable, an industry lobbying group, agreed that Pimco could benefit from Mr. Kashkari's recent foray in Washington. "Why pay the extra dollars that his political experience can command if they aren't going to use it?" he asked.

Neither Pimco nor Mr. Kashkari would discuss how he ended up at the company or how he would be compensated. But people familiar with his job search said he wanted to work for a company where he could start a new business — just as he had with the relief fund for the federal government.

Pimco said in a statement that Mr. Kashkari's first task would be to recruit new employees and help build a new division that would invest in stocks. Two people with direct knowledge of his employment search said that he would not be taking

part in the company's investing decisions. In fact, Pimco has hired two former equities portfolio managers from Franklin Templeton Investments to establish the new division's moneymaking approach.

Mr. Kashkari left Goldman Sachs to become a senior adviser to Mr. Paulson in June 2006. Early on, he worked on housing issues. The people with knowledge of his employment search said that Mr. Kashkari met Mr. Gross while touring the country with the Treasury secretary in December 2007 to assess the country's troubled housing market.

Several former Treasury officials said Mr. Gross had frequently been in touch with Mr. Kashkari and others in government about various initiatives. None of those officials or others suggested there was anything improper about those contacts.

"Gross was one of those guys, along with Warren Buffett, who were really interested in trying to give us ideas and be helpful in resolving the crisis," said Robert F. Hoyt, a former Treasury Department general counsel under Mr. Paulson. "They would send memos to Treasury. They weren't ideas we ended up implementing, but they were interesting."

It was also hard, however, not to notice that Pimco was a direct beneficiary of the Treasury Department's actions. In 2008, when it appeared that Fannie Mae and Freddie Mac might fail, Mr. Gross saw an opportunity.

He moved Pimco's flagship Total Return Fund heavily into mortgage-backed securities guaranteed by the two agencies. Then he vociferously advocated for the government to rescue them during television appearances on CNBC and elsewhere. On Sept. 7, 2008, the fund's value soared by \$1.7 billion when Mr. Paulson announced the government takeover of Fannie Mae and Freddie Mac. As part of his government duties, Mr. Kashkari worked on that rescue effort.

Mr. Gross was also a strong supporter of the troubled asset program, originally envisioned as a way to purchase impaired assets from the nation's ailing banks. He praised the plan on television and in a newspaper op-ed article, and he even offered to manage the government program at no charge.

Mr. Kashkari backed the asset purchase plan. Ultimately, though, Mr. Paulson decided to invest the government funds directly in the banks, considering it important to stave off disaster. Mr. Kashkari hired more than 135 lawyers, compliance officers and former bankers to execute the plan, and then had to defend the program on Capitol Hill, where he was sometimes treated like a piñata.

In his appearance on Charlie Rose, Mr. Kashkari said that during Congressional hearings he kept an index card in front of him bearing the inscription: "The louder he yells, the calmer I shall be" — referring to any lawmaker who might be questioning him.

Mr. Kashkari's successor at the Treasury is Herbert M. Allison Jr., 66, a senior banker with experience at Merrill Lynch and TIAA-CREF before he stepped into the breach at Fannie Mae when the government took control. Partly because the relief fund had largely been distributed before he arrived, Mr. Allison has had a much lower profile than his predecessor.

Huffington to consumers: Boycott big banks [Updated]
Los Angeles Times
E. Scott Reckard
December 31, 2009

This post corrects an earlier version

There can be few institutions more despised as 2010 begins than big U.S. banks, but what can the average person do about it?

The answer, according to Huffington Post website founder Arianna Huffington and former Senate Banking Committee chief economist Rob Johnson: Withdraw your money.

In a widely read blog post this week, Huffington and Johnson try to stir up a popular revolt by encouraging bank customers to yank their deposits from Bank of America, Wells Fargo, Chase and Citibank and move them to community banks and credit unions.

The broadside complains that the big banks, after being propped up by taxpayer money and government guarantees, have returned to the high-risk activities that torpedoed the economy in the first place, while cutting back on lending to businesses and spending hundreds of millions of dollars to water down proposed restrictions on their operations.

"The government policy of protecting the Too Big and Politically Connected to Fail is badly hurting the small banks, which are having a much harder time competing in the financial marketplace," write Huffington and Johnson, who is also a former managing director at hedge-fund operator Soros Fund Management. "As a result, a system which was already dangerously concentrated at the top has only become more so."

The Financial Services Roundtable, a lobbying group for major financial institutions, said the accusations were oversimplifying the situation.

"It's easy to demagogue the industry and paint institutions large, medium, and small, with broad brush strokes," the trade group said in a statement issued by spokeswoman Elise Brooks. "In the end, sound financial advice dictates that consumers should select the financial institution that offers the mix of products and services that best serves their individual financial needs."

Community banks traditionally have catered to small businesses and well-off individuals, charging more than their mass-market brethren but priding themselves on better service. Many ordinary folks, however, consider it important to have access to services like large free networks of automated teller machines, which the community banks don't provide (although some reimburse ATM transaction costs for their affluent customers).

What's more, financial recklessness was hardly confined to big banks choking on exotic mortgages and toxic securities carved out of them. Many California community banks managed to dig themselves into deep holes by making now-troubled commercial real estate loans during the boom years, especially institutions that specialized in bankrolling home builders and land developers.

The Huffington Post campaign, including a video comparing the big institutions to the villainous banker Mr. Potter in the Jimmy Stewart Christmas classic "It's a Wonderful Life," also contains an embedded referral service. The device, supplied by Torrance financial research firm Institutional Risk Analytics, allows users to input their ZIP codes to obtain a list of nearby smaller banks that Institutional Risk rates "A" or "B."

Johnson, currently the director of the Economic Policy Initiative at the Franklin and Eleanor Roosevelt Institute, says the big banks are taking deposits out of communities and essentially using them to speculate on Wall Street.

"They're doing proprietary trading, derivatives, things that have nothing to do with their communities," he said in an interview. "Why are we putting up with them?"

Of the four biggest retail banks, Wells Fargo is the least objectionable, according to Johnson. That's because it's not a big player in the market for derivatives, the exotic financial contracts that crippled insurer American International Group and otherwise contributed to the financial crisis.

[Corrected at 6:20 p.m: An earlier version of this post referred to the Financial Services Roundtable as the Business Roundtable.]

Key senators debate bank reform behind the scenes

Senate panel not expected to take up post-crisis reform bill until after Jan. 20

Ronald D. Orol

MarketWatch

January 4, 2010

WASHINGTON (MarketWatch) -- Responding to the financial crisis that rattled the world in 2008, a key Senate committee is expected to take up sweeping bank-reform legislation later this month, taking the baton from the House, which approved new rules for financial institutions last month.

However, before the Senate Banking Committee begins to vote on provisions to attach to a mammoth bank-reform bill introduced in November, committee chairman Christopher Dodd, D-Conn., is in negotiations to morph it into bipartisan legislation with Sen. Richard Shelby, R-Ala., the panel's ranking member.

The two agree on many provisions, according to Dodd spokeswoman Justine Sessions. Nevertheless, observers contend that they are still far apart on key measures. Read Dodd's bill [here](#).

Ed Mierzwinski, consumer-program director with U.S. Public Interest Research Group in Washington, points out that Shelby has major issues with Dodd's proposal to create an independent Consumer Financial Protection Agency, charged with writing rules for mortgage and credit-card products in the wake of the credit crunch and financial crisis.

Led by House Financial Services Committee Chairman Barney Frank, the House approved the creation of an independent CFPA, with no support from GOP lawmakers.

"We have been urging Shelby to enact an independent CFPA and we are hopeful that an independent CFPA will be part of the final legislation," Mierzwinski said.

As it stands, the mammoth legislative package introduced by Dodd includes new consumer protections, additional leverage and other restrictions on banks that are "too big to fail." The committee could begin voting on the legislation as early as the week of Jan. 11, but it is more likely to wait until after Jan. 20.

"We are hopeful to have bank-reform legislation with a CFPB approved by April, because after that the legislative timeline slows dramatically as legislative season becomes campaign season," Mierzwinski added.

Major differences to work out between House and Senate

There are significant differences between the House and Senate bills under consideration. Both bills create a consumer agency; however the House measure exempts independent motor-vehicle dealers from its oversight while small banks are excluded from CFPB on-site examinations.

House lawmakers narrowly defeated an effort led by Rep. Walt Minnick, D-Idaho, to destroy the proposed CFPB and replace it with a weaker council. Mierzwinski said he worries that similar efforts to weaken or dismantle the proposed agency could be approved in the Senate.

Conservatives are seeking to have the committee eliminate the consumer agency and replace it with a council that would be based on the legislation rejected in the House. Another compromise alternative sought by the GOP would allow the CFPB to write consumer-protection rules, but eliminate its law-enforcement authority, which would remain with existing bank regulators.

"Alternatives to a single entity CFPB include a Minnick-like council of the functional regulators' consumer-protection officers, or possibly the idea of having a single agency with rule-writing authority, while enforcement and on-site exams would remain with the functional regulators," said John Dearie, vice president of the Financial Services Forum.

The House bill includes new up-front fees on big banks "too big to fail" to create a systemic fund to unwind a failing institution so it doesn't unsettle the markets, while the Dodd legislation would have taxpayers foot the bill to dismantle such an entity before it is recouped from big banks.

"We are very much in favor of resolution authority," Dearie commented. "The legal authority and procedural framework must be created to wind down any financial institution, no matter how large or complex. That is the solution to 'too-big-to-fail.'"

To consolidate or not to consolidate?

A major point of contention relates to the power of the Federal Reserve in the new regulatory world.

The House bill combines the Office of Thrift Supervision and the Office of the Comptroller of the Currency, while the Dodd legislation would create a

consolidated regulator made up of all bank regulators, which would strip the central bank of its regulatory authority to supervise banks. That authority would be placed within the new systemic regulator.

"Dodd and Shelby agree that the Fed should be cut down in power," according to Mierzwinski. "They are in discussions about how much of the Fed power will be reduced."

The Dodd bill would also strip the Federal Deposit Insurance Corp. of its oversight and regulatory authority over banks, while granting the agency with a new responsibility to oversee the dismantling of a failed financial institution so it doesn't cause collateral damage to the markets.

The House bill maintains the FDIC's existing authorities, partly in response to concerns raised by many small banks that worry its consolidation into a megaregulator would mean their interests would become secondary to those of big banks.

A large number of small banks are regulated under the so called "dual-banking" system, which means they can be state-chartered or federally chartered. Many small banks are examined by both the FDIC or the Fed and their state regulator. Under Dodd's bill, the new consolidated bank regulator would maintain a community bank office to look out for the interests of small banks.

"Consolidating federal banking regulators would not damage the dual-banking system because the option of state regulation wouldn't be affected," Dearie added.

It is likely that the Fed's monetary-policy division would be kept separate from the larger bank regulator as part of a final Dodd-Shelby proposal.

"We agree that the Federal Reserve should be more focused on its core responsibility -- conducting monetary policy," the two senators said in a joint statement in late December.

The House bill also caps the debt-to-equity leverage at the largest banks at 15 to 1, a provision that would significantly limit the growth of big banks as the economy recovers. Meanwhile, the Dodd bill charges a new megabank regulator, dubbed the financial-institution regulatory administration, to approve leverage limits for big banks.

"We prefer Congress not set the leverage limits because one size does not fit all. We think the regulators, who are boots on the ground, should continue to set limits," said Scott Talbott, vice president of the Financial Services

Roundtable. "Regulators need the flexibility to adjust based on different companies they regulate."

Scott Talbott appeared today on FOX Business News and Bloomberg Television. Both clips are currently unavailable.

Sen Dodd Faces Tough Choices To Pass Financial Overhaul

The Wall Street Journal

January 6, 2010,

By Fawn Johnson of Dow Jones Newswires

WASHINGTON (Dow Jones)--If Senate Banking Committee Chairman Chris Dodd (D., Conn.) wants a financial regulation bill as a legacy, he faces having to compromise or drop plans to create a new consumer financial protection agency and a single bank regulator.

These two proposals have emerged as the main stumbling blocks as Dodd has sought to move a major financial overhaul bill through his committee.

Without Republicans on board, it will be extremely difficult, if not impossible, for Congress to enact a key component of the Obama administration's domestic agenda to regulate the financial industry. But congressional staffers acknowledge that finding common ground on key issues could pose a challenge. Some analysts believe the Senate bill will need to look more like a financial regulatory bill that passed the House last month.

Both Dodd and House Financial Services Committee Chairman Barney Frank (D., Mass.) have proposed creating a new consumer financial protection agency that has met with fierce opposition from Republicans and the business community. The proposed consumer agency is one reason no Republicans voted for the financial overhaul bill in the House.

A less powerful consumer protection agency could pass muster with Republicans, according to some industry observers, particularly if it left enforcement authority with current regulators.

"Rule writing, supervision, and enforcement--those are modules that you can kind of move around," said David Brown a financial services attorney at Alston & Bird.

"If people are willing to compromise, and that's always a question, there is a way of playing with those modules," Brown said.

The U.S. Chamber of Commerce and **the Financial Services Roundtable** have launched aggressive lobbying campaigns against the proposed new consumer agency.

"The chamber well over a year ago called for increased consumer protection. We think there are ways that it can be done," said Tom Quaadman, executive director of the chamber's capital markets center.

For example, the chamber supported a proposal--narrowly defeated in the House--that would have eliminated the consumer financial protection agency, replacing it with a council of financial regulators.

Right now, industry groups such as the chamber aren't willing to call off their opposition to the new consumer agency until they know more about what comes out of bipartisan talks.

"We don't think we should have to create a new consumer protection agency," said Scott Talbott, the Financial Services Roundtable's senior vice president of government affairs. That said, he added, "We are for making it the least worst way to do the wrong thing."

Dodd also has proposed creating a single federal bank regulator and would strip supervisory powers from the Federal Reserve and the Federal Deposit Insurance Corporation. There are some indications that he could compromise on that proposal by allowing the FDIC to supervise some institutions and create a new agency for nationally chartered institutions. The House bill would maintain the FDIC and the Fed, though it would merge other smaller banking agencies.

A House bill would create a new council of regulators to wind down economically risky firms. It would be headed by the U.S. Treasury secretary and include as members other financial regulators such as the FDIC and the Fed.

Dodd also has proposed a new systemic risk regulator, but his proposal differs from the House measure on how to pay for the dissolution of financial entities that pose a risk to the economy. The House bill would create a resolution fund paid for by the largest entities in advance of dissolution, while Dodd has proposed requiring risky firms to increase capital reserves.

Dodd's plan for the Fed also goes farther than the House measure by returning the Fed to its core mission of monetary policy and lender of last resort and stripping its consumer protection authorities and oversight over bank holding companies.

The House bill also strips the Fed of its consumer protection authority and would allow an arm of Congress for the first time to audit the Fed's monetary policy decisions. But the House bill also gives the Fed some increased oversight over financial companies.

Analysis: Dodd retirement may help banking bill

January 06, 2010

Associated Press/AP Online

By Jim Kuhnhehn

WASHINGTON - Sen. Christopher Dodd's decision to retire at the end of the year increases the chances of a Senate overhaul of Wall Street regulations that is bipartisan and friendlier to the financial sector than what President Barack Obama may want.

Political strategists from both parties and financial sector lobbyists say Dodd, the chairman of the Senate Banking Committee, is now free from re-election considerations and fundraising demands to cut a deal with Republicans without fear of alienating liberal voters.

"The political motivation associated with Chairman Dodd's re-election are now gone from the regulatory process," said Scott Talbott, senior lobbyist for the Financial Services Roundtable, which represents some of the nation's largest financial institutions.

The decision also dilutes the influence of financial sector executives and hedge fund managers who have regularly filled Dodd's campaign treasury with donations. That could make it easier for Dodd to insist on requirements that banks put more of their money at risk when they make loans and that regulators have more control over previously hidden financial transactions.

That prompted consumer activists on Wednesday to express hope that Dodd would continue to push for the creation of an independent consumer finance protection agency. While the agency is a central element of Obama's regulatory scheme, it is strongly opposed by banks and congressional Republicans.

"We're hopeful it clears his decks to focus like a laser beam on the real problem of helping Main Street get out from under the mess Wall Street left us in," said Ed Mierzwinski, program director for the U.S. Public Interest Research Group.

Those conflicting expectations illustrate how Dodd has come to be viewed in Washington, much to the consternation of his aides. Over the past year, as he tackled financial services regulations, he couldn't seem to win for losing.

If he pressed for stronger consumer protections, critics said he was playing the populist panderer poking a finger in the eye of banks. If he offered any accommodation to banks, critics accused him of helping out his Wall Street political benefactors.

Now, he can play the honest broker without worry, said former Democratic Sen.

John Breau of Louisiana, a deal maker during his Senate days and now a lobbyist with financial services clients.

"He can say, 'This is a good idea, I don't have to worry whether this is coming from the left or the right, and don't worry whether it's going to gain me 10 more votes or lose me 25 more votes,'" Breau said.

Dodd did not specifically address the task ahead during his announcement Wednesday, except to say "we have important work to do."

His spokeswoman, Kirstin Brost, elaborated: "Dodd is committed to continue working in a bipartisan fashion to pass strong financial reform this year."

Democrats in Congress and in the lobbying sector also pointed out that Dodd's retirement gives Republicans less of a reason to deny him a legislative accomplishment. "Now it doesn't matter because he's not the candidate," Breau said.

Among the issues in play as the bill gets assembled are consumer protections, plus who should fall under new regulations on the trading of exotic financial instruments such as derivatives and how to dismantle large, failing firms without taxpayer bailouts. Dodd already has strayed from Obama's plan by calling for a weaker Federal Reserve. Compromises on consumer protections and derivatives also would fall short of Obama's plans.

Last month, Dodd and Sen. Richard Shelby, the top Republican on the Banking Committee, issued a joint statement saying bipartisan negotiations have resulted in "meaningful progress."

It was a big step from November when Shelby and other Republicans on the committee reacted dismissively to a draft of Dodd's bill. With even Democrats expressing misgivings, Dodd started anew, assigning bipartisan teams to address various components of the complex legislation.

Still, an independent consumer finance protection agency is Shelby's main sticking point and could end up a casualty in any compromise. Under the House bill and in Dodd's original proposal, banking regulators would lose their consumer protection powers and they would be consolidated in one single entity that would write and enforce rules governing lending and credit cards.

One idea making the rounds in the committee would create an agency or a council that would only have rule writing authority, with enforcement remaining in the hands of bank regulators. "That's sort of a middle ground that makes sense," Breaux said.

Consumer advocates are vigorously opposing that idea.

"We don't think that the financial regulators who failed so dramatically to spot the financial problems that brought our economy to its knees should be in charge of consumer protections," said Travis Plunkett, legislative director for the Consumer Federation of America.

But for Dodd, and even Obama, it might be the price for victory.

Dodd Departure May Mean More Finance Jobs in Washington

Julie Steinberg

Fins.com

January 7, 2010

Democratic Sen. Christopher Dodd's imminent departure from the Senate won't affect jobs on the Street, say people familiar with the matter, but may mean more foot soldiers in Uncle Sam's regulatory army.

Dodd (D., Conn.), the Chairman of the Senate Banking Committee and the man most closely associated with financial regulatory reform, announced today that he will not seek re-election in the midterms -- and that decision has analysts wondering what's in store for regulators and the firms they monitor when new financial regulation legislation passes.

At first glance, Dodd's decision to step down in November seems to signify radical repercussions for the pro-consumer and pro-industry voices that have dominated the debate. Dodd has been at the center of the process, tackling everything from hedge fund registration requirements to credit card fees to eliminating federal agencies.

But analysts say Dodd's legacy has already been cemented and that being free from re-election worries will allow him to come to a bipartisan solution.

"The process on regulatory reform will continue," said Scott Talbott, senior vice president for government affairs at the Financial Services Roundtable, a nonprofit group that represents the interests of 100 of the biggest firms in finance. "The announcement today removes political forces surrounding re-election from the process. That should make it easier to craft a regulatory reform bill," he added.

Over the past few months, Dodd has moved his position to the left aiming to fulfill the populist hopes of his constituency in a bid for re-election, a source familiar with the matter said. Without that pressure, he'll be able to drift to the center and bring together Democrat and Republican forces. So how will that affect finance hiring and firing?

In several ways. First, it's important to remember that the House bill and Senate version must ultimately be merged. Under Dodd's bill, the FDIC would lose much of its power and two other regulators -- the Comptroller of the Currency and the Office of Thrift Supervision -- would be replaced with a single authority. That spells layoffs for financial regulators. Under Congressman Barney Frank's (D., Mass.) House bill, only the Office of Thrift Supervision would be axed, and the FDIC's authority would actually increase, opening the door to more hires. The FDIC has already announced 1,600 new hires this year. A spokesman for Congressman Frank refused to speculate about the two bills.

Meanwhile, industry expects regulatory reform to move forward with Dodd's announcement having little effect on finance pros.

Hedge funds are bracing themselves for a round of regulation that will require more transparency and accountability. According to Mitch Ackles, a director of the Hedge Fund Association, an industry trade group, funds are getting ready to comply with new federal measures that will dictate registration at certain asset levels. And such regulation means funds will need new talent on board to ensure compliance.

"Every hedge fund will require managers to hire chief compliance officers," Ackles said. "And they may need other people to support reporting requirements."

With industry bracing for change, Dodd has already put his stamp on reform, and the Senate bill is expected to pass before he steps down. Whether his successor, Tim Johnson, who is seen as more pro-industry than Dodd, will take up Dodd's legacy remains to be seen.

Financial overhaul efforts likely to get boost from Dodd's retirement plans

Silla Brush

The Hill

January 6, 2010

Sen. Chris Dodd's retirement increases the likelihood of financial overhaul legislation passing this year, industry lobbyists and consumer activists say.

Dodd (D-Conn.) decided to remain chairman of the Senate Banking Committee last year in part to oversee wide-ranging changes to how the nation's financial system is regulated.

But Dodd's panel has yet to mark up legislation, even as the House in December passed a broad overhaul of the industry.

With Dodd's planned retirement, which was announced Wednesday, special interests on both sides of the fight believe the momentum has shifted in favor of passing legislation well before the 2010 elections.

White House Press Secretary Robert Gibbs said Dodd is a "passionate advocate" on financial overhaul and aims to finish this year.

"I think the odds of enactment are greater now than before," said Richard Hunt, president of the Consumer Bankers Association.

"The political roadblocks won't matter anymore and Dodd can just get down to policy," said Ed Mierzwinski, director at U.S. PIRG.

Dodd and Sen. Richard Shelby (R-Ala.), the ranking member on the panel, have been trying to craft a compromise since last year. Senators from both parties are trying to ease disagreements over many details of the overhaul.

The overhaul would include major changes to the nation's regulatory structure, the power of the Federal Reserve, oversight of the multi-trillion-dollar derivatives markets and changes to how consumer products are regulated.

Dodd and Shelby have worked closely in the last few years on financial legislation, particularly on a credit card bill in 2009.

Dodd said on Wednesday he is in favor of reaching a bipartisan framework for reform. And financial industry lobbyists believe that his retirement makes that more likely.

“If anything, his announcement makes it easier to craft a bipartisan bill,” said Scott Talbott, senior vice president at the Financial Services Roundtable.

The thorniest question for Dodd and Shelby remains how to boost consumer protections.

For the administration, House Democrats and consumer advocates, a cornerstone of the overhaul is the creation of a new Consumer Financial Protection Agency (CFPA). The agency would regulate financial products, including mortgage loans and credit cards.

Dodd has been a strong supporter of a new agency. But Shelby and other Republicans strongly oppose it, as does the financial industry.

Dodd is facing major pressure from consumer advocates to support the new agency.

“In some ways this frees him up to speak his mind, knock a few heads and do what he thinks is right including hanging tough on the CFPA,” said Travis Plunkett, legislative director at the Consumer Federation of America.

Heather Booth, head of Americans for Financial Reform, a coalition of consumer advocates and labor unions, said the next month is crucial in the CFPA debate.

“We're intensifying efforts,” she said. “We think it's important that people see this is a dividing line issue moving into the elections.”

Financial industry lobbyists believe just the opposite – that Dodd’s retirement allows the CFPA to fall by the wayside. They argue that there simply are not the 60 votes necessary to break a filibuster over the new agency.

Hunt said the Dodd announcement “puts the nail in the coffin” of the agency as Obama proposed. Industry groups supported an alternative in the House that would have created a council of regulators but not an independent agency.

“The votes are not there,” Hunt said.

Obama Urges Banks To Increase Small Business Lending For 2010

**Written by Resources for Entrepreneurs Staff
Small Business Finance News
January 6, 2010**

Many major banks pledge to review rejected SMB loan applications and increase lending in 2010.

Reportedly, small businesses have been struggling with delinquencies - a fact that could hinder their ability to get small loans this year. But it may be good news for entrepreneurs that President Obama is asking banking CEOs to overlook this and "take a third and fourth look" at small businesses they had rejected for loans last year.

Obama met with banking executives earlier this week to discuss increasing credit lines to SMBs. According to Entrepreneur Magazine, CEOs from US Bancorp, JPMorgan Chase, Bank of America, Wells Fargo, and American Express have vowed to take a second look at rejected loans.

Moreover, the Financial Services Roundtable will try to advocate that all financial firms start second-look-style programs. "We're making the proposal and asking them to make it a policy," Scott Talbott, a spokesman for the organization, told the source.

The meeting with Obama has also inspired many banks to increase their lending for 2010. "Small and medium sized businesses are the lifeblood of the U.S. economy," said Bank of America CEO Ken Lewis.

These loans could really pay off; according to a recent report from ADP, small businesses are starting to turnaround employment rates in the service-providing sector. Moreover, the SBA reports that SMBs have generated 64 percent of net new jobs over the past 15 years.

**Sen. Dodd can now focus on his legacy
After deciding not to seek reelection, the Connecticut Democrat is poised to make the compromises necessary to push his proposed financial regulations through the Senate.**

**Jim Puzzanghera
Los Angeles Times
January 7, 2010**

Reporting from Washington

In deciding not to seek reelection, Sen. Christopher J. Dodd became perhaps the highest-profile political casualty of the deep recession and public outrage over the financial industry bailout.

His rapid fall -- from 2008 presidential hopeful to lame-duck legislator -- parallels the arc of the nation's economic downturn.

Long associated with Wall Street, Dodd saw his chances for winning reelection clouded by disclosures that he was among the "Friends of Angelo," who received preferential mortgage rates at Angelo Mozilo's troubled Countrywide Financial Corp., now part of Bank of America Corp.

As chairman of the Senate Banking Committee since 2007, the Connecticut Democrat also became the target of criticism that he failed to aggressively investigate the subprime mortgage mess while later helping engineer the \$700-billion bill to rescue the nation's biggest banks.

"The economic problems have put voters in a grumpy mood, and some of these missteps, like the Countrywide mortgage issue, really upset voters," said Douglas Schwartz, director of the Quinnipiac (Conn.) University Poll, which has tracked Dodd's falling approval rating among voters.

"During a different time, if voters weren't so grumpy, perhaps these things wouldn't have had such an impact on them," Schwartz said.

Dodd has tried -- with little success -- to separate himself from that taint recently by taking more populist, consumer-friendly positions, including proposing a tougher overhaul of financial regulations.

His proposal goes well beyond the legislation passed by the House and backed by President Obama by advocating the creation of a single banking regulator to replace the Federal Reserve and other agencies.

But freed from political concerns and eyeing his legacy, Dodd could be poised to make the compromises on that and other provisions needed to push the legislation through the Senate.

"The political forces associated with his reelection are now off the table, so I think it makes it easier to achieve a bipartisan bill," said Scott Talbott, chief lobbyist for the Financial Services Roundtable, an association of large financial companies that oppose some key parts of Dodd's proposal.

Indeed, Dodd has been working in recent weeks with the top Republican on the banking committee, Sen. Richard Shelby of Alabama, and a small bipartisan group of senators on revisions to his proposal.

Shelby and Dodd said last month that the talks were "extremely productive" and they hoped to resolve their differences by the time the Senate reconvenes Jan. 19.

Senators are at odds over creation of an agency to protect consumers in the financial marketplace and new powers for the government to seize and dismantle large financial firms whose failure could threaten the economy.

Although Dodd rose to new prominence as a leading player in President Obama's push to reform the healthcare system, he conceded Wednesday he was "in the toughest political shape" of his career.

"I love my job as your senator, I always have and still do," Dodd told supporters gathered outside his home in East Haddam, Conn., as his wife, Jackie, and two young daughters stood nearby. "However, this past year has raised some challenges that insisted I take stock of my life."

In addition to shepherding major legislation through the Senate, Dodd endured the deaths of his sister and his close friend Sen. Edward M. Kennedy as he himself battled early-stage prostate cancer. Dodd saw his job approval ratings in the state plummet, bottoming out at 33% in the spring.

"This is my moment to step aside," Dodd said. He did not address some of the controversies he faced and took no questions.

Those troubles helped carry his career to a similar inglorious end as befell his father, former Sen. Thomas Dodd, who lost his bid for reelection in 1970 after being censured by the Senate for diverting about \$116,000 in campaign contributions to personal use.

Christopher Dodd strove for years to restore his family's reputation, including writing a 2007 book about his father's role as a U.S. interrogator of Nazi war criminals after World War II.

"The one thing that Chris Dodd has always wanted to do is save the family name," said Gary Rose, chairman of the government and politics department at Sacred Heart University in Connecticut. "Today, when we remember Tom Dodd, we think of censure and controversy. And I think the same thing will happen with Chris Dodd."

Dodd's close association with the financial industry stems not only from his congressional work on banking issues but also from his constituency: large insurance companies and many Wall Street employees with homes in Connecticut. Since 1989, Dodd received more campaign contributions -- \$13.9 million -- from the financial, insurance and real estate sector than any other industry, ranking fifth among congressional incumbents, according to the nonpartisan Center for Responsive Politics.

Dodd's stature as banking committee chairman and his Wall Street connections gave him a fundraising base to run for president. But his quest ended quickly in January 2008 with a poor showing in the Iowa caucuses.

Back home, the worsening financial situation exacerbated the anger many residents already had toward Dodd for moving temporarily to Iowa. And his connections with the financial industry became an increasing liability.

"It was perceived as a good thing at one time," Rose said of Dodd's Banking Committee post and relationship with Wall Street.

"Now that we've had this economic recession and the anger that's out there involving the bonuses and the bailouts of Wall Street," he said, "he's perceived as an agent of those interests who have in some respect profited off of the taxpayers."

Dodd tried to change that image, pushing through legislation last year that imposed tough new restrictions on credit card interest rates and other fees. Dodd also inserted a last-minute amendment into the \$787-billion economic stimulus legislation in February that limited bonuses at firms receiving government bailout money and allowed the administration to appoint a pay czar to restrict executive compensation.

But a month later, news broke that AIG, which is 80% owned by the federal government after its bailout, was paying \$165 million in bonuses to employees of the unit that led to the company's downfall.

The bonuses were part of employee contracts existing before the stimulus legislation was passed. Dodd's amendment originally would have barred such bonuses, but Treasury Department officials expressed concerns that such a retroactive provision could be illegal.

Dodd was blamed by some people for inserting a loophole into the bill allowing the AIG bonuses to go through.

"I think he's been unfairly victimized," Rep. Barney Frank (D-Mass.), chairman of the House Financial Services Committee, said Wednesday.

The AIG bonus controversy followed Dodd's admission in 2008 that he had refinanced homes in Connecticut and Washington, D.C., under Countrywide's VIP "Friends of Angelo" program, which offered discounted loans and other perks.

Dodd said he was unaware that the program offered such benefits. He said at the time he thought the program was just a courtesy for people who had done business with the company before. The Senate Ethics Committee last year cleared Dodd of breaking ethics rules.

Frank, who pushed financial regulatory legislation through the House last month, said Dodd's decision not to seek reelection could be "a mild positive" for getting the Senate to take action.

"When you're not running for reelection, you have more time," Frank said.

Beyond that, Dodd also is motivated by how he will be remembered, said Travis Plunkett, legislative director for the Consumer Federation of America advocacy group.

"I can't imagine he's not going to want to do everything in his power to achieve meaningful legislation before he leaves," Plunkett said. "Every leader worries about his legacy, and I'm sure Sen. Dodd is thinking about his."

Dodd likely to continue reform push

Victoria McGrane

Politico

January 6, 2010 06:38 PM EST

People close to Senate Banking Chairman Chris Dodd say he will forge ahead on financial reform despite forgoing his reelection bid — even though some financial insiders believe that the negotiations on the major bill will change.

"Knowing him the way I know him, I think that he would fight as hard for this legislation whether he were running for reelection or looking upon it as a legacy item," said a Senate Democratic aide who discussed the issue with Dodd Tuesday night.

"I don't think he ever felt that this legislation really affected his electoral politics in Connecticut. People in Connecticut are not sitting there thinking about systemic

risk or even a consumer protection agency. They're thinking about jobs," the aide said.

Added Dodd spokeswoman Kirstin Brost: "Dodd is committed to continue working in a bipartisan fashion to pass strong financial reform this year."

The consensus in the financial industry is that Dodd's retirement announcement could smooth the way for a successful financial reform bill this year. Dodd said he will serve out the remainder of his term and is expected to keeping the Banking gavel for the duration.

Although Dodd has repeatedly dismissed the idea that his reelection entered into his policy calculations, that didn't stop pundits and lobbyists alike from assuming his poor poll numbers and too-cozy-with-Wall-Street image problems were a factor in his legislating as he worked to win back skeptical voters in Connecticut with tough measures against the financial industry.

Now, financial insiders argue, the veteran lawmaker won't have to worry what the voters think and can focus on making the best policy.

"Reg reform will continue," albeit perhaps a bit more slowly at first, said Scott Talbott, senior vice president of governmental affairs at the Financial Services Roundtable. "But the most important factor is that the politics of Chris Dodd's reelection campaign are taken out of the equation."

Just in terms of time, not running frees up Dodd to stay in Washington and focus exclusively on the bill — something critics of his handling of financial reform say he hasn't done.

"Now Chris Dodd does not have to worry about being reelected and poll numbers. He can worry about crafting legislation that garners the necessary votes," said Richard Hunt, president of the Consumer Bankers Association.

In particular, insiders speculate, Dodd's decision not to run for reelection could break down remaining barriers to forging a compromise bill with his ranking Republican on the panel, Sen. Richard Shelby of Alabama — particularly on the contentious issue of creating a stand-alone consumer financial protection agency.

"It frees Dodd up to cut deals to move a bill. Before this, he was stuck," said one Senate Democratic aide.

“If you believe like I do that he wants this done as part of his 30-year legacy in the Senate, it makes it easier to cut a bipartisan deal,” said a financial services executive.

Dodd himself seemed to lend credence to the view that he’ll move toward compromise. “I believe in bipartisan solutions,” he said in his statement Wednesday, then added: “But I also believe you only achieve those results with vibrant, robust and civil partisan debate.”

Consumer groups, labor unions and other activists on the left working for financial reform probably don’t see Dodd’s retirement as the positive development for the legislation. He was perhaps their strongest Senate ally in fighting for the creation of an independent CFPB. But if Dodd does end up seeking compromise, that stand-alone agency would almost certainly be the No. 1 item on the chopping block, since Republicans loathe it.

Of course, Dodd was not the only Democrat making a hard case for the stand-alone consumer watchdog. The White House has put significant political capital behind the CFPB and is preparing to make another strong push for measure, as it did during House deliberations. Other Democrats are still supportive — and still have to care what the left thinks of them.

Heather Booth, executive director for a coalition of pro-CFPB groups known as Americans for Financial Reform, put the onus on activists and consumers alike to pressure Democrats, rather than on Dodd himself.

“We think that [Dodd] has always wanted to leave a legacy of significant reform. He initially proposed strong legislation. What we think is the critical factor is whether Main Street raises its voice to support the kind of direction that he’s taken, and especially with a strong consumer protection agency and not just letting big banks and Wall Street that got us in to this mess to run off with our future,” she said.

Financial reform could veer far away from bipartisanship, depending on the next moves of Dodd and other members of the Banking Committee.

Dodd’s lame-duck status means he won’t have the juice with his Democratic members to get them on board with a deal, now that he can’t promise future favors and help, analysts note. Dodd also might be less willing, not more willing, to cut deals just to get a bill done before Election Day — especially if he concludes that Republicans are asking too steep a price.

Retirement transforms financial reform into a purely legacy issue for Dodd, and legacy calculations tend to be “much more volatile and unpredictable” than political ones, said Mark Calabria, director of financial regulation studies at the Cato institute and a former Republican Senate banking aide. Calabria argues that Dodd’s retirement lessens the chance of financial reform passing this year.

Republicans could also decide to slow walk the legislation in hopes the more moderate Tim Johnson (D-S.D.), the next most-senior Democrat on the committee after Dodd, would get the gavel next year.

Brian Gardner, a former GOP staffer himself and now an analyst with Keefe, Bruyette & Woods thinks that’s unlikely.

“People want to get this behind them,” he said, referring to both parties on the committee. But that being said, Dodd’s decision means no one can tell for sure what will happen.

“There’s an element of unpredictability, because he’s a free agent now,” said Gardner. And with so many variables in play, “you just can’t predict it.”

Sen. Dodd To Keep Pushing Financial Overhaul

Audie Cornish

National Public Radio

January 7, 2009

Sen. Chris Dodd has taken a leading role in putting together legislation to rewrite the rules governing Wall Street, but his retirement could make things complicated. Some observers say the Senate Banking Committee chairman's retirement improves the chances of a bill passing because he'll want to make sure it's part of his legacy.

Sen. Chris Dodd (D-CT) is set to retire from his job at the end of the year, but he's not expected to go without overhauling the financial regulatory system.

Dodd and the Senate Banking Committee he heads have been working behind closed doors to rewrite the rules governing Wall Street. The question now is: How will his departure affect the direction of the legislation?

In his retirement announcement in Connecticut on Wednesday, Dodd said that after nearly 30 years of enjoying voter confidence, he finds himself in the toughest political shape of his career.

"Let me quickly add that there've been times when my positions and actions have caused some of you to question that confidence," he said. "I regret that, but it is equally important that you know that I've never wavered in my determination to do the best job — to do the best job for our state and our nation."

Dodd took heat in early 2009 for a provision in the stimulus package allowing insurance giant AIG to give out billions of dollars in executive bonuses.

He also faced a Senate ethics investigation into whether he received special mortgage deals from Countrywide Financial, a lender at the center of the subprime mortgage crisis. Dodd was cleared of any wrongdoing.

However, Quinnipiac University pollster Doug Schwartz says the damage was done. "It looked like he was too cozy with the financial industry. The AIG bonus controversy — another example of him perhaps looking like he was too cozy with the financial industry. So those kinds of things really hurt him."

Dodd spent much of last year trying to repair the damage by boosting consumer-friendly issues such as the passage of new credit card regulations. And his initial drafts of the financial regulatory overhaul were stronger than those of the House or the Obama administration.

So when Dodd announced his retirement, did the financial industry cheer or boo?

"Neither," chuckles lobbyist Scott Talbott of the Financial Services Roundtable.

"Many have argued that he'd moved to the left — to hard left," Talbott says. "Many argue that that's in result of the politics and the need to prove or demonstrate to Connecticut voters that he's a populist. With the election removed, those forces will be removed from the equation and, therefore, might make it easier to craft a bipartisan [regulatory] reform bill."

Dodd scrapped his initial draft and is now deeply involved in a bipartisan rewrite. Industry-backed concessions are expected in areas such as the proposed resolution authority to wind down banks considered too big to fail and on a proposed consumer financial protection agency.

But consumer lobbyists like Travis Plunkett remain optimistic about Dodd's role. "It's also an incentive for him to speak his mind. To call the issues as he sees them — to stop special-interest deals that the public doesn't know about but that harm their interests."

And economist Vince Reinhart of the American Enterprise Institute says Dodd's retirement improves the chances of passing a bill. "He's taken this opportunity to create his legacy, to put a capstone to it — namely, significant financial reform. So my betting actually is he will be more aggressive. He will be more ambitious."

The White House is counting on as much. On Wednesday, a spokesman said the administration wants a bill by the end of the year. Copyright 2010 National Public Radio. To see more, visit <http://www.npr.org/>.

With Chris Dodd's Exit, Washington May Offer Financial Jobs for MBAs
January 07, 2010
My MBA Career
By the My MBA Career Content Team

Students involved in a finance MBA program may want to set their sights on Washington, DC, rather than New York City as some economic insiders believe the country's capital may serve as a financial hotspot after Senator Chris Dodd's departure.

Dodd, who serves as the Chairman for the Senate Banking Committee, has been most noted for his association with financial regulatory reform, according to Politico.com.

With his recent announcement that he will not be running for reelection, economic insiders suggest that regulatory reform will continue to move and many hedge funds in the area may soon start to hire on chief compliance officers to keep them in check, according to FINS.

"The process on regulatory reform will continue," Scott Talbott, senior vice president for government affairs at the Financial Services Roundtable, a nonprofit group that represents the interests of financial firms, told the news source. "The announcement today removes political forces surrounding re-election from the process. That should make it easier to craft a regulatory reform bill."

If a financial career interests you, a finance MBA may give you the knowledge you need to make ethical economic decisions, which are a key quality to have in times of financial reform.

Senator chris dodd: will it help banking bill
January 7, 2010
Khabrein.info

Washington: Senator Chris Dodd: Will It Help Banking Bill. Sen. Chris Dodd's decision to retire at the end of the year will rather make him an influential man. The Connecticut Democrat who is been holding his position in the region for five-term is also a chairman of the Senate Banking Committee. This position will give him an opportunity to cut a deal with Republicans. And if he does so then he will be doing it without any thought of alienating liberal voters. Political strategists in the country believe that this will help him to broker the Wall Street regulation bill.

However, this would make things difficult for President Barack Obama, who may be forced for a compromise while pitching the proposed independent consumer protection agency.

Besides, Dodd will also in a position to take tough stand regarding financial transactions. He may emphasize that regulators should get more power to have control over past hidden financial transactions.

"He can say, "This is a good idea, I don't have to worry whether this is coming from the left or the right, and don't worry whether it's going to gain me 10 more votes or lose me 25 more votes," said former Democratic Sen. John Breaux of Louisiana.

Scott Talbott, senior lobbyist for the Financial Services Roundtable, said: "The political motivations associated with Chairman Dodd's re-election are now gone from the regulatory process."

**Dodd's status may hurt odds on creating new consumer agency
But final deal on financial bill may be easier to obtain
Michael Kranish
Boston Globe
January 8, 2010**

WASHINGTON - Senate Banking Committee chairman Chris Dodd's announcement that he will not seek reelection could imperil prospects for including a stand-alone Consumer Financial Protection Agency in financial regulation legislation, even as it improves the odds for reaching a compromise with Republicans for an overall bill.

Dodd's lame-duck status is widely seen as freeing him of home-state and ideological constraints, which has led some observers to predict that reaching bipartisan agreement on the financial bill will become easier. But in order to reach that agreement Dodd will have to face Republican demands that a separate consumer agency be dumped.

The new consumer agency is a hallmark of the House version passed last year under the guidance of Representative Barney Frank, Democrat of Newton. The agency, first proposed by Elizabeth Warren, a Harvard Law School professor, would be designed to protect consumers from the kind of questionable lending practices that led to the recent financial meltdown.

Some analysts said yesterday that it now seems inevitable that the consumer agency will not survive the Senate negotiations. "I think that is the price of compromise," said James Hamilton, principal analyst at CCH Inc., a large financial information company.

Senator Judd Gregg, a New Hampshire Republican who sits on the committee and is playing a key role in the negotiations, said in an interview yesterday that it would be a mistake to create a stand-alone agency. In a sign of the type of compromise that Republicans might accept, Gregg suggested consumer protection could be given a priority at existing agencies instead of creating a separate, new government entity.

"A much better approach is to raise the level of responsibility within the regulatory agencies so that they understand [consumer protection] is a coequal requirement with safety and soundness" of banks, Gregg said.

Dodd said in a recent interview with the Globe that he "absolutely" supports the agency. To find a middle ground, Dodd said, he is seeking a "construct" of the agency that will satisfy all sides. A major question is whether that construct will be in the form of a separate agency or whether regulators at existing agencies will be given some additional powers. Republicans, led by the committee's ranking member, Senator Richard Shelby of Alabama, have said they are unalterably opposed to the agency.

But Senator Jack Reed, a Rhode Island Democrat who sits on the committee, said a stand-alone agency is essential, underscoring how far the negotiations still have to go.

"There has to be a separate agency," Reed said. "I think we are all trying to reach a bipartisan compromise, but we want one that works." Giving extra authority to a variety of existing regulators, as some Republicans have suggested, won't work, Reed said. Still, he said, he thought there was enough consensus on the need to overhaul financial regulations that some kind of deal can be made.

Scott Talbott, vice president of the Financial Services Roundtable, which represents many banks and opposes the consumer agency, said Dodd's announcement means he is freed from pressure to create the type of agency

avored by liberal groups. He said he hoped it would lead Dodd to come up with a consumer protection plan that can be supported by business.

“If there’s an area where being freed of politics comes into play, the area most affected by his announcement will be the CFPB,” Talbott said, referring to the proposed agency. “That is the most politically charged provision in the bill. By removing the politics from the equation, taking reelection out of the formula, it makes it easier to craft a bipartisan agreement.”

In Dodd’s December interview with the Globe, he said it would be impossible to pass the bill with support only from Democrats. Unlike the House bill, which passed without a single Republican vote, the Senate measure would be subject to a filibuster, meaning leaders would need to meet the 60-vote threshold, with every Democrat and Independent on board. A number of moderate Democrats have said they oppose key elements of a bill originally proposed by Dodd in November. As a result, Dodd jettisoned that proposal and told members of the committee to work together to come up with a bipartisan deal.

Senator Tim Johnson of South Dakota, the second-ranking Democrat on the panel and presumed successor to Dodd in 2011, was the only Democrat to oppose credit card reform legislation, and he has questioned the need for a stand-alone consumer agency. His spokeswoman, Julianne Fisher, said yesterday via e-mail: “We haven’t seen new bill language. Senator Johnson won’t dismiss a properly designed agency.”

Under one scenario being discussed, Dodd could agree to drop the stand-alone agency but win support for the creation of new offices for consumer protection within a variety of agencies. Then, a coordinating council of these offices would be established, with a new leader of the council overseeing the consumer mission. That might satisfy Republicans who oppose the agency while mollifying some Democrats who want a strong consumer element of the bill but aren’t wedded to the idea of an agency.

A similar proposal nearly passed as an amendment to the House bill, making it a possible prototype for Senate discussions.

In trying to please Republicans on the issue, however, Dodd inevitably will displease some Democrats and advocacy groups who believe the consumer agency is a crucial element of changes needed to prevent another financial meltdown.

“The best way to protect consumers is to have a strong, independent Consumer Financial Protection Agency as Senator Dodd has proposed and the House

passed,’’ said Lauren Weiner, spokeswoman for Americans for Financial Reform, a coalition of consumer and labor organizations.

Asked why consumer protection can’t be overseen at various regulatory agencies, she said: “We clearly saw how it didn’t work in the previous model. Everybody was sort of responsible for it and therefore nobody was responsible for it. If you have consumer protection divided, it is not a strong basis for ensuring that abuse and deceptive practices don’t happen again.”

How much debt is too much for 'too-big-to-fail' banks?

Provision capping bank debt can be easily evaded, policy analysts argue

Ronald D. Orol,

MarketWatch

January 8, 2010

WASHINGTON (MarketWatch) -- As the Senate takes up sweeping bank reform after the financial system's near collapse in 2008, a battle is brewing on Capitol Hill over whether legislators should limit the amount of borrowed money that the biggest and most important firms use.

Republicans and Democrats in the Senate are sparring over a provision approved as part of a mammoth House bank-reform bill that would cap the big firms' borrowing, called leverage, at a 15-to-1 ratio.

The rationale behind such a move is to keep big banks from growing dangerously large so that if they fail, they won't cause collateral damage to the markets.

The Obama administration doesn't back the House plan, and it doesn't have a companion sponsor in the Senate, which will likely begin considering a broad bank-reform bill in late January or early February.

The current Senate bank bill would leave it to a newly formed consolidated bank regulator, made up of other financial agencies, to identify what leverage limits are appropriate.

Sens. Mark Warner, D-Va., and Bob Corker, R-Tenn., two Senate Banking Committee members charged with reaching a bipartisan deal on systemic risk issues, aren't working on setting a statutory limit on leverage, according to people familiar with their efforts.

Nevertheless, it's possible a leverage limit -- popular among consumer groups -- could become one part of a much bigger package of "too-big-to-fail" reforms

expected to include a mechanism -- with funding -- to dismantle a failing big bank so that its collapse doesn't ripple through the markets.

"High leverage has been shown to have been one of the best predictors of major financial firms falling into distress or needing government support during the current crisis," said Rep. Jackie Speier, D-Calif., the provision's sponsor.

"I believe that it is a mistake to leave all discretion in how to accomplish that task to the primary regulators," she said. "Regulators had the power to avert much of the current crisis, but they bought in to the collective myopia and failed to exercise that power."

Unintended consequence

Backers of the bill privately worry about whether it will survive the process of reconciling the Senate and House versions of bank reform, which isn't expected to come to pass until the spring.

Nevertheless, critics of the leverage limit argue that "boots-on-the-ground" bank regulators are in a better position to identify how much leverage and risk a particular financial institution can handle.

"We prefer Congress not set the leverage limits because one size does not fit all. We think the regulators, who are boots-on-the-ground, should continue to set limits," said Scott Talbott, senior vice president at the Financial Services Roundtable in Washington. "Regulators need the flexibility to adjust based on different companies they regulate."

Some worry an across-the-board leverage cap for big banks would have the effect of discouraging lending to consumers and businesses -- ironically, just as lawmakers, the White House and public press the institutions to offer more loans.

"This is totally in contraction to the 'we-want-you-to-lend' message Congress is also sending," said Nancy Bush, managing member of NAB Research in Annandale, N.J. "The House is putting the horse ahead of the cart here; leverage limits should be set up by the regulator."

For his part, Public Citizen policy analyst Graham Steele doesn't believe leverage limits at big banks would discourage lending. He contends most of the unusually high leverage was taken on by investment institutions, or investment banking divisions of commercial banks.

Retail bankers didn't hike their debt loads to dangerous levels as a means of expanding their lending divisions, he said, adding: "Most of the significant

increase in leverage over the last few years was to accommodate other activities, such as derivatives investments, not retail lending."

Steele argues that bank regulators failed in the past and should not be given the responsibility to set leverage limits again. He noted that the Senate bill only takes major steps to clamp down on leverage during periods of economic stress.

The Speier provision, in Steele's view, is counter-cyclical in that it requires institutions to limit their leverage during strong economic periods so that they are not as likely to damage the markets when the economy turns sour.

"A big financial institution's ability to stash those liabilities elsewhere is a problem," said Steele. "Citigroup had very little on its balance sheet, it had everything, derivatives, credit default swaps, and all its leverage stashed in its off-balance sheet units."

Lessons of 2008

Heather McGhee, director at DEMOS, a public-policy advocacy organization in Washington and New York, said there is a consensus of conservatives and progressives that banks should not be over-leveraged.

"We should have limits on leverage in statutory language," McGhee said. "There are a lot of lessons from last year's crisis that give us enough information about the flaws in our banking system that we can agree on some hard and fast limits on leverage."

She contends that the amount of debt taken on by a group of large investment banks increased to as much as 50 to 1 after the Securities and Exchange Commission in 2004 dropped a regulation limiting the amount of debt they could take on.

Large investment banks registered with the SEC at the time -- including Merrill Lynch, Morgan Stanley (NYSE:MS) , Goldman Sachs (NYSE:GS) , Lehman Brothers and Bear Stearns -- sought an exemption for their brokerage units from the requirement that they keep billions in reserves as a cushion against losses.

Lehman and Bear Stearns collapsed in 2008, while Merrill Lynch fell into a weakened state before its controversial acquisition by Bank of America (NYSE:BAC) .

"Big banks have leverage ratios of 15 to 1 right now, but the fact that you had banks at 50 to 1 -- you have to think about what is a sustainable level of debt," she said.

Alternatively, another approach is gaining traction on Capitol Hill, but not yet with any member of the banking committee.

Sens. John McCain, R-Ariz., and Maria Cantwell, D-Wash., on Dec. 16 introduced legislation that could break up the big institutions by prohibiting retail banks with depositors from engaging in investment-banking activities, such as underwriting securities.

If it were to become law, it could force J.P. Morgan Chase (NYSE:JPM) to divide into two companies, and Bank of America's acquisition of investment bank Merrill Lynch. could be unwound. The bill has four Democratic co-sponsors.

William Poole, senior fellow at the Cato institute, said he would prefer an approach to limit leverage even more -- perhaps by imposing a debt to equity ratio of 10-to-1.

Critics say this could end up putting some big banks in a difficult position by forcing them to sell assets or raise capital. However, Poole downplays such concerns: "They can grow if they raise [equity] capital. You don't want them to grow at the expense of risking another financial crisis."

Web campaign boosts local banks over the big boys

Andrew Smith

Newsday

January 7, 2010

A quirky, fast-spreading campaign that is encouraging Americans to move their money out of big banks and into community banks got its start during a wistful Christmastime discussion of "It's a Wonderful Life," the classic movie pitting a small-town banker against a fat cat.

That discussion led to the development of a Web site - moveyourmoney.info - that helps people find banks in their communities instead of relying on the monolithic banks that were propped up by taxpayer bailouts, yet are still stingy with credit.

"It started over dinner, like many good things," said commentator Arianna Huffington, founder of The Huffington Post. "We were talking about what had happened with the recovery of Wall Street, but not of Main Street. . . . Unlike many dinner conversations, this time everyone followed through."

The Web site features a video - both charming and sharp-elbowed - and a tool that helps users find a nearby bank. Since it launched on Dec. 29, hundreds of

thousands of people in more than half of the country's ZIP codes have used the site to search for a bank, Huffington said.

Community bankers couldn't be more thrilled.

Doug Manditch, chairman and chief executive of Hauppauge-based Empire National Bank, has long argued that the largest banks should be broken up, because they continue to take risks knowing taxpayers will bail them out again. "This effort, if it dents any of those banks, that's great," he said.

"My bankers are crazy for it," said Cam Fine, president and chief executive of the Independent Community Bankers of America.

Fine said the Web site and the movement it seems to be sparking were in the works already. He said banks with fewer than \$1 billion in assets got 17 percent more deposits in 2009 from the year before. "I don't know if it's coming from the largest banks, but it's coming from somewhere," Fine said.

Kevin O'Connor, president and chief executive of Bridgehampton National Bank, said the Web site is "somewhat tongue-in-cheek and political," but it grabbed his attention.

"I don't know how effective it will be, but I hope it has some legs," he said.

And Claudia Pilato, vice president for marketing at the bank, said some potential customers have already called the bank, citing moveyourmoney.info as inspiration.

It's too soon to know if any money has actually been moved from big banks to small ones.

The Financial Services Roundtable, which represents the largest financial companies, was sanguine about the campaign, noting that people change banks all the time, and that those decisions should be based on financial reasons rather than political ones.

"It's pretty easy to fault big institutions right now, but big institutions are integral to our economy," spokeswoman Elise Brooks said.

Huffington said big banks essentially used some of the bailout money to lobby against reforming the system, and did so effectively. "We can't keep waiting for Washington to do something," she said.

Bailout Panel Will Question Big Bank Leaders

Andrew Ross Sorkin
The New York Times, DealBook Blog
January 10, 2010

Eight months after Congress established a commission to investigate the causes of the financial crisis, the panel is at last getting its work under way, despite concerns that its report, due on Dec. 15, will arrive too late to influence the debate over regulatory reform, The New York Times's Sewell Chan and Eric Dash report from Washington.

The commission, comprising six Democrats and four Republicans, has summoned four heads of big banks to testify on Wednesday at the panel's first substantive hearing: Lloyd C. Blankfein of Goldman Sachs, Jamie Dimon of JPMorgan Chase, John J. Mack of Morgan Stanley and Brian T. Moynihan of Bank of America.

"There is a deep hunger out there, on behalf of the American people, to understand what happened," the commission's chairman, Phil Angelides, said in an interview on Friday. "It arises out of anger, confusion and anxiety about their own future. This will be, in a real sense, the only public forum for examination of this crisis."

The unequal partisan composition of the panel, the Financial Crisis Inquiry Commission, has raised hackles among Republicans. But Mr. Angelides, a Democrat and a former California state treasurer who unsuccessfully tried to unseat Gov. Arnold Schwarzenegger in 2006, said he had collaborated on every major decision with his vice chairman, Bill Thomas, a fellow Californian and former congressman who was once the chairman of the Ways and Means Committee.

The commission has hired more than 30 staff members, including Matt Cooper, a veteran magazine journalist who is serving as a senior adviser. The executive director is J. Thomas Greene, who was a chief assistant attorney general in California.

Mr. Thomas at one point called Mr. Angelides a "wacko Democratic liberal" during the interview, but also said the chairman had consulted him on all staff appointments and had convinced him and other Republicans that "we have a really fair shot" at an impartial report.

Democrats have likened the new commission to the Pecora Commission, which was established in 1932 to examine the causes of the 1929 stock market crash and which led to major reforms like the Glass-Steagall Act, which separated investment banks and commercial banks.

But the House adopted a package last month to overhaul financial regulations, and final legislation could be enacted before the commission delivers its report.

Nonetheless, Mr. Angelides and Mr. Thomas said they hoped their findings would affect future legislation and serve as a definitive narrative of the crisis's origins. They cited as a model the 9/11 Commission report, which was praised for its clarity and became a surprise best seller. Along with pursuing a commercial publisher, they said the commission intended to place many documents online.

The commission is likely to tackle a series of topics, including subprime mortgages and institutions considered too big to fail. "It's important that it be logical, rational and clearly nonpolitical," Mr. Angelides said.

Wall Street executives have taken an interest in the hearings since they were announced late last month. Bank employees worked through the holidays preparing testimony and drawing up potential questions that will be asked of their chiefs. The hearings will occur in the middle of the 2009 bonus season, and executives are bracing for questions about the paychecks that many firms will dispense. The commission's attention is expected to turn to Citigroup next month.

Scott E. Talbott, a lobbyist for the Financial Services Roundtable, said the causes of the crisis were already well known, and played down the panel's impact. "The economy is not going to get worse because of findings of the commission, and the industry is not going to suffer any more than it has."

Mr. Angelides said the commission would not hesitate to use its power of subpoena. "If we need the information and can't get it voluntarily, we'll get it by subpoena," he said. "End of story."

Obama reportedly weighing new levy on banks

Philip Elliott

Associated Press

January 11, 2010

WASHINGTON — President Barack Obama is weighing a levy on government-rescued banks to help recover shortfalls in a \$700 billion bailout fund and to help balance a budget that is looking increasingly grim amid an ongoing economic crisis.

A senior administration official said Monday that Obama would seek modifications to the law that sent billions of dollars in bailout money in 2008 and 2009 to a flailing Wall Street that was approaching collapse. The government official spoke on the condition of anonymity to discuss the president's thinking.

The law that created the Troubled Asset Relief Program gives the president until 2014 to seek a way to recoup unrecovered money from financial institutions. An industry official said consideration of a levy now would be premature.

"Current law doesn't trigger this tax proposal for another four years," said Scott Talbott, chief lobbyist for the Financial Services Roundtable, an industry group for some of the largest financial firms.

"We look forward to seeing the details of the complexity of the formula, of who it's applied to and what the assessment is based on and when it is applied," he said.

Government officials have conceded that they don't expect to recoup billions in TARP money used to rescue insurance conglomerate American International Group and the auto industry. Banks have been repaying their infusions, in part to get out from under compensation limits imposed on the bailout recipients.

Obama has been strident in his criticism of those bankers, calling them "fat cats" last month on the eve of their visit to the White House. With public outrage over the bailout still high, Obama has embraced populist rhetoric in an effort to shame bank executives into paying back Washington more quickly and their executives less lavishly.

The senior administration official said the move would uphold Obama's promise to recoup taxpayers' investment in the financial industry. Funds collected from such a levy would go to pay down the \$1.4 trillion deficit amid the Obama-backed stimulus package and aid to Detroit's automakers.

Earlier Monday, White House press secretary Robert Gibbs declined to discuss specifics of the plan. When asked if Obama's upcoming budget proposal will specifically include a measure to ensure that taxpayers are paid back in full, Gibbs said: "That's the president's goal, yes."

Washington spent about \$205 billion to help banks in the Troubled Asset Relief Program — much less than President George W. Bush's Treasury Department secured to keep financial firms afloat.

So far, \$122 billion of that has been repaid.

Obama may use bank tax to recoup bailout

Jennifer Liberto

CNNMoney.com

January 11, 2010

New York (CNRMoney.com) -- The White House is considering a tax on financial institutions to ensure that taxpayers who bailed out banks get paid back, a senior administration official said Monday.

The law that created the \$700 billion Troubled Asset Relief Program empowered the president to ask Congress to recoup money if bailouts were not paid back in full.

TARP dictates that the Office of Management and Budget consider such action five years after TARP went into effect in October 2008 to prevent the federal bailout from adding to the deficit.

When the TARP bill was hastily debated, the provision was key to winning enough support from wary lawmakers to push the bill through Congress.

Robert Gibbs, the White House press secretary, would not discuss how a possible bank fee would fit into Obama's fiscal year 2011 budget, which is set to be released next month. "When it comes back from Kinko's, we'll be able to talk about it," he said.

But Gibbs said it is the president's "goal" to ensure the "money that taxpayers put up will be paid back in full."

While most of the big banks have started paying back their TARP investments, the government still has a lot of money on the line and is likely to for years to come. Last month, the Treasury estimated that the net cost of TARP to taxpayers would be \$41.4 billion.

For example, Treasury Secretary Tim Geithner said last month that the bailouts of the automakers and insurer American International Group (AIG, Fortune 500) would not be paid back in full.

"There is a significant likelihood that we will not be repaid for the full value of our investments in AIG, GM and Chrysler," Geithner told an oversight panel.

Yet, the financial industry tax under discussion could impact the entire financial industry, a prospect the banking industry opposes. With few details available about any proposed fee, it's unclear whether banks would be required to pay for losses incurred by GM and Chrysler.

"Imposing new taxes on top of the increased regulatory costs will weaken the industry, just when the industry is helping lead the economic recovery," said Scott Talbott, chief lobbyist for the Financial Services Roundtable, a bank lobbying group.

The federal bailout program has always been a controversial topic, but news of executive bonuses now being awarded for banks' stellar performance in 2009 is throwing new fuel on populist anger.

A spokesman for the White House's budget office would not confirm or deny reports about a possible tax on banks.

"There are - and will be - a lot of rumors about what is in our budget - most of them wrong," said budget office spokesman Kenneth Baer. "We are not going to get into the game of ruling in and ruling out rumors about what is in our budget."

Obama ponders levy to recoup bailout shortfalls

CBC News

January 11, 2010

U.S. President Barack Obama is considering a levy on financial institutions to help recover shortfalls in a \$700-billion US bank bailout fund and to help balance a budget that is looking increasingly grim amid an ongoing economic crisis.

A senior administration official said Monday that Obama would seek modifications to the law that sent billions in bailout money in 2008 and 2009 to financial institutions that were nearing collapse. The official spoke on condition of anonymity.

The 2008 law that created the Troubled Asset Relief Program, or TARP, requires the president to seek a way to recoup unrecovered TARP money from financial institutions but not until five years after the law was enacted. It does not specify how the money should be recovered.

An industry official said consideration of a levy now would be premature.

"Current law doesn't trigger this tax proposal for another four years," said Scott Talbott, chief lobbyist for the Financial Services Roundtable, an industry group for some of the largest financial firms.

"We look forward to seeing the details of the complexity of the formula, of who it's applied to and what the assessment is based on and when it is applied," he said.

Estimated shortfall of \$120B US

Government officials have conceded that they don't expect to recoup billions in TARP money used to rescue insurance conglomerate American International Group Inc. (AIG) and the auto industry.

Banks have been repaying their infusions in part to get out from under compensation limits imposed on the bailout recipients.

The banks got about \$245 billion US from the TARP fund. So far, \$162 billion US has been repaid, including \$20 billion US each from Citigroup and Bank of America under a special targeted program.

The administration is now projecting the losses to the government from the bailout program will be about \$120 billion US, most of it due to auto and AIG assistance.

According to the law, the status of the TARP fund must be assessed by late 2013 — five years after it was passed.

"In any case where there is a shortfall," the statute says, "the president shall submit a legislative proposal that recoups from the financial industry an amount equal to the shortfall in order to ensure that the Troubled Asset Relief Program does not add to the deficit or national debt."

It's unclear how the administration would seek to recoup shortfalls from infusions into the auto industry and AIG or impose fees on banks that have already repaid their subsidies in full.

Congress would have to approve any fee plan.

Obama set to target banks with new fees
Tom Braithwaite and Krishna Guha
Financial Times
January 12 2010

The Obama administration is planning to impose a new levy on top US banks to pay for the financial bail-out as part of the budget to be presented in February.

The surcharge will aim to recoup the full cost of the Tarp bail-out fund, which the administration estimates at \$120bn, although officials expect the ultimate cost will be less than \$100bn.

The proposal comes as the administration faces increasing pressure from Democrats in Congress to take punitive action against banks. The White House is trying to contain anger in a week in which banks will begin announcing billions of dollars in new bonuses.

"The president has made a commitment to the American people that he will recoup their investment in the financial industry," said a senior administration official.

"While we have made great progress in recouping a large portion of the investment, consistent with the law, the president will propose a way to recoup additional funds and one of the options is a levy on financial institutions."

The precise parameters of the proposed levy are still being determined, but it is expected to be risk-based and fall only on the top 20 to 30 banks. Rather than fix a precise dollar amount to be raised, the administration is likely to set an amount to be raised in each of the coming years, with a sunset clause to end the levy when the bail-out costs are recouped. President Barack Obama is likely to unveil the plan before the budget - possibly in his State of the Union address expected in the first week of February.

The levy is seen as an alternative to ideas such as a financial transactions tax, or a supertax on bank bonuses as in the UK, which Treasury thinks are either harmful or unworkable.

The plans come as the administration seeks to weather increasing discontent from liberal Democrats on Capitol Hill concerned that Wall Street has been treated too favourably.

Scott Talbott, head of government affairs at the Financial Services Roundtable, said: "Placing additional taxes on top of the new regulatory burdens will stifle the industry just as the economy is beginning to recover."

This has turned into a crunch week for banks, with chief executives from banks including Goldman Sachs and JPMorgan Chase due to testify tomorrow at the first public hearing of the Financial Crisis Inquiry Commission, a bipartisan inquiry established by Congress.

Separately, Andrew Cuomo, New York attorney-general, has sent letters to the eight recipients of federal bail-out money asking for information about executive compensation.

Obama considers new fee on banks
Michael D. Shear and Binyamin Appelbaum
The Washington Post

January 12, 2010

The budget that President Obama submits next month is likely to include new fees on financial firms as the White House seeks to recover the full costs of its \$700 billion bailout of the banking industry, officials said.

The idea of a fee on the nation's biggest banks could be politically popular, coming in a week when those companies begin to announce tens of billions of dollars in bonuses to executives for their work in 2009. Such a fee would also demonstrate the administration's eagerness to decrease the soaring federal deficit, according to administration aides familiar with the developing plan.

A senior White House official confirmed on Monday that a fee on financial firms is on a menu of ideas the president is considering as he prepares to submit his budget on Feb. 2.

"While we have made great progress in recouping a large portion of the investment, consistent with the law," the official said, "the president will propose a way to recoup additional funds and one of the options is a levy on financial institutions."

Key details remain unresolved, including how big the fees would be and how to ensure that they are not passed along to bank customers.

White House press secretary Robert Gibbs declined on Monday to discuss specifics about the president's budget after the proposed fee was first reported on Politico's Web site. But Gibbs said Obama has long favored finding ways to make sure taxpayers are reimbursed.

"The president has talked on a number of occasions about ensuring that the money that taxpayers put up to rescue our financial system is paid back in full," Gibbs said.

In the absence of details, financial industry representatives issued general warnings against placing additional burdens on the sector.

"The industry is starting to recover, the economy is starting to recover, and a tax would hinder both the industry and the economy -- and for that matter, the American people," said Scott Talbott of the Financial Services Roundtable, a trade group that represents the largest financial companies.

Any new fee would require congressional approval.

In one approach, the government would collect a one-time fee determined by the size of each firm, similar to the fees collected by the Federal Deposit Insurance Corp. to cover the cost of bank failures.

If the goal is to cover the cost of the entire bailout, setting fees could prove difficult since the final tab has not been tallied. Many -- but not all -- banks are expected to repay their bailout funds with interest and other payments. The Treasury's most recent estimate puts the ultimate cost of the bailout, which is still ongoing, at \$120 billion.

Another possible approach levies a tax on financial transactions -- a fee collected each time stocks, derivatives and other financial instruments change hands. The United States collected a 0.2 percent tax on selling stock from 1914 until 1966.

Rep. Peter A. DeFazio (D-Ore.) introduced a bill in early December to impose a 0.25 percent tax on the sale of stocks and certain other financial instruments, potentially raising more than \$100 billion a year. Sen. Tom Harkin (D-Iowa) is backing a similar measure in the Senate.

Their plan is favored by many academics. Lawrence H. Summers, now the president's chief economic adviser, advocated such a tax in a 1989 academic paper.

Treasury officials oppose the idea. They warn that banks would try to impose the fee on their customers, shifting the cost partly to the broader economy. A range of legislators and economists share this view, arguing that such a tax would punish small investors and increase the cost of financial services.

A third option is a tax on bonuses, such as Britain's new 50 percent levy on bank bonuses larger than about \$40,000.

Administration officials view such a tax as largely cosmetic, saying it would not raise much money and would be easy for banks to subvert.

But just like a tax on transactions, it has an obvious political advantage.

"In 12.5 seconds bankers would start to figure out a way around it, but the politics of a supertax would still be attractive in light of the generally growing . . . well, animosity is the weakest word I can think of," said Karen Shaw Petrou, managing partner of Federal Financial Analytics, which tracks regulatory issues for clients in the financial industry.

Community banks likely would advocate for exemption from any new fees, on the grounds that they did not cause the financial crisis.

Obama eyes bank fee for bonus season

Silla Brush

The Hill

January 12, 2010

President Barack Obama is moving to impose a new fee on banks to help pay down the federal deficit.

The administration did not spell out specifics of the fee Monday, but it would come as major parts of the financial industry return to profitability.

The government committed trillions of dollars in bailout money in 2008 and 2009 as the economy fell into a financial crisis.

Wall Street stock values have soared since then, and banks are preparing this month to pay out lavish bonuses. Meanwhile, the gulf between Wall Street and Main Street poses a political headache for Democrats as they head into what polls suggest will be a brutal campaign season for their party.

The economy lost 85,000 jobs in December and the national unemployment rate rests at 10 percent. The bailout efforts, unemployment rate and post-war record deficit all weigh heavily on Democrats.

Although the bailouts began under former President George W. Bush's administration, Republicans criticize Democrats for playing too large a role in the private sector and for perpetuating a culture of government bailouts.

The new fee, to be included in the president's budget in February, would represent a way to recoup money from the financial industry now that it is returning to health.

"The president has talked on a number of occasions about ensuring that the money that taxpayers put up to rescue our financial system is paid back in full. That's been the president's position," White House press secretary Robert Gibbs said. "I think that's the least that taxpayers are owed."

Obama and congressional Democrats have also come under criticism from liberal groups for being too tight with Wall Street. AFL-CIO President Richard Trumka on Monday warned the White House it could see a repeat of the 1994 elections,

when Democrats lost control of Congress, if it does not embrace more liberal economic policies.

Other governments, most notably Great Britain's, have announced taxes intended to punish banks for rewarding employees with huge bonuses. Calls for a financial transaction tax also have been raised by some congressional Democrats, but have been resisted by the administration.

Major Wall Street banks have already repaid their aid under the \$700 billion bailout program, known as the Troubled Asset Relief Program (TARP). Banks have repaid a total of more than \$120 billion from the government's program to purchase capital.

The government has also received more than \$4 billion in warrants that were part of the original bailout program.

The thorniest aspects of the TARP program remain the billions of dollars in support of American International Group (AIG), General Motors and Chrysler. The Obama administration also committed \$75 billion in TARP money to support the broader housing market.

Gibbs and other senior administration officials did not disclose which firms or parts of the industry would be subject to the new fee.

Under the law that created the TARP program, the president is required after five years to submit a plan to Congress for recouping any shortfall in the money.

“The TARP law contemplates recoupment, but it also isn't triggered for another four years,” said Scott Talbott, senior vice president at the Financial Services Roundtable. “A tax on the industry will hinder recovery efforts. At the same time, we're awaiting the details.”

Banks look to play larger role

Silla Brush

The Hill

January 12, 2010

Several large financial firms that previously watched Washington from afar are looking for bigger roles in the capital.

As Congress and the Obama administration push a major overhaul of the financial industry, large banks and other companies are beefing up their lobbying arms and taking a more active role in policy debates.

The government stepped in with trillions of dollars in direct aid and guarantees for the industry when the financial crisis erupted. As banks return to profit and repay bailout money, the action has shifted to regulatory reform efforts in Congress that could have a big impact on how financial-services companies operate.

The House passed broad legislation in December. The Senate is also at work on major changes on consumer protection, derivatives and bank regulation.

Bank of New York Mellon set up its first Washington office last year and hired Ann Costello, formerly of Goldman Sachs, as its first head.

Rob Getzoff, previously with Citigroup and a former counsel to now-White House Chief of Staff Rahm Emanuel, recently joined the bank's D.C. office as the senior Democrat.

And the bank's CEO, Robert Kelly, was recently named head of the Financial Services Forum, a prominent D.C.-based association made up of 18 industry chief executives.

After spending roughly \$550,000 lobbying in all of 2008, the bank spent more than \$775,000 through the first nine months of 2009.

Meanwhile, industry sources say that major banks PNC Financial Services and U.S. Bancorp are testing the waters to establish a larger lobbying presence. Even if they don't expand or set up official D.C. offices, the two banks are already taking on more prominent roles in Washington.

Richard Davis, CEO of Minneapolis-based U.S. Bancorp, is chairman of the Financial Services Roundtable, the lobbying association representing 100 large financial firms. The bank also joined the Forum late in 2009.

“We're just considering options given the focus on issues impacting us and Richard's role as chairman of the Financial Services Roundtable. We're considering our options,” said Deb Burke, of U.S. Bancorp.

Davis and PNC Financial Services Chairman Jim Rohr both publicly spoke on behalf of the industry after President Barack Obama called a meeting in December with the heads of the big banks. **Rohr is also chairman-elect of the Financial Services Roundtable's board.**

Obama and senior administration officials have ramped up their calls on the nation's biggest banks to boost lending and have criticized the banks for paying lavish bonuses.

Bank of New York Mellon, U.S. Bancorp and PNC are all in the top 15 largest bank holding companies in the country, according to government data.

Each has more than \$200 billion in total assets, and each received billions of dollars in government bailout money.

Bank of New York Mellon and U.S. Bancorp have both repaid the money from the Troubled Asset Relief Program (TARP), while PNC has \$7.6 billion outstanding, according to the Treasury Department.

A PNC spokesman declined to comment on whether the bank is actively looking to hire in Washington.

"PNC would not comment on its employment efforts and its staffing," said Fred Solomon, a bank spokesman. "That is a rumor and we would not comment on rumor or speculation."

Meanwhile, Allstate, the major insurance firm, is also looking to expand its Washington office. Apart from the financial overhaul under debate, lawmakers are expected to consider setting up a new federal charter for insurance.

The House Financial Services Committee is expected to debate the issue this year, after deciding to leave it out of the broader financial bill that the House passed in December. Congress may also take up legislation to improve teen driving safety that could affect the insurance industry.

Allstate is considering hiring at least one additional staffer in the D.C. office and is also looking to move its physical office closer to the Capitol.

Cash for Flunkers

FOX Business

January 12, 2010

By Elizabeth MacDonald

President Obama now wants a windfall profits tax assessed against the nation's top 20 to 30 banks to cover the estimated \$120 billion in projected TARP losses, costs largely incurred from bailing out the failed insurer AIG, the automakers, and bad borrowers.

So which banks could be hit with the new “cash for flunkers” tax, by how much, and will it really raise tax revenues to cut down the deficit? Or will consumers have to pick up the tab?

Let’s be real, this is a tax proposal that consumers will have to pay for; a tax assessed against banks will get passed onto borrowers in the form of higher fees. Many of the banks that could be assessed have already repaid TARP with interest. Bankers say to expect loan availability to shrink, too, if it passes.

The Treasury says it lost a net \$68.5 billion on TARP in the year ending September 2009. Taxpayers have lost \$30.4 billion on AIG, \$30.4 billion on the automakers, and \$27.1 billion on the government’s new Home Affordable Modification Program.

Which Banks Get Taxed?

Bank lobby groups are already saying borrowers will have to pay the fee, and they’re crunching the numbers (see below). Bank of America (BAC), JPMorgan Chase (JPM) and Citibank (C) could each pay about \$20 billion for this "cash for flunkers" tax, according to reporting by Fox Business' DC correspondent Peter Barnes.

So now you have yet another political iteration of the TARP tax aimed at the banks to pay for the deficit. A tax which President Obama initially suggested at a night-time press conference last July as a way to pay for a new slush fund to wind down too-big-to-fail banks (see column, "Why a Tax On Wall Street to Create Jobs Won't Work").

The tax then morphed into a job creation-deficit-buster tax, now resurfacing as the levy to pay for taxpayer losses at the failed insurer AIG and the automakers, and to ostensibly pay down the deficit, the size of which has not been seen since World War II, as the government and the Federal Reserve have bought or financed about three-quarters of the U.S.’s annual GDP to rescue the banks and the economy.

Bankers a No Show

Whether the president can slap a TARP tax against the banks when the Administration can’t get bankers to attend meetings at the White House remains to be seen. Heated banker opposition to the tax is already picking up, as the White House plans to include the tax in its upcoming budget proposals.

To date, there is no talk of a tax on banker bonuses, or the quarter percentage point tax on securities trades, primarily the flash trades made by high-speed computers

on Wall Street. Too much opposition there, as even the Treasury secretary says those taxes just get passed along to investors.

Banks Say Consumers Will Get Hurt

Banks are already passing along to consumers higher fees to compensate for higher costs incurred by new overdraft and credit card legislation.

The new tax on the banks **“will reduce lending capacity and will increase the cost of goods and services,”** says Scott Talbott, senior vice president of government affairs at The Financial Services Roundtable, a bank lobby group.

The last time the U.S. saw a windfall profits tax was in 1980, when the Carter Administration got Congress to slap a windfall profits tax on oil companies to recoup the revenue earned by oil companies as a result of the sharp spike in oil prices triggered by the OPEC oil embargo.

Gorillas in Three-Piece Bankers Suits

To be sure, a gorilla in a three-piece banker's suit could make money in this environment. The Fed has dropped rates to record lows, helping banks to borrow cheaply and then lend out that money at higher prices, known as the “carry trade,” a profit machine motoring along nicely due to the steep yield curve.

The government also forced through a relaxation of the mark-to-market rules, which required banks and companies to take profit hits once they price their assets as if they were going to sell them today, even though they were sitting on them instead. Steep profit smackdowns as many of those assets were, and still are, priced for the Ice Age.

It's political season in DC, with the midterms looming, and bankers are in season. It's payback time.

Lip Service to Deficit Cutting

But despite the lip service paid toward cutting the deficit, rest assured that cutting the deficit would be last on the government's list of things to do once the revenue from a cash for flunkers tax comes pouring in, because there will always be more spending, more talk of more taxes, more spending, more pork to be found to preserve power, more regulation to control our lives.

More, more, more to keep our teetering, supersize-me government going.

Because fiscally responsible politicians are an endangered species in Washington.

Who Gets Socked?

Research groups Concept Capital and SNL Financial have come up with a breakdown of a purported \$100 billion cost of the TARP tax for the nation's top 25 largest banks, as reported by Barnes. In other words, how much their borrowers and investors could get hit.

The two research firms figure the tax would be based on a bank's total liabilities. That means it would be similar to the deposit insurance assessment. The two firms note that the House financial reform bill includes a similar assessment to raise \$200 billion to cover potential future rescues.

TARP Tax Costs to Banks (25 Largest Banks)

Bank of America \$22.7 B

JPMorgan Chase \$21.4 B

Citigroup \$19.9 B

Wells Fargo \$12.5 B

PNC Financial Services \$2.7 B

U.S. Bancorp \$2.7 B

Bank of New York Mellon \$2.1 B

SunTrust Banks \$1.7 B

Capital One Financial \$1.6 B

BB&T Corp. \$1.7 B

State Street \$1.7 B

Regions Financial \$1.4 B

Fifth Third \$1.1 B

KeyCorp \$978 M

Northern Trust \$817 M

M&T Bank \$699.8 M

Comerica \$601 M

Hudson City Bancorp \$614 M

Marshall & Ilsley \$595.8 M

Zions Bancorp \$546.1 M

Huntington Bancshares \$533.4 M

Popular \$375 M

Synovus Financial Corp. \$358.4 M

New York Community Bancorp \$325.1 M

First Horizon National \$263.3 M

BOK Financial \$247.5 M

Read more: <http://emac.blogs.foxbusiness.com/2010/01/12/cash-for-flunkers/#ixzz0cR5Fip9z>

Financial Industry Warns that Bank Tax Would Have Dire Effects

BNET

By Alain Sherter

January 12, 2010

Wall Street is biting the hand that gorges it. News that the White House may hit banks with a tax aimed at recouping TARP funds brought these responses from financial industry trade groups today:

“The industry is starting to recover, the economy is starting to recover, and a tax would hinder both the industry and the economy — and for that matter, the American people,” said Scott Talbott of the Financial Services Roundtable, a trade group that represents the largest financial companies.

“To impose yet another burden on the industry would obviously decrease their ability to lend,” said Edward Yingling, president of the American Bankers Association, a trade group.

“In our industry, costs are typically passed along to institutions and individual investors, so the burden will likely fall on them,” said Timothy Ryan, president of the Securities Industry and Financial Markets Association.

Human sacrifice, dogs and cats living together! Mass hysteria! It’s classic scare-mongering, of course. The giveaway is that no details of the tax have yet been disclosed. So despite such ululations, it’s impossible to know what impact it would have on the industry, economy and American people.

Besides, banks aren’t lending away. Although institutions earned a total of \$2.8 billion in the third quarter, total loan and lease balances fell more than \$210 billion, the largest percentage decline on record, according to the FDIC.

Bankers have two main concerns. First, and understandably, they don’t want to pick up the tab for other companies. Most of the losses on TARP, which as of Sept. 30 stood at \$68.5 billion, are from AIG (AIG) and U.S. automakers.

More important, banks fundamentally oppose public policy that could dent their earnings, which the tax unquestionably would do.

“This would be another headwind for the largest banks, and part of our theme that the government is going to make it much more expensive to be a bank,” said analysts with investment adviser Concept Capital, in a report this morning. “That means profit margins will be lower than they have been historically.”

The industry groups are right on one thing — an additional fee on banks would likely get passed along to customers. That’s how financial institutions are coping with new laws restricting overdraft fees and credit card rates.

Big Banks on Obama's TARP Fee: Nuh-Uh
Newser
By Kevin Spak
January 12, 2010

Wall Street wants its bailout, and its bonuses, too, and this sure-to-be-popular fee on banks Barack Obama is considering isn't sitting well at all. **“Current law doesn’t trigger this tax proposal for another four years,” objected the top lobbyist at the Financial Services Roundtable,** referring to a provision in the

TARP law that requires the president to try to recoup losses from banks—but not until five years after the law’s passage.

At present those losses amount to roughly \$120 billion, most of it from automakers and AIG. The law also doesn’t say how the money should be recouped. The administration is weighing several options, but any fee would likely exempt AIG, automakers, and community banks. Democrats would also like to protect consumers, but it’ll be tough. “To impose yet another burden on the industry would obviously decrease their ability to lend,” the president of the ABA warned the Wall Street Journal.

Obama May Tax Banks
Yeshiva World News
January 12, 2010

The White House is considering a tax on financial institutions to ensure that taxpayers who bailed out banks get paid back, a senior administration official said Monday.

The law that created the \$700 billion Troubled Asset Relief Program empowered the president to ask Congress to recoup money if bailouts were not paid back in full.

TARP dictates that the Office of Management and Budget consider such action five years after TARP went into effect in October 2008 to prevent the federal bailout from adding to the deficit.

When the TARP bill was hastily debated, the provision was key to winning enough support from wary lawmakers to push the bill through Congress.

Robert Gibbs, the White House press secretary, would not discuss how a possible bank fee would fit into Obama’s fiscal year 2011 budget, which is set to be released next month. “When it comes back from Kinko’s, we’ll be able to talk about it,” he said.

But Gibbs said it is the president’s “goal” to ensure the “money that taxpayers put up will be paid back in full.”

While most of the big banks have started paying back their TARP investments, the government still has a lot of money on the line and is likely to for years to come. Last month, the Treasury estimated that the net cost of TARP to taxpayers would be \$41.4 billion.

For example, Treasury Secretary Tim Geithner said last month that the bailouts of the automakers and insurer American International Group (AIG, Fortune 500) would not be paid back in full.

“There is a significant likelihood that we will not be repaid for the full value of our investments in AIG, GM and Chrysler,” Geithner told an oversight panel.

Yet, the financial industry tax under discussion could impact the entire financial industry, a prospect the banking industry opposes. With few details available about any proposed fee, it’s unclear whether banks would be required to pay for losses incurred by GM and Chrysler.

“Imposing new taxes on top of the increased regulatory costs will weaken the industry, just when the industry is helping lead the economic recovery,” said Scott Talbott, chief lobbyist for the Financial Services Roundtable, a bank lobbying group.

The federal bailout program has always been a controversial topic, but news of executive bonuses now being awarded for banks’ stellar performance in 2009 is throwing new fuel on populist anger.

A spokesman for the White House’s budget office would not confirm or deny reports about a possible tax on banks.

“There are - and will be - a lot of rumors about what is in our budget - most of them wrong,” said budget office spokesman Kenneth Baer. “We are not going to get into the game of ruling in and ruling out rumors about what is in our budget.”

AP source: Obama considers levy for rescued firms
Business Week
By Philip Elliott
January 12, 2010

Targeting an industry whose political deafness has vexed his administration, President Barack Obama is weighing recovering tax dollars from government-rescued financial institutions with a levy.

The proposed levy could put Obama on the popular side of public opinion that is decidedly against Wall Street and angry over shortfalls in a \$700 billion bank bailout fund.

A senior administration official said Monday that Obama would seek modifications to the law that sent billions in bailout money in 2008 and 2009 to a

flailing Wall Street that was approaching collapse. The government official spoke on the condition of anonymity to discuss the president's thinking.

The idea received an early boost from Speaker Nancy Pelosi, the top Democrat in the House, where there have been calls for a hefty tax on bank bonuses.

"While we have not seen any specific language from the administration, Congress will certainly examine any serious proposals to lower the deficit and recoup even more of the TARP funds for the taxpayers," said Nadeam Elshami, a spokesman for Pelosi, D-Calif.

The 2008 law that created the Troubled Asset Relief Program requires the president to seek a way to recoup unrecovered TARP money from financial institutions, but five years after the law was enacted. It does not specify how the money should be recovered.

An industry official said consideration of a levy now would be premature.

"Current law doesn't trigger this tax proposal for another four years," said Scott Talbott, chief lobbyist for the Financial Services Roundtable, an industry group for some of the largest financial firms.

"We look forward to seeing the details of the complexity of the formula, of who it's applied to and what the assessment is based on and when it is applied," he said.

Government officials have conceded that they don't expect to recoup billions in TARP money used to rescue insurance conglomerate American International Group Inc. and the auto industry. Banks have been repaying their infusions, in part to get out from under compensation limits imposed on the bailout recipients. Banks have also paid dividends from the government help.

The administration is projecting the losses to the government from the bailout program will be about \$120 billion, most of it due to auto and AIG assistance.

According to the law, the status of the TARP fund must be assessed by late 2013, five years after it passed. "In any case where there is a shortfall," the statute says, "the President shall submit a legislative proposal that recoups from the financial industry an amount equal to the shortfall in order to ensure that the Troubled Asset Relief Program does not add to the deficit or national debt."

It is unclear how the administration would seek to recoup shortfalls due to TARP infusions into the auto industry or AIG. And any fee could potentially be imposed on banks that have already repaid their TARP infusions in full. Congress would have to approve any fee plan.

Discussion of a bank fee to reduce the federal deficit comes as the administration is preparing to submit its 2011 budget proposal next month and as Wall Street banks this month prepare to hand out near-record compensation for last year's performance.

Obama has been strident in his criticism of bankers, calling them "fat cats" last month in an interview that aired on the eve of their visit to the White House. With public anger over the bailout still strong, Obama has embraced populist rhetoric in an effort to shame bank executives into paying back the government more quickly and their executives less lavishly.

At the White House on Monday, Obama spokesman Robert Gibbs jabbed at the perceived disconnect between Wall Street executives and their customers. The spokesman said the disparity angered his boss.

"I don't know anybody, save for a few that work for those banks, that don't get visibly angry ... in reading those stories," Gibbs said. "I think they're not listening to the American people."

Funds collected from such a levy would go to pay down the \$1.4 trillion deficit amid the Obama-backed stimulus package and aid to Detroit's automakers.

Washington spent about \$245 billion to help banks in the Troubled Asset Relief Program, much less than President George W. Bush's Treasury Department secured to keep financial firms afloat.

So far, \$162 billion of that has been repaid, including \$20 billion each from Citigroup and Bank of America under a special targeted program.

U.S. Bancorp hires ex-Wachovia lobbyist

By Silla Brush

The Hill

January 13, 2010

U.S. Bancorp, one of the nation's largest banks, has hired Walter Price to lobby on financial issues.

Price, who worked previously in government affairs at Wachovia, will soon join US Bank, sources said.

The bank has recently taken a larger role in Washington, and CEO Richard Davis is currently chairman of the board of the Financial Services Roundtable, the 100-member financial trade association based in Washington. US Bank is one of several large banks that have or are expanding government affairs offices in Washington.

Davis also became a member of the Financial Services Forum, an association of CEOs of 18 of the largest financial firms.

Price was registered as a lobbyist at Wachovia for more than five years before the bank closed its lobbying office in the fourth quarter of 2008, according to congressional lobbying records.

Wells Fargo took over ailing Wachovia during the height of the financial crisis.

U.S. Bancorp did not immediately respond to a request for comment.

Obama Bank Fee to Hit 50 Biggest U.S. Financial Firms (Update1)
Julianna Goldman
Bloomberg
January 14, 2010

Jan. 14 (Bloomberg) -- As many as 50 financial firms with assets greater than \$50 billion each would be hit by a levy President Barack Obama will announce today to help recoup taxpayer-bailout money and trim the federal budget deficit, an administration official said.

The levy would be based on bank liabilities and be imposed starting June 30 on companies such as Citigroup Inc., American International Group Inc. and Bank of America Corp. The administration estimates it will raise \$90 billion over a minimum of 10 years, said the official, who briefed reporters on the condition of anonymity.

White House or Treasury officials contacted most of the companies affected, according to a senior administration official. The plan must be approved by Congress.

Obama plans to outline the proposal late this morning at the White House and a more detailed plan will be included in the budget message he's due to send Congress next month. The announcement comes as public anger is rising over the

taxpayer bailouts of the financial and auto industries, Wall Street bonuses and the deficit, which hit \$1.4 trillion last year.

'Have Rebounded'

White House senior adviser Valerie Jarrett said today that the president is trying to recoup money given to the banks through the Troubled Asset Relief Program (TARP) now "because it's clear that the financial institutions have rebounded."

"He thinks it's fair, he thinks its equitable, he thinks it puts the responsibility on the financial institutions that were principally responsible for taking the risk that created the financial crisis and also the institutions that primarily benefited from the taxpayer loans," Jarrett told Bloomberg TV.

Even before it was formally released, the proposed Financial Crisis Responsibility Fee drew criticism from the industry.

"Using tax policy to punish people is a bad idea," JPMorgan Chase & Co. Chief Executive Officer Jamie Dimon, 53, said after testifying yesterday at a hearing of the Financial Crisis Inquiry Commission in Washington. "All businesses tend to pass their costs on to customers."

The fee targets the country's biggest financial institutions and aims to recoup losses from TARP, which the Treasury Department estimates at \$117 billion now with the possibility of shrinking, the administration official said.

Aid Recipients

Companies including JPMorgan, Citigroup Inc., Wells Fargo & Co., Bank of America Corp., Goldman Sachs Group Inc. and Morgan Stanley were among the biggest beneficiaries of the government's initial purchases in October 2008 of preferred stock and warrants with money from the \$700 billion TARP fund. All but Citigroup have repaid the money, according to a Treasury Department report released yesterday.

Covered institutions include bank holding companies, thrift holding companies, insurance companies with such entities and broker-dealers. More broadly, the official said that firms covered under the Federal Deposit Insurance Corp.'s temporary loan guarantee program would be subject to the fee. The Temporary Liquidity Guarantee Program was established to back senior unsecured bank debt and boost liquidity in the banking system.

Some companies that didn't receive TARP funds would face the fee, the official said. The administration is using the argument that that every major financial firm in the U.S. is a beneficiary of government steps to bolster the industry.

'Limit Economic Recovery'

“The tax will penalize the firms who repaid TARP with interest and those who never even accepted it to begin with,” said Scott Talbott, senior vice president of government affairs for the Financial Services Roundtable, which represents large banks. “It will decrease the availability of loans and limit economic recovery.”

The fee would be approximately 15 basis points, or 0.15 percent, of covered liabilities, or total assets minus tier one capital -- common stock, disclosed reserves, retained earnings - - as well as FDIC-insured deposits for banks or insurance policy reserves for insurance companies, the official said.

Deposits covered by the FDIC and insurance policy reserves are being exempted to avoid placing a double fee on institutions, the official said.

General Motors Corp. and Chrysler Group LLC, which also got government aid, would be exempt, as would smaller banks. The levy also won't be assessed on Fannie Mae and Freddie Mac, the government-supported companies seized by regulators in 2008. The official said the administration concluded hitting Fannie and Freddie with the fee wouldn't be in taxpayers' interest.

35 U.S. Companies

The fee will apply to roughly 35 U.S. companies and up to 15 U.S. subsidiaries of foreign companies, the official said.

While additional details are still being worked out, the fee is expected to vary by year, growing slightly over the 10- year period, the official said. The administration plans to consult with members of Congress and outside experts before it is released in the budget.

The official also said that Congress would be able to amend the fee in the future based on its own determinations.

The administration expects that most institutions won't pass on the cost to consumers because they would be at a competitive disadvantage with banks that aren't subject to the fee, the official said.

The plan won support from key Democrats even before details were released. House Financial Services Committee Chairman Barney Frank, a Massachusetts Democrat, said he was in favor of such a fee.

Incentive to Lend

Frank said Republicans will suffer if they echo warnings from the banks that taxes or fees would hurt banking activity.

“The answer is yes, good,” he said. “If they were not able to make so much on overdraft fees, and credit cards and derivatives and some of these manipulations, then they might have more incentive to lend.”

Michigan Representative David Camp, the top Republican on the Ways and Means Committee, said while he and other Republicans find bonuses being paid by banks that got bailouts “irresponsible” and “outrageous,” they are concerned that taxing banks will hurt lending, and thus job creation.

Still, he said that with lawmakers up for re-election in November, voter anger at banks will be tough to ignore.

“It’s going to be a tough bill politically to oppose,” he said.

Obama to unveil bank fee to cover bailout losses: official AFP January 14, 2010

WASHINGTON — President Barack Obama will Thursday unveil a 90 billion dollar fee on 50 top finance firms to recoup taxpayer dollars used to bail out Wall Street, which is blamed for igniting the economic crisis.

The proposal, to be included in Obama's next budget, will be rolled out as many of the firms rescued by public funds gear up to announce huge bonus payouts to top executives at a time of economic misery and high unemployment.

The scheme is designed to raise 90 billion dollars over 10 years for the public finances, a senior US official said on condition of anonymity.

Obama is determined to prevent Wall Street firms going back to business as usual and resuming high-risk lending practices and huge bets on mortgages and other instruments he blames for igniting the financial crisis.

The title of the initiative, the "Financial Crisis Responsibility Fee," makes it clear the administration is placing blame on the financial industry for the worst economic meltdown since the 1930s Great Depression.

Yet Valerie Jarrett, a senior adviser to the president, insisted that "we're not trying to pick a fight" with banks.

"It's a very solid solution to make sure taxpayers are made whole," she told MSNBC television.

The Obama administration has repeatedly said it will try to recoup the full cost of the 700-billion-dollar Troubled Asset Relief Program (TARP) which was also used to bail out crippled automakers.

A senior US official said the program, which has seen some money already paid back, would now effectively leave the government around 117 billion dollars out of pocket.

"It is in many ways offensive for those at our major financial institutions to suggest they can today afford excessive, often outlandish bonuses for their top executives" but cannot repay taxpayers, the official said.

"We feel this is a workable fee, we feel it supports the goal of putting greater burdens and less incentives to excessive size and excessive leverage."

But the Financial Services Roundtable, which represents 100 top financial services firms, said the fee was a "strictly political."

"Two-thirds of the TARP investment from banks has already been repaid with a large profit to the taxpayer," said the Roundtable's President and CEO Steve Bartlett.

"This proposed tax will do nothing more than stifle economic recovery and encumber more pressing concerns, such as covering new regulatory costs."

The administration's proposal, which requires congressional approval, will apply only to firms with over 50 billion dollars in assets, according to the official.

It will cover around 50 firms, including 35 that are US-based and 10 to 15 which are US subsidiaries of foreign companies. It will last 10 years or as long as necessary to recoup losses under TARP, the official said.

No small or community banks will be covered by the plan, the official said, adding that the scheme was being put together in such a way as to prevent the firms passing on the costs to consumers.

Even though auto firms General Motors and Chrysler also got money from the TARP fund, they will not have to pay the fee, the official added, warning financial firms not to make an issue of that omission.

In addition, not all the firms that will be targeted by the fee actually received TARP funds.

"I don't think that it would be wise for them to try to suggest that living up to the letter of the law is somehow an unfair burden on them," the official said.

The cost of the fee levied on the financial firms will be assessed according to a formula looking at their liabilities, total assets and equity and tier-one capital.

A bank fee may help the White House channel public anger over big bonus payments on Wall Street, as Americans face the reality of 10 percent unemployment and a slow economic recovery.

According to a Treasury report to Congress published on Monday, the government had committed 545 billion dollars of TARP funds as of January 6.

Of that figure, 372 billion dollars have been disbursed. Banks have already repaid 165.18 billion dollars of those funds, leaving 209 billion dollars outstanding.

With the bonus issue likely to explode into political controversy, the US government made clear on Monday it had no intention of imposing a one-off 2009 tax on individual bankers bonuses.

Asked if the United States was planning to follow moves unveiled this week by Britain and France for "community" taxes on bankers' bonuses, Treasury spokeswoman Meg Reilly said in an email: "Not at this time."

Official: Obama wants tax on biggest banks, even those that have repaid bailout money

Jim Kuhn

Canadian Press

January 14, 2010

WASHINGTON — Mindful of soaring deficits and an anti-Wall Street mood, President Barack Obama wants a new 10-year tax on the country's largest banks to

cover a projected \$117 billion shortfall in the government's financial crisis bailout fund.

The president planned to propose Thursday a levy of 15 basis points, or 0.15 per cent, on the liabilities of large financial institutions to make sure every dollar spent from the \$700 billion Troubled Asset Relief Program to rescue Wall Street firms, auto companies and mortgage holders is either repaid or paid for. Congress would have to approve the tax.

A senior administration official said the tax, which officials are calling a "financial crisis responsibility fee," would apply only to financial companies with assets of more than \$50 billion. Those firms - estimated to amount to about 50 institutions - would have to pay the fee even though many did not accept any taxpayer assistance and most others already paid back their government infusions.

The official said banks could pay for the tax by tapping their generous executive bonus pools. The administration official described the plan in a conference call to reporters Wednesday evening on the condition of anonymity because it had not been officially announced.

The president's plan will undoubtedly be watched closely abroad, including by the major Canadian banks. Several of them - particularly Royal Bank (TSX:RBC), Toronto-Dominion (TSX:TD) and Bank of Montreal (TSX:BMO) have an extensive presence in the United States.

Unlike governments in the United States, Britain, Germany and several other European countries, Canada has not bailed out any of its banks which were widely regarded as among the least affected by the 2008-9 credit crisis.

At issue is the net cost of TARP, the fund initiated by the Bush administration to help financial institutions get rid of toxic assets. The fund has since evolved, helping not only the banking sector, but also autos and homeowners.

Insurance conglomerate American International Group, the largest beneficiary with nearly \$70 billion in bailouts, would have to pay the tax. But General Motors Co. and Chrysler Group LLC, whose \$66 billion in government loans are not expected to be fully repaid, would not be subject to a tax.

Bankers did not hide their objections.

"Politics have overtaken the economics," said Scott Talbott, the chief lobbyist for the Financial Services Roundtable, a group representing large Wall Street

institutions. "This is a punitive tax on companies that repaid TARP in full or never took TARP."

Jamie Dimon, chief executive of JPMorgan Chase&Co., speaking to reporters Wednesday before details of the tax were known, said: "Using tax policy to punish people is a bad idea."

"It would be very hard for the industry to pay for the auto companies," Dimon added. "I mean, at one point you have to be a little fair."

The plan serves Obama in two ways - it capitalizes on public antipathy toward banks blamed for causing the crisis, and it addresses a desire to show progress toward reducing record federal deficits.

The administration official said Obama wanted to accelerate a requirement in the existing TARP law that requires the president to seek a way to recoup unrecovered money in 2013, five years after the law was enacted.

The administration is also rejecting Dimon's argument that banks should not pay for shortfalls from the auto industry. The official said the thinking is that major financial institutions were both a significant cause of the crisis and major beneficiaries of the government's rescue efforts and should thus bear the brunt of the cost.

For banks, the official said, the tax would not affect their biggest liability - insured deposits, which already are assessed by the Federal Deposit Insurance Corp.

The bank levy would generate an estimated \$90 billion over 10 years. It could remain in place longer, however, if needed to eliminate the shortfall. The official said that if the shortfall was eliminated within a decade, the tax would still remain in place for the full 10-year minimum.

Banks have been paying back their infusions. Any shortfall would probably come from money used to prop up AIG, to support GM and Chrysler through bankruptcy protection and to assist homeowners with their mortgages.

So far, the Treasury has given \$247 billion to more than 700 banks. Of that, \$162 billion has been repaid and banks have paid an additional \$11 billion in interest and dividends.

In Congress, the idea was receiving a predictable partisan reaction, with Democrats embracing it and Republicans rejecting it.

"Look, the financial institutions collectively, particularly the larger ones, caused problems by their errors - their errors of judgment, their irresponsibility, in some cases their skating around dishonesty," said House Financial Services Committee Chairman Barney Frank, D-Mass.

"I think it is entirely reasonable to say that the industry that, A, caused these problems more than any other and, B, benefited from the activity, should be contributing," he said.

Republican Rep. Jeb Hensarling of Texas, a member of Frank's committee, ridiculed the idea. "To think that banks will loan more money if you tax them is beyond economic ignorance," he said.

**Crawling Toward Wall Street Reform
Sixteen Months After the Financial Meltdown, Major Regulatory Flaws
Remain Unaddressed
Rich Blake and Matt Jaffe
ABC News
Jan. 14, 2010**

No one expected decades of financial system dysfunction to be remedied overnight. But more than one year after Wall Street missteps sparked chaos and sent the nation spiraling into turmoil, real reform efforts are, at best, limping along, leaving a range of critics impatient and some of them aghast.

"It's gotten worse," said Simon Johnson, an MIT economics professor who several months ago told Congress that the risks still being taken on Wall Street imperiled taxpayers seriously enough to warrant a government bust-up of "too big to fail" institutions.

Johnson told ABC News.com that the government's failure to adopt any meaningful structural changes or step up policing on Wall Street has resulted in business as usual and created a more precarious economic situation today than when the financial meltdown began in September of 2008.

"The big banks have gotten bigger," Johnson said. "Their problems are getting more dangerous over time."

With the Financial Crisis Inquiry Commission, a bipartisan panel appointed by Congress, grilling key players from Washington today on what caused the financial crisis, ABCNews.com decided to examine some of the root problems to see which ones continue to fester largely unaddressed.

Obscene Compensation

For all of the attention given to the need to reform Wall Street compensation practices, the issue is far from resolved. By month's end, the largest Wall Street banks will have handed out more than \$100 billion in year-end "incentive pay," or bonuses. Goldman Sachs alone is expected to pay out more than \$20 billion.

The Obama administration appears to be mulling a new form of bank tax and did appoint a special paymaster to regulate the pay practices of bailed-out firms. But the bulk of Wall Street banks are out from under the TARP, and as such are free to dole out pay packages that many critics believe lead to excessive risk taking, with taxpayers ultimately footing the bill.

"Insanity is doing the same thing over and over and expecting a different result," said Nell Minow, cofounder of the Corporate Library. "It seems to me insane to continue with compensation structures that are completely out of line with risk management."

Even billionaire Bill Gates has weighed in on the issue, telling an audience at New York's 92nd Street Y a few months ago that "Wall Street pay is often too high."

In Europe, particularly in the U.K., authorities have taken pointed action, levying stringent taxes on financial bonuses. Here in the U.S., pay reform has been talked about, with the Federal Reserve Board, Department of Treasury and the Federal Deposit Insurance Corporation all bandying ideas about. However, the issue has largely been left to the banks themselves to address.

Indeed, some policies have been adopted by the industry itself to discourage excessive risk-taking with respect to pay, stressed Scott Talbot, senior vice president for government affairs at the Financial Services Roundtable, an industry lobby group.

"You see compensation practices focusing the employee on the long-term, greater use of claw-backs and deferrals, longer vesting schedules for stock options and greater use of stock those four techniques are essential," he said. "Every institution is using one or some combination of them to eliminate excessive risk-taking."

'Where Are the Cops?'

One of the most glaring holes in the regulatory system has been the startling ineffectiveness of the Securities and Exchange Commission. From its failure to spot Bernard Madoff's Ponzi scheme to its role as enabler of the financial industry's leverage overdose, the SEC has taken its share of lumps in the past year. Yet it remains essentially the same woefully understaffed, some say toothless,

agency that failed to curb much, if any, wrongdoing on Wall Street. Some \$20 million in extra funds were earmarked for the SEC for its 2010 budget, and its new chairwoman, Mary Schapiro, has vowed to increase enforcement staff. She did bring on a new enforcement chief, former federal prosecutor Robert Khuzami.

Still, MIT's Johnson pointed out, Washington has not succeeded in stepping up its enforcement effort which was supposed to involve some new, tougher, more comprehensive regulatory body.

"Where's the new cop on the beat?" he asked. "I don't see a new cop."

Meanwhile, the SEC has been one of the agencies implicated in "turf wars" between regulators that have been blamed for slowing down the reform process. At one point in late July, Treasury Secretary Tim Geithner became so frustrated that he called the heads of other agencies to a meeting to tell them to fight less over regulatory turf and focus more on getting reform measures passed.

"It was a s**t-storm," one source familiar with the meeting said at the time, while a Treasury spokesman acknowledged that the meeting was planned so Geithner could deliver a "tough message" to fellow agency heads.

Although the Justice Department did this past November create a special task force for financial fraud and empowered it with an array of new prosecutorial powers, most Americans are still wondering when someone other than Bernie Madoff is going to be put away. The only two financial crisis era defendants that were brought to trial, a pair of Bear Stearns Asset Management portfolio managers, were recently acquitted. A current probe into insider trading seems to be escalating which could have a chilling effect on dubious behavior in general.

Bank Risk: Rampant, Unchecked

In several past speeches, Federal Reserve Chairman Ben Bernanke has talked about tougher capital requirements for big banks, while the Senate Committee on Banking, Housing, and Urban Affairs, as part of its proposed financial reform legislation, specifically introduced a measure aimed at preventing excessively large or complex financial companies from bringing down the economy.

But this past year, a number of Wall Street firms, most notoriously Goldman Sachs, actually upped risk. Goldman did bolster its balance sheet and took steps to drastically reduce leverage. However, the firm still borrows around 14 times its equity base to undertake its various trading strategies and during any given overnight period might be borrowing tens of billions to fund activities while it awaits billions coming in from other counterparties.

The counterparties are themselves are reliant on others in a potentially hazardous daisy chain daisy that didn't register much, if any attention, among average Americans, until, that is, the AIG debacle. The fact that Goldman and other big banks continue to engage in what some critics see as hedge fund style proprietary trading is cause for alarm and some form of action.

Former Fed Chairman Paul Volker testified on Capitol Hill last year, saying that: "As a general matter, I would exclude from commercial banking institutions, which are potential beneficiaries of official [i.e., taxpayer] financial support, certain risky activities entirely suitable for our capital markets. Ownership or sponsorship of hedge funds and private equity funds should be among those prohibited activities. So should in my view a heavy volume of proprietary trading with its inherent risks."

"I'm not sure the government can do anything to end 'too big to fail' even if it wanted to," pointed out Stanford Law School professor Joseph Grundfest, who is a widely recognized expert in securities industry law. "This is a problem that could be literally too big to fix."

'Financial Weapons' Still Widespread

Warren Buffet called derivatives "financial weapons of mass destruction" and lawmakers have vowed to put in place better checks to safeguard against systemic blowups tied to such instruments as Mortgage Backed Securities, Collateralized Debt Obligations and Credit Default Swaps that collectively helped bring the industry to the brink of the abyss.

Goldman Sachs CEO Lloyd Blankfein took heat Wednesday from Phil Angelides, the commissioner of the Financial Crisis Inquiry Commission, for his firm's practices of creating mortgage-backed securities, selling them and then effectively betting against them by engaging in short sales.

"It sounds to me a little bit like selling a car with faulty brakes and then buying an insurance policy on the buyer of those cars," Angelides said. "It doesn't seem to me that that's a practice that inspires confidence in the markets."

Blankfein responded by staunchly and repeatedly pointing to the bank's role as market maker, which, he insisted, inherently involves taking both sides of many trades and hedging those bets.

The Senate and the House want to increase the transparency of derivatives dealing, a mainstay of Wall Street banks, but no one expects much in the way of true reform. Bank lobbyists reportedly were able to effectively get the government to

back down on efforts to better regulate certain types of derivatives, according to a recent Wall Street Journal report.

But a spokeswoman for outgoing Senate Banking Chairman Chris Dodd, D-Conn., disputed the report as uninformed, lobbyist propaganda. With the outstanding notional value of derivatives heading toward the mind-boggling quadrillion-dollar mark, if even a segment of the industry were to be more tightly regulated it would be a step in the right direction, said Moshe Silver, a veteran Wall Street compliance officer who writes a blog on compliance and regulatory issues for Hedgeye Risk Management.

"Getting some traction on the ability to regulate half of the derivatives industry might be more than the government even had the right to hope for," Silver said.

Ratings Still for Sale

When the credit crisis first began to manifest itself in 2007 with the collapse of asset-backed instruments, including those subprime debt laden financial piñatas otherwise known as CDOs, a standard industry practice was exposed a la the naked emperor: Wall Street firms were paying rating agencies in exchange for what amounted to Good Housekeeping seals of approval for the often-toxic securities the banks concocted. In some cases, bankers shopped among the three main rating agencies, Standard & Poor's, Moody's Investors Services and Fitch Ratings, trying to secure the highest possible rating.

Spokespersons at all three firms took issue with the notion that any wrongdoing took place with respect to alleged conflicts, and all of them insist that there have been significant changes to their own various proprietary modeling processes through which securities are analyzed for credit worthiness and ratings determined. The SEC, meanwhile, is now taking steps to eliminate certain requirements for ratings in the first place, presumably to rub some of the shine off their veneer of importance.

Many on Capitol Hill have cried out for rating agency reforms and a slew of institutional investor lawsuits have been filed alleging outright collusion between creators of sketchy securities and the ratings providers. Yet, as of now, the practice of Wall Street paying for ratings continues.

Stanford's Grundfest said a straightforward fix exists, and it could be adopted quickly. He advocates the creation of new industry-owned rating agencies to compete with the Big Three, so as to force investors to "eat their own cooking." In other words, create more incentives for real due diligence, he said.

Cheap Money Abounds

Despite being named Time magazine's "Person of the Year," Fed Chairman Ben Bernanke is hardly admired by everyone. A growing chorus of voices, even on Wall Street, is questioning the Fed's monetary policy. Rock-bottom interest rates may have staved off an economic depression, but continuously flooding the globe with cheap money is viewed as one of the root causes of the great financial bubble in the first place.

Said Hedgeye Risk Management's Silver: "There's a growing consensus that Chairman Bernanke is playing a risky game, keeping rates effectively at zero. When you look at figures that show the Fed being the world's second-largest buyer of treasuries it makes us look like a drug dealer who is his own largest customer. It's hard to see how this doesn't end very badly."

Financial regulatory reform, which includes numerous measures, has stalled on Capitol Hill. After the Obama administration unveiled an ambitious plan last summer, the House of Representatives led by House Financial Services Committee Chairman Barney Frank passed its measure in the fall. But the Senate has yet to get its proposal out of the Banking Committee. With health care reform still taking center stage, it could be months before any meaningful financial reform measures are passed, if not until next year.

As Geithner himself has noted on numerous occasions, including at a House Financial Services Committee hearing in September: "Time is the enemy of reform."

There are many adages concerning time. It slows for no man. You can't turn back its hands. Concerning problems that nearly wrecked the entire financial system and could again, time, most of all, is of the essence.

Obama proposes to tax largest financial firms

'We want our money back and we're going to get it it,' Obama says as he calls for a fee on the 50 largest institutions to recover projected losses from the government bailout.

Jim Puzzanghera

Los Angeles Times

January 14, 2010

Reporting from Washington

Vowing to recover "every single dime the American people are owed," President Obama today proposed a new tax on the nation's largest financial institutions to recover projected losses from the government's bailouts.

"We want our money back and we're going to get it," Obama said in a short but sharply worded White House speech. "If these companies are in good enough shape to afford massive bonuses, they surely are in good enough shape to afford to pay back every penny to taxpayers."

Obama's tough talk comes amid public anger about big profits and large bonuses at major financial firms as Wall Street -- with the help of taxpayer money -- has returned to robust fiscal health while much of the nation struggles to recover.

Obama said the bailouts, which were begun under the Bush administration, were "as necessary as it was unfortunate" because of the vital role large financial institutions play in the economy. Even though many of the firms have repaid the money, Obama said that's not good enough.

"My commitment is to recover every single dime the American people are owed," he said. "And my determination to achieve this goal is only heightened when I see reports of massive profits and obscene bonuses at some of the very firms who owe their continued existence to the American people, folks who have not been made whole and who continue to face real hardship in this recession."

The new Financial Crisis Responsibility Fee would have to be approved by Congress. It would hit about 50 of the nation's largest financial institutions and generate about \$9 billion annually for at least 10 years, administration officials said. The tax would be an annual 0.15% fee on a company's liabilities, excluding insured deposits, and would be assessed on banks, insurance companies and other financial firms with at least \$50 billion in assets.

The goal is to offset projected losses of about \$117 billion from the \$700-billion Troubled Asset Relief Program, or TARP. About 60% of the fee would be raised from the 10 largest financial firms, among them some of the biggest names from the financial crisis, including Bank of America, Citigroup, Goldman Sachs Group, JPMorgan Chase & Co. and Morgan Stanley.

But most of the large recipients of bailout money have repaid all of their infusions, and the Treasury Department has projected a profit from the TARP program that injected money into banks because of payments from dividends and stock warrants.

The tax, which would begin on June 30, would be assessed on firms that have repaid their money and some that never received any bailout. It would not be assessed on automakers General Motors Co. and Chrysler Group, which have received about \$64 billion in bailout money and are projected to account for a

large share of the losses. Such a fee would be logistically difficult to impose on a manufacturing company, according to a senior administration official.

The administration also is spending about \$50 billion of TARP money on its plan to offer incentives to banks to modify home mortgages to reduce foreclosures. That program's cost is included in the projected losses for TARP.

"It is thus possible that legislation may result in financial institutions being charged for losses made on investments in two automobile companies and on foreclosure mitigation efforts," said a report released today by the Congressional Oversight Panel monitoring TARP. "On the other hand, it may be argued that many of the financial institutions that received TARP funds would not have survived absent such capital injections, or, even if they themselves were not short of capital, would have been vulnerable had other giants in the industry fallen, and therefore asking for these institutions to contribute to an overall TARP shortfall is appropriate."

Large banks said asking them to make up the TARP shortfall is unfair.

"Two-thirds of the TARP investment from banks has already been repaid with a large profit to the taxpayer," said Steve Bartlett, president of the Financial Services Roundtable, a trade group of large financial firms. "This proposed tax will do nothing more than stifle economic recovery and encumber more pressing concerns, such as covering new regulatory costs. . . . This tax is strictly political."

Speaking to reporters after a hearing Wednesday on the causes of the financial crisis, Jamie Dimon, chief executive of JPMorgan Chase, said the financial industry should not have to pay for losses caused by the auto companies.

"At some point, you've got to be fair," he said.

Some Republicans also said they were opposed to the new fee, echoing bankers' concerns that it will limit lending as the economy struggles to recover from the recession.

"This proposal is the latest folly in the Obama administration's failed attempt to borrow, spend and tax their way into economic prosperity," said Rep. Jeb Hensarling (R-Texas), who sits on the congressional oversight panel. "To think that banks will loan more money if you tax them more is fundamental economic ignorance. It is small wonder the nation remains mired in double-digit unemployment under such policies."

Obama said executives of large banks should take responsibility for the fee rather than fighting it.

"What I'd say to these executives is this. Instead of sending a phalanx of lobbyists to fight this proposal, or employing an army of lawyers and accountants to help evade the fee, I'd suggest you might want to consider simply meeting your responsibilities and I'd urge you to cover the costs of the rescue not by sticking it to your shareholders or your customers or fellow citizens with the bill, but by rolling back bonuses for top earners and executives," he said in some of his sharpest rhetoric yet about the role of large firms in the financial crisis.

Some congressional Democrats would like to tax the large financial firms even more. In addition to Obama's tax, they want to tax large bonuses paid to employees of those firms. Rep. Peter Welch (D-Vt.) has introduced legislation to impose a 50% tax on bonuses of more than \$50,000 paid by companies that received bailout money.

Rep. Barney Frank (D-Mass.), chairman of the House Financial Services Committee, said Wednesday he supported the administration's bank tax and also would like to raise the marginal tax rate on those bonuses, which is now 36%. He plans hearings next week on limiting Wall Street pay.

'Massive profits and obscene bonuses' motivate bank tax

USA Today

January 14, 2010

Staff and Wire Reports

WASHINGTON — President Obama said Thursday that he wants to tax big banks to recoup the taxpayer money spent to bail out foundering firms at the height of the financial crisis. "We want our money back," he said.

In a brief appearance at the White House, Obama branded the latest round of bank bonuses as "obscene." But he said his goal is to prevent such excesses in the future, not to punish banks for past behavior.

It was an emphatic and populist tone for a president keenly aware of public antipathy toward Wall Street. With the sharp words, he also tried to deflect some of the growing skepticism aimed at his own economic policies as unemployment stubbornly hovers around 10%.

Obama said big banks acted irresponsibly, took reckless risk for short-term profits and plunged into a crisis of their own making. He cast the struggle ahead as one between the finance industry and average people.

"We are already hearing a hue and cry from Wall Street, suggesting that this proposed fee is not only unwelcome but unfair, that by some twisted logic, it is more appropriate for the American people to bear the cost of the bailout rather than the industry that benefited from it, even though these executives are out there giving themselves huge bonuses," Obama said.

He renewed his call for a regulatory overhaul of the industry and scolded bankers for opposing tighter oversight in legislation moving through Congress.

"What I'd say to these executives is this: Instead of setting a phalanx of lobbyists to fight this proposal or employing an army of lawyers and accountants to help evade the fee, I'd suggest you might want to consider simply meeting your responsibility," Obama said.

The president is proposing a tax of 0.15% on the liabilities of large financial institutions. It would apply only to those companies with assets of more than \$50 billion — a group estimated at about 50.

They would have to pay up even though many did not accept taxpayer assistance and most that did have repaid the money.

Obama said he is more determined to recover taxpayer money because of "reports of massive profits and obscene bonuses at the very firms who owe their continued existence to the American people."

The government estimates TARP losses at \$117 billion but expects the figure to fall. The "financial crisis responsibility fee" would raise about \$90 billion over 10 years and could be extended to cover the government's losses.

If approved by Congress, the fees would be levied on banks, brokerages and insurance companies.

The administration expects that 60% of the revenue would come from the 10 largest firms. As proposed, the fee would go into effect June 30, 2010, and last at least 10 years.

Congress reluctantly approved a \$700 billion bailout in the fall of 2008. The Treasury Department says it has spent about \$375 billion so far.

So far, the Treasury has given \$247 billion to more than 700 banks. Of that, \$162 billion has been repaid and banks have paid an additional \$11 billion in interest and dividends.

In Congress, the tax is receiving a predictable partisan reaction, with Democrats embracing it and Republicans rejecting it.

"Look, the financial institutions collectively, particularly the larger ones, caused problems by their errors — their errors of judgment, their irresponsibility, in some cases their skating around dishonesty," said House Financial Services Committee Chairman Barney Frank, D-Mass.

"I think it is entirely reasonable to say that the industry that, A, caused these problems more than any other and, B, benefited from the activity, should be contributing," he said.

Republican Rep. Jeb Hensarling of Texas, a member of Frank's committee, ridiculed the idea. "To think that banks will loan more money if you tax them is beyond economic ignorance," he said.

The fee would not apply to General Motors, Chrysler or their financial arms, which received nearly \$80 billion in TARP funds, or to Freddie Mac and Fannie Mae, whose losses have been guaranteed by the government.

Obama will include the fee in his budget for the next fiscal year. There would be some exclusions, such as bank deposits already assessed for federal deposit insurance premiums.

Bankers did not hide their objections.

"Politics have overtaken the economics," said Scott Talbott, the chief lobbyist for the Financial Services Roundtable, a group representing large Wall Street institutions. "This is a punitive tax on companies that repaid TARP in full or never took TARP."

Jamie Dimon, chief executive of JPMorgan Chase, speaking to reporters Wednesday before details of the tax were known, said: "Using tax policy to punish people is a bad idea."

The American Bankers Association said the government isn't expected to lose money on TARP aid to banks. The losses are coming from the auto companies and American International Group.

Is it fair to dun banks for TARP losses they didn't cause? "Let's face it: Many of the largest institutions owe their existence today to the taxpayers' willingness to rescue them," says Elizabeth Warren, chair of the congressional panel overseeing

TARP. "If they are called upon to make the taxpayers whole, I think that's entirely fair."

Obama Says Bank Fee Aimed at Recovering Rescue Money (Update2)

Bloomberg

January 14, 2010

By Julianna Goldman

(Bloomberg) -- President Barack Obama said the levy he wants to impose on as many as 50 large financial firms is aimed at getting back "every single dime" that taxpayers put in to bailing out those companies.

"My determination to achieve this goal is only heightened when I see reports of massive profits and obscene bonuses at some of the very firms who owe their continued existence to the American people," Obama said at the White House. "We want our money back, and we're going to get it."

The fee would apply to financial companies with assets of more than \$50 billion. It would be based on bank liabilities and imposed starting June 30 on companies such as Citigroup Inc., American International Group Inc. and Bank of America Corp.

The administration estimates the levy will raise \$90 billion over 10 years and \$117 billion over 12 years. An administration official who briefed reporters said the budget office estimates the 10-year figure will be enough to recoup all the losses in the Troubled Asset Relief Program.

With congressional elections coming in November, Obama is tapping into public anger over the taxpayer bailouts of the financial and auto industries, Wall Street bonuses and the federal deficit, which rose to \$1.4 trillion last year. Reports about bank profits and bonuses come as the nation's unemployment rate is at 10 percent and many Americans are struggling to recover from the worst recession since the 1930s.

Public Anger

"The public is incredibly angry at the banks and feels that the banks have made a huge amount of profits off the taxpayer rescue," said Doug Elliott, a fellow at the Brookings Institution in Washington and a former managing director at JPMorgan Chase & Co. "Virtually every figure in Washington right now is trying to step forward and make clear they're with the people and not the bankers."

A more detailed plan will be included in the budget message Obama is due to send Congress next month. White House or Treasury officials contacted most of the companies affected and have been briefing lawmakers on the plan, according to an administration official. The plan is subject to approval by Congress.

The proposed Financial Crisis Responsibility Fee drew immediate criticism from the industry. Analysts and investors said it would hinder the sector's recovery and stifle investor interest in bank stocks.

'Cynical View'

"We remain concerned that this is more evidence of the cynical view of the banking industry which prevails in Washington," David Hendler, a banking analyst at CreditSights Inc., wrote in a research note today. "These myriad new rules, fees and legislative proposals represent a new, major risk factor for U.S. banks."

Companies including JPMorgan, Citigroup, Wells Fargo & Co., Bank of America, Goldman Sachs Group Inc. and Morgan Stanley were among the biggest beneficiaries of the government's initial purchases in October 2008 of preferred stock and warrants with money from the \$700 billion TARP fund. All but Citigroup have repaid the money, according to a Treasury Department report released yesterday.

Institutions affected by the fee include bank holding companies, thrift holding companies, insured depositories, as well as insurance companies with such entities and broker-dealers.

Covered Firms

The Temporary Liquidity Guarantee Program would also be subject to the levy. The program was established to back senior unsecured bank debt and boost liquidity in the banking system. Participating companies also included General Electric Co. and its finance unit, GE Capital.

Even companies that didn't receive TARP funds would face the fee. The administration is using the argument that that every major financial firm in the U.S. is a beneficiary of government steps to bolster the industry.

"The tax will penalize the firms who repaid TARP with interest and those who never even accepted it to begin with," said Scott Talbott, senior vice president of government affairs for the Financial Services Roundtable, which

represents large banks. “It will decrease the availability of loans and limit economic recovery.”

Obama called “twisted logic” the criticism from the industry that the fee is unfair and warned major banks that trying to pass the cost on to consumers would backfire.

Rolling Back Bonuses

“I’d suggest you might want to consider simply meeting your responsibilities and I’d urge you to cover the costs of the rescue not by sticking it to your shareholders or your customers or fellow citizens with the bill, but by rolling back bonuses for top earners and executives,” he said.

The fee would be approximately 15 basis points, or 0.15 of a percentage point, of covered liabilities, or total assets minus Tier 1 capital -- common stock, disclosed reserves, retained earnings -- and excluding FDIC-insured deposits for banks or insurance policy reserves for insurance companies, the official said.

Deposits covered by the FDIC and insurance policy reserves are being exempted to avoid placing a double fee on institutions, the official said.

Exempt Companies

General Motors Co. and Chrysler Group LLC, which also got aid from the bailout fund, would be exempt, as would smaller banks. As such, the fee will leave the country’s largest financial firms to cover losses from the government’s bailout of the automakers.

The levy also won’t be assessed on Fannie Mae and Freddie Mac, the government-supported companies seized by regulators in 2008. The administration concluded charging Fannie and Freddie the fee wouldn’t be in taxpayers’ interest.

“They’re not at an economic health standpoint yet that would allow us to do that,” White House press secretary Robert Gibbs said.

The fee will apply to roughly 35 U.S. companies and up to 15 U.S. subsidiaries of foreign companies, according to the administration.

While additional details are being worked out, the fee is expected to vary by year, growing slightly over the 10-year period, according to the official.

The administration expects that most institutions won't pass on the cost because they would be at a competitive disadvantage with banks that aren't subject to the fee.

Banking Choice

"Americans have a choice in where they bank," Gibbs said, suggesting that consumers who face higher fees move their money "to any number of small and community banks throughout this country that somehow got by all these years playing by the rules."

While there's a high probability for the proposal's passage in the U.S. House, its fate in the Senate is less certain, according to FBR Capital Markets analysts led by Paul Miller.

"Our sources on Capitol Hill indicate that the TARP tax has a very low probability of passage in the Senate, as nearly all Republicans and a sufficient number of Democrats would likely vote against the measure," the analysts, who are based in Arlington, Virginia, wrote in a note to investors today. "The proposal has a higher probability of passage in the more populist-driven House."

Democratic Support

The plan won support from key Democrats while Republicans called it a tax on the American public.

House Financial Services Committee Chairman Barney Frank, a Massachusetts Democrat, said it is "very fair" to tax banks that have repaid their TARP money, particularly large institutions that were "skating around dishonesty."

While many banks repaid the money, "in almost every case, they engaged in practices that made this all necessary," Frank said. "Every one of those institutions was engaged in the kind of activity that led to the problem."

"This proposal is the latest folly in the Obama administration's failed attempt to borrow, spend and tax their way into economic prosperity," said Representative Jeb Hensarling, a Texas Republican. "To think that banks will loan more money if you tax them more is fundamental economic ignorance."

Michigan Representative David Camp, the top Republican on the Ways and Means Committee, said earlier this week while he and other Republicans find bonuses being paid by banks that got bailouts "outrageous," they are concerned that taxing banks will hurt lending, and thus job creation.

Still, he said that with lawmakers up for re-election in November, voter anger at banks will be tough to ignore.

“It’s going to be a tough bill politically to oppose,” he said.

**Obama to claw back US\$90b from big banks
Industry criticizes fee to be levied over 10 years as being politically motivated
The Business Times
January 15, 2010**

(WASHINGTON) Goaded into action by reports of 'massive profits and obscene bonuses' at financial firms, President Barack Obama was set to unveil yesterday a US\$90 billion fee on 50 top finance companies in the country.

Mr Obama: Determined to prevent Wall Street firms going back to business as usual and resuming high-risk lending practices

The punitive fee is intended to recoup taxpayer money used to bail out Wall Street, which is blamed for igniting the worst economic crisis since the Great Depression.

The proposal, to be included in Mr Obama's next Budget in February, will be rolled out as many of the companies rescued by public money gear up to announce huge bonus payouts to top executives at a time of extreme economic distress and high unemployment.

The scheme is designed to raise US\$90 billion over 10 years for the public finances, said a senior US official.

Mr Obama is determined to prevent Wall Street firms from going back to business as usual and resuming high-risk lending practices and huge bets on mortgages and other instruments that he blames for triggering the financial crisis.

'My commitment is to recover every single dime the American people are owed,' he said in a statement released by the White House.

'And my determination to achieve this goal is only heightened when I see reports of massive profits and obscene bonuses at the very firms who owe their continued existence to the American people.'

The title of the initiative, the 'Financial Crisis Responsibility Fee', makes it clear that the administration is placing blame on the financial industry for the worst economic meltdown in memory.

But speaking earlier, Valerie Jarrett, a senior adviser to the president, insisted that the administration was 'not trying to pick a fight' with banks.

'It's a very solid solution to make sure taxpayers are made whole,' she told MSNBC television.

The Obama administration has repeatedly said that it would try to recoup the full cost of the US\$700 billion Troubled Asset Relief Program (Tarp) which was also used to bail out crippled automakers.

A senior US official said the programme, which has seen some money already paid back, would now effectively leave the government around US\$117 billion out of pocket.

'It is in many ways offensive for those at our major financial institutions to suggest they can today afford excessive, often outlandish bonuses for their top executives' but cannot repay taxpayers, the official said.

'We feel this is a workable fee, we feel it supports the goal of putting greater burdens and less incentives to excessive size and excessive leverage.'

But the Financial Services Roundtable, which represents 100 top financial services firms, said the fee was 'strictly political.'

'Two-thirds of the Tarp investment from banks has already been repaid with a large profit to the taxpayer,' said the Roundtable's president and CEO Steve Bartlett.

'This proposed tax will do nothing more than stifle economic recovery and encumber more pressing concerns, such as covering new regulatory costs.'

The administration's proposal, which requires congressional approval, will apply only to companies with over US\$50 billion in assets, according to the official. It will cover around 50 companies, including 35 that are US-based and 10 to 15 which are US subsidiaries of foreign companies. It will last 10 years or as long as necessary to recoup losses under Tarp, the official said.

No small or community banks will be covered by the plan, the official said, adding that the scheme was being put together in such a way as to prevent the companies passing on the costs to consumers.

Even though auto companies General Motors and Chrysler also got Tarp money, they will not have to pay the fee, the official added, warning financial companies not to make an issue of that omission.

In addition, not all the companies that will be targeted by the fee actually received Tarp funds.

'I don't think that it would be wise for them to try to suggest that living up to the letter of the law is somehow an unfair burden on them,' the official said.

The cost of the fee levied on the financial companies will be assessed according to a formula looking at their liabilities, total assets and equity and tier-one capital. -- AFP, Reuters, Bloomberg

Obama Slaps Politically-Charged 'TARP Tax' On Banks
StreetInsider.com
January 14, 2010

President Barack Obama said "we want our money back" and has proposed the Financial Crisis responsibility fee on the nation's largest financial firms to make sure that U.S. taxpayers are fully compensated for the assistance that they provided to Wall Street.

Obama referred to the bonuses that banks are paying to top employees "obscene" and has proposed the new tax to help recoup the \$117 billion projected shortfall from the bailout funds given to firms that were collapsing at the height of the recession.

Obama said that he is determined to recover every dime of the \$700 billion from the Troubled Asset Relief Program. Congress will have to sign off for the tax to go into effect.

"My determination to achieve this goal is only heightened when I see reports of massive profits and obscene bonuses at the very firms who owe their continued existence to the American people who have not been made whole, and who continue to face real hardship in this recession," Obama said.

The administration is expected to receive 60 percent of the revenue from this tax from the 10 largest firms involved in the TARP.

If passed by Congress, the proposed fee would go into effect on June 30, 2010, and is scheduled to endure for at least 10 years.

At a meeting on Capitol Hill, the heads of the biggest Wall Street firms did not hide their disapproval of the proposed tax.

"Politics have overtaken the economics," said Scott Talbott, the chief lobbyist for a group representing large Wall Street institutions. "This is a punitive tax on companies that repaid TARP in full or never took TARP."

J.P. Morgan Chase & Co. CEO, Jamie Dimon said that "using tax policy to punish people is a bad idea. I mean, at one point you have to be a little fair."

Republican political minds spoke out at the idea that the tax would be a stimulus towards bank lending.

"To think that banks will loan more money if you tax them is beyond economic ignorance," Republican Representative from Texas, Jeb Hensarling said.

Many are worried that the large banks will pass the tax along to consumers, or in other words the same taxpayers President Obama has promised will be repaid.

Banks that will likely pay most of the tax include Bank of America (NYSE: BAC), Goldman Sachs (NYSE: GS), J.P. Morgan Chase (NYSE: JPM), Morgan Stanley (NYSE: MS), Wells Fargo (NYSE: WFC) and Citigroup (NYSE: C).

Obama seeks tax on banks; calls bonuses obscene

Boston Herald

January 14, 2010

By Associated Press

WASHINGTON — With an emphatic and populist tone, President Barack Obama today described bank bonuses as "obscene" and called for a new tax on Wall Street's largest firms to cover a projected \$117 billion shortfall in the government's financial crisis bailout fund.

In remarks prepared for a White House appearance, Obama said he was determined that every dollar spent from the \$700 billion Troubled Asset Relief Program to rescue Wall Street firms, auto companies and mortgage holders is either repaid or paid for in some fashion. Congress would have to approve the tax.

"My determination to achieve this goal is only heightened when I see reports of massive profits and obscene bonuses at the very firms who owe their continued existence to the American people who have not been made whole, and who continue to face real hardship in this recession," Obama said in his prepared remarks.

In proposing the tax, Obama and his advisers are capitalizing on public antipathy toward banks blamed for causing the crisis, while at the same time addressing a desire to show progress toward reducing record federal deficits.

The president is proposing a levy of 15 basis points, or 0.15 percent, on the liabilities of large financial institutions. The tax, which officials are calling a "financial crisis responsibility fee," would apply only to financial companies with assets of more than \$50 billion. Those firms — estimated to amount to about 50 institutions — would have to pay the fee even though many did not accept any taxpayer assistance and most others already paid back the government lent to them.

The administration expects that 60 percent of the revenue would come from the 10 largest firms. As proposed, the fee would go into effect June 30, 2010, and last at least 10 years.

Obama advisers believe the administration can make an argument that banks should tap their generous executive bonus pools for the fee instead of passing the cost on to consumers.

At issue is the net cost of TARP, the fund initiated by the Bush administration to help financial institutions get rid of toxic assets. The fund has since evolved, helping not only the banking sector, but also autos and homeowners.

Insurance conglomerate American International Group, the largest beneficiary with nearly \$70 billion in bailouts, would have to pay the tax. But General Motors Co. and Chrysler Group LLC, whose \$66 billion in government loans are not expected to be fully repaid, would not be subject to a tax.

Bankers did not hide their objections.

"Politics have overtaken the economics," said Scott Talbott, the chief lobbyist for the Financial Services Roundtable, a group representing large Wall Street institutions. "This is a punitive tax on companies that repaid TARP in full or never took TARP."

Jamie Dimon, chief executive of JPMorgan Chase & Co., speaking to reporters Wednesday before details of the tax were known, said: "Using tax policy to punish people is a bad idea."

"It would be very hard for the industry to pay for the auto companies," Dimon added. "I mean, at one point you have to be a little fair."

The administration official said Obama wanted to accelerate a requirement in the existing TARP law that requires the president to seek a way to recoup unrecovered money in 2013, five years after the law was enacted.

The administration is also rejecting Dimon's argument that banks should not pay for shortfalls from the auto industry. The official said the thinking is that major financial institutions were both a significant cause of the crisis and major beneficiaries of the government's rescue efforts and should thus bear the brunt of the cost.

For banks, the tax would not affect their biggest liability — insured deposits, which already are assessed by the Federal Deposit Insurance Corp.

The bank levy would generate an estimated \$90 billion over 10 years. It could remain in place longer, however, if needed to eliminate the shortfall. The official said that if the shortfall was eliminated within a decade, the tax would still remain in place for the full 10-year minimum.

Banks have been paying back their infusions. Any shortfall would probably come from money used to prop up AIG, to support GM and Chrysler through bankruptcy protection and to assist homeowners with their mortgages.

So far, the Treasury has given \$247 billion to more than 700 banks. Of that, \$162 billion has been repaid and banks have paid an additional \$11 billion in interest and dividends.

In Congress, the idea was receiving a predictable partisan reaction, with Democrats embracing it and Republicans rejecting it.

"Look, the financial institutions collectively, particularly the larger ones, caused problems by their errors — their errors of judgment, their irresponsibility, in some cases their skating around dishonesty," said House Financial Services Committee Chairman Barney Frank, D-Mass.

"I think it is entirely reasonable to say that the industry that, A, caused these problems more than any other and, B, benefited from the activity, should be contributing," he said.

Republican Rep. Jeb Hensarling of Texas, a member of Frank's committee, ridiculed the idea. "To think that banks will loan more money if you tax them is beyond economic ignorance," he said.

Bonus Comeback: Bailout, Lobbying Boost Bank Pay
Bonus Comeback: Wall Street pay soars again after bailout, intense bank lobbying

ABC News/AP

January 14, 2010

By Rachel Beck & Stevenson Jacobs, AP Business Writers

The fat cats were supposed to get their comeuppance.

After Wall Street's most prominent firms — by their own admission — helped cause the 2008 financial meltdown and got bailed out by the government, they were supposed to stop handing out million-dollar bonuses to their employees. No one was supposed to get seven- and eight-figure rewards, not after the Great Recession left one in 10 Americans unemployed. Not after President Barack Obama — who on Thursday called such pay "obscene" — had promised to clamp down on lavish bonuses.

It turns out little actually changed.

Americans will see that starting Friday when JPMorgan Chase & Co. releases its 2009 financial results. The other big banks will follow. The messages will be the same: compensation is at near-record levels.

The form of the pay is changing. Instead of cash, bonuses will be paid mostly in stock that can't be redeemed for years. But the numbers are still staggering. Together, the six biggest U.S. banks are on pace to pay \$150 billion in total compensation for 2009, slightly less than the record \$164 billion in 2007 before the financial crisis struck, according to the New York state comptroller's office.

How this happened is complicated, like most things involving Wall Street and Washington. It involves a remarkable financial turnaround by the banks, but one that was fueled by the federal bailout. It shows the power of the financial lobby. And it highlights the age-old debate about how much U.S. companies need to pay to retain talented bankers and traders.

Scott Talbott of the Financial Services Roundtable says keeping those workers from going to overseas firms is critical.

"The market will find a way to pay these people what they're worth," says Talbott, who is chief lobbyist for the industry group representing some of the largest financial firms. "This is not a giant talent pool. There's only a few people who can catch a touchdown in the Super Bowl."

But others aren't so sure most Americans buy that. Says Douglas Elliott, a fellow at the Brookings Institution and a former investment banker, referring to the government's bailout money: "The way the general public sees it is that we wrote a \$700 billion check to the banks, and they got to burn through it as they pleased."

Here's a look at how the clamor for reform ended up the way so many previous efforts did — with the triumph, for now, of Wall Street's bonus culture. And a look at what may lay ahead.

The government played a big role in the compensation bonanza by bailing the banks out.

In the days after the financial meltdown, banks were given access to cheap government loans and other federal subsidies. Since the banks weren't required to put that money toward lending to businesses and consumers, they could use it as they pleased.

Many bet on risky securities that paid off when the financial markets surged. The result: Big profits and big bonuses because pay on Wall Street is tied to performance.

Profit at Goldman Sachs Group Inc. nearly doubled to \$8.4 billion during the first nine months of 2009 from the previous year's level, and analysts expect its full year profits to top \$10 billion.

Goldman set aside \$16.71 billion from January through September for compensation, which includes salaries, bonuses and associated costs such as benefits and payroll taxes. That puts it on pace to meet the record \$20.2 billion in compensation costs it had for all of 2007.

Should Goldman's annual compensation go that high, it would work out to more than \$600,000 each for its 31,700 employees. It won't be distributed that equally, of course. The best performers and executives stand to earn millions.

"What we've allowed is for the banks to be nursed back to help with various forms of assistance provided by the government, but they haven't been required to change their ways," said Rep. Brad Miller, a Democrat from North Carolina.

The nation's biggest banks all took money from the \$700 billion Troubled Asset Relief Program. Some needed it to survive, while others were pressured by federal officials to take it. Regardless, the banks weren't restricted in how they had to spend the bailout funds.

They did face limits on compensation, including for bonuses. But that only lasted for as long as they held the bailout funds, which gave them an incentive to pay the TARP back fast. That happened by June. In total, the banks took \$245 billion from the TARP, and have already paid back \$162 billion.

Appearing Wednesday before a congressional panel probing the financial crisis, several Wall Street chiefs, including Goldman CEO Lloyd Blankfein, acknowledged that taxpayer help likely prevented the industry's collapse.

—Wall Street's lobbying machine

Bonus outrage and the momentum to do something about it peaked last February when crippled insurer American International Group Inc. moved to pay \$165 million in bonuses to hundreds of employees in the same financial unit that brought down the company. Treasury Secretary Timothy Geithner called Wall Street pay "out of whack" and vowed to rein in the practice.

The fact it didn't happen speaks to the industry's powerful lobbying machine, which is spending millions to fight a raft of financial reform measures, including proposals to tax or limit lavish pay packages.

During the past decade, no industry has spent more lobbying dollars than Wall Street and its related offshoots.

From 1998 to 2009, the so-called FIRE lobby — or finance, insurance and real estate — spent \$3.8 billion promoting its interests in Washington, according to the Center for Responsive Politics. By comparison, the energy and defense industries spent \$2.6 billion and \$1.08 billion, respectively, during the same time.

Meanwhile, Wall Street's generosity to political candidates ramped up even as the industry began careening toward collapse in 2008. Financial firms contributed a record \$476 million in the last election cycle. That's more than double the No. 2 donor, the health care industry, which gave \$166 million, even as Congress began to debate landmark health care legislation.

The most lavish Wall Street donor during the last election: Goldman Sachs, which gave \$5.8 million, followed by Citigroup Inc. and JPMorgan Chase. All three banks gave more heavily to Democratic candidates, reflecting the shifting power in Washington.

"The bank influence in Washington is shocking," said Ira Rheingold, executive director of the Washington-based National Association for Consumer Advocates.

"They still spread a lot of money around here, and it appears nothing has really changed."

Financial lobbyists say the industry has taken many steps to curb excessive pay, including adopting "clawback" provisions to recover undeserved pay and shifting more money into deferred stock instead of cash.

— What's next

Washington is now scrambling to get something done to temper the populist anger. The financial lobby still could block those efforts.

The Obama administration is proposing a 10-year tax on the country's largest banks to cover a projected \$117 billion shortfall in the government's bailout fund.

The Federal Reserve is reviewing a plan that would give it more oversight on compensation by reviewing pay practices at thousands of banks. The central bank would be able to veto plans it found encourage excessive risk-taking by executives, traders or loan officers.

The Federal Deposit Insurance Corp., which regulates most of the nation's banks, is seeking public input on a plan that would tie the fees that banks pay for deposit insurance to how much a company's compensation plan encourages workers to take risks in order to achieve higher returns.

A few in Congress want to go further. Rep. Dennis Kucinich, D-Ohio, on Tuesday introduced legislation to impose a 75 percent bonus tax on what he sees as windfall profits earned from massive taxpayer support of the financial services industry.

Britain and France recently announced plans for a similar tax. Few expect the measure to be adopted in the U.S., although Kucinich is betting that the public's "pent-up frustration" could build momentum to pass his legislation.

"What you're seeing is a public-be-damned attitude from the banks," Kucinich said. "They're rolling in dough while the taxpayer has to sacrifice."

President Rails At Bailed Out Big Banks

Congress Daily

January 14, 2010

By George E. Condon Jr. and Bill Swindell

President Obama used some of the toughest rhetoric of his term today to call for imposing a "responsibility fee" on big banks and the largest Wall Street financial firms that received federal bailout funds.

The president acknowledged the government has recovered most of the bailout money but said that wasn't enough.

"My commitment is to recover every single dime the American people are owed," he said. "And my determination to achieve this goal is only heightened when I see reports of massive profits and obscene bonuses at some of the very firms who owe their continued existence to the American people."

The fee would raise an estimated \$117 billion over 12 years.

Obama's tough talk kicked off what is likely to be a contentious battle in Congress, drawing immediate praise from Democratic leaders and strong criticism from Republicans and the business community.

"The president has it right," said Senate Banking Chairman Christopher Dodd. "Wall Street owes a great debt to the American public and we have the right and the obligation to recoup as much money as we can for the taxpayers. The taxpayers wrote the check that saved these firms. ... It's time for Wall Street to return the favor."

Senate Finance Chairman Max Baucus was more cautious, noting that while he is concerned about the excessive risk and compensation at banks, he also wants to spur job growth.

Sen. John Cornyn, R-Texas, a member of the Finance Committee, vowed to fight the proposal, calling it "yet another job-killing policy that makes little economic sense." He said taxing banks "sends the signal to all businesses and families that they could be next. This kind of uncertainty is what's holding back small businesses from hiring."

Rep. Tom Price, R-Ga., chairman of the Republican Study Group, added that the fee proposal was "driven more by revenge than recovery."

The Financial Services Roundtable, representing 100 companies, called the proposal "premature," noting that recipients of bailout funds were supposed to have four more years to repay them.

"Two-thirds of the TARP investment from banks has already been repaid with a large profit to the taxpayer," said Steve Bartlett, president and CEO for the Roundtable. He dismissed the fee as "strictly political."

Obama condemned the bonuses paid by bailed-out firms as "obscene" and a premature return to "business as usual." He cast Wall Street as ungrateful for the bailouts and forgetful of how many financial firms "teetered on the brink of collapse" before Washington came to the rescue.

He took a jab at Republicans, too, accusing the financial industry of "locking arms with the opposition party to stand in the way of reforms to prevent another crisis. That, too, unfortunately is business as usual."

Details of the proposed fee will be spelled out in the president's budget. Obama stressed that the fee would not affect community banks or small financial firms.

Obama Bank-Tax Proposal Has Populist Appeal, Political Critics
Bloomberg Business Week
January 15, 2010
By Lorraine Woellert and Julianna Goldman

While President Barack Obama counts on the populist appeal of a plan to tax the biggest financial firms, his idea already is being buffeted by political headwinds.

Many Democrats remained silent about the plan Obama announced yesterday. Others, such as Senate Finance Committee Chairman Max Baucus of Montana, were noncommittal in their reaction. And some of Obama's fellow Democrats expressed opposition.

"I just don't think the financial services industry is a piggy bank that government can dip into anytime it needs to solve its budget problems," said Representative Michael McMahon, a Democrat who represents parts of New York City.

The fee would apply to financial companies with assets of more than \$50 billion. It would be based on bank liabilities and imposed starting June 30 on companies such as Citigroup Inc., American International Group Inc. and Bank of America Corp.

With congressional elections coming in November, Obama is tapping into public anger over the taxpayer bailouts of the financial and auto industries, Wall Street bonuses and the federal deficit, which rose to \$1.4 trillion last year. Reports about bank profits and bonuses come as the nation's unemployment rate remained at 10 percent last month.

It is “a mistake” and “inappropriate” to view banks as an easy political target, McMahon said.

“The public is incredibly angry at the banks and feels that the banks have made a huge amount of profits off the taxpayer rescue,” said Doug Elliott, a fellow at the Brookings Institution in Washington and a former managing director at JPMorgan Chase & Co. “Virtually every figure in Washington right now is trying to step forward and make clear they’re with the people and not the bankers.”

Passage Prospects

While there’s a good chance Obama’s proposal will pass the House, its fate in the Senate is less certain, reported FBR Capital Markets analysts led by Paul Miller.

The tax “has a very low probability of passage in the Senate, as nearly all Republicans and a sufficient number of Democrats would likely vote against the measure,” the analysts, based in Arlington, Virginia, wrote in a note to investors.

Obama said the levy, which would be imposed on as many as 50 financial firms, is aimed at getting back “every single dime” of taxpayer money that bailed out those companies during the worst recession since the 1930s.

Revenue Estimates

The administration estimates the tax will raise \$90 billion over 10 years and \$117 billion over 12 years. More of the plan’s details will be included in the budget message Obama sends Congress next month.

Republicans labeled Obama’s “Financial Crisis Responsibility Fee” a politically motivated proposal that, while aimed at an unpopular industry, would end up hurting most citizens.

Michael Steele, chairman of the Republican National Committee, called the fee “nothing more than another tax on the American public.”

Representative Jeb Hensarling, a Texas Republican, called the proposal “the latest folly in the Obama administration’s failed attempt to borrow, spend and tax their way into economic prosperity.”

Key Democrats, including House Speaker Nancy Pelosi of California, House Financial Services Committee Chairman Barney Frank of Massachusetts and

Senate Banking Committee Chairman Chris Dodd of Connecticut, rallied behind the measure.

Cross Currents

Comments by Representative David Camp of Michigan, the top Republican on the Ways and Means Committee, reflected the cross currents surrounding the issue. Camp said he is concerned that the bank tax would hurt lending and job creation.

He also called bonuses some banks are awarding “outrageous,” and said voter anger at the institutions will be difficult to ignore.

“It’s going to be a tough bill politically to oppose,” he said.

The fee drew immediate criticism from industry. “We remain concerned that this is more evidence of the cynical view of the banking industry which prevails in Washington,” David Hendler, a banking analyst at CreditSights Inc., wrote in a research note.

Companies including JPMorgan, Citigroup, Wells Fargo & Co., Bank of America, Goldman Sachs Group Inc. and Morgan Stanley were among the biggest beneficiaries of the government’s \$700 billion Troubled Asset Relief Program. All but Citigroup have repaid the money, according to a Treasury Department report released yesterday.

Holding Companies

Institutions that would be affected by the fee include bank holding companies, thrift holding companies, insured depositories, as well as some insurance companies.

Some companies that didn’t receive TARP funds would face the fee.

“The tax will penalize the firms who repaid TARP with interest and those who never even accepted it to begin with,” said Scott Talbott, senior vice president of government affairs for the Financial Services Roundtable, which represents large banks.

General Motors Co. and Chrysler Group LLC, which got aid from the bailout fund, would be exempt.

Obama yesterday cautioned major banks that passing the cost to consumers would backfire.

“I’d suggest you might want to consider simply meeting your responsibilities and I’d urge you to cover the costs of the rescue not by sticking it to your shareholders or your customers or fellow citizens with the bill, but by rolling back bonuses for top earners and executives,” he said.

Scott Talbott Discusses Outlook for Banking Regulation: Video

To view the video click [here](#).

Recovering TARP Losses: Video

Fox Business

To view the video click [here](#).

Obama proposes fee on big banks. But who would really pay?

The Christian Science Monitor

January 14, 2010

By Ron Scherer

On Thursday, President Obama proposed a new fee on banks to cover \$117 billion in expected losses in the Troubled Asset Relief Program (TARP).

Some bank analysts believe the money would come out of shareholders’ pockets, which could make bank stocks look less appealing. Bank lobbyists, meanwhile, say any new fee would get passed right along to businesses and consumers. But Mr. Obama says the cost of the fee should be swallowed by the bankers themselves – many of whom are about to receive large bonuses.

“I’d urge you to cover the costs of the rescue, not by sticking it to your shareholders or your customers or fellow citizens with the bill, but by rolling back bonuses for top earners and executives,” Obama said in announcing the plan.

Despite the president’s plea, bank lobbyists still say the proposed fee is likely to be passed along to consumers and businesses. The lobbyists have quickly labeled the plan, which Congress must vote on, a new tax.

“Taxes, like all other operating expenses, are included in the pricing structure,” says Scott Talbott, chief lobbyist at the Financial Services Roundtable in Washington, which lobbies for the 150 largest financial-services firms. “It could put upward pressure on goods and services, hitting consumers, business, and other banks.”

But some financial analysts think that banks would be hard pressed to pass along the fee. That's because smaller banks would be excluded from the fee, which means they would be able to compete for consumers' accounts, says Douglas Roberts at Channel Capital Research in Shrewsbury, N.J.

For example, in the area of New Jersey where Mr. Roberts lives, three or four new banks have formed in the past year, he says. "They won't have the burden of that additional fee," he says.

The fee isn't the only thing that the White House is pressing big banks on. They're also under pressure to make more loans. In the past, Obama has invited the CEOs of the largest financial institutions to the White House, where he's scolded them about the tightened credit.

This fee would only make the lending situation worse, Mr. Talbott argues.

"There will be less money available to make loans," he says. "It would reduce the amount of cash a bank has to lend."

There are also ramifications if the proposed fee is absorbed by shareholders. They might receive lower dividends or see the value of their holdings fall.

"The latter [falling stock values] matters more now than usual, since we want the banks to be able to raise considerable further capital going forward as we work to safeguard the system against future problems," writes Douglas Elliott, a fellow at the Brookings Institution, in an analysis. "This is another argument for keeping the taxation moderate."

Under Obama's plan, the fee would be 15 basis points, or 0.15 percent, of "covered liabilities," defined by the White House as the banks' debt. The fee would apply to banks with a minimum of \$50 billion in assets.

The fee would not be imposed on General Motors, Chrysler, Fannie Mae, Freddie Mac, and AIG. These firms received TARP loans but have not paid them back yet.

According to the White House, the new fee would be in place for 10 years or more, depending on how long it takes to recover the TARP losses.

But no one really knows how big the losses are, because the TARP program runs for another four years, as Talbott notes. The automobile companies may become significantly profitable by then. The real estate market may rebound.

"This tax is premature. The program is not closed yet," says Talbott.

Obama: 'We want our money back;' critics decry new bank 'tax'
USA Today
Jan 14, 2010
By David Jackson

Either way, Obama's plan to slap fees on banks that got federal bailouts prompted renewed debate today over the economy, politics, and responsibility for the financial crisis of 2008.

The proposed fee -- which must be approved by Congress -- is designed to refund American taxpayers who supported banks when they were on the verge of collapse, Obama said in a speech at the White House.

"We want our money bank and we are going to get it," he said, surrounded by members of his economic team.

Obama said his commitment is to "recover every single dime the American people are owed. And my determination to achieve this goal is only heightened when I see reports of massive profits and obscene bonuses at some of the very firms who owe their continued existence to the American people."

Critics said the fee -- which Obama wants in place for 10 years -- would be applied to banks that repaid their bailout money, or never sought it in the first place. They also said customers would end up paying for it.

Former Bush administration official Tony Fratto, now a CNBC commentator, called the proposal "a tax increase that will (a) be passed on to consumers; (b) reduce funds for lending; and (c) put U.S. firms at a disadvantage with their foreign competitors."

In a statement, the White House said the deficit of the Troubled Asset Relief Program is lower than expected, but remains at an estimated \$117 billion -- the target of the new proposed fee.

The fee will be in place at least 10 years, but even longer if needed to pay back every penny of TARP. This will not be a cost borne by community banks or small firms; only the largest firms with more than \$50 billion in assets will be affected. In fact, 60% of the revenue will come from the 10 largest financial firms.

The U.S. Chamber of Commerce sent a letter to administration officials saying the "tax" would have unintended consequences that "may cost the government more than it hopes to raise." They cited the prospect of lost jobs in particular.

"While the Chamber agrees that TARP funds should be recouped and excessive risk curbed, we are extremely concerned about a proposed bank tax because it may restrict the liquidity needed by small businesses to fuel job creation and economic growth," said the chamber's letter.

In his remarks, Obama said banks are obligated to pay off because irresponsible lending and money management nearly caused " a second great depression." He called the TARP program, initially set at \$700 billion, "a distasteful but necessary thing to do."

"Our country has endured the deepest recession we've faced in generations, and much of the turmoil was caused by irresponsibility on the part of banks and financial institutions," he said.

At one point, Obama criticized the financial industry for working with "the opposition party" -- i.e., the Republicans -- to block new Wall Street regulations that could prevent future bailouts. Obama and his aides questioned whether congressional Republicans would oppose the new fee in light of public outrage over big bonuses and other actions by financial firms.

Scott Talbott, senior vice president of government affairs with the Financial Services Roundtable, said the proposed fee has more to do with the November congressional elections than public finances.

"The politics has overshadowed the economics here," Talbott said.

UPDATE: Proposed Crisis Fee Could Cost Biggest Banks \$2B
The Wall Street Journal
January 14, 2010
By Matthias Rieker

President Barack Obama's proposed Financial Crisis Responsibility Fee is likely to cost the three biggest banks as much as \$2 billion a year, analysts said.

Banks and their representatives reacted to the proposed fee, intended to recoup some \$117 billion in expected losses to the U.S. government from the financial system bailout, with a mixture of resignation and defiance.

Wells Fargo & Co. (WFC) "was asked to participate in the [Troubled Asset Relief Program], and we did. We repaid the full investment to the government plus \$1.4 billion in dividends," the San Francisco bank said in a statement. "We hope that additional or punitive government fees will not reduce the industry's ability to help

consumers and small businesses access capital and credit, which lenders such as Wells Fargo have done consistently before and throughout this recession."

J.P. Morgan Chase & Co.'s (JPM) Chairman and Chief Executive Jamie Dimon said Wednesday on CNBC he accepts that banks will be taken to task to reimburse taxpayers for preventing a collapse of the financial system, but such reimbursement should not be in form of a penalty.

But some banking representatives balked at the proposal that their industry will now have to pay for the problems of the auto industry and Fannie Mae (FNM) and Freddie Mac (FRE), in addition to the parts of the crisis where bankers have accepted some responsibility--namely sloppy mortgage underwriting and taking on too much risk.

What's more, "we are far from any shortfall" in taxpayer money from TARP, said Scott Talbott, a vice president for government affairs at the Financial Services Roundtable, a lobbying group for large banks. "We don't know the end result of TARP. We think it will be a profit" for the Treasury Department. As such, the tax is premature, he said.

The sums that banks will have to pay are large. Analysts estimate that the fee for J.P. Morgan Chase, Citigroup Inc. (C) and Bank of America Corp. (BAC) would likely be around \$2 billion. Wells Fargo might have to pay around \$700 million a year. Morgan Stanley (MS) will have to pay around \$1 billion, Goldman Sachs Group Inc. (GS) a bit more, analysts calculate.

The fee for Bank of New York Mellon Corp (BK) and State Street Corp. (STT) could come in around \$200 million. All banks contacted for this article declined to comment on the fee.

Some foreign banks that operate in the U.S. would have to pay. Some large U.S. non-bank financial companies also would be subject to the fee.

A spokesman for the American Insurance Association said, "It's unclear how this tax will impact the property-casualty industry." The American Council of Life Insurers said it "is unable to comment until we have a clear understanding of how the proposal will impact our companies."

Analysts described the impact of the fee on the institutions as more of a headwind than a crippling penalty. Like many bankers, analysts believe that it will be the customers who ultimately suffer the consequences.

"If the bank fee were to run straight through to the bottom line, it would hit the institutions' net income for a range of 1.5% to 11.3% of their 2011 estimated earnings," Oppenheimer & Co. analyst Chris Kotowski wrote in a research note. "However, we don't believe that the fee will run directly to the bottom line. We view it as effectively an increase in the wholesale cost of funds that will be passed through to the customers" that take out loans, he wrote.

Analysts pointed to the fee as one more example of the heightened regulatory risk facing banks in the wake of the financial crisis. Public anger at the initial bailout has boiled over as the banks have recuperated from their near-collapse far more quickly than struggling homeowners, laid-off workers and the broad economy.

Congressman Barney Frank (D., Mass.), the chairman of the House Financial Services Committee, said on CNBC that banks benefited far more from TARP than simply through the cash infusions they received because TARP prevented the banking system from collapsing in the autumn of 2008. For that, he said, taxpayers should get their share.

The tax on banks, thrifts, and insurance companies with more than \$50 billion in assets is, in effect, a way to discourage risk. The proposed fee is 0.15% of bank assets minus tier 1 capital and deposits insured by the Federal Deposit Insurance Corp., essentially taxing the risk banks take by borrowing money to make loans.

But risk is part of banking, Talbott said. "The tax hits an essential part of banking," he said. Forcing bankers to rely only on customer deposits to make loans might limit their ability to lend, Talbott and bankers said.

Dodd Said to Weigh Dropping Consumer Agency From Overhaul Plan Bloomberg Business Week

January 15, 2010

By Alison Vekshin and Robert Schmidt

Senate Banking Committee Chairman Christopher Dodd has indicated he may consider dropping the Consumer Financial Protection Agency from the financial regulatory overhaul bill he is drafting with members of his panel, according to people familiar with negotiations.

Dodd may agree to shelve the proposed agency, a priority for the Obama administration, and replace it with a division within another federal agency to help advance the broader bill, said the people, who declined to be identified because negotiations are ongoing. The Wall Street Journal reported the matter earlier, citing people it didn't identify.

Dodd, a Connecticut Democrat, and seven other senators on the banking committee are negotiating the details of legislation based on a plan President Barack Obama released in June. The plan also called for strengthening derivatives oversight, creating a council of regulators to monitor systemic risk and a new mechanism for winding down collapsed systemically important firms.

Dodd spokeswoman Kirstin Brost said she had no immediate comment.

The financial-services industry opposes the consumer agency more than any other provision in the Obama plan and has lobbied members of Congress to defeat the proposal.

“The most effective solution to strengthen consumer protection is to keep the regulation of the bank and the products it sells within the same regulator,” said Scott Talbott, senior vice president of government affairs at the Financial Services Roundtable, a Washington-based industry trade group.

National Regulator

Senator Richard Shelby, the top Republican on the banking committee who is negotiating the legislation with Dodd, has said he opposes creating a standalone consumer agency and would back including it as part of a national bank regulator.

The agency, aimed at strengthening consumer protection in credit-card and mortgage lending, was included as part of financial overhaul legislation approved by the House in December.

Dodd, who announced on Jan. 6 that he will retire later this year, released a draft of his legislation in November that included the consumer agency. It was met with opposition from Republicans, prompting Dodd to scrap his plan and form working groups of senators on his committee to craft a bipartisan bill.

The Financial Services Roundtable's Steve Barlett on Those Bank Bonuses
Nightly Business Report
January 14, 2010
By Darren Gersh

Today the President took aim at bank bonuses. If bankers can pay themselves, the President said, they can pay back taxpayers for the TARP bailout.

This gets a bit complicated, since the losses in TARP are mostly in autos, AIG, and mortgage modifications. The Treasury has made a profit of roughly \$19 billion on its bank "investments." Still banks created many of the bad mortgage securities and there is no question the bailout helped keep afloat the bankers who are about to get bonuses.

Next week we will learn more about bank bonuses when the top firms report their earnings. It will make for interesting reading. For a preview I spoke with Steve Bartlett, head of the Financial Services Roundtable, the top lobbying group for big banks.

To view the video click [here](#).

A Taxing Debate Over Recouping Tarp Losses
The American Banker
January 14, 2010
By Cheyenne Hopkins

Fairness is hard to measure, but that was a key issue being asked Wednesday about the Obama administration's plan to recoup losses on the government's rescue efforts by charging large financial institutions a fee.

Is it fair?

Proponents say yes, arguing that financial institutions helped create the crisis and are profitable now only because they received help from the government. Opponents say no, claiming the companies being targeted are not responsible for the losses, that the fee is premature and, worse, it is perverse policy that will retard the economic recovery and drive up consumer costs.

"Using tax policy to punish people is a bad idea," JPMorgan Chase & Co. Chief Executive Jamie Dimon said Wednesday, after testimony before a panel investigating causes of the financial crisis. "All businesses tend to pass their costs on to their customers."

Today the administration is expected to detail its plan to impose a fee on the largest 20 to 25 financial institutions over 10 years. It would be levied against a company's liabilities, or its assets minus equity and insured deposits, with the goal of recouping \$120 billion in anticipated losses from Troubled Asset Relief Program funds. But those rescue funds went beyond commercial and investment banks — to automakers, American International Group Inc. and a government-sponsored mortgage modification program.

The proposal is to be submitted to Congress as part of the Obama administration's budget, due out in February.

Ed Yingling, the president and CEO of the American Bankers Association, said the large banks that received Tarp funding have repaid the government in full.

"There are no losses, zero, with respect to the banking industry," he said. "Taxpayers will make a profit on all of the investments in the banking industry."

Banks should not have to pay for "losses on two auto companies and an insurance company and the mortgage program," Yingling said.

But supporters said it is appropriate to tax banks now because they would not be making money today had they not been bailed out in late 2008 and early 2009.

"The argument can be made very forcefully that these large institutions benefited very favorably by the Tarp program and simply paying back what they borrowed wouldn't be sufficient," said Bill Longbrake, executive in residence at the Robert H. Smith School of Business at the University of Maryland and a former vice chairman of Washington Mutual Inc. "Their profits have actually benefited through the government's intervention through the Tarp program."

Doug Elliott, an economic studies fellow at the Brookings Institution, agreed.

"AIG and the auto companies can't afford to pay the money back," he said. "We are going to lose money on them anyway. If we tax them, they are going to lose more money and we are going to get even less money back."

Republicans lawmakers bashed the proposal earlier this week, but House Financial Services Chairman Barney Frank championed it on Wednesday.

"It's entirely fair to tax the financial institutions," Frank said at a news conference. "The financial institutions collectively, in particular the larger ones, caused problems by their errors."

The industry was caught off guard when news of the bank tax broke this week.

The 2008 Tarp law requires the administration recover from the financial industry any losses the program sustains, but not until 2013. Industry observers argue that the administration is moving to recoup funds now in response to populist anger over the return of big pay packages on Wall Street.

"This is payback for executive compensation," said Oliver Ireland, a partner at Morrison & Foerster LLP. "I think they are essentially trying to blame the banks for what were in some cases regulatory failures beyond the banks' control."

Scott Talbott, senior vice president of government affairs for the Financial Services Roundtable, said it is too early for the government to collect.

"Politics has overtaken economics," Talbott said. "The tax is premature given we don't know the profit and loss of Tarp and the tax contemplated by the law isn't triggered for four years."

Sources split Wednesday over the tax's likely impact on lending.

Gary Townsend, the CEO of Hill-Townsend Capital LLC, said the administration is trying to "talk out of both sides of their mouth" by urging banks to lend more while levying a new tax that could hinder their ability to lend.

Obama "is running with the tide and all of the public outcry with regard to bankers," he said. "This is politics at its worst."

But while Tom Mitchell, a senior analyst with Miller Tabak & Co., agreed that the tax is "political grandstanding to punish the banks," he does not suspect it would crimp lending.

"American banks have proved that you can give them all the money in the world and they won't give it to anybody," Mitchell said. "They have been flush with cash for a long time, for at least a year, and they haven't done anything with it," he said. "I think this will have no impact on whether they loan money or not."

Some sources pointed beyond the immediate debate to the broader picture.

Ernest Patrikis, partner in the bank and insurance practice at White & Case LLP in New York, said he is focused on the collective impact of government initiatives.

"I'm not concerned about any one proposal that we see. I'm much more concerned about the cumulative impact on the commercial banking system," said Patrikis, a former attorney for the Federal Reserve Bank of New York and, later, AIG. "The legislation that passed the House would have a resolution fund, so assessments would be made to do that funding. The FDIC would have assessments related to compensation. This would be another one, a tax or a fee or an assessment. Higher capital adequacy standards [are coming]."

Obama proposes fee on major financial firms

China View
January 15, 2010

U.S. President Barack Obama on Thursday proposed that major financial firms in the United States pay a new fee to help government recover losses on a financial crisis bailout fund.

The tax on banks, insurance companies and brokerages with more than 50 billion dollars in assets, would start after June 30 and raise 90 billion dollars over the next 10 years.

The Obama administration, which will send the bill to Congress in early February, expects that 60 percent of the revenue would come from the 10 largest firms.

In a televised speech, Obama said that he was determined that every dollar spent from the 700 billion dollar Troubled Asset Relief Program to rescue Wall Street firms, auto companies and mortgage holders is either repaid or paid for in some fashion.

"My determination to achieve this goal is only heightened when I see reports of massive profits and obscene bonuses at the very firms who owe their continued existence to the American people," Obama said at the White House.

"We want our money back! And we're going to get it," said the president, surrounded by members of his economic team.

"My commitment is to recover every single dime the American people are owed," Obama stressed, adding that the desire is heightened by reports of new big bonuses for bank executives.

"That's why I'm proposing a financial crisis responsibility fee to be imposed on major financial firms until the American people are fully compensated for the extraordinary assistance they provided to Wall Street," he stated.

According to Obama administration, the 700 billion dollar financial bailout program will end up costing U.S. taxpayers around 117 billion dollars.

"Obviously, a lot less than the 700 billion dollars that people have feared, but still a lot of money," said Obama.

In his remarks, Obama said if these companies are in good enough shape to afford massive bonuses, they are surely in good enough shape to afford paying back every penny to taxpayers.

However, the Financial Services Roundtable, which represents 100 top financial services firms, voiced strong rejection to the proposal.

"Two-thirds of the TARP investment from banks has already been repaid with a large profit to the taxpayer," said the Roundtable's president and chief executive Steve Bartlett.

"This proposed tax will do nothing more than stifle economic recovery and encumber more pressing concerns, such as covering new regulatory costs."

The U.S. Chamber of Commerce also sent a letter to the Obama administration, saying the proposed fee would have unintended consequences that "may cost the government more than it hopes to raise."

"While the Chamber agrees that TARP funds should be recouped and excessive risk curbed, we are extremely concerned about a proposed bank tax because it may restrict the liquidity needed by small business to fuel job creation and economic growth," said the Chamber's letter

Obama's Plan to Tax Financial Firms Has Populist Appeal, Political Critics Industry-News

January 15, 2010

By Lorraine Woellert and Julianna Goldman

While President Barack Obama counts on the populist appeal of a plan to tax the biggest financial firms, his idea already is being buffeted by political headwinds. Many Democrats remained silent about the plan Obama announced yesterday. Others, such as Senate Finance Committee Chairman Max Baucus of Montana, were noncommittal in their reaction. And some of Obama's fellow Democrats expressed opposition. "I just don't think the financial services industry is a piggy bank that government can dip into anytime it needs to solve its budget problems," said Representative Michael McMahon, a Democrat who represents parts of New York City. The fee would apply to financial companies with assets of more than \$50 billion. It would be based on bank liabilities and imposed starting June 30 on companies such as Citigroup Inc., American International Group Inc. and Bank of America Corp. With congressional elections coming in November, Obama is tapping into public anger over the taxpayer bailouts of the financial and auto industries, Wall Street bonuses and the federal deficit, which rose to \$1.4 trillion last year. Reports about bank profits and bonuses come as the nation's unemployment rate remained at 10 percent last month. It is "a mistake" and "inappropriate" to view banks as an easy political target, McMahon said. "The public is incredibly angry at the banks and feels that the banks have made a huge

amount of profits off the taxpayer rescue,” said Doug Elliott , a fellow at the Brookings Institution in Washington and a former managing director at JPMorgan Chase & Co. “Virtually every figure in Washington right now is trying to step forward and make clear they’re with the people and not the bankers.”

Passage Prospects While there’s a good chance Obama’s proposal will pass the House, its fate in the Senate is less certain, reported FBR Capital Markets analysts led by Paul Miller . The tax “has a very low probability of passage in the Senate, as nearly all Republicans and a sufficient number of Democrats would likely vote against the measure,” the analysts, based in Arlington, Virginia, wrote in a note to investors. Obama said the levy, which would be imposed on as many as 50 financial firms, is aimed at getting back “every single dime” of taxpayer money that bailed out those companies during the worst recession since the 1930s.

Revenue Estimates The administration estimates the tax will raise \$90 billion over 10 years and \$117 billion over 12 years. More of the plan’s details will be included in the budget message Obama sends Congress next month. Republicans labeled Obama’s “Financial Crisis Responsibility Fee” a politically motivated proposal that, while aimed at an unpopular industry, would end up hurting most citizens. Michael Steele , chairman of the Republican National Committee, called the fee “nothing more than another tax on the American public.” Representative Jeb Hensarling , a Texas Republican, called the proposal “the latest folly in the Obama administration’s failed attempt to borrow, spend and tax their way into economic prosperity.” Key Democrats, including House Speaker Nancy Pelosi of California, House Financial Services Committee Chairman Barney Frank of Massachusetts and Senate Banking Committee Chairman Chris Dodd of Connecticut, rallied behind the measure.

Cross Currents Comments by Representative David Camp of Michigan, the top Republican on the Ways and Means Committee, reflected the cross currents surrounding the issue. Camp said he is concerned that the bank tax would hurt lending and job creation. He also called bonuses some banks are awarding “outrageous,” and said voter anger at the institutions will be difficult to ignore. “It’s going to be a tough bill politically to oppose,” he said. The fee drew immediate criticism from industry. “We remain concerned that this is more evidence of the cynical view of the banking industry which prevails in Washington,” David Hendler , a banking analyst at CreditSights Inc., wrote in a research note. Companies including JPMorgan, Citigroup, Wells Fargo & Co. , Bank of America, Goldman Sachs Group Inc . and Morgan Stanley were among the biggest beneficiaries of the government’s \$700 billion Troubled Asset Relief Program. All but Citigroup have repaid the money, according to a Treasury Department report released yesterday. Holding Companies Institutions that would be affected by the fee include bank holding companies, thrift holding companies, insured depositories, as well as some insurance companies. Some companies that didn’t receive TARP funds would face the fee. **“The tax will penalize the firms who repaid TARP with interest and those who never even accepted it to begin with,” said Scott Talbott , senior vice president of**

government affairs for the Financial Services Roundtable, which represents large banks. General Motors Co . and Chrysler Group LLC , which got aid from the bailout fund, would be exempt. Obama yesterday cautioned major banks that passing the cost to consumers would backfire. “I’d suggest you might want to consider simply meeting your responsibilities and I’d urge you to cover the costs of the rescue not by sticking it to your shareholders or your customers or fellow citizens with the bill, but by rolling back bonuses for top earners and executives,” he said.

US Bancorp hires ex-Wachovia lobbyist to set up its first D.C. political office
MinnPost.com
January 15, 2010
By Brad Allen

Minneapolis-based US Bancorp has hired an experienced lobbyist to set up the bank’s first Washington office, according to news reports.

Walter Price, former Charlotte, N.C.-based Wachovia Bank lobbyist was reportedly hired by US Bancorp and will begin work Tuesday.

According to a report in The Hill, a newspaper that covers Washington politics, Price was registered as a lobbyist at Wachovia for more than five years before the bank closed its lobbying office in the fourth quarter of 2008. Wachovia was bought by Wells Fargo during the height of the financial crisis.

USBancorp CEO Richard Davis, who is already highly visible in the industry, will likely further increase the bank’s Washington profile as chairman-elect of the board of the Financial Services Roundtable, the 100-member financial trade association based in the nation's capital. Davis also is a member of the Financial Services Forum, an association of CEOs of 18 of the largest financial firms.

Steve Dale, spokesman for the bank, acknowledged the hire and said they will be making a formal announcement next week.

Dodd Said to Weigh Dropping Consumer Agency From Overhaul Plan
Bloomberg
January 15, 2010
By Alison Vekshin and Robert Schmidt

Senate Banking Committee Chairman Christopher Dodd has indicated he may consider dropping the Consumer Financial Protection Agency from the financial

regulatory overhaul bill he is drafting with members of his panel, according to people familiar with negotiations.

Dodd, 65, may agree to shelve the proposed agency, a priority for the Obama administration, and replace it with a division within another federal agency to help advance the broader bill, said the people, who declined to be identified because negotiations are ongoing. The Wall Street Journal reported the matter earlier, citing people it didn't identify.

Dodd, a Connecticut Democrat, and seven other senators on the banking committee are negotiating the details of legislation based on a plan President Barack Obama released in June. The plan also called for strengthening derivatives oversight, creating a council of regulators to monitor systemic risk and a new mechanism for winding down collapsed systemically important firms.

Dodd spokeswoman Kirstin Brost said she had no immediate comment.

The financial-services industry opposes the consumer agency more than any other provision in the Obama plan and has lobbied members of Congress to defeat the proposal.

“The most effective solution to strengthen consumer protection is to keep the regulation of the bank and the products it sells within the same regulator,” said Scott Talbott, senior vice president of government affairs at the Financial Services Roundtable, a Washington-based industry trade group.

National Regulator

Senator Richard Shelby, the top Republican on the banking committee who is negotiating the legislation with Dodd, has said he opposes creating a standalone consumer agency and would back including it as part of a national bank regulator.

The agency, aimed at strengthening consumer protection in credit-card and mortgage lending, was included as part of financial overhaul legislation approved by the House in December.

Dodd, who announced on Jan. 6 that he will retire later this year, released a draft of his legislation in November that included the consumer agency. It was met with opposition from Republicans, prompting Dodd to scrap his plan and form working groups of senators on his committee to craft a bipartisan bill.

**Obama proposes 'fee' to recover bailout funds
Effect on executive bonuses questioned by economists**

Washington Times
January 15, 2010
By Kara Rowland

President Obama on Thursday proposed a new tax on the nation's biggest banks and financial firms that he said would recoup taxpayer bailout funds by forcing Wall Street firms to give up lucrative executive bonuses - a notion that several economists described as little more than a pipe dream.

In a populist tongue-lashing aimed at firms he said were to blame for the financial meltdown, Mr. Obama said the "financial crisis responsibility fee" will ensure taxpayers recover the money they pumped into the Troubled Asset Relief Program (TARP) by raising \$90 billion over the next decade.

"My commitment is to recover every single dime the American people are owed," Mr. Obama said of the new fee, which still must be approved by Congress.

The president said his "determination to achieve this goal is only heightened when I see reports of massive profits and obscene bonuses at some of the very firms who owe their continued existence to the American people - folks who have not been made whole, and who continue to face real hardship in this recession."

Economists say the tax may recoup bailout money doled out under TARP, but that it was not likely to cut into executive compensation packages.

"They won't take it from the bonus pool; you can be sure of that," said Cornelius Hurley, director of the Morin Center for Banking and Financial Law at the Boston University School of Law.

A leading financial industry group did not directly attack the fee, but called Mr. Obama's proposal premature. A number of banks have already repaid some or all of their bailout funds.

"We knew that the industry could be on the hook for any losses, so we're happy to pay our share for the losses - that being said, we don't anticipate there are going to be any losses," said Scott Talbott, a senior vice president at the Financial Services Roundtable. "To impose a tax now before we even know what the loss is, if any, will hinder the recovery effort and reduce banks' ability to lend."

And Rep. Tom Price of Georgia, chairman of the House Republican Study Committee, accused the administration of sending a mixed message with the new tax proposal.

"It seems this tax increase is driven more by revenge than recovery," Mr. Price said.