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Lawmakers Avoiding Direct Interference in Wall Street Pay

Michael Crittendon

Wall Street Journal

October 16, 2009

Assailing Wall Street's excesses is as natural as shaking voters' hands for lawmakers who are eager to pull out the pitchforks when executive pay catches the public's attention.

But with banking and investment powerhouses prepared to pay record bonuses less than a year after many were rescued by taxpayers, the reaction from the Democratic majority in Congress has been muted. In sharp contrast to the furor

surrounding insurer American International Group Inc. in March, when aggressive taxes on bonuses were seriously debated by Congress, lawmakers instead seem content to carry only a small stick when dealing with the finance industry.

Lawmakers are hesitant to be too active on Wall Street pay because they don't want to be seen as having too big a role in the economy. The financial crisis forced Congress's hand last year, resulting in a number of members casting uncomfortable votes for the \$700 billion bailout package. Now that markets are calmer, many are cautious about taking steps that could suppress a fuller recovery.

"I think it's a delicate balance ... [Wall Street pay] does seem large, but at the same time you don't want to stifle your sales force," said Scott Talbott, senior vice president for government affairs at the Financial Services Roundtable, a bank lobbying group.

That has sparked unease on the left. "I try not to be naive, but I'm surprised at how little is being done to restrain Wall Street so soon after an epic collapse," said Robert Weissman, president of liberal consumer group Public Citizen.

Fundamental changes to compensation rules are instead likely to come through the Treasury Department and Federal Reserve. Kenneth Feinberg, the Obama administration's pay czar, is expected soon to make major changes in the compensation packages for 175 of the most-highly paid executives at the seven firms that have received the most government aid. Mr. Feinberg also is reviewing the pay structures for the next 75 top-paid employees at each firm.

The Fed will focus on "incentive compensation" across a firm's entire structure, not just at the executive level, with the goal of identifying situations where pay structures encourage excessive risk-taking. Mortgage brokers being paid to write as many loans as possible, rather than writing quality loans, would be the type of thing regulators would scrutinize.

Fed governor Daniel Tarullo, asked about compensation levels during a Wednesday Senate hearing, said too many financial firms have yet to "come to grips with the fact that things have changed."

"Things are going to change more; that means business models, that means the way of assessing risk, that means how you run your institution," Mr. Tarullo said.

Congress, which has embarked on the most ambitious rewrite of securities laws since the Great Depression, is embracing a relatively low-key effort on executive pay. Central to the effort is so-called say-on-pay legislation that generally would give shareholders of a company a nonbinding vote on its executives' pay packages.

The Obama administration has expressed support for the provision as part of the broader revamp of financial regulation. Earlier this year, Congress tamped down Wall Street bonuses, but just for banks receiving cash from the Treasury Department's Troubled Asset Relief Program.

Rep. Barney Frank (D., Mass.), a staunch advocate of the measure, said this year's rebound in Wall Street pay underscores why shareholders should have a greater say. He fended off charges from the left that his plans were too weak. "I don't think the public sector should decide [pay levels], but it's important for shareholders to have more say."

Some lawmakers on Capitol Hill plan to push for more-onerous rules. Rep. Brad Sherman (D., Calif.) said the largest financial firms are benefiting from an implied government guarantee and should face stricter limits than just a nonbinding shareholder vote.

Next economic crisis looms: Commercial real estate defaults

Kevin Hall

McClatchy

October 16, 2009

Two years after fissures in the residential housing market gave way to a national collapse of home prices and sales, experts warn the next shoe to drop is the commercial real-estate market, bringing more woes to the battered economy.

Thousands of commercial mortgages valued at hundreds of billions of dollars are approaching a renewal date. By some estimates, two out of every three will no longer meet the original loan conditions and won't be able to refinance. And with prices for commercial properties expected to plunge, a vicious cycle may unfold much as it has in the nation's housing market.

"It's the next wave to hit. It's the next round of bad news," said Scott Talbott, the senior vice president of government affairs for the Financial Services Roundtable, a trade group for big banks and other financial institutions who are collectively concerned about the coming problems.

A commercial mortgage meltdown is likely to prolong the nation's economic recovery. The falling prices in commercial real estate will lead to additional bank losses at a time when banks are sapped by home mortgage defaults and soaring credit card defaults. This could lead to future additional taxpayer assistance for the banks.

The reality is already on display. On April 16, the nation's second largest mall developer, General Growth Properties, filed for bankruptcy protection. The Chicago-based company owns more than 200 malls across the U.S., and was unable to renegotiate its debts as they came due.

Six days later, a 40-story office tower on New York's Avenue of the Americas was seized by its creditor, a Canadian-owned pension fund. The tower's owner, Macklowe Properties, couldn't meet loan terms.

"On the street, the rumor is it is coming and it's going to come fast and furious. Some people are predicting September," said Paul Waters, a New York-based executive vice president of brokerage operations in North America for NAI Global, a top-five commercial real estate brokerage with operations across the globe.

Just like the housing meltdown, the commercial real estate crunch is likely to begin as a slow bleed that gains momentum. The coming commercial real-estate crunch is likely to be spread evenly across the nation, in large part because of an outgoing economic tide that's spared few companies anywhere.

"There's going to be a lot of trouble on Main Street with some of these commercial and industrial buildings. The biggest impact will be on some of the smaller owners," Waters said. "The smaller local regional players that are stretched thin may have some great difficulties with their mortgages."

How bad it gets will depend on speed of economic recovery. Office space and multifamily apartments, two huge components of commercial real estate, are highly dependent on employment. Even if the economy begins growing again late this year as forecast, the number of unemployed is expected to keep rising well into next year.

"The translation is that office vacancy rates would continue to rise until mid-to late-2010," said Christopher Cornell, an economist specializing in commercial real estate for Moody's Economy.com, adding that "it's a drag on the recovery" well into next year.

The last crisis in commercial real estate — which includes office space, malls, industrial parks and multifamily apartments — came in the early 1990s. The problem then was an oversupply of new properties. Today, the driver is a deep economic downturn, with the economy contracting by more than 6 percent in each of the last two quarters.

As in the housing meltdown, weakened lending standards are a big part of the story for commercial real estate. Unlike housing, however, the ill effects from weakened commercial lending standards have been camouflaged to date because they've had a longer horizon than housing did over which to implode.

"If you take a look between 2005 and 2007, the underwriting standards on both the consumer side and the commercial side were spinning out of control," said Kevin Blakely, the president of the Risk Management Association, a Philadelphia-based trade group for financial risk managers. "I think it is a bigger issue than we like to admit."

In housing, many of the loans with poor underwriting went bad within two years, when adjustable-rate mortgages were due to reset to higher interest rates and raise monthly payment costs for homeowners.

However, commercial properties carry mortgages with lives of five years or 10 years. And these loans issued from 1999 to 2007 are coming up for a rollover — refinancing under similar terms. Today's economic downturn and credit crunch makes that unlikely, however, as credit standards have tightened.

As in housing, many commercial properties have mortgages that were bundled together in pools, sliced and diced and instead of being held by banks were sold to investors as bonds and securities. Thousands of these commercial mortgage-backed securities, or CMBS, are reaching their maturity dates over the next three years. Ten-year mortgages issued in 1999 and 2000 start coming due late this year, and five-year loans issued from 2005 to 2007 come due early next year.

"If you stop and think about what is coming up for maturity over the next couple of years, either on the banks' books or CMBS, there is going to be a day of reckoning as those loans mature and they have to be rebalanced and reset to today's underwriting standards," said Blakely, who worked 17 years as a bank regulator followed by 17 years as a bank executive and risk officer.

A March study by the Wall Street arm of Deutsche Bank, Germany's largest financial institution, points to this day of reckoning. It found that the number of U.S. commercial loans that hadn't refinanced within a month of their end date had tripled.

Refinancing usually happens months ahead of the end date. Since October, commercial refinancing has dropped from a pace of more than 400 mortgages a month to fewer than 100 a month, the bank said.

The report, entitled "Commercial Real Estate at the Precipice," said that under lenient underwriting standards, 56.8 percent of existing commercial mortgages wouldn't qualify for refinancing. Using conservative standards, two thirds won't make the grade.

That suggests that lenders will have to extend loans, much like they've tried to freeze adjustable-rate residential mortgages at their original lower rate to avoid a foreclosure. Even if the commercial loans are simply extended for a year or two, however, commercial real-estate prices are forecast to keep dropping so the time bomb will be delayed not defused, the report concluded.

"In our view, much of these losses are unavoidable, even in a mass (loan) extension environment," wrote Richard Parkus, the report's author.

Forecaster Moody's Economy.com expects \$375 billion in losses on the \$3.5 trillion in commercial mortgage loans and securities outstanding. That a loss rate of about 11 percent, nearly twice the rate of home mortgage foreclosures, and the forecaster thinks that about \$200 billion of those commercial losses are still ahead.

"This is significant, but small compared to the over \$1.1 trillion losses ultimately expected on residential mortgage loans and securities. Commercial mortgage losses will be a significant problem for many mid-sized and small banks," said Mark Zandi, the chief economist for Moody's Economy.com. "In fact, most of the banking failures that occur in the next several years will be due to losses on commercial mortgage loans."

Earlier this year, the Treasury Department and Federal Reserve announced a program in which they'll lend to investors willing to purchase the safest, top-rated commercial mortgage-backed securities. The Fed is trying to use its power as a lender of last resort to help keep some credit flowing into commercial real estate markets. This effort, however, is of limited importance because it targets the safest of commercial mortgages and won't address all that ails this important sector.

Additionally, pools of commercial mortgages are expected to be included in the auction of so-called toxic assets being readied by the Treasury Department through a public-private partnership.

Still, commercial real-estate brokers are bracing for protracted hard times. "There will be a re-engineering of the culture of the real estate business," said Waters, the NAI Global executive, who expects few new development projects until the mortgage problem runs its course. "All the avenues to dispose (of bad commercial loans) are going to be utilized."

Funding of New Consumer Agency Cloudy and Controversial
Albert Bozzo
CNBC
Thursday, October 15, 2009

With a key Congressional committee moving on legislation creating a powerful consumer financial products watchdog, the agency's vague and unusual funding structure is likely to draw greater scrutiny.

“The whole issue of how it gets funded--how it fits into the appropriation process and whether taxpayers pay for it--all has to be worked out,” says veteran banking industry analyst Bert Ely of Ely & Company. “To what extent is it supposed to cover all its costs or produce revenue that exceeds its costs?”

Questions abound about the controversial agency, which was first proposed by the Obama administration in June and is meant to assume some of the existing regulatory responsibilities of the Federal Reserve as well as other entities.

And buried under the financing discussions is the fundamental issue of whether Congress is encroaching on the central bank's independence.

Unlike existing banking regulatory agencies, such as the Office of the Comptroller of the Currency, the CFPA will not be entirely funded by industry fees, known as assessments. It also wouldn't receive supplemental income via the normal Congressional appropriations process.

What's more, who and what will be paying those assessment fees is still unclear.

The House Financial Services Committee discussion draft of the bill simply states “any person who engages directly or indirectly in a financial activity, in connection with the provision of a consumer financial product or service ... or in connection with the provision of a consumer financial product or service, provides a material service....”

That casts a net beyond the typical financial sector.

“The thinking in part is to assess non-bank financial institutions,” said one knowledgeable Congressional source, ahead of the committee's markup Thursday. “Pay-day lenders, mortgage companies.”

Mortgage companies are definitely in. Not only are their products specifically mentioned in the bill, but the industry has been vilified for its predatory lending

practices, the subprime mortgage meltdown and its contribution to the foreclosure crisis.

Credit unions, say analysts, are very likely out. Credit card companies, given the recently passed credit card law, would presumably be in. But what about insurers?

It gets complicated because five bank holding companies and Wells Fargo now regulated by the Fed are all in the mortgage lending and/or servicing business. Many banks also have credit card operations.

“It becomes a huge issue: What industries, organizations are going to subject to it,” says Ely. “It also becomes very much of a cost-shifting exercise” in that assessment fees by other agencies may either be shared and/or diverted.

Nationally chartered banks, for instance, already pay assessment fees to the federal comptroller to cover safety-and-soundness exams as well as compliance activities. A similar arrangement exists on the state level. So would funding from the comptroller be diverted?

Given the lack of detail at this point—more than usual for massive legislation—it’s impossible to determine how many institutions would be covered, what the assessment rates would be and thus what percentage of the operating funds would be generated from that source.

On top of that, all institutions, apparently, will not be treated equally, which would presumably require additional criteria and metrics.

Fees will be “based on the size and complexity” of a covered entity, the draft bill states, but also “its compliance record.”

That sounds punitive, say analysts, and “highly unusual”, according to one former Fed official.

Analysts say an unusually high amount of detail will seemingly be left to the new agency's director.

Fed Piggy Bank

Highly unusual certainly describes the agency’s other source of funding.

The bill states that each year the Fed's “Board of Governors shall transfer funds in an amount equaling 10 percent of the Federal Reserve System’s total system expenses (as reported in the Budget Review of the Board of Governors most

recent Annual Report to Congress) to the [CFPA] Director for the purposes of carrying out the authorities granted in this title.”

That 10 percent presumably represents the Fed’s operating costs for supervision and compliance activities of its consumer division, a good part of which entails implementing and enforcing the Community Reinvestment Act, according to people familiar with central bank’s operations. (The new agency will be in charge of the CRA.)

Based on the most recent report, system expenses, excluding the costs of printing and transporting the US currency, totaled \$3.37 billion in 2008. Some \$3.45 billion was budgeted for 2009.

Ten percent of those levels amounts to \$337 million and \$345 million, respectively.

Yet, there’s no single line item in the budget review that fits the compliance description, making it difficult to extrapolate, and the Fed’s consumer functions are carried out by both the board and the regional banks, further complicating the issue.

The Fed did not respond to a request to break down its consumer protection functions, staffing levels or operating costs.

“It is pulling ten percent out of the hat,” says veteran economist David Jones, who has written several books about the central bank. “It’s sort of an artificial construct.”

The budget, however, does include the following:

In 2008, the board spent almost \$56 million on banking supervision and regulation. Another \$20 million went to consumer and community affairs. There were about 270 staff positions.

In the same year, the 12 regional banks in the Federal Reserve System spent \$642.2 million on supervision and regulation in 2008. About \$714.2 million was budgeted for 2009.

By contrast, the FDIC’s operating budget for 2009 was \$2.24 billion, up slightly from the year before, but more than double what it was in 2005.

“The size and cost aren’t clearly defined, leaving both questions open ended,” says Scott Talbott, SVP and head of government affairs for the Financial

Services Roundtable, which, like many other business group, strongly opposes the CFPA.

Though the math may be puzzling, the broader role of the Fed in funding the CFPA is troublesome.

“This is the first time we would fund something non-Fed by the Fed. I find this troublesome,” says Mark Calabria of the Cato Institute, who recently worked for Richard Shelby of Alabama, the ranking GOP member of the Senate Banking Committee. “This seems to be a huge transfer of power to an agency that will never have to come back for funding.”

“It’s a way of doing a back-door appropriation,” says Robert Glauber, a former senior Treasury Department and Boston Fed official, who recently stepped down as non-executive interim chairman of Freddie Mac.”

That’s because the Fed’s budget is essentially independent of Congressional oversight and works in a self-funding way. Practically speaking, the central bank derives its income by buying government bonds and notes from the Treasury and collecting the interest like any other investor. The Fed keeps a certain amount of the profit while the rest goes back into general government coffers.

Calabria and others say Congress is being inconsistent, having previously attacked the Fed for the aggressive use of its emergency lending powers under its charter to leverage its balance sheet and provide all kinds of liquidity to individual firms like AIG, as well as the overall system, which essentially circumvented Constitutional rules on spending authority.

In the same way, many in Congress were also unhappy about the Treasury Secretary’s unusual authority and discretion in determining the allocation of funds under the \$700-billion TARP program.

Though most of that money went to bail out Wall Street firms, Congress was somewhat appeased when tens of billions of dollars were redirected to efforts benefiting small business and consumers, such as the Obama administration’s massive foreclosure prevention program.

Glauber, who played a key role in the Bush administration’s reform efforts in the wake of the savings and loan crisis 20 years ago, says the CFPA funding issue is less about a money shuffle than a power grab.

“This goes to the heart of the bigger issue, and that’s the future of the Fed and its independence,” he says. “When Congress starts allocating the Fed’s profits you take one step closer to Congressional oversight of the Fed

Obama, Advisers Fault Rescued Banks for Opposing Rules Revamp
Julianna Goldman
Bloomberg
October 19, 2009

Obama administration advisers said U.S. banks bailed out with taxpayer funds have responsibility to support the president’s effort to overhaul the rules for Wall Street and avoid future financial crises.

White House officials say they are frustrated that major financial firms are fighting President Barack Obama on the regulatory overhaul after taxpayer bailouts helped firms restore profits and near-record compensation for executives.

Their anger is directed even at companies such as New York- based JPMorgan Chase & Co. and Goldman Sachs Group Inc. that have paid back their government assistance and last week reported a surge in third-quarter earnings.

“The American people have a right to be frustrated and angry,” Chief of Staff Rahm Emanuel said on CNN’s “State of the Union” yesterday. Banks receiving aid are “literally going and fighting the very type of regulations and reforms that are necessary to prevent, again, a crisis like this happening.”

The issue, administration officials said, is the banking industry is generally on sound footing because of government help, and lobbying against Obama’s regulatory plans goes against the nation’s long-term interest.

In interviews, speeches and statements, they are highlighting what they say is a disconnect between Wall Street and the rest of the country: while some big banks report compensation plans and profits at pre-crisis levels, the unemployment rate rose to 9.8 percent last month and home foreclosures jumped 29.2 percent from a year earlier.

The tougher message is being repeated from the president on down.

‘Firm Rules’

Now is the time for “firm rules of the road so that banks can’t game the system and the financial crisis on Wall Street doesn’t end up hurting folks on Main Street,” Obama said Oct. 15 at a Democratic Party fundraiser in San Francisco.

Lawrence Summers, director of Obama’s National Economic Council, reinforced the theme Oct. 16 in New York.

“There is no financial institution that exists today that is not the direct or indirect beneficiary of massive taxpayer support for the financial system,” Summers said in remarks to a conference sponsored by the Economist magazine.

On the Sunday talk shows, advisers sought to show the bankers had an obligation after receiving taxpayer assistance when the credit markets seized up.

“They have responsibilities,” senior adviser David Axelrod said on ABC’s “This Week” yesterday. “They ought to express them by increasing lending, which is what we need right now, and by standing down.”

Obama Renews Push

Obama is renewing his push to redo financial industry regulations by the end of the year. Many of his proposals, particularly creation of a Consumer Financial Protection Agency, are facing stiff industry opposition.

Groups led by the Financial Services Roundtable and American Bankers Association, both based in Washington, urged Congress in July to scrap the consumer agency, saying creation of a new regulator would cut consumer access to credit.

Goldman Sachs Chairman and Chief Executive Officer Lloyd Blankfein said he didn’t expect a “backlash” when he accepted the government funds.

“Had I know it was as pregnant with this kind of potential for backlash then of course I would not have liked it,” Blankfein said Oct. 16 at a Fortune magazine breakfast in New York.

“We are firm believers in effective regulation and believe that it is systemically important to have a regulatory framework which ensures stability of the financial system,” Goldman Sachs spokesman Lucas van Praag said.

‘Political Agendas’

Joseph Evangelisti, spokesman for JPMorgan, referred to comments Chairman and CEO Jamie Dimon made in his letter to shareholders, in which he said that the extent of the problems made it clear that “rules and regulations must be completely overhauled.” Dimon also said that new policies should be “grounded in

a thorough analysis of what happened” and that “political agendas or simplistic views will not serve us well.”

The mounting frustration about pushback from the industry came the same week that the Dow Jones Industrial Average climbed above 10,000 for the first time in a year and firms including JPMorgan and New York-based Citigroup Inc. reported third- quarter earnings that beat analyst estimates.

Administration officials say they recognize a healthy banking sector is critical to the economic recovery and that they’re limited in their ability to penalize the firms, particularly those that no longer owe the government money.

Executive Compensation

The most politically volatile issue is executive compensation. Obama has said some resistance to his agenda stems from resentment about expanding government involvement in the private sector, including bank bailouts. Reports about rising profits, executive salaries and bonuses following on the government rescue, may add to voter dissatisfaction.

“Bonuses are offensive,” Axelrod said on ABC. “You’ve seen a lot of firms go to stock rather than cash, so at least people have a stake in the success of their company.”

Citigroup last week reported a \$101 million third-quarter profit as it slowed the pace of building reserves for future loan defaults. On a per-share basis, the bank had a loss of 27 cents because of a charge related to the exchange of preferred shares into common stock.

Citigroup, JPMorgan Chase and San Francisco-based Wells Fargo & Co. also asked regulators for a reprieve from meeting higher capital requirements taking effect next year, arguing that lending and the economic recovery would be harmed.

Goldman, JPMorgan

Goldman Sachs, which repaid \$10 billion it received from the U.S. Treasury last year, also reported a surge in third- quarter profit. The company has set aside \$16.7 billion to pay employees so far this year, enough to pay each worker \$527,192 for the period.

JPMorgan, which repaid \$25 billion of U.S. rescue funds in June, said that its profit surged sevenfold in the quarter, to \$3.59 billion, on higher investment-banking revenue. The company, which is the second biggest bank by assets, set

aside \$8.79 billion for compensation and benefits for its investment- bank employees in the first nine months of 2009, enough to pay \$353,834 to each.

Administration officials have noted the appointment of Kenneth Feinberg to oversee compensation plans at the top firms that haven't repaid the U.S. They also cite Obama's support for giving shareholders a non-binding say on compensation.

Feinberg's compensation reviews for companies including Charlotte, North Carolina-based Bank of America Corp. and Citigroup, each of which got \$45 billion in government aid, are expected as early as this week.

He's already advised Bank of America Chief Executive Officer Kenneth Lewis to forego his 2009 salary and bonus. Bank of America, the biggest U.S. lender, posted a \$1 billion third- quarter loss last week.

Citigroup announced on Oct. 9 the sale of its Phibro LLC energy-trading unit, a decision made to avoid a potential showdown with Feinberg over a \$100 million pay package for the unit's CEO, Andrew Hall.

Summers Tells Finance Executives to Stop Fighting Tougher Rules

Alison Fitzgerald and Gadi Dechter

Bloomberg

October 19, 2009

White House economic adviser Lawrence Summers told leaders of top financial companies last month the Obama administration "will not be lectured" by opponents of a proposed consumer-protection agency.

In a closed-door speech to the Financial Services Roundtable in Washington on Sept. 24, Summers, 54, told the executives they were beneficiaries of an unprecedented government bailout and should brace for a regulatory overhaul, according to one participant.

The administration "will not be open to arguments motivated by perpetuating the status quo," Summers told the audience that included executives of New York-based Bank of New York Mellon Corp., AXA Financial Inc. and Minneapolis-based U.S. Bancorp, according to notes taken by the participant, who requested anonymity.

Those comments were a preview of public remarks Summers, who is director of the National Economic Council, delivered Oct. 16 in New York. "The events of

the past two years should serve as a wake-up call,” he said. “The time has come for fundamental change.”

Summers’ words reflect the administration’s determination to win congressional approval for the consumer agency over the opposition of the financial-services industry, which has spent \$225 million lobbying lawmakers this year, according to the Center for Responsive Politics, a Washington research group.

‘Do Everything’

“I’m going to do everything I can to stop them from killing it,” President Barack Obama said in an interview Sept. 14.

On ABC’s “This Week” yesterday, senior White House adviser David Axelrod said Obama’s priority is to “defeat the lobbyists or the banks.” Chief of Staff Rahm Emanuel said on CNN that Americans were “frustrated and angry” with banks.

The comments mark a turnaround for Summers, who as Treasury deputy secretary and then secretary in President Bill Clinton’s administration, helped deregulate the financial industry 10 years ago. They also demonstrate the degree to which the climate in Washington has changed as the nation recovers from the deepest economic crisis since the Great Depression.

As recently as April, the No. 2 Senate Democrat, Dick Durbin of Illinois, complained that Wall Street lobbyists “own” Congress and would scuttle regulatory change.

‘A Given’

Today, that power is waning. The creation of the consumer agency is now considered “a given,” New York-based JPMorgan Chase & Co.’s Chief Executive Officer Jamie Dimon said on an Oct. 14 call with analysts and investors. “I wish it weren’t,” he said.

The proposal for the agency would strip consumer-protection duties from bank regulators and concentrate them in the hands of a new entity with the power to prohibit credit products such as mortgages with escalating interest rates. At stake is how much control regulators will have over U.S. household debt products, a market that includes credit cards, home mortgages, and car loans.

In its efforts to block the agency, the financial-services industry has undertaken a lobbying and advertising blitz. In August, thousands of bankers visited lawmakers in 36 states and wrote more than 75,000 letters opposing the consumer agency.

The U.S. Chamber of Commerce is spending “at least \$2 million” to kill the plan and “anticipates spending a lot more,” said David Hirschmann, president of the Washington-based business group’s Center for Capital Markets. “We will spend whatever it takes.”

The Chamber, which spends more than any other group on lobbying, ran ads in Washington newspapers suggesting the CFPB would bar small businesses from allowing customers to run a tab.

Opponents have attacked the overhaul “in a very public way” through the ads, and “they’ve done it in the classic lobbying way, the thundering herds of Washington out there calling up every member every day to try to lobby against the bill,” Elizabeth Warren, the chairman of the Congressional Oversight Panel that monitors the \$700 billion bailout plan for financial companies and who conceived the consumer agency, said in an Oct. 15 interview.

For all that, Hirschmann said the new agency likely will be created. The fight now is over the details, he said, such as whether the federal agency would preempt stronger state rules, as business interests want. The administration wants states to retain the power to create even tougher consumer laws.

“We’re going to be fighting very hard,” said Michael Barr, assistant Treasury secretary for financial institutions, in an interview.

Frank Bill

House Financial Services Committee Chairman Barney Frank, a Massachusetts Democrat, has granted some bankers’ wishes, including striking from a measure a requirement that they offer “plain vanilla” products such as fixed-rate mortgages before marketing loans with increasing monthly payments. A final vote may be held as early as Oct. 21, Frank said.

Still, the Financial Services Roundtable signed onto a letter last week arguing the bill would “have a devastating impact on consumer and small-business access to credit.”

The consumer agency may be a litmus test for Obama’s broader regulatory overhaul, said Gary Goldberg, a lobbyist with Sonnenschein Nath & Rosenthal LLP in Washington. That plan includes creating a systemic risk regulator, mandating centralized clearing of derivatives trading, and making it easier for the government to close failing firms.

If the CFPB were to fail, “it would embolden those whose agenda is to limit the scope of federal regulation,” Goldberg said.

Bank failures drain FDIC insurance

David M. Dickson

Washington Times

October 18, 2009

Nearly 100 banks have failed so far this year, pushing the Federal Deposit Insurance Corp.'s insurance fund into the red for only the second time since its founding in 1933.

As the worsening commercial real estate debacle continues to ravage the balance sheets of thousands of mostly small and medium-sized banks, analysts expect hundreds more could fail before the problem abates.

"While banks and thrifts are now well along in the process of loss-recognition and balance-sheet repair, the process will continue well into next year, especially for commercial real estate," FDIC Chairman Sheila C. Bair told the Senate Banking, Housing and Urban Affairs financial institutions subcommittee last week.

"We expect the numbers of problem banks and failures will remain elevated, even as the economy begins to recover," Mrs. Bair said when she revealed in late September that the insurance fund's net worth turned negative. Problem banks and bank failures "tend to be lagging economic indicators," she said.

Mrs. Bair put those failures in perspective on Friday by noting that more than 500 financial institutions collapsed in 1989.

This year's 99 bank failures have already cost the FDIC more than \$25 billion. That's on top of the nearly \$20 billion in costs absorbed by the federal agency from the 25 banks that failed last year.

The recession has so devastated the FDIC's deposit insurance fund that the agency has had to take the unprecedented step of requiring banks to prepay \$45 billion of insurance premiums by the end of this year in order to replenish the FDIC's coffers. The premiums would cover the fourth quarter of this year and all of 2010, 2011 and 2012.

As recently as May, the FDIC estimated that bank failures from 2009 through 2013 would cost the agency \$70 billion. In late September, the FDIC increased that estimate by more than 40 percent to \$100 billion.

The \$100 billion projection is "about right, unfortunately," said Scott Talbott at the Financial Services Roundtable, a banking trade group that supports the FDIC's prepayment plan.

The deposit insurance fund's balance at the end of June was \$10.4 billion, down from more than \$45 billion a year ago. It is this balance that turned negative at the end of the third quarter; final figures are not yet available.

Noting that the negative net worth of the insurance fund was "a bad situation," Mr. Talbott called the FDIC's prepayment plan "a creative and elegant solution."

Rob Strand, a senior economist at the American Bankers Association, which also supports the prepayment plan, said the FDIC has devised "an aggressive plan" to generate the needed cash. "We think that will handle the problem," said Mr. Strand, who doesn't expect the FDIC will need to tap the U.S. Treasury for a bailout.

Even though the agency's insurance fund is in the red, the FDIC still has money to absorb losses. That's because the insurance fund balance is just one part of the FDIC's total reserves that are available to cover losses. The second part is the agency's contingent loss reserve, which totaled \$32 billion as of June 30.

Just as banks set aside reserves for loan losses, the FDIC sets aside reserves for bank failures. The \$32 billion in its contingent loss reserve reflects its estimate of the cost of failures expected over the next year. As of June 30, these funds were available to absorb future losses. It is this \$32 billion contingent loss reserve that is expected to be depleted early next year unless the prepayment assessments begin rolling in.

The FDIC has the power to exempt institutions from the prepayment requirement if it would adversely affect the safety of the institution.

In addition to requiring the prepayment of insurance fees, the FDIC, beginning in 2011, will increase the insurance premium that banks pay. Banks pay the FDIC their insurance assessments based on the amount of deposits they hold. Currently, the healthiest banks pay between 12 cents and 16 cents for each \$100 on deposit. Beginning in 2011, that annual assessment will rise by 3 cents.

If regulators declare a bank has been pursuing risky practices or is in danger of failing, its assessment is higher.

If the cost of bank failures significantly exceeds the FDIC's projections, the agency has the option to raise premiums again, Mrs. Bair recently noted. But that decision would irritate many banks.

Earlier this year, the FDIC assessed banks an emergency charge in addition to their regular premiums. The emergency charge brought in \$5.6 billion but hit the banks in their profit-and-loss columns.

The FDIC considered - but rejected - another emergency charge to replenish its insurance fund in the fourth quarter. To pay the charge, banks would have had to record the expense on their income statements, reducing their profits or increasing their losses.

Some banks likely would have had to dip into their capital reserves, which regulators have been encouraging banks to build up. Reducing a bank's capital limits the amount of loans it can extend, something policymakers do not want to do as the economy slowly emerges from its deep recession.

Compared to an emergency charge, requiring banks to prepay \$45 billion in assessments has several accounting benefits for the banks' balance sheets.

"Cash goes out but doesn't hit earnings, which is crucial," said Mr. Talbott.

While banks are relatively flush with cash, and thus able to prepay the assessment, the banking industry's overall profit performance has been abysmal in recent quarters. After posting net losses of more than \$37 billion during last year's fourth quarter, the banking industry eked out a net profit of just \$1.8 billion during the first half of 2009, according to FDIC data.

In this environment, huge expenses from emergency charges would not be welcome.

The FDIC had a third option to rebuild its insurance fund - borrowing directly from the U.S. Treasury. The FDIC has authorization to tap the Treasury for up to \$100 billion and has access to an additional \$400 billion from the Treasury with the approval of the Federal Reserve and the Treasury secretary.

Independent banking analyst Bert Ely said tapping the Treasury would have been a better option than the prepayment plan. The FDIC could have repaid the Treasury loan from the bank fees it collects. By publicly signaling she was loath to tap the Treasury, "Sheila Bair unwisely stigmatized borrowing from the Treasury," Mr. Ely said.

FDIC officials acknowledged they did not want to incur the stigma of yet another taxpayer-funded bailout in the wake of the bailout fatigue that has pervaded the nation.

"It's clear that the American people would prefer to see an end to policies that look to the federal balance sheet as a remedy for every problem," Mrs. Bair said Sept. 29 when she announced that the insurance fund's net worth had turned negative. "In choosing this [prepayment] path, it should be clear to the public that the industry will not simply tap the shoulder of the increasingly weary taxpayer."

In its background paper on prepaid assessments, the FDIC pointedly answered "no" to a question asking whether the plan would "constrict lending." Some bankers disagree.

"Certainly, it's going to limit lending," said Mr. Strand of the ABA. Prepaid expenses "will be a non-earning asset and will not be used to build capital," which is the foundation for loans, Mr. Strand explained.

Mr. Talbott expected the prepayment plan would have a "negligible" impact on lending. In an interview Friday on MSNBC, Mrs. Bair acknowledged that "premiums impact banks' ability to lend."

Even as the economy recovers, the FDIC's finances could remain precarious for years.

By the end of June, losses had whittled the insurance fund to 0.22 percent of the \$4.8 trillion in deposits that the FDIC insures. By the end of September, that percentage turned negative. Congress has mandated a minimum level of 1.15 percent, which the FDIC does not expect to reach until 2017.

Meanwhile, the FDIC's list of "problem" banks increased to 416 at the end of the second quarter, rising from 305 at the end of March and reaching a 15-year high. Analysts expect that the list almost certainly increased during the third quarter.

Mrs. Bair put that problem in perspective in testimony before the Senate banking panel on Wednesday.

"The number of problem institutions is still well below the more than 1,400 identified in 1991, during the last banking crisis, on both a nominal and percentage basis," she said, adding that "most [problem banks] do not fail."

Mr. Ely is confident that banks will be able to cover all of the FDIC's losses, but it may take seven years to rebuild the FDIC's insurance fund. Mr. Strand of the ABA agreed.

Mrs. Bair also agrees, but she has not closed the door on tapping the Treasury.

"While we're optimistic on the economy, if conditions unexpectedly worsen, we could reach a point when we would have to tap our Treasury line" of credit, she said late last month. "But today is not that day."

CFPA Scares Lenders Even After Softening

Brian Collins

National Mortgage News

October 19, 2009

WASHINGTON-Most mortgage lenders still fear the creation of a federal consumer protection agency, even after the removal of some of the provisions they object to.

It appears the idea of running all product approvals by such a body, for instance, is dead-on-arrival.

The Obama administration wanted the proposed Consumer Financial Protection Agency to have a product approval process. But Rep. Barney Frank, D-Mass., said that provision has been dropped from the bill.

The House Financial Services Committee chairman also nixed an administration proposal that would require lenders to offer standard or "plain vanilla" mortgage products. Noting that Massachusetts once required bars to serve food, Rep. Frank said they served the "awfullest food known to the people."

The new agency would take over the consumer lending rulemaking authority from the federal banking agencies. The CFPA director would set the rules for mortgage and credit card lending and enforce those rules. "The unlimited rulemaking authority granted the new consumer protection agency in this bill scares us to no end," said Bill Himpler, executive vice president of the American Financial Services Association.

Despite the changes, Republicans on the committee continue to stress that the agency will limit consumer options. "The legislation will create a new government bureaucracy - not to protect consumers but to restrict credit and limit consumer choice," Rep. Spencer Bachus, R-Ala., said during a markup session. (The markup of the CFPA bill began last Wednesday and will continue into this week due to lengthy debates over amendments, and causes of the financial crisis.)

The consumer protection bill (H.R. 3126) gives the director of the CFPA the power to ban abusive products and practices, something that doesn't sit well with mortgage lenders.

The bill does not define "abusive" but Chairman Frank agreed to work with Rep. Bachus in fleshing out a definition.

Chairman Frank also plans to attach a subprime bill to the CFPA legislation. The House passed the subprime bill (H.R. 1728) by a 300-114 vote in May.

It curbs abusive lending practices and requires lenders to retain 5% of the credit risk when they sell subprime and nontraditional mortgages.

Loans backed by the Federal Housing Administration, Department of Veterans Affairs, Rural Housing Services, or mortgages purchased or securitized by Fannie Mae and Freddie Mac are exempt from this 5% retention requirement.

As National Mortgage News went to press, the committee was expected to approve an amendment by Rep. Brad Miller, D-N.C., to ease some of the regulatory burden on community banks and small credit unions. For banks with \$10 billion in assets or less, consumer compliance examinations and enforcement authority would be delegated to the banks' primary regulator.

CFPA examiners would still examine larger banks.

The Miller amendment also applies to credit unions with less than \$1.5 billion in assets. Rep. Frank and other committee Democrats are trying to shape the bill so community bankers can support it or at least drop their opposition.

The Independent Community Bankers of America supports the Miller amendment, but still has problems with other aspects of the CFPA bill, said its top lobbyist Steve Verdier.

The Democrats also are trying to find some "middle ground" on pre-emption. The CFPA would set the lending rules for all mortgage firms, but the states could enforce tougher rules even for national banks. The weakening of federal pre-emption is a big issue for the American Bankers Association, **Financial Services Roundtable** and Mortgage Bankers Association - and a major reason they oppose the CFPA bill.

Industry Groups and HUD Clash over New RESPA Requirements
DS News: Default Servicing
October 19, 2009

Industry trade groups are still lobbying for a reprieve to the new Real Estate Settlement Procedures Act (RESPA) rules, set to take effect January 1.

The Mortgage Bankers Association (MBA) and a number of fellow organizations sent a letter to leaders of the House Financial Services Committee this week, asking them to include an amendment in their mark-up of regulatory reform legislation that would delay implementation of the new RESPA requirements.

Despite the best motivations of HUD, and the sincerest efforts of the industry, there are simply too many unresolved issues to allow the industry to be fully RESPA-compliant by the first of the year, the letter said. HUD's guidance has come far too late in the process and has been inadequate and often contradictory.

The trade groups rallied on, Due to unresolved issues and critical unanswered questions, many lenders and settlement service providers are unprepared to comply. This, in turn, will cause very inconsistent implementation and confusion for consumers seeking to purchase a home.

HUD, however, says it will not bend beneath the industry's pleas for a delay. Federal Housing Commissioner David Stevens said in his own letter, that the new disclosure forms and procedures would be implemented as scheduled.

HUD is acutely aware of the procedural concerns, timing constraints, and ancillary costs attributable to the implementation of these new regulatory requirements and the issues they raise, Stevens wrote.

He was quick to point out that the final RESPA rule was published on November 17, 2008 meaning that by the time the January 1 deadline rolls around, the industry will have had 14 months to get with the program, so to speak.

Inman News reported that Wells Fargo Home Mortgage executives wrote a letter to HUD this week, themselves, voicing their opposition of any delay in implementation. Wells says it is already committed to ensuring compliance on January 1 and would be put at a competitive disadvantage if other lenders are allowed to push the date back.

Restoring consumer confidence in the marketplace is essential to moving the economy forward and to accomplish that goal we must provide increasingly firm consumer protection, Stevens said. Toward that end it is imperative that this rule be fully operational on schedule.

But at least one House lawmaker agrees with the industry trade groups. Rep. Judy Biggert (R-Illinois) has already penned an amendment to the current financial

regulatory legislation being debated, which would require HUD to postpone the implementation date of its new RESPA rule for a reasonable amount of time to ensure lenders are ready for compliance.

According to the MBA, it would also allow both new and old forms to be used during the transition period, and calls for HUD and the Federal Reserve to coordinate their regulatory efforts going forward to ensure similar RESPA and Truth in Lending Act (TILA) disclosures.

MBA says that confusion over RESPA implementation could lead to a mortgage market compliance train wreck.

Signing with MBA in its pointed letter to lawmakers were: the American Bankers Association the Consumer Bankers Association the Consumer Mortgage Coalition **Financial Services Roundtable the Housing Policy Council** the National Association of Federal Credit Unions the National Association of Mortgage Brokers and the Real Estate Services Providers Council.

White House uses K Street as foil in push for healthcare, finance reforms

By Jim Snyder

The Hill

October 19, 2009

The White House is stepping up its war against special interests and K Street as it fights opposition to healthcare, financial-services and other reform efforts. After implementing rules designed to keep lobbyists at arm's length, administration officials now are working to link their critics to high-priced lobbying campaigns that they say stand between reform and the status quo.

Perhaps the best example of this is the administration's push to create a new regulatory authority to stand guard over consumer financial products like home loans, short-term, high-interest "payday" loans and credit cards.

This Sunday, senior administration officials blasted Wall Street executives for receiving big bonuses and lobbying against the creation of the Consumer Financial Protection Agency, a central plank in President Barack Obama's efforts to revamp the financial regulatory system in response to the near-collapse of the credit markets a year ago.

Appearing on ABC's "This Week," David Axelrod, a senior adviser to the president, called the bonuses "offensive" in light of the billions in bailout money

many of the firms received. He said financial firms should stop lobbying against the administration's proposal to erect a new consumer products regulator.

White House Chief of Staff Rahm Emanuel also criticized the banking lobby's push against financial-services reform, even after several large banks received billions of dollars in government bailout money to keep them from collapsing.

The president himself has criticized financial firms and their lobbyists. In a speech earlier this month, Obama accused banks and their K Street hired guns of "descending on Congress" and using "every bit of influence" to maintain the status quo that has "maximized their profits at the expense of American consumers."

"These Americans can't afford high-priced lobbyists to argue their case," the president said.

Scott Talbott, a lobbyist for the Financial Services Roundtable, defended the bonuses as evidence that executives were doing hard work to revitalize the financial sector and, by extension, the economy.

He distinguished the new bonuses from the huge sums handed out before the financial crisis pushed the economy into a deep recession by saying that companies were increasingly rewarding executives who were minimizing long-term risks instead of short-term profits. They do this by attaching a "clawback" provision that would require some of the money to be returned if future targets aren't met and would withhold some payouts until a later date.

The criticism leveled by the president and his advisers comes as Congress begins in earnest to tackle the financial-services reform proposals. The House Financial Services Committee will continue a markup of that legislation on Tuesday.

Lobbyists have had some early success tweaking the reform proposal. The House panel, for instance, adopted an amendment last Thursday to scale back the consumer agency's power over small banks and credit unions. The change, introduced by Reps. Brad Miller (D-N.C.) and Dennis Moore (D-Kan.), would leave the agency full authority over 115 banks and 80 credit unions, the two told The Hill.

The amendment was adopted after a strong lobbying push by bank and credit union interests, which generally praised the change even as they pledged to lobby for further restrictions on the new regulator's authority.

Targeting the lobbying activities of the opposition is a tried-and-true practice in Washington. But the administration's relationship with the influence industry may

be particularly strained given the introduction of policies to keep lobbyists at bay. The White House banned federal officials from discussing specific requests for stimulus money with lobbyists. More recently, it encouraged federal agencies to keep lobbyists off influential advisory panels.

But some lobbyists said the more aggressive stance of the White House against critics of its proposals reflects the increasing level of maturity of the reform bills. "They are stepping up their rhetoric," said one financial-services lobbyist. "The issue is on deck."

It's more than financial services. The White House had been accused this summer of being disengaged on healthcare. But after the insurance industry moved against a reform bill out of the Senate Finance Committee by releasing a report saying it would raise premiums, leading administration officials quickly refuted the industry's claims.

"This is a distorted and flawed report from the insurance industry and cannot be taken seriously," said Reid Cherlin, a White House spokesman.

White House officials have also criticized the U.S. Chamber of Commerce's opposition to its efforts, in particular on climate change legislation to reduce carbon dioxide and other greenhouse gas emissions.

Criticism of Wall Street Pay More Muted This Time
By JOHN D. MCKINNON and NAFTALI BENDAVID
The Wall Street Journal
OCTOBER 19, 2009

WASHINGTON -- Administration officials on Sunday criticized Wall Street banks over their high compensation packages and their lobbying against plans to tighten financial regulations.

But the administration's tone appeared muted compared with attacks made earlier in this year, as Democrats -- with an eye toward the 2010 midterm elections -- seek to put a positive spin on recent economic developments.

Large financial firms "ought to think through what they're doing," White House political adviser David Axelrod said on ABC News's "This Week." "They have responsibilities. They ought to meet those responsibilities." He suggested firms could do so by "increasing lending...and by standing down" from their lobbying efforts.

Responding to a question on CBS's "Face the Nation," White House chief of staff Rahm Emanuel said it was "very frustrating" that some Wall Street firms continued to pay out rich compensation packages, even after turning to Washington for help.

"What's worse," Mr. Emanuel said, was that "they are now literally lobbying against the very reforms" that are intended to prevent another financial crisis. Critics have fingered Wall Street compensation packages that rewarded risk as a factor in driving the proliferation of questionable loans and securities instruments that helped trigger the financial crisis.

Neither official suggested any new, concrete measures to clamp down on compensation packages.

The rhetoric was more heated in March, when the administration joined in the outrage in Washington over \$165 million in bonuses to AIG executives. And the stimulus bill signed into law in February had a provision that limited bonus payments to no more than one-third of annual compensation at banks and other firms that have received federal bailout funds.

Scott Talbott, senior vice president of the Financial Services Roundtable, a trade group, said Wall Street "has taken steps to eliminate compensation practices that encourage excessive risk taking." He defended bonuses as a way to encourage hard work.

"The industry is strongly supportive of strengthening and modernizing our regulatory framework," Mr. Talbott said. "Where we have disagreements they are based not on the end goal but rather the most-effective way to achieve that shared goal."

The administration has less leverage over some Wall Street institutions, such as Goldman Sachs Group Inc. and J.P. Morgan Chase & Co., that have paid back any government aid they had received. It is likely to clamp down on compensation at firms that still owe the government money, by requiring them to reduce cash salaries for top executives and provide more compensation in stock.

Only five financial firms are still subject to oversight by the Obama administration's pay czar, Kenneth Feinberg -- American International Group Inc., Bank of America Corp., Citigroup Inc., GMAC Inc. and Chrysler Financial.

Last week, outgoing Bank of America CEO Kenneth Lewis was pressured by Mr. Feinberg to return \$1 million in salary so far this year and to forgo the rest of his

\$1.5 million salary for 2009. A company spokesman said Mr. Lewis voluntarily agreed to the deal.

Goldman Sachs's 31,700 employees are on track to earn an average of about \$700,000 each in 2009, a record for the firm. In an apparent effort to soften any controversy over its \$16.71 billion bonus pool for 2009, the firm announced last week that it was making a \$200 million charitable contribution to the Goldman Sachs Foundation.

Goldman spokesman Lucas van Praag said the firm structures its compensation "so that our people are paid mostly in deferred equity, which aligns their interests with those of our shareholders and discourages inappropriate risk taking." He added, "We are very supportive of regulatory reform and are actively engaged in the debate to make the system more robust."

Democrats also may not want to shine the spotlight too brightly on high Wall Street salaries when so many people remain out of work -- and when the government has limited options for turning around the job market.

"There is this conundrum: You've got this huge national deficit, and we've got to do what we can to bring that down, at the same time as it's important to stimulate the economy," said senior White House adviser Valerie Jarrett on NBC's "Meet the Press." "So let's wait and see" on the need for additional recovery measures.

Some Republicans see a political opening in the diverging fortunes of Wall Street and Main Street. When the Dow Jones Industrial Average briefly closed above 10,000 last week, House Minority Leader John Boehner (R., Ohio) noted that the development meant little to average Americans.

Downturn Has Hit Banking Lobbyists

Jeanne Cummings

Politico

Monday, October 19, 2009

The 2008 collapse of the financial sector also spawned a contraction in the number of banking lobbyists on K Street, leaving the industry with a smaller bench as Congress begins rewriting the rules for Wall Street.

In 2007, the last boom year, 3,002 lobbyists were registered to represent the finance, insurance and real estate sector, according to the Center for Responsive Politics. Today, 2,370 financial services lobbyists are registered — a loss of more than 600 jobs or contracts.

The disappearance of several major players in the past year raises a couple of questions: What happened to the lobbyists caught up in the Wall Street wobble, and can their luckier colleagues still hold their ground on Capitol Hill?

As far as the financial services industry's Washington clout is concerned, this much is clear: Even with its reduced ranks, it's a lobby that still possesses potent weapons. The amount of money being spent on the surviving lobbyists is on track to exceed last year's amount, with \$223 million spent in the first six months of this year, compared with \$422 million in 2007. And the industry's donations to members of Congress are second only to those of the health care industry.

But the recession also took its toll. Registration records suggest that a good number of financial services lobbyists who lost work have moved on to other occupations. But there are some who are still looking for work, others who managed safe landings and at least one who did a complete loop through the revolving door and is now back at work on Capitol Hill.

The most prominent industry casualties of the economic downturn were the people who ran government affairs offices for banks that went under.

They often ranked among the kings of K Street, drawing salaries well into the six figures and making a job switch more complicated.

Timothy McBride was in charge of the \$6 million lobbying arm of Freddie Mac, the former quasi-governmental mortgage lender that was taken over by the government in the midst of the subprime mortgage implosion.

One of the Obama administration's first acts was to announce that Freddie's lobbying office would cease operations. McBride was working to help the shrinking ranks of the nearly two dozen people who worked for him when his job was eliminated last September.

An alumnus of the George H.W. Bush administration, McBride also spent time advocating for the auto industry before joining Freddie. But his more diverse résumé hasn't landed him a job — at least not yet.

Today, McBride is doing work for the American Continental Group as he builds his own budding roster of clients, including Carbon Motors, a homeland security startup company that is developing a green police cruiser.

"I explored corporate opportunities and associations. For one reason or another, they haven't been right for me or me for them. But I'm happy where I am doing consulting," McBride said in an interview with POLITICO.

Dwight Fettig, another Freddie casualty, did make it through the transition, securing a partnership at Porterfield, Lowenthal & Fettig, a firm that specializes in financial services.

Fannie Mae, the government's other quasi-governmental mortgage lender, also shuttered its lobbying shop after the government took it over. One of its top guns, Cory Alexander, former chief of staff to House Majority Leader Steny Hoyer (D-Md.), joined insurance giant UnitedHealth Group.

But Fannie's other big name, Duane Duncan, wound up putting up his own shingle, opening DSD Capitol. And eight of the dozen Fannie lobbyists listed last year have not renewed their registrations this year, according to the Center for Responsive Politics.

Judith Winchester, the former head of Lehman's government operations, and Bear Stearns's Mary Lynn O'Neill both lost their jobs when the banks went belly up, and they also are no longer registered as lobbyists.

When Bank of America acquired Merrill Lynch, it didn't need two government affairs offices, which sent Merrill's Lou Constantino into the job market. He landed well, becoming vice president for government relations at the Managed Fund Association, a hedge-fund trade group.

Rich Merski, a former lobbyist with American International Group, also fared better than many. He is now an advocate for Zurich International.

However, Merski's old boss at AIG, Oakley Johnson, resigned in June and is still on the market.

He recently sent friends an e-mail, which was forwarded to POLITICO, saying he wants "to remain active and working for an income for a good deal longer." Oakley declined comment.

One of the more unique survivor stories is that of Vince Randazzo, the former head of Wachovia's \$2 million government affairs operations. He found himself out of work in February after Wachovia was merged with Wells Fargo.

In June, Randazzo, who began his Washington career as a Hill aide, returned to the Capitol as a Republican deputy staff director on the House Financial Services Committee.

Financial services trade organizations also felt the pinch last fall.

The Securities Industry and Financial Markets Association laid off 30 employees — including some lobbyists — last fall when its banking membership shrunk.

Thus far, SIFMA hasn't grown back to its pre-meltdown size, but it did lure former Rep. Ken Bentsen (D-Texas), a House Financial Services member, to oversee its downsized lobbying shop.

SIFMA is also looking to fill two lobbying slots — a task that shouldn't be hard given the glut in the financial industry lobbyist market.

After losing some bank members, **The Financial Services Roundtable** has now filled those slots with insurance companies and regional banks that are stepping up their Washington presence.

“There is a recognition that the future of the industry is being decided in Washington,” said Scott Talbott, a roundtable spokesman. **“We’re fighting on multiple fronts. It let up for about an hour in August. Otherwise, it’s been constant hyperdrive, blitzkrieg, no huddle.”**

Interviews with a dozen financial services lobbyists suggest relations with Capitol Hill have improved significantly since last winter’s nearly daily diatribes against Wall Street.

“Rationality is reinserting itself. People understand the stakes, and people are looking to do what is right to keep innovation in the markets,” said one lobbyist.

Kathleen Day of the Center for Responsible Lending sees a stronger recovery and fears that it will enable the industry to water down reform legislation. “It’s not how many people you have, it’s how much money you’re giving,” said Day.

Still, lobbyists caution that the industry’s revival is mixed and tenuous.

“On consumers’ issues, it’s still ‘Katy, bar the door.’ Anything put up on that has a chance of flying despite what the ultimate impact of it is,” a lobbyist said.

Another lobbyist summed up the industry’s current standing this way: “They aren’t pariahs anymore, but they are viewed with deep skepticism.”

Group seeks answers for retirement 'crisis'

Christine Dugas

USA Today

October 20, 2009

When Vise-Grip closed its plant last year in DeWitt, Neb., and moved it to China, Anita Oltmans lost her job. With no job, federal law prevented her from continuing to contribute to her 401(k) plan. She watched her account spiral down as the stock market crashed.

"They closed the doors on Halloween of last year," says Oltmans, 40, who worked in assembly at the plant and is now in college. "Before that happened, I was happy with what I had saved for retirement. But now, it's very scary."

Congress created the 401(k) in 1980 to supplement company pension plans. But with pension plans no longer offered to all workers or frozen, millions of Americans, such as Oltmans, have been relying solely on 401(k) plans to fund retirement. Others — nearly one-third of American households — don't have any

retirement savings, according to a McKinsey & Co. report. And only 4% of middle-income married couples who don't have a pension and are nearing retirement are likely to have enough money to last their lifetime, according to a new report by Ernst & Young.

America faces a retirement crisis, says an influential group of organizations that have started a new retirement initiative called Retirement USA. Wednesday, the group meets in Washington, D.C., to begin searching for solutions.

Retirement USA was launched last March by the Economic Policy Institute, the National Committee to Preserve Social Security and Medicare, the Service Employees International Union and the Pension Rights Center. The coalition has grown since, adding the AFL-CIO, the National Caucus and Center on Black Aged and the National Consumers League, among others. The group's goal is to create a new retirement system that works in conjunction with Social Security and existing plans.

"We're not under an illusion that this will happen overnight," says Karen Friedman, policy director of the Pension Rights Center. When the group comes up with a retirement proposal, it will need congressional support.

Members agree that the retirement system must be universal, secure and able to ensure that all will have a reasonable standard of living after they stop working. The current system does not meet those basic needs, they say.

Millions of retirees are barely surviving financially, says Retirement USA. Nearly 24% of Americans older than 65 have incomes below the poverty threshold, according to the Organisation for Economic Co-operation and Development. And the United States, Ireland, South Korea and Mexico have the highest old-age poverty rates among the 30 OECD countries.

"I feel we're watching a slow-motion train wreck," says Steve Bartlett, president of the Financial Services Roundtable, which represents large institutions, such as Citigroup, Allstate and Fidelity. "It's pretty clear that with the current trend, the country's Baby Boomers and the next generation will not have enough money to retire."

O(k), or not O(k)

The 401(k) is clearly the center of the retirement storm. Some consumer advocates say the 401(k) is a failure that should end. Others, especially financial industry representatives, think 401(k) plans are still the best retirement option and they

simply need shoring up. Retirement USA wants to keep the best parts of the current system and add to it.

Bartlett says 401(k) plans are now the retirement reality and should be quickly strengthened. The Roundtable is not part of Retirement USA, but it has recommended a number of improvements, including increasing access to retirement savings plans for small-business employers. "Every day that we delay makes it harder," he says.

Proponents say 401(k)s are good because they're easy to contribute to, they provide tax breaks, and they are portable from job to job. And if an employer offers a company match to an employee's contributions, even better, says Jane White, author of *America*,

Welcome to the Poorhouse.

Many workers who have stayed at one job for years and consistently contributed to 401(k) plans have been able to build decent nest eggs. To urge more workers to start saving for retirement, about half of midsize-to-large employers provide automatic enrollment to 401(k) plans, up from 44% in 2008, according to a 2009 Hewitt Associates survey.

But companies have cut costs due to the recession and have not spared 401(k) plans, often slashing or eliminating contribution matches and not offering automatic enrollments.

Not a panacea

Statistics also show that 401(k) plans don't serve everyone well, and that those who use them often make big investing mistakes, including cashing them out early.

Many workers — especially women, Hispanics and African Americans — don't contribute to a 401(k) plan at all. Only 41% of Hispanic workers say they save money for retirement, and only 25.6% are covered by employer-sponsored retirement plans, according to a new study by the Hispanic Institute, a non-profit organization.

"It's a grim reality," says Dr. Yanira Cruz, president of the National Hispanic Council on Aging.

Not all 401(k) plans provide good options. Although they are voluntary savings plans, employers choose the menu of investment vehicles.

Those who do contribute to such plans often get subpar investment returns and make bad decisions.

Marshall Goldsmith, 41, a customer care representative for American Hotel Register in Las Vegas, says he stopped contributing to his 401(k) plan and instead contributes to an IRA.

One reason: "Not one of the funds is in positive numbers, even since the market improved in the last couple of months," he says. His company also has dropped its matching contribution.

Many workers agree with Goldsmith: A recent AARP survey found that 29% of workers ages 45 to 64 had stopped making retirement contributions. About 18% of workers in the same age group have withdrawn funds from their 401(k) plans in the past year, either taking loans or cashing out.

A change of perspective

For many people, trying to determine when they might be able to retire and how much they will need is simply a vexing question.

Throw in rising unemployment, the stock market meltdown and the drop in some company matches, and it becomes all the more confusing.

Mark Heup, a commodity manager in Baltimore, doesn't have an overall retirement strategy. He lost his job in February, and his wife, Julie, a structural engineer, lost her job last November. They are both 41 and have a son, Matthew, who is 4.

Although they started new jobs in June, albeit in different cities, they're worried about their retirement future. Before they lost their jobs, they had not been contributing the maximum amount to their 401(k) plans.

"We were just buying things or spending money on our house," says Heup, who now works for Black & Decker. "I guess that being out of a job" has made the couple focus on retirement saving, he says.

People who have worked for 20 to 30 years will need to have 10 times their final pay banked to retire securely, says author Jane White. And not many people are that fortunate.

The Retirement USA members see the difficulties, confusion and current economic circumstances as catalysts for a new system.

Some longtime supporters of 401(k) plans agree it may be time for a change.

"Now, we're in a different world," says Ted Benna, a retirement consultant who created the first 401(k) plan in 1980 and is semi-retired. "How are we going to move forward from here? It will be interesting to see. And I am not going to lose any sleep if 401(k) doesn't survive."

Wall St. Giants Giving Little to Obama Party Fund-Raiser

David K Kirkpatrick

New York Times

October 20, 2009

The Wall Street giants that received a financial lifeline from Washington may have no compunction about paying big bonuses to their dealmakers and traders. But their willingness to deliver "thank you" gifts to President Obama and the Democrats is another question altogether.

Mr. Obama will fly to New York on Tuesday for a lavish Democratic Party fundraising dinner at the Mandarin Oriental Hotel for about 200 big donors. Each donor is paying the legal maximum of \$30,400 and is allowed to take a date. Four of the seven "co-chairs" listed on the invitation work in finance, and Democratic Party organizers say they expect that about a third of the attendees will come from the industry.

But from the financial giants like Goldman Sachs, JPMorgan Chase and Citigroup that received federal bailout money — and whose bankers raised millions of dollars for Mr. Obama's election — only a half-dozen or fewer are expected to attend (estimated total contribution: \$91,200).

Part of the reason, several Democratic fund-raisers and executives said, is a fear of getting caught in the public rage over the perception that Wall Street titans profiting from their government bailout may use their winnings to give back to Washington in return. And the timing of the event, as the industry lobbies against proposals for tighter regulations to address the underlying causes of last year's meltdown on Wall Street, has only added to the worry over public appearances.

"There are sensitivities there," said Scott Talbot, a lobbyist for the industry's Financial Services Roundtable. Political contributions "can make a donor a target," Mr. Talbot said.

Many involved, though, say the low attendance from those Wall Street giants also reflected a broader disenchantment with Mr. Obama over the angry language

emanating from the White House over the million-dollar bonuses and anti-regulatory lobbying.

“There is some failure in the finance industry to appreciate the level of public antagonism toward whatever Wall Street symbolizes,” said Orin Kramer, a partner in an investment firm who is a Democratic fund-raiser and one of the event’s chairmen. “But in order to save the capitalist system, the administration has to be responsive to the public mood, and that is a nuance which can get lost on Wall Street.”

Dr. Daniel E. Fass, another chairman of the event who lives surrounded by financiers in Greenwich, Conn., said: “The investment community feels very put-upon. They feel there is no reason why they shouldn’t earn \$1 million to \$200 million a year, and they don’t want to be held responsible for the global financial meltdown.” Dr. Fass added, “How much that will be reflected in their support for the president remains to be seen.”

Mr. Obama remains a potent fund-raising draw. Plunging into the 2010 midterm campaigns last week, he raised more than \$3 million in one night in San Francisco, speaking at a similar \$30,400-a-couple dinner and a larger rally with tickets at \$1,000 and under.

In addition to the big-ticket dinner on Tuesday, Mr. Obama will also address a more small-d democratic event at New York’s Hammerstein Ballroom, where roughly 2,500 donors paying \$1,000 or less will also make cellphone calls to promote his health care overhaul. Over the next five days he will appear at fund-raisers for Bill Owens, a candidate for a House seat in New York; Gov. Jon Corzine of New Jersey (himself a former Goldman Sachs banker); Gov. Deval Patrick of Massachusetts; and Senator Christopher J. Dodd of Connecticut.

Democratic fund-raisers say the economic slump has dampened fund-raising across every industry. Wall Street has lost Bear Stearns, Merrill Lynch and Lehman Brothers to consolidation in last year’s credit crunch. Some former Obama fund-raisers on Wall Street have ascended to jobs in the administration, like Michael Froman, a former top Citigroup executive who is now an adviser on economics and national security.

Current Democratic fund-raisers say their 2008 take from Wall Street may also have benefited from the personal connections of the party’s chief fund-raiser that year, Philip D. Murphy, a former top executive at Goldman Sachs. (He is now ambassador to Germany). And as in recent years, Democrats are raising far more from Wall Street executives than Republicans, according to campaign finance data sorted by the Center for Responsive Politics.

The Democrats, including House and Senate party committees and the party itself, raised about \$5.4 million in the first eight months of the year, while the Republicans took in just \$2.7 million.

So far in the current election cycle, though, Wall Street accounts for less than half as much of the Democratic Party's fund-raising as it did in 2008: 3 percent, or about \$1.5 million out of a total \$53.6 million in the eight-month period, compared with about 6 percent, or \$15.3 million out of \$260.1 million during the last election. (Republicans relied more heavily on their party to support their presidential candidate in 2008, and the party's Wall Street fund-raising has fallen even further.)

Fund-raisers say smaller but lucrative businesses like hedge funds and private equity firms now account for more of Wall Street's political contributions than the big banks that received bailout money, with the possible exception of the famously generous executives of Goldman Sachs.

Employees associated with the financial firms that received bailout money from the federal government contributed almost \$70,000 to the Democratic Party in the first half of this year. Most of that, \$60,800, came from one couple who each contributed the legal limit. At the time of the donation, the husband, John M. Noel, had recently retired as head of a unit of the insurance giant AIG called AIG Travel Guard.

Mr. Obama, though, still has the loyalty of other powerful friends on Wall Street. Among the other chairmen of the Tuesday dinner in New York is Robert Wolf, head of the American investment banking division of the Swiss giant UBS Group. Mr. Wolf raised more than \$500,000 for Mr. Obama's campaign and sits on a White House panel of outside economic advisers.

Mr. Wolf does not have to worry about the same appearance problems as Wall Street rivals, however. His firm was bailed out by the government of Switzerland, not the United States.

Senators raise alarm on red ink
Walter Alarkon
The Hill
October 20, 2009

Senate Democrats are pressing Majority Leader Harry Reid to address the nation's rising debt with a special legislative process, despite reluctance from the White House and House leaders.

Nine Democrats and Sen. Joe Lieberman (I-Conn.) called on Reid (D-Nev.) last week to support the process, which would ensure any legislation aimed at curtailing debt gets serious consideration by lawmakers. Proponents have argued for a special panel to seriously consider fiscal policy changes, such as major tax hikes or spending cuts, that they fear wouldn't survive the normal committee process.

The debt is now at nearly \$12 trillion and expected to grow by \$9 trillion over the next decade. The renewed push for a legislative remedy comes just after the deficit reached a record high, \$1.4 trillion for fiscal 2009. The previous deficit record was \$455 billion in 2008. The Obama administration projects an additional \$9 trillion in debt over the next decade.

"We do not believe that action on these important issues will occur under the regular order in Congress," the senators wrote in a letter.

Lieberman and Democratic Sens. Evan Bayh (Ind.), Mark Udall (Colo.), Mark Begich (Alaska), Amy Klobuchar (Minn.), Dianne Feinstein (Calif.), Mark Warner (Va.), Bill Nelson (Fla.), Michael Bennet (Colo.) and Claire McCaskill (Mo.) signed the letter.

Bayh said he raised the possibility of a special fiscal legislative process with President Barack Obama during a White House meeting last week.

The deficit has been steadily growing in recent years because of entitlement spending and is expected to get even worse as the baby-boomer generation retires. The Congressional Budget Office expects the nearly \$700 billion total annual spending on Medicaid and Medicare to double over the next 10 years.

But red ink flowed even faster than projected in 2009 because of the bad economy and government efforts to fix it. Though the 2008 deficit was a record at the time, it more than tripled, to \$1.4 billion in 2009.

Spending increased from nearly \$3 trillion to \$3.5 trillion over the past year, as both the George W. Bush and Obama administrations spent billions on stimulus packages and industry bailouts. With profits down and unemployment rising to nearly 10 percent, tax revenue fell from \$2.5 trillion to \$2.1 trillion in 2009.

The business community has generally backed attempts to curtail debt, seen as a threat to the strength of the dollar and the U.S. economy as a whole.

Scott Talbott, senior vice president of the Financial Services Roundtable, said that financial firms are supportive of a bipartisan effort to address the country's fiscal imbalance.

“The rising debt hampers the U.S. economy and redirects resources away from U.S. taxpayers,” Talbott said.

More than two dozen senators have now backed the idea of a special process to address the country’s fiscal imbalance. Sens. Kent Conrad (D-N.D.) and Judd Gregg (R-N.H.) have pushed a bill creating a bipartisan panel of lawmakers and administration officials that would craft a package of legislative reforms. That proposal would then be fast-tracked for final votes in both chambers. Conrad and Gregg’s plan was co-sponsored by 20 other senators, most of them Republican.

Lieberman and Sen. George Voinovich (R-Ohio) have put forth a similar plan, as have Reps. Frank Wolf (R-Va.) and Jim Cooper (D-Tenn.). All have said that the path to fiscal solvency requires politically perilous changes to entitlement programs, particularly Medicare, Medicaid and Social Security, which lawmakers are loath to support without the backing of both parties.

The idea of pushing through changes outside of regular order has powerful detractors, especially in the House. Speaker Nancy Pelosi (D-Calif.) and Ways and Means Chairman Charles Rangel (D-N.Y.) have argued that the existing committees should be able to weigh in on any major fiscal policy changes. They’ve noted that the proposals relying on an independent panel to craft a fiscal reform package aren’t flexible, since they would limit lawmakers’ amendments.

Gregg told The Hill last month that he’s not aware of his plan coming up in serious negotiations with the White House.

The Democrats who signed the letter said a measure allowing a special process should be linked to a debt-limit increase. The administration has pressed the Senate to approve an increase to the \$12.1 trillion debt ceiling this fall, when federal debt is expected to surpass that number. The House approved increasing the limit to \$13 trillion last spring. The government risks defaulting with its creditors if the limit is breached.

The record deficit has fueled calls throughout Washington to get the red ink under control.

Federal Reserve Chairman Ben Bernanke said Monday that reducing trade imbalances with China and the federal debt will be key to avoiding future economic crises.

“The United States must increase its national saving rate,” Bernanke said in a speech at the Federal Reserve Bank of San Francisco. “The most effective way to accomplish this goal is by establishing a sustainable fiscal trajectory, anchored by a clear commitment to substantially reduce federal deficits over time.”

White House budget director Peter Orszag, in responding to the deficit announcement last week, said that the administration is looking at proposals to “put our country back on firm fiscal footing.”

The Obama administration and Democrats have resisted GOP calls for immediate action to cut the deficit, arguing that pulling back spending while the country is still in a recession would slow a recovery.

Sen. Chris Dodd's bill would limit automatic overdrafts, fees

Kathy Chu

USA Today

October 20, 2009

Leading Democrats introduced legislation Monday to rein in banks' widespread practice of automatically paying overdrawn transactions, then charging customers a steep fee.

The bill, sponsored by Senate Banking Committee Chairman Chris Dodd, D-Conn., will require banks to get customers' consent before paying ATM and debit card transactions, limit the number of overdraft fees charged and tie the fees to banks' processing costs.

Dodd said he and other Democrats introduced the bill because "banks should not be trying to bolster their profits at the expense of their customers."

The legislation follows reports that banks have gotten more aggressive about fee income — including overdraft charges — as their financial conditions have deteriorated. USA TODAY has reported that major banks, including Wachovia, now part of Wells Fargo, have put in place tools that make it harder for employees to refund overdraft fees. Wachovia has told employees in an e-mail these fees "make up a big percentage of our revenue and is a HOT button among leadership." Banks have also sought out the advice of consultants on how to boost overdraft fees, implementing such policies as allowing customers to overdraw at the ATM up to a bank-imposed limit, USA TODAY has revealed.

The result: In 2009, banks are expected to earn \$38.5 billion in overdraft fees, up 42% from 2003, says Moebs Services, an economic research firm. Banks' overdraft income is nearly double the \$20.5 billion the industry will collect in credit card penalties.

Banks are expected to collect a record amount from overdraft income despite recently backing away from practices such as charging consumers steep fees for overdrawing by a few dollars. Dodd says moves by Bank of America, Chase and Wells Fargo represent only "moderate changes" to overdraft policies.

Yet, the industry's changes are an acknowledgement that "banks have a serious legitimacy problem," says Simon Johnson, a former chief economist for the International Monetary Fund who now teaches at MIT's Sloan School of Management.

Scott Talbott, a senior vice president for the Financial Services Roundtable, which represents large banks, says the industry has taken steps "to address consumer concerns." Banks have "serious concerns" about the effect Dodd's bill will have on consumers and merchants if signed into law, he adds.

The Federal Deposit Insurance Corp. has also pushed for overdraft reform, including an APR disclosure when overdraft credit is extended. Rules on bank overdraft policies "need to be strengthened, and made simpler and easier to enforce," said FDIC Chairman Sheila Bair in an interview Monday with USA TODAY reporters and editors. The Federal Reserve is expected to release a rule in the next month to require banks to get consumers' OK before paying certain overdrafts and charging a fee.

House panel begins push on financial overhaul
Anne Flaherty and Jim Kuhnhehn
Foster's Daily Democrat
October 20, 2009

Small neighborhood banks and the U.S. Chamber of Commerce are overshadowing the nation's biggest banks in influencing lawmakers as Congress begins the initial phase of its long-awaited overhaul of how the government regulates financial companies.

The House Financial Services Committee on Wednesday is taking up key elements of President Barack Obama's proposal for correcting the practices of banks, investment houses and other financial institutions that caused last year's economic collapse.

Up first is a measure that for the first time would regulate privately sold derivatives like credit default swaps, the complex contracts that brought down Wall Street banking house Lehman Brothers Holdings Inc. and nearly toppled insurance giant American International Group Inc.

The committee also wants to establish a Consumer Financial Protection Agency to police mortgages, credit cards and other consumer products offered by banks and other financial institutions.

Bankers and Republicans generally oppose the new agency, but community banks and the Chamber of Commerce have wielded the most influence in getting the House panel's Democrats to modify and clarify the regulatory powers that Obama would give it.

Neighborhood banks "have some legitimate concerns we're dealing with," Rep. Barney Frank, the committee's chairman, said in a recent interview with The Associated Press.

"The big banks have no clout," added Frank, D-Mass. "Bank of America, JPMorgan Chase. Nobody cares what they think, literally."

However, one sticking point is whether to give states additional powers to regulate the consumer practices of federally chartered banks. Obama and Frank favor doing it; Rep. Melissa Bean, a moderate Democrat from Illinois, is leading the opposition against it.

Obama and Treasury Secretary Timothy Geithner have made the regulatory overhaul a top priority, meeting privately with lawmakers in recent weeks and agreeing to scale back the administration's consumer protection plan in the face of widespread business opposition to it.

Frank dropped several of Obama's proposals, including making banks offer standardized "plain vanilla" mortgages. His draft bill also omits Obama's proposal to make lenders take added measures to ensure that their communications with customers are not deceptive.

"There are some improvements to what we proposed, but the core reforms look intact," Geithner told reporters Tuesday.

The Chamber of Commerce has conducted a \$2 million advertising and organizing campaign against the consumer agency, provoking even Obama to criticize their tactics. But after the group's ads warned that small retailers might fall under the new agency's jurisdiction, Frank made clear that businesses that don't offer financial products won't be covered.

Scott Talbott, senior lobbyist at the Financial Services Roundtable, which represents the biggest banks and financial firms, said the industry supports increased consumer protections but remains overwhelmingly opposed to a new federal regulator enforcing them.

"It's easy to demagogue the industry. But our role in the economy remains as vital as ever," he said.

While big banks may not have Frank's ear, the industry as a whole is a substantial contributor to congressional campaigns. Its influence will undoubtedly grow later this year as lawmakers tackle the risks that the nation's biggest, most intertwined financial institutions pose to the entire economy.

Combined, employees and political action committees from the finance, insurance and real estate industries have contributed more than \$53 million this year to members of Congress and the political parties, according to the Center for Responsive Politics, a watchdog of money and politics.

That broad sector also has spent nearly \$223 million on lobbying this year.

More than \$6 million went to members of Frank's committee as of the end of July, the latest figures available. Twenty-seven of the committee's 71 members have received more than one-quarter of their total political contributions from that business sector, according to a study by the nonpartisan Sunlight Foundation.

Frank has received nearly \$240,000 from the finance-real estate-insurance sector this year; the committee's top Republican, Spencer Bachus of Alabama, has received \$161,000. Bean has received nearly \$270,000.

Retirement Years Look Poor for Millions
United Press International
Tuesday, October 20, 2009

WASHINGTON, Oct. 20 (UPI) -- Nearly a third of U.S. households have wage earners headed toward retirement years with no savings, private researchers McKinsey & Co. said.

The consulting firm's findings are compatible with a report by Ernst & Young that says only 4 percent of middle-income married couples with no pensions are approaching retirement with enough funds tucked away to finance their retirement years, USA Today reported Tuesday.

Retirement USA, a coalition of national organizations, is seeking solutions to the national problem of having millions of U.S. citizens reach retirement without financial security.

For some, the solution includes finding additional support for 401(K) retirement plans, despite the stock market meltdown of the past year that reduced the values of millions of retirement portfolios.

"We're not under an illusion that this will happen overnight," said Karen Friedman, policy director of the Pension Rights Center, referring to a national effort to find a solution to the "retirement crisis," the newspaper said.

"I feel we're watching a slow-motion train wreck. It's pretty clear that with the current trend, the country's Baby Boomers and the next generation will not have enough money to retire," said Steve Bartlett, president of the Financial Services Roundtable, a lobbying group in Washington.

Credit Card Interest Rates

Melanie Alnwick

Fox 5 Money

Tuesday, October 20, 2009

WASHINGTON, D.C. - A shocking letter is arriving in the mail of Citibank customers. "To continue to provide our customers with access to credit, we have had to adjust our pricing," the letter opens.

The punch line? The interest rate is going up to 29.99 percent, effective November 30.

Rodney Fielding says he was appalled to read it.

"If I had a bad credit rating, if I had missed several payments to them or whatever, I could understand an interest rate like this. But for someone who's never been late, never missed a payment, it makes no sense," he says.

When Fielding called to find out why, he says the Citibank manager told him all cardholders are getting the same notice.

Citibank also abruptly cancelled many gas company MasterCard accounts this week. Letters were sent Monday to a "limited number" of Shell, Citgo, ExxonMobil and Phillips cardholders, according to a Citi spokesperson.

Bank of America announced last week it will start charging annual fees, ranging from \$29 to \$99, to a number of cardholders beginning as early as December 1. Now, customers like Alfred Parsons are getting fed up.

"I thought taking my money, about withdrawing all of my money," he said. "I think it's ridiculous."

Scott Talbott, vice president of Government Affairs for the Financial Services Roundtable explains that credit card companies are taking huge losses in consumer lending, and are trying to reduce their risk from all borrowers.

"So you see an increase in the interest rates, a decreasing of the credit lines, and a tightening of the credit standards, all of those are reactions to the increased risk in the market, the increased risk in the economy," said Talbott.

The news comes just as the National Retail Federation is releasing its holiday sales forecast. Getting shoppers back to stores is critical to recovery. This rate hike could stop that in its tracks, worries Ellen Davis, a vice president with the trade group.

"There's never a great time for consumers to see an increase in an interest rate on a credit card, but right before the holiday season is about as bad as it gets," said Davis.

Citibank has 92 million credit card customers. It lost \$8 billion in consumer loan defaults last quarter. Rodney Fielding says it's about to lose some paying customers, too.

"I've been with them for five years, I really don't want to lose them, but, if I have to, we'll do what we have to do," Fielding said.

Still, Fielding worries about the impact on his credit rating. **Talbott says he's right to consider that.**

It could lead to a lower "credit utilization" ratio. That's the difference between the outstanding debt owed, and a borrower's credit limit. If half of that credit limit is suddenly taken away, it appears as if the borrower is maxed out, which could push down their credit score.

The good news, says Talbott, is that the credit card market is starting to loosen up among lenders with fewer losses.

First, talk to your credit card company to see if you can negotiate a lower interest rate. If that doesn't work, do your research and find a better credit card deal.

"Let your feet do the talking," Talbott advises.

Obama turns to the financial elite for campaign cash

Bill Van Auken

World Socialist

Wednesday, October 21, 2009

Under conditions of growing unemployment and deepening social misery for working people throughout the US, President Barack Obama flew into New York City Tuesday to raise millions of dollars in campaign donations from America's financial elite.

He was expected to clear at least \$3 million, largely from a Manhattan bash with an entry fee of \$30,400 per couple—the maximum contribution allowed by law.

According to the *Los Angeles Times*, four of the seven co-chairs of the event and about a third of the guests come from the big banks and Wall Street.

Behind all the rhetoric about “change,” this is Obama’s most important constituency. In his run for the presidency in 2008, he captured the lion’s share of donations from Wall Street, taking in \$15 million from securities and investment firms, \$3 million from commercial banks, and \$6 million from other financial institutions.

The *New York Times* reported that some major financial firms, including Goldman Sachs, Citigroup and JPMorgan Chase, had decided to limit their participation in the fund-raising gala. The newspaper offered seemingly contradictory explanations for their shying away from the event.

The *Times* quoted Scott Talbot of the Financial Services Roundtable, an industry lobby group, as saying, “There are sensitivities there,” and citing fears that contributions from Wall Street firms “can make a donor a target.”

In other words, some leading figures of finance capital are conscious of the growing popular outrage over soaring bank profits and lavish executive bonuses—subsidized by public money—under conditions where virtually nothing is being done for the unemployed and the millions losing their homes.

Their instinct is to lie low and not be seen as gloating over what their 2008 contributions to the Obama campaign bought for them, or as delivering payback for services rendered.

On the other hand, Orin Kramer, a partner in the Boston Provident LP hedge fund and a major “bundler” of Wall Street contributions in 2008, suggested that the reason had more to do with the arrogance of Wall Street’s masters of the universe. He indicated that many of them are incapable of comprehending the Obama administration’s political need to make occasional rhetorical thrusts against their financial “excesses,” even as the White House pursues policies that are tailored to the interests to the biggest banks and finance houses.

“There is some failure in the finance industry to appreciate the level of public antagonism toward whatever Wall Street symbolizes,” said Kramer, who was one of the chairmen of Tuesday’s fund-raising event. “But in order to save the capitalist system, the administration has to be responsive to the public mood, and that is a nuance which can get lost on Wall Street.”

Another chairman of the event, Daniel Fass, a wealthy oncologist from Greenwich, Connecticut, the hedge fund capital of America, seemed to second this concern over the financial oligarchy’s indifference to popular sentiments.

“The investment community feels very put-upon,” he told the *Times*. “They feel there is no reason why they shouldn’t earn \$1 million to \$200 million a year, and they don’t want to be held responsible for the global financial meltdown.”

The “investment community” feels “put-upon?” This, as Wall Street prepares to dole out \$26 billion in year-end bonuses during the worst economic crisis since the Great Depression. The near-record figure represents a 40 percent increase over 2008. At Goldman Sachs, the bonus pool has doubled.

The *Washington Post* reported Tuesday that at 29 of the biggest financial companies which have received bailout funds, perks and benefits for chief executives have been increased, averaging more than \$380,000 in 2008. Taxpayer money went to pay for private use of corporate jets and \$200,000 membership fees in exclusive country clubs, as well as to pick up the tab on taxes owed by the CEOs on their multimillion-dollar bonuses.

That Wall Street’s bankers and traders continue receiving tens and hundreds of millions of dollars is only thanks to the massive transfusion of public money over which the Obama administration has presided. Some \$700 billion in taxpayer funds have been pumped in through the Troubled Asset Relief Program (TARP) enacted last year to bail out the banks and finance industry. The total amount of loans, guarantees, cash infusions and other government commitments to the financial sector could be as much as \$23 trillion.

The Obama White House has zealously protected the incomes of the banking and financial executives, squelching any legislation that would place caps on executive compensation and rejecting any serious restraints on the financial speculation that triggered the financial collapse.

The result is the greatest transfer of wealth in history, to the benefit of a narrow elite and at the expense of the working class, i.e., the vast majority of the population.

Obama’s fundraiser was held at the Mandarin Oriental, one of Manhattan’s most luxurious hotels, where the cheapest room goes for \$700 a night and an apartment is on sale for \$11 million. The hotel boasts that it towers above Central Park and offers a sweeping vista of the Manhattan skyline.

Obama and his multimillionaire guests presumably could not see the nearby Bronx, the poorest urban county in America, where the median family income is barely \$35,000 and fully 28 percent of the population lives below the poverty line.

While Obama commiserated with “put-upon” financiers, life at street level in New York City, as in the rest of the country, has grown harder for growing numbers of people. The city’s official jobless rate hit 10.3 percent last month, with the real number of unemployed far higher. Nearly 100,000 jobs have been wiped out since the onset of the financial crisis.

The number of homeless individuals and families is now higher than at any time since the 1930s, with 39,000 people—16,500 of them children—forced to sleep in the city’s shelters every night. This is before the onset of winter, when the demand for shelter surges.

Food programs across the city are strained to capacity, reporting on average a 25 percent increase in those seeking meals. The number of people in New York having difficulty affording food has doubled over the past five years to four million (nearly half of the city’s population).

Obama had nothing to say to this New York. His only other stop outside of fundraisers was a visit to the Joint Terrorism Task Force, where he thanked FBI agents and New York City cops for protecting the “homeland.”

The real terror confronting millions of working people in New York and across the country is losing their jobs, being thrown out of their homes and being unable to provide for their families. Those responsible are precisely the Wall Street multimillionaires to whom Obama turns for support and whose interests he serves.

The thinking of these layers, as revealed by Obama’s visit to New York, recalls nothing so much as the aristocracy of the *Ancien Régime* on the eve of the French Revolution, which similarly evinced indifference to the conditions of life confronting working people and an unwillingness to surrender an inch of its wealth and privilege, no matter what the consequences for the people.

A solution to the social crisis is impossible outside of a frontal assault on the power of the American financial aristocracy and the social inequality that pervades every facet of life. The vast wealth monopolized by Wall Street must be confiscated so that it can be utilized to create jobs, fund health care and education and raise living standards. These tasks can be achieved only in struggle against the Obama administration and by workers mobilizing themselves independently in the fight for a socialist alternative.

Consumer protection hurdles remain

Victoria McGrane

Politico

October 22, 2009

Rep. Barney Frank is on track to deliver the White House a key victory on financial reform Thursday with a committee vote to create an independent consumer watchdog agency.

But lobbyists and opponents have already set their sights on the Senate, where they hope industry-friendly senators might water down or even derail the proposed

consumer financial protection agency.

“The strategy has always been the Senate,” said one lobbyist who represents national bank interests.

Committee approval of the CFPA certainly won’t quiet the heavy hitters of the financial world, who’ve spent big bucks communicating their intense opposition to the creation of the new agency.

“We continue to have serious concerns about the CFPA. The cost to implement and the cost to consumers will undermine recovery efforts,” said Scott Talbott, senior vice president of government affairs for the Financial Services Roundtable, an industry lobby group.

Financial lobbyists say they and their clients will redouble their attempts to influence the Senate, where the big financial players see reason to hope their efforts to kill off the CFPA will be far more effective than in the House.

Several Republicans have flatly rejected the notion of creating a new consumer protection agency. Sen. Bob Corker (R-Tenn.), for example, says the CFPA is the most partisan of the administration’s regulatory reform proposals.

K Street lobbyists are already starting to doubt that Senate Banking, Housing and Urban Affairs Committee Chairman Chris Dodd (D-Conn.) and his ranking Republican, Alabama Sen. Richard Shelby, can reach a deal on CFPA. One GOP lobbyist said Shelby is increasingly disgruntled by Dodd’s push to mark up financial reform legislation by early November.

“It’s increasingly unlikely the way things look and feel that there will be a lot of bipartisan cooperation on the Senate side,” said another financial industry lobbyist.

Even though Frank will earn a victory in his Financial Services Committee on Thursday, the chairman still faces a few obstacles on the way to final House passage. Rep. Melissa Bean (D-Ill.) vows she will fight to protect nationally chartered banks from state consumer protection laws, which could alienate liberals because it would allow federal rules to trump potentially stronger state laws. And while the powerful Blue Dog Coalition has been publicly silent on the new agency, some of its members have signaled they don’t like the idea of creating a new regulatory body. If Republicans decide to start picking off Blue Dog votes, Frank, a Democrat from Massachusetts, could have a floor battle on his hands.

Democrats who support the CFPA bill are already setting out to defend the proposal ahead of the final Thursday committee vote. And they took several steps

Wednesday to solidify support by accepting a few compromise amendments.

The committee adopted a softer proposal on the so-called pre-emption issue — whether national banks should be subject to state consumer protection laws, as the administration proposal would allow, or largely shielded, as they are under current law.

The pre-emption measure approved by voice vote Wednesday would allow federal regulators to exempt banks from state rules on a case-by-case basis — but that’s still more power that states currently enjoy to regulate national banks on consumer protections.

The House bill also slaps tough new oversight on nonbank lenders such as mortgage brokers and payday lenders that have long been accused of shady and even predatory practices but until now have largely escaped regulation.

The big banks didn’t help their case as they lobbied for relief from state consumer protection laws and other changes to the CFPB bill, announcing fat bonus payouts — a year after receiving billions in taxpayer bailouts — in the midst of the committee markup.

Democrats believe they’ve held their own against banks and Republican critics during the multiday Financial Services Committee markup.

“So far, I haven’t seen a single amendment adopted which differs from the philosophy that [Frank] has about the bill,” said Rep. Brad Sherman (D-Calif.), a co-sponsor of the CFPB legislation.

To be sure, consumer advocates have griped about several changes and special-interest carve outs, including the adoption of an amendment that exempts the vast majority of banks and credit unions from additional examinations by the CFPB.

But they think Frank’s committee has produced a “landmark” piece of legislation, putting consumer protection at the center of federal regulatory policy for the first time, said Travis Plunkett, legislative director of the Consumer Federation of America.

“The chairman has done an effective job of fending off most of the most dangerous amendments,” Plunkett said.

TARP for Small Banks
Richmond’s Morning News with Jimmy Barrett

Richmond Radio
Thursday, October 22, 2009

Scott Talbott appeared on Richmond's Morning News with Jimmy Barrett to discuss President Obama's plan to make TARP funds available to smaller community banks.

To listen to the radio segment, please click [here](#).

Scott Talbott on CFPA
BBC
Wednesday, October 21, 2009

Scott Talbott appeared on BBC last night to discuss the Consumer Financial Protection Agency. The clip is not available yet.

Federal Reserve's tough stance on banks may signal new era
Kevin G. Hall
McClatchy Newspapers
October 23, 2009

In a frontal assault on the U.S. banking system, the Federal Reserve proposed Thursday to review the pay practices of America's largest banks, while the Treasury Department outlined why it slashed executive pay at financial institutions that are receiving substantial taxpayer bailouts.

The moves potentially point to a new era of tough love for a sector that's long influenced what does - and what doesn't - get done in Washington. The Treasury Department, part of the executive branch, had already moved assertively for months to press the issue of misaligned incentives for pay and bonuses in the financial sector, both through proposed legislation and high-profile pronouncements.

The newfound assertiveness, however, was striking from the independent Federal Reserve, which the Obama administration wants to arm with new powers to police the financial sector more broadly for system-wide risks to the economy.

"Compensation practices at some banking organizations have led to misaligned incentives and excessive risk taking, contributing to bank losses and financial instability," Fed Chairman Ben Bernanke said in a statement. "The Federal Reserve is working to ensure that compensation packages appropriately tie

rewards to the longer-term performance and do not create undue risk for the firm or the financial system."

In a three-page statement explaining how it will review compensation practices at 28 large banking organizations, the Fed made clear that it intends to have a say in how financial executives receive pay and bonuses.

"Because of the federal safety net, shareholders of a banking organization may be willing to tolerate a degree of risk that is inconsistent with the organization's safety and soundness," the Fed said - accusing boards of directors at major financial institutions of assessing and managing risk improperly because they think they have a federal safety net. "Thus aligning interests of employees and shareholders may not be sufficient to protect the safety and soundness of the organization or financial stability."

At the heart of the Fed's planned review of pay practices at the nation's biggest, most globally interconnected banks is a concern that in the run-up to last year's near meltdown of global finance, big financial firms were rewarding executives for short-term, unsustainable profits without regard for the long-term consequences.

Briefing reporters on the condition of anonymity, a senior Fed official said that the goal is to ensure that all major banks think of compensation over the long term, providing rewards across a horizon well beyond three months or even two or three years.

Fed critics were wary of Thursday's announcement.

"I'm impressed, but I am skeptical. ... What is new is the Fed seems to be interested in doing anything about it," said Dean Baker, an economist and co-director of the Center for Economic Policy Research, a liberal group. "I'm glad to see it, but it's a story of which you have to be skeptical."

Bernanke and other Fed officials have long known how well-compensated top Wall Street executives have been, Baker said, questioning what makes the issue a top concern at the Fed just as some Democratic lawmakers want to weaken the central bank while the Obama administration tries to strengthen it.

The bank sector pleaded guilty to the Fed announcement.

"From a banking standpoint, their proposal is correctly focused on eliminating compensation practices that cause employees to take excessive risk," said Scott Talbott, the senior vice president of government affairs for

the Financial Services Roundtable, the lobby for big financial firms. "The institutions did not manage their compensation risks. They were focused on the short term ... and not over the longer-term horizon."

Compensation is front and center in the Washington debate after reports suggested that Wall Street banks are on track to pay salaries and bonuses exceeding what they paid in 2007, before the financial crisis began.

Many of the institutions paying bonuses received taxpayer bailout money. Even if some have repaid the government aid with interest, they still continue to enjoy loan guarantees and other federal subsidies designed to thaw a deep freeze in credit markets.

The Fed's compensation review, which can't begin until after a 30-day comment period, doesn't aim to equalize pay structures or cap them, but to end with a best-practices approach for the industry.

That complements actions detailed Thursday by Kenneth Feinberg, the Treasury Department's special pay czar for companies that now have significant government ownership. Feinberg announced that he's capping at \$500,000 the cash pay for the 175 executives at seven large institutions receiving taxpayer support and cutting their bonuses in half. These executives will be compensated with shares of company stock for the salaries and bonuses they're losing.

"We gave him the difficult task of cutting excessive pay, striking a balance between compensation and risk taking, and keeping strong management teams in place to help the companies recover - all in the public interest," Treasury Secretary Timothy Geithner said in a statement welcoming Feinberg's action.

The seven institutions were Citigroup; Bank of America; American International Group; General Motors and its finance arm, GMAC Inc.; and Chrysler LLC and its finance arm, Chrysler Financial.

Proposed federal watchdog for consumer finance advances

Kevin G. Hall

McClatchy Newspapers

October 23, 2009

Consumer advocates cheered and the financial sector jeered Thursday as a controversial plan to create a federal agency to regulate mortgages, credit cards and other forms of consumer credit cleared a key House of Representatives committee on its way to an uncertain future.

The House Financial Services Committee, on a 39-29 mostly party-line vote, passed legislation to create a Consumer Financial Protection Agency, a centerpiece of President Barack Obama's broader proposal to revamp financial regulation in the aftermath of the global financial crisis.

"This step sends an important signal to the American people that we will not stand by and allow big financial firms and their lobbyists to mobilize against change," Obama said in a statement after the committee vote.

"They are doing what they always do: descending on Congress, using every bit of influence they have to maintain the status quo that has maximized their profits at the expense of American consumers, despite the fact that recently those same American consumers bailed them out as a consequence of the bad decisions that they made."

The fact that a breakdown in U.S. mortgage-lending standards and widespread predatory lending triggered the financial crisis is driving the push for the legislation. As the recession deepened, banks pulled back credit and raised credit card fees, amplifying a deep contraction in credit to consumers, who drive about 70 percent of U.S. economic activity.

These factors - along with acknowledgment from bank regulators and the Federal Reserve that they'd dropped the ball on consumer protection - convinced the administration that a new approach and a separate federal entity are necessary. Harvard University law professor Elizabeth Warren long advocated for such an agency, and after the House panel's vote she said it was a day she thought would never come.

"When I first came to Washington with the idea of this agency, everyone told me the banks always win - quit now because the banks always win," she said. "They didn't win today."

Warren now heads a special congressional panel that's overseeing how bank bailout money is being spent.

Committee Chairman Barney Frank, D-Mass., said he expected the measure to pass the full House by Thanksgiving. In a news conference, he reminded that his legislation isn't just about reining in abuses in mortgage lending or crippling credit card fees, but also forms of lending such as payday loans, check cashing operations and remittance services that have little or no government oversight.

"The sad fact is, the lower your income is in America, the more you are paying for financial transactions," Frank said.

Democratic Reps. Walt Minnick of Idaho and Travis Childers of Mississippi voted against the bill. Republican Michael Castle of Delaware voted for it. Castle is running for the Senate against Vice President Joe Biden's son Beau.

Although Frank's measure is expected to pass the full House easily, he hopes to amend his own legislation because a bipartisan amendment that passed his committee would exempt auto dealers from oversight by the panel. Many auto dealers make more money from car loans than they do from car sales.

"They've allowed auto dealers to sell a variety of different loans. In theory, an auto dealer can sell a payday loan and not be covered by this agency," Travis Plunkett, the director of regulatory and legislative affairs for the Consumer Federation of America, said in an interview. "If we've learned anything from this (financial) crisis, it's that you have to regulate according to what happens, not what you call yourself."

The consumer panel faces an uphill climb in the Senate, as banks and credit card companies are trying to convince senators that the power to regulate consumer credit products should remain with bank regulators.

"The battle now shifts to the Senate," said Scott Talbott, the senior vice president for government affairs at the Financial Services Roundtable, the lobby for big financial institutions. "It is a huge expansion of government power, and the cost of the agency - as well as the negative effects on the credit markets - probably outweighs the perceived benefits."

Consumer Protection Bill Advances

Sean Lengell

Washington Times

October 23, 2009

A key House committee on Thursday voted to approve the creation of a federal agency that backers say will give consumers new protections against abusive credit card rate and fee increases, and deceptive mortgage practices that helped fuel the nation's economic woes.

While the agency still has a long path to passage, the House Financial Services Committee action gives a big boost to one of President Obama's top reform priorities.

The bill also aims to strengthen transparency laws to give consumers a clearer understanding of the complex fine print that is part of nearly every financial product.

The committee's action is a serious blow to financial industry groups, who say the measure would create an unnecessary bureaucracy that would go far beyond consumer protection and could hurt the economy.

Mr. Obama was quick to praise committee Chairman Barney Frank, Massachusetts Democrat, for ushering the bill through his panel.

"This bill has now passed a major hurdle and this step sends an important signal to the American people that we will not stand by and allow big financial firms and their lobbyists to mobilize against change," said Mr. Obama in a statement released minutes after the vote.

Although the bill still faces hurdles in the full House and Senate and stiff opposition from Wall Street, Mr. Frank said the vote should provide momentum for the bill going forward and predicted it would not be watered down as it moves through the legislative process.

"Often times the committee is the most difficult part of the process," Mr. Frank told reporters after the vote.

The House Financial Services Committee voted 39-29 to support the bill and its proposed Consumer Financial Protection Agency. Only two Democrats - Reps. Travis W. Childers of Mississippi and Walt Minnick of Idaho - voted against the measure. Rep. Michael N. Castle of Delaware was the lone Republican to vote yes.

The measure now goes to the full House floor for a vote. The Senate also has yet to act on the bill.

Wall Street has lobbied hard against the bill, saying that tighter controls and more regulations will stifle investments and innovation in the financial sector and possibly slow down the flow of capital - a scenario blamed for the recent economic crisis.

"We agree with the goal of protecting consumers, but the large increase in government oversight is not the most effective way to achieve this goal," said Scott Talbott, a spokesman with the Financial Services Roundtable, which represents some of the nation's biggest financial-services firms.

The U.S. Chamber of Commerce, which has dedicated more than \$1 million to defeat the legislation, says the bill doesn't address the fundamental flaws in the existing regulatory structure.

"After several rounds of revisions, this bill remains a complicated and confusing maze of unclear regulatory standards and ill-defined terms," said David Hirschmann, president and chief executive of the chamber's Center for Capital Markets Competitiveness.

But consumer groups also hailed the administration and House Democrats for pushing the bill forward.

"The action by the House Financial Services Committee marks a major turning of the tide against decades of big banks' systematic dismantling of the financial protections put in place after the Great Depression," according to a statement from Americans for Financial Reform, a consumer rights coalition.

Republicans argue that fixing problems within the current regulatory agencies - not creating a new agency - would be a better route to reforming the system. The proposed agency also has received resistance from some financial regulators that stand to lose power if the bill becomes law. The new agency would consolidate many regulatory duties that are spread over several agencies, such as the Federal Reserve, the Office of Thrift Supervision, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corp.

**Scott Talbott on Nightly Business Report
PBS
October 22, 2009**

(Transcript)

SUSIE GHARIB: One hundred seventy five executives at seven of the nation's biggest companies are facing hefty pay cuts tonight. The Obama administration's pay czar Kenneth Feinberg ordered today drastic reductions in the pay packages of senior executives at firms that took government bailout money. He also said cash salaries for the top 25 executives will be limited to half a million dollars and their total compensation will be cut in half.

KENNETH FEINBERG, SPECIAL MASTER, TREASURY DEPT.: I'm hoping that using these seven companies as a template or as a model, that other companies will voluntarily see the wisdom of the way we've structured compensation, less cash, more long-term stock tied to the financial future of these seven companies.

GHARIB: Also cracking down on pay practices today, the Federal Reserve. Fed Chairman Ben Bernanke said he plans to review the compensation practices at 28 large banks and financial firms. He indicated that a one-size fits all approach won't work. Standing by now with more, our Washington bureau chief Darren Gersh. Darren?

DARREN GERSH, NIGHTLY BUSINESS REPORT CORRESPONDENT: Hi Susie. You're right. There was a lot of talk today in Washington about striking the right balance among fairness, risk and pay. The president praised the compensation cuts proposed by administration pay czar Kenneth Feinberg. Mr. Obama says the decision to slash cash payments and switch to long-term stock awards will protect taxpayer investments in everything from AIG to GM. He says Feinberg also sent a tough message on executive pay.

BARACK OBAMA, PRESIDENT OF THE UNITED STATES: Under these competing interests, I believe he has taken an important step forward today in curbing the influence of executive compensation on Wall Street, while still allowing these companies to succeed and prosper.

GERSH: From Wall Street, the reaction was less generous. Compensation consultant Steven Hall warned the small savings on pay will put at risk much larger taxpayer investments in auto makers and big banks.

STEVEN HALL, MANAGING DIRECTOR, STEVEN HALL & PARTNERS: If I were in one of these companies, I'd be feeling pretty down at this point, because I think it is going to cause some problems not only with individuals in terms of their own cash flows and their own compensation, but it's also going to cause problems with regard to retaining and attracting people.

GERSH: The Federal Reserve also weighed in today with new regulation to bring banking industry paychecks and risk into better alignment. Under the new rules, 28 of the nation's biggest banks will have to submit pay policies for regulatory review. Pay at smaller banks will be checked during regulatory exams. Pay plans for senior executives will be reviewed, but so will those for any employee that takes on huge risks. The Fed wants banks to tie pay to risk so employees are not rewarded for making the kind of short-term, reckless bets that many believe brought on the financial crisis. Banking industry lobbyist Scott Talbot praised the Fed for being tough, but flexible.

SCOTT TALBOTT, SR. VP GOV'T AFFAIRS, FINANCIAL SERVICES ROUNDTABLE: Actually in theory and in practice, the Fed's proposal will reduce compensation by eliminating the elements that still include excessive risk taking. Those elements should be taken out of the compensation structure.

GERSH: While Feinberg's pay cuts generate the biggest headlines, shareholder activist Nell Minow says the Fed is making the biggest difference.

NELL MINOW, EDITOR, THE CORPORATE LIBRARY: In the sub-prime era, we had people getting rewarded based on the number of transactions, rather than the quality of transactions. If the Fed had looked at that, they would have been able to predict the meltdown years before.

GERSH: Late this afternoon many of the companies that took the most government bailout money are saying they have agreed to implement the pay cuts the Treasury is demanding. Susie.

GHARIB: Darren, it looks like from what Kenneth Feinberg is saying that he wants other firms to voluntarily use this model, copy it and come up with their own pay reform. What are the chances of that happening?

GERSH: I don't think they're going to put in place the 50 percent pay cut for their top executives. So I don't think we're going to see that any time soon. There is a trend, renewed trend towards tying compensation to long-term performance, to trying to get some of the risks out of the way that people are compensated so they don't take outsized risk and get paid in the short term for risks that go bad in the long term. So some of that might get adopted across the financial sector.

GHARIB: What I'm finding interesting is that this has stirred up so much debate. And I was talking about this with some business people here in New York. Surprisingly, some thought these measures go too far, not surprising. Others said they don't go far enough. What are you hearing in Washington?

GERSH: Well, the first thing I'm hearing in Washington is that people think that these measures are going to lead to a very rapid payback of the rest of the TARP money. They don't think --

GHARIB: That makes sense.

GERSH: A lot of these financial institutions are not going to want to live under these pay strictures for very long. Washington is conflicted. I think that official Washington doesn't want to be setting the level of overall pay. They feel this issue was kind of forced upon them. But they want to get a better policy in place so that companies will get serious about managing the risk that people are taking on, so they're not taking these huge risks and getting paid for them if the risk -- even if the risk blows up later.

GHARIB: Real quickly Darren, we're running out of time, how do you think the public is going to respond? Are they going to be satisfied by this?

GERSH: In a word no. Polls showed that the bailout is very unpopular, that people are --more than half of all Americans think Wall Street benefited from the bailout and they're not going to be very happy to see these executives are still getting half a million dollars or more a year. Most people don't make that.

GHARIB: That's still a lot of money. Thanks a lot Darren. Washington bureau chief Darren Gersh.

Scott Talbott on CNN World News
CNN
October 22, 2009

Scott Talbott was on CNN World News to discuss the Fed's intervention into executive compensation practices. Clip can be found [here](#).

Scott Talbott on Trading Day
BNN
October 22, 2009

Scott Talbott was on the BNN to discuss executive compensation. Clip can be found [here](#).

Fed May Police Bankers' Pay
CBS Evening News
Thursday, October 23, 2009

Scott Talbott appeared on CBS Evening News Thursday night to discuss the Federal Reserve's executive compensation proposal.

To view the segment in full, please click [here](#).

What's in Banks' Wallets? Less for Lobbying
Bennet Roth
Roll Call
October 26, 2009

While the recession has not made much of a dent in the lobbying budgets of many companies, particularly those trying to influence health care and energy legislation, the beleaguered banking and financial services sector has been more restrained in its spending.

Even though lawmakers are considering legislation to regulate financial services firms, many in the industry spent less or roughly the same in the third quarter as they did in previous quarters this year, according to disclosure reports filed with Congress last week. While the biggest drug, insurance, oil and defense companies doled out millions of dollars each for lobbying, just a handful of the well-known names in the financial industry spent that much for the three-month period.

No financial firm, bank or related association ranked in the top 25 in lobbying spending for the quarter.

The top-ranked spender in the financial sector for the quarter was the American Bankers Association, which spent \$2.25 million for the period, which ran from July until the end of September. That was slightly higher than the \$1.9 million that the association spent in the second quarter and the \$1.8 million that it spent in the first quarter. **The Financial Services Roundtable spent \$1.4 million for the most recent quarter, about the same as it spent in the second quarter and less than the \$2.2 million that it shelled out for the first quarter.**

Other groups showed drops in their lobbying budgets. JPMorgan Chase spent \$1.2 million for the most recent quarter, down from \$1.7 million in the second quarter and \$1.3 million in the first quarter. The brokerage firm Charles Schwab spent \$595,000 in the third quarter compared with \$635,000 in the second quarter and \$611,000 in the first quarter. Wells Fargo's third-quarter lobbying spending was \$670,000, slightly down from \$690,000 in the second quarter and \$700,000 in the first quarter.

A handful of financial companies did spend more money on lobbying in the third quarter. Bank of America reported spending \$930,000 in the third quarter, up from \$800,000 in the second quarter and \$660,000 in the first quarter. Goldman Sachs also shelled out more money in the third quarter, spending \$840,000 compared with \$635,000 in the second quarter and \$611,000 in the first quarter.

The major credit card companies, however, tightened their lobbying budgets. American Express spent \$650,000 in the third quarter compared with \$710,000 in the second quarter and \$830,000 in the first quarter. Mastercard spent \$680,000 on third quarter lobbying, down from \$840,000 in the second quarter but up from \$510,000 in the first quarter.

Advocates say Rep. Walt Minnick's vote against a consumer watchdog aligns him with big business

Erika Bolstad

Idaho Statesman

October 26, 2009

When a House committee last week passed legislation to create a federal watchdog agency to oversee home loans and other consumer credit, Rep. Walt Minnick of Idaho was one of only two Democrats to vote against the beefed-up regulations sought by the White House.

Minnick, who supports regulatory reform, said he voted against the proposal because he does not want to see the creation of a new federal watchdog, known as the Consumer Financial Protection Agency. He has floated his own proposal that toughens regulations but does away with the "agency" part of the reform. He also says he'll consider voting for the final bill when it reaches the House floor. But consumer advocates say his "no" vote Thursday, when the bill came before the House Financial Services Committee, established Minnick firmly on the side of banks and organizations like the U.S. Chamber of Commerce, which has spent upwards of \$2 million in its campaign to kill the proposed consumer protection agency.

So far this year, commercial banks have spent \$25 million on lobbying, said Common Cause, a public interest group that focuses on money in politics. Finance and credit companies spent an additional \$16.7 million on lobbying this year, the group found. Common Cause says that's a combined lobbying total that equals about \$229,415 a day in the first six months of 2009 - when Congress has been focused on strengthening consumer financial oversight.

"In the wake of the collapse of the economy that was due in part to a lack of government oversight, one would think that Congress would be more willing to perform its job here and represent the public interest," said Bob Edgar, president of Common Cause. "But once again, members appear to be bowing to the wishes of their special-interest contributors."

Stronger financial regulation is among the top priorities of the White House, which wants to see a standalone agency that will protect consumers and avoid the sort of financial meltdown that led to the current economic crisis. In a statement following Thursday's vote, President Obama zeroed in on the influence that the country's financial services industry has over Congress.

"They are doing what they always do - descending on Congress, using every bit of influence they have to maintain the status quo that has maximized their profits at the expense of American consumers, despite the fact that recently those same American consumers bailed them out as a consequence of the bad decisions that they made," Obama said.

MINNICK GETS CAMPAIGN CASH BUT DENIES INFLUENCE

Minnick himself has been the beneficiary this year of more than \$27,000 from credit card companies and banks, Common Cause found.

In the most recent fundraising quarter, for example, the CEO of Raymond James Financial, Thomas James, gave Minnick the maximum contribution: \$2,400. Greg

Lovell, the president of First Bank of Idaho, gave \$1,000. Thomas Prohaska, the president of Idaho Trust National Bank, gave \$500.

This year, political action committees with ties to the financial services industry are among Minnick's biggest givers. **They include the Financial Services Roundtable, Goldman Sachs, the Securities Industry and Financial Markets Association, the Online Lenders Alliance and the Independent Community Bankers Association.** In the most recent quarter, the American Express political action committee gave \$1,500. Bank of America's PAC gave \$4,000, and National Association of Realtors' political arm gave \$1,000.

Minnick rejects the notion that campaign contributions influence his stance on bills. And he disagrees with the assertion that he has sided with big business. He said he sides 100 percent with the Obama administration: consumer financial regulatory reform is needed, Minnick said. He just differs in how to get there. "I think we owe to the president to give him a bill that accomplishes his objectives, which I fully support," Minnick said after Thursday's vote. "I'm very supportive of the overall bill, and it's essential that we pass a comprehensive financial re-regulation bill. But we want to do it right."

IDAHO COMMUNITY BANKS OPPOSE AGENCY

Community banks in Idaho have complained that a new regulatory agency would bring onerous, expensive regulation, Minnick said. His own proposal would create a consumer financial protection council made up of existing state and federal regulators. He objects to having one regulator overseeing the financial security of a bank and another making the rules that protect customers.

Minnick's idea, when first broached, drew the support of Dawn Justice, president and CEO of the Idaho Bankers Association. It "seems to provide many of the same consumer protections and strengthened regulatory benefits of the Obama plan, but does it with far less bureaucracy at a far lesser cost," Justice said in a statement. Consumer groups, however, have been more critical. The Consumer Federation of America last month called Minnick's proposal little more than the status quo.

"We think that if a bank is offering a product that is sustainable and suitable and appropriate for a consumer, they should not have any problems with a Consumer Protection Agency," said the federation's spokeswoman, Susan Weinstock. "It's not another layer of bureaucracy. It's an agency with a mission focused on consumers."

They're not going to let stronger financial oversight fail, said Ed Mierzwinski, the consumer program director for the U.S. Public Interest Research Group.

"The financial system failed to protect consumers and led to a collapse of the world economy," Mierzwinski said. "Congress saved the banks, but it hasn't yet made sure that what they did won't happen again. We're going to fight that, and the president's going to fight."

MINNICK'S IDEA FINDS FOE IN BARNEY FRANK

Minnick's proposal also fell flat with the chairman of the House Financial Services Committee, Rep. Barney Frank, D-Mass., typically a fan of the Idaho Democrat, but who in this case hewed closely to the Obama administration's wish for a consumer-friendly regulatory agency.

"Generally he's been very constructive, but I did disagree," said Frank, whose own political campaign gave Minnick \$2,400 this year.

Minnick's role on Frank's committee is closely tied to his ability to raise campaign contributions. That's because members of the House Financial Services Committee raise about 10 percent more money for their re-election campaigns than the rest of their House counterparts.

House members who sat on the Financial Services Committee in 2008 raised about \$150,000 more on average for their re-election campaigns than those not on the committee, according to an analysis by the Center for Responsive Politics, a nonpartisan research group that tracks money in American politics.

The committee is widely acknowledged as a spot for vulnerable freshman incumbents, such as Minnick, who need the campaign cash to run competitive campaigns that will help them remain in office. Minnick got to office by narrowly defeating one-term Republican Bill Sali, and he remains one of the leading targets of the National Republican Congressional Committee.

MOST OF MINNICK'S CONTRIBUTIONS FROM FINANCIAL SECTOR

Already, Minnick has drawn three Republican opponents in a district where 62 percent of voters cast presidential ballots for GOP presidential candidate John McCain in 2008.

Minnick in August cited the pressure of fundraising when he told 400 people at the Boise City Club that he had skipped a meeting with University of Idaho officials because he was behind on his money-raising targets for the quarter. Instead, Minnick told them he got on the phone to solicit contributions.

Like many vulnerable lawmakers on the House Financial Services Committee, Minnick raises the bulk of his money from the financial services industry,

including the political action committees of community banks and other banking industry types with an interest in the outcome of the regulatory legislation. Minnick acknowledged in an interview last month that it's "natural that people in that community will be looking at me," because he has a seat at the table where financial regulations are being discussed.

But he also said that his campaign donors are "absolutely irrelevant with respect to the legislative decisions I make," adding that he does not accept donations from tobacco companies, large oil companies or big box retailers. Companies such as Wal-Mart are "fine businesses," Minnick said, but he competed with them when he ran his own business and has chosen not to accept donations from such retailers.

Dodd Seeks Immediate Rate Freeze On Credit Cards

By MICHAEL R. CRITTENDEN

DOW JONES NEWSWIRE

October 26, 2009

WASHINGTON -- A top U.S. Senate Democrat moved Monday to impose an immediate freeze on credit card interest rates, as congressional Democrats continue their ongoing efforts to rein in perceived industry abuses.

Sen. Christopher Dodd (D., Conn.), who chairs the Senate Banking Committee, introduced a measure that would freeze rates on existing balances until February, when tough new rules for the industry are slated to go into effect. Too many companies are using the delayed implementation of the new standards, which were passed by Congress in May, to push through aggressive rate and fee increases, Dodd said.

"No sooner had it been signed into law but credit card companies were looking for ways to get around the protections," Dodd said in a statement.

The measure is part of a populist push by Dodd, a fifth-term senator expected to face a tough re-election battle with Republican Rob Simmons, a former U.S. congressman, next year. His ties to the financial services industry and a loan program at the former Countrywide Financial Corp. have hurt his standing with voters, despite being cleared of violating Senate ethics rules in the mortgage loan issue.

Dodd has responded by embracing consumer issues that he has previously advocated for in the past. He joined with four other Senate Democrats last week to

introduce a bill cracking down on checking-account overdraft fees and has said a new consumer financial protection agency will be a centerpiece of his committee's efforts to overhaul regulation of the financial services industry.

Those efforts, along with his being a key voice on health care issues, appears to be helping with voters. A Sept. 17 Quinnipiac University poll showed Dodd's disapproval rate among Connecticut voters was at 49%, his best score in six months, and that he'd narrowed the gap with Simmons to 5 percentage points in a potential head-to-head race in 2010.

Dodd's latest legislation is part of a broader effort by congressional Democrats to crack down on what they see as gaming of the new rules by card issuers. Reps. Barney Frank (D., Mass.) and Carolyn Maloney (D., N.Y.) have authored legislation in the House of Representatives that would move up the effective date of the new restrictions from February to December.

Frank, who chairs the House panel that approved the accelerated-date bill last week, has said he was disappointed that card firms had pushed through rate increases ahead of the new rules after asking lawmakers for extra time to comply with the new standards.

Maloney, in a statement released last week, said that "the card companies brought this on themselves."

Republicans and industry groups have opposed the crackdown. Scott Talbott, senior vice president of government affairs at the Financial Services Roundtable, said such restrictions would be inappropriate.

"Interest rates are going up because of the risks presented by borrowers and the recession," Talbott said.

It's not the first time lawmakers have pressed rate caps in economically shaky times. In 1991, then Sen. Alfonse D'Amato, a New York Republican, successfully got a rate cap passed through the Senate, though it was never enacted into law.

Advocates: Idaho Rep. Minnick's vote against consumer watchdog aligns him with big business

ERIKA BOLSTAD

Idaho Statesman

October 26, 2009

WASHINGTON - When a House committee last week passed legislation to create a federal watchdog agency to oversee home loans and other consumer credit, Rep. Walt Minnick of Idaho was one of only two Democrats to vote against the beefed-up regulations sought by the White House.

Minnick, who supports regulatory reform, said he voted against the proposal because he does not want to see the creation of a new federal watchdog, known as the Consumer Financial Protection Agency. He has floated his own proposal that toughens regulations but does away with the "agency" part of the reform. He also says he'll consider voting for the final bill when it reaches the House floor.

But consumer advocates say his "no" vote Thursday, when the bill came before the House Financial Services Committee, established Minnick firmly on the side of banks and organizations like the U.S. Chamber of Commerce, which has spent upwards of \$2 million in its campaign to kill the proposed consumer protection agency.

So far this year, commercial banks have spent \$25 million on lobbying, said Common Cause, a public interest group that focuses on money in politics. Finance and credit companies spent an additional \$16.7 million on lobbying this year, the group found. Common Cause says that's a combined lobbying total that equals about \$229,415 a day in the first six months of 2009 - when Congress has been focused on strengthening consumer financial oversight.

"In the wake of the collapse of the economy that was due in part to a lack of government oversight, one would think that Congress would be more willing to perform its job here and represent the public interest," said Bob Edgar, president of Common Cause. "But once again, members appear to be bowing to the wishes of their special-interest contributors."

Stronger financial regulation is among the top priorities of the White House, which wants to see a standalone agency that will protect consumers and avoid the sort of financial meltdown that led to the current economic crisis. In a statement following Thursday's vote, President Obama zeroed in on the influence that the country's financial services industry has over Congress.

"They are doing what they always do - descending on Congress, using every bit of influence they have to maintain the status quo that has maximized their profits at the expense of American consumers, despite the fact that recently those same American consumers bailed them out as a consequence of the bad decisions that they made," Obama said.

MINNICK GETS CAMPAIGN CASH BUT DENIES INFLUENCE

Minnick himself has been the beneficiary this year of more than \$27,000 from credit card companies and banks, Common Cause found.

In the most recent fundraising quarter, for example, the CEO of Raymond James Financial, Thomas James, gave Minnick the maximum contribution: \$2,400. Greg Lovell, the president of First Bank of Idaho, gave \$1,000. Thomas Prohaska, the president of Idaho Trust National Bank, gave \$500.

This year, political action committees with ties to the financial services industry are among Minnick's biggest givers. They include the Financial Services Roundtable, Goldman Sachs, the Securities Industry and Financial Markets Association, the Online Lenders Alliance and the Independent Community Bankers Association. In the most recent quarter, the American Express political action committee gave \$1,500. Bank of America's PAC gave \$4,000, and National Association of Realtors' political arm gave \$1,000.

Minnick rejects the notion that campaign contributions influence his stance on bills. And he disagrees with the assertion that he has sided with big business. He said he sides 100 percent with the Obama administration: consumer financial regulatory reform is needed, Minnick said. He just differs in how to get there.

"I think we owe to the president to give him a bill that accomplishes his objectives, which I fully support," Minnick said after Thursday's vote. "I'm very supportive of the overall bill, and it's essential that we pass a comprehensive financial re-regulation bill. But we want to do it right."

IDAHO COMMUNITY BANKS OPPOSE AGENCY

Community banks in Idaho have complained that a new regulatory agency would bring onerous, expensive regulation, Minnick said. His own proposal would create a consumer financial protection council made up of existing state and federal regulators. He objects to having one regulator overseeing the financial security of a bank and another making the rules that protect customers.

Minnick's idea, when first broached, drew the support of Dawn Justice, president and CEO of the Idaho Bankers Association. It "seems to provide many of the same consumer protections and strengthened regulatory benefits of the Obama plan, but does it with far less bureaucracy at a far lesser cost," Justice said in a statement.

Consumer groups, however, have been more critical. The Consumer Federation of America last month called Minnick's proposal little more than the status quo.

"We think that if a bank is offering a product that is sustainable and suitable and appropriate for a consumer, they should not have any problems with a Consumer Protection Agency," said the federation's spokeswoman, Susan Weinstock. "It's not another layer of bureaucracy. It's an agency with a mission focused on consumers."

They're not going to let stronger financial oversight fail, said Ed Mierzwinski, the consumer program director for the U.S. Public Interest Research Group.

"The financial system failed to protect consumers and led to a collapse of the world economy," Mierzwinski said. "Congress saved the banks, but it hasn't yet made sure that what they did won't happen again. We're going to fight that, and the president's going to fight."

MINNICK'S IDEA FINDS FOE IN BARNEY FRANK

Minnick's proposal also fell flat with the chairman of the House Financial Services Committee, Rep. Barney Frank, D-Mass., typically a fan of the Idaho Democrat,

but who in this case hewed closely to the Obama administration's wish for a consumer-friendly regulatory agency.

"Generally he's been very constructive, but I did disagree," said Frank, whose own political campaign gave Minnick \$2,400 this year.

Minnick's role on Frank's committee is closely tied to his ability to raise campaign contributions. That's because members of the House Financial Services Committee raise about 10 percent more money for their re-election campaigns than the rest of their House counterparts.

House members who sat on the Financial Services Committee in 2008 raised about \$150,000 more on average for their re-election campaigns than those not on the committee, according to an analysis by the Center for Responsive Politics, a nonpartisan research group that tracks money in American politics.

The committee is widely acknowledged as a spot for vulnerable freshman incumbents, such as Minnick, who need the campaign cash to run competitive campaigns that will help them remain in office. Minnick got to office by narrowly defeating one-term Republican Bill Sali, and he remains one of the leading targets of the National Republican Congressional Committee.

MOST OF MINNICK'S CONTRIBUTIONS FROM FINANCIAL SECTOR

Already, Minnick has drawn three Republican opponents in a district where 62 percent of voters cast presidential ballots for GOP presidential candidate John McCain in 2008.

Minnick in August cited the pressure of fundraising when he told 400 people at the Boise City Club that he had skipped a meeting with University of Idaho officials because he was behind on his money-raising targets for the quarter. Instead, Minnick told them he got on the phone to solicit contributions.

Like many vulnerable lawmakers on the House Financial Services Committee, Minnick raises the bulk of his money from the financial services industry, including the political action committees of community banks and other banking industry types with an interest in the outcome of the regulatory legislation.

Minnick acknowledged in an interview last month that it's "natural that people in that community will be looking at me," because he has a seat at the table where financial regulations are being discussed.

But he also said that his campaign donors are "absolutely irrelevant with respect to the legislative decisions I make," adding that he does not accept donations from tobacco companies, large oil companies or big box retailers. Companies such as

Wal-Mart are "fine businesses," Minnick said, but he competed with them when he ran his own business and has chosen not to accept donations from such retailers.

Treasury near deal on 'too big to fail'
ANNE FLAHERTY and JIM KUHNHENN
Associated Press
October 26, 2009

WASHINGTON — The Treasury Department and a senior House Democrat have decided against making financial firms pay upfront the costs of dismantling them if regulators decide they have grown "too big to fail," according to a House aide familiar with the plan.

Instead, those companies would be allowed to borrow money from the government. The government would then recoup the costs by either seizing the firm's profits or seeking restitution from the entire industry, the aide said.

The aide spoke on condition of anonymity because details had not been released. Rep. Barney Frank, the Massachusetts Democrat who chairs the House Financial Services Committee, was expected to announce the agreement by Tuesday.

Who should pay to dissolve big financial institutions endangering the general economy has been considered among the toughest questions that Congress had to answer after last year's near-collapse of several firms that prompted hefty government bailouts.

Lawmakers know that voters are still angry from the bailouts and don't want to see taxpayer money on the line. At the same time, businesses say it is unfair to force them to invest their capital in advance to pay for the mistakes of others.

Scott Talbott, senior lobbyist for the Financial Services Roundtable, an industry group, said paying ahead of time into a fund "would expose the entire industry to paying for an unquantifiable risk and impose upfront additional costs during a recession."

Federal Reserve Chairman Ben Bernanke said in a speech last week in Chatham, Mass., that taxpayers shouldn't be on the hook.

"It is essential that there be a credible process for imposing losses on the shareholders and creditors of the firm," Bernanke said.

Frank's legislation would give the government unprecedented power to seize non-bank firms, dismiss their management and wipe out shareholders. The government has similar powers when it comes to banks, but was powerless last year when large bank holding companies and insurance giant American International Group teetered on the brink of collapse and threatened the broader economy.

Under Frank's plan, such large firms would be designated by the government as systemically important. They would have to hold more money in reserve and would have a tougher time borrowing against their assets, in the hopes that this would make them less likely to fail.

Frank's proposal also was expected to adopt the administration's suggestion that these firms would be required to create their own plans to be dismantled if they were to fail.

Treasury Secretary Timothy Geithner suggested in June that the administration wouldn't try to force bank holding companies and other large financial institutions to prepay into a kind of resolution fund. Instead, he said, the government would try to recoup lost money by assessing a fee over time to these firms.

"That will help make sure that the burden for that is borne by bank holding companies, not by the 8,000 other financial institutions in the United States — smaller community banks — that were not responsible for that error," he said in testimony in June.

Treasury, Fed Outline Rules to Limit Exec Pay

John Ydstie

NPR

Thursday, October 22, 2009

To listen to the story, please click [here](#).

MELISSA BLOCK, host:

From NPR News, this is ALL THINGS CONSIDERED. I'm Melissa Block at NPR West in California.

MICHELE NORRIS, host:

And I'm Michele Norris in Washington, D.C.

First, it was the Obama administration's pay czar and now the Federal Reserve has joined the assault on executive compensation. Today, the pay czar Kenneth Feignberg announced restrictions for top executives at seven companies that have gotten the most government aid during the financial crisis. And the Fed announced guidelines that would affect a lot more banks. We'll talk with Feignberg in just a moment.

First, NPR's John Ydstie has an overview of the day's event.

JOHN YDSTIE: Feignberg's restrictions on executive pay apply only to 175 top earning executives at seven firms, who together have received hundreds of billions of dollars in government aid. Some, like AIG, GM and Chrysler are essentially wards of the government. Others like CitiGroup and Bank of America are

struggling. Feignberg said he examined the pay plans initially submitted by the seven firms and found them excessive. He began a protracted period of negotiation that led to today's binding order.

The headline numbers include an average 90 percent reduction in cash compensation for executives, though much of that could be replaced by compensation and stock. Feignberg also placed a cap of \$500,000 on cash salaries for most of the 175 employees. And he requires that bonuses be paid in stock and based on performance. Stock would have to be held for several years to focus employees on long-term profitability. Speaking at a separate White House event, President Obama said Feignberg had done a good job.

President BARACK OBAMA: I believe he's taken an important step forward today in curbing the influence of executive compensation on Wall Street, while still allowing these companies to succeed and prosper.

YDSTIE: However, Feignberg's direct effect on 2009 pay at the seven companies is limited to November and December. He said he will not take back pay that employees earned in the first 10 months of the year. His restrictions may have a larger effect next year because they become the baseline for negotiating 2010 compensation at the seven companies. Meanwhile, the Federal Reserve today released its guidelines for pay. They're aimed at limiting excessive risk taking at the thousands of banks the Fed regulates right down to the level of loan officer. Chief lobbyist Scott Talbott of the Financial Services Roundtable says the industry is onboard.

**Mr. SCOTT TALBOTT (Chief Lobbyist, Financial Services Roundtable):
Defense approach is balanced and measured, and they focus on reducing
excessive risk. But they don't go so far as setting pay caps.**

YDSTIE: Bank analyst Nancy Bush of NAB Research says she thinks today's dual announcements by the Fed and Treasury are aimed at showing some government action ahead of the yearend bonus season on Wall Street. Bush says Goldman Sachs, for instance, has signaled it will pay out somewhere around \$20 billion in bonuses.

Ms. NANCY BUSH (Bank Analyst, NAB Research): I think they're trying to dampen populist anger before those numbers become known. I am very doubtful about whether this is going to be enough to do that.

YDSTIE: Pay czar Feignberg said he hoped his guidelines would become a model for Wall Street firms. Nancy Bush was doubtful they would have a significant effect.

**Nightly Business Report
Stephanie Dhue**

PBS

October 27, 2009

SUSIE GHARIB: Too big to fail, those four words stirred up lots of anxiety for American taxpayers during the financial crisis. Now the Obama administration and lawmakers are working on new rules to deal with large financial firms that run into trouble and threaten the overall economy. What firms are too big to fail and in a crisis which ones will be rescued and how? As Stephanie Dhue reports, those are just some of the questions under discussion as the government reforms financial regulations.

STEPHANIE DHUE, NIGHTLY BUSINESS REPORT CORRESPONDENT: It wasn't too long ago that the average American didn't even think about financial firms that were too big to fail. But with billions spent on bailouts things have changed. That has House Financial Services Chairman Barney Frank and Treasury officials crafting new regulations to put an end to AIG-style rescues. Under the proposal, the Federal government would have the authority to seize troubled financial firms, throw out their management, change terms of existing loans and wipe out shareholder stakes. Scott Talbott lobbies for large financial institutions. He says the proposal may go too far.

SCOTT TALBOTT, SR. VP GOV'T AFFAIRS, FINANCIAL SERVICES ROUNDTABLE: Our concern is that they over regulate and stifle the ability of the firms to raise capital. If there's so much government intervention or the threat of government intervention, then the investors will demand a higher rate of return or demand a higher rate in order to invest in the company, thus weakening the companies' ability to raise capital.

DHUE: Too bad says banking expert Karen Shaw Petrou.

KAREN SHAW PETROU, MANAGING PARTNER, FEDERAL FINANCIAL ANALYTICS: If they are able to raise capital because the market expects them to be bailed out, then it's time to change that.

DHUE: Frank's proposal also makes it harder for financial firms to borrow heavily against their assets. Petrou says what's needed are tougher regulations and a new authority to resolve failed banks.

PETROU: If all you do is come up with a soft landing for very large financial institutions, then they'll just get bigger.

DHUE: But others say bankruptcy courts, rather the government are better suited to wind down big financial firms. AEI scholar and former Federal Home Loan Bank President Alex Pollock says so-called orderly resolutions can be costly to taxpayers.

ALEX POLLOCK, RESIDENT FELLOW, AEI: Somehow or other, as you expand this notion of having regulatory resolutions, you're also expanding typically the amount of money that the government is willing to put up.

DHUE: Lawmakers are considering setting up a resolution fund so regulators can unwind failed financial firms, but the big question is just how to pay for it.

Dodd Seeks to Freeze Credit Card Rates

Michael Crittendon

Wall Street Journal

October 27, 2009

A top Senate Democrat moved Monday to impose an immediate freeze on credit-card interest rates, as congressional Democrats continued pushing to rein in financial-sector practices.

Sen. Christopher Dodd of Connecticut, who heads the Senate Banking Committee, introduced a measure that would freeze rates on existing card balances until February, when tough new rules for the industry are slated to go into effect.

Mr. Dodd said he was making the move because companies are using the delayed implementation of the new standards, passed by Congress in May, to push through aggressive rate and fee increases. "No sooner had it been signed into law, but credit card companies were looking for ways to get around the protections," Mr. Dodd said in a written statement.

The measure is part of a populist push by Mr. Dodd, a fifth-term senator facing a tough re-election battle against former Republican U.S. Rep. Rob Simmons next year. Mr. Dodd's ties to the financial-services industry and his receipt of a home loan from former Countrywide Financial Corp. have hurt his standing with voters. He was cleared of violating Senate ethics rules in the mortgage issue.

Mr. Dodd has responded by embracing consumer issues for which he has advocated in the past. He joined with four other Senate Democrats last week to introduce a bill cracking down on checking-account overdraft fees, and has said a new consumer financial protection agency will be a centerpiece of his committee's efforts to overhaul regulation of the financial-services industry.

Those efforts appear to be helping with voters. A Sept. 17 Quinnipiac University poll showed that Mr. Dodd's disapproval rating among Connecticut voters was at 49%, his best score in six months. The poll found that he had narrowed the gap with Mr. Simmons to five percentage points in a potential head-to-head race in 2010.

Mr. Dodd's measure is part of a broader effort by congressional Democrats to crack down on what they see as gaming of the new rules by card issuers. Reps. Barney Frank (D., Mass.) and Carolyn Maloney (D., N.Y.) have introduced House legislation that would move up the effective date of the new restrictions to December from February.

The House Financial Services Committee has already approved the accelerated date.

Republicans and the banking industry have opposed the crackdown. **Scott Talbott, senior vice president of government affairs at the Financial Services Roundtable, said such restrictions would be inappropriate.**

"Interest rates are going up because of the risks presented by borrowers and the recession," Mr. Talbott said.

Plan would target firms 'too big to fail'

Marketplace

John Dimsdale

American Public Media

October 27, 2009

Kai Ryssdal: Speaking of things we haven't heard about in Washington for a while, too-big-to-fail is back. The chairman of the Federal Deposit Insurance Corporation, Sheila Bair, resurrected that phrase today. She told a banking conference there's a growing consensus over ways to dismantle banks and other financial institutions that are bigger than they ought to be.

We're expecting to hear something about this from Congress as soon as tomorrow. A plan that would force big banks, brokers and insurance companies to set aside extra reserves, keep more money in the bank as a hedge against bad times. And, if the times get too bad, the plan would give Washington more power to get rid of management and restructure debts.

Our Washington Bureau Chief John Dimsdale reports the legislation would also oblige big banks to write up something like a living will.

JOHN DIMSDALE: The proposal would require each big financial company to come up with a plan for its own demise in the event of a crisis. Big firms would have to show how their investments and debts would be covered if they fail.

Stephen Lerner, with the Service Employees International Union, says the requirement will protect taxpayers.

STEPHEN LERNER: If you can't describe, if your deals go bad, how it's going to get resolved without tanking the entire economy, then that's a problem. So, we have to get out of this trap where no matter what the banks do we get stuck here with the burden.

If big banks add innovative and possibly risky products or investments to their portfolios, they would have to update their living wills.

Scott Talbott with the Financial Services Roundtable thinks the requirement is a good idea, but says the industry has a concern about too much disclosure.

SCOTT TALBOTT: The challenge will be that you want to provide the markets with enough detail that they have certainty your plan makes sense, but at the same time, you don't want to give away competitive advantages and corporate secrets.

Perhaps it would be better if regulators themselves put together the roadmaps for unraveling, says finance professor Kevin Jacques at Baldwin Wallace College.

KEVIN JACQUES: What you want is you want the government regulators to have a plan in place that basically says to these institutions, if you take too much risk, if you get yourself into too much trouble, we're going to allow you to fail, and we're going to unwind you.

The proposal will have a congressional hearing on Thursday.
In Washington, I'm John Dimsdale for Marketplace.

Limiting Compensation

John Maggs

National Journal

Monday, October 26, 2009

What do you think of the Treasury and Federal Reserve actions to limit compensation for executives at large financial companies? The Treasury action would reduce compensation by 90 percent for the highest-paid 25 executives at each of the seven companies that received federal bailout aid, and soon extend this to the top 100 executives. The Fed plans to review compensation as part of its supervision of large banks (a duty it would lose according to Senate reform

proposals.) Among other questions, the securities industry is wondering whether the new Fed rules would cover executives for bank-owned subsidiaries.

Is the Treasury plan mostly politics? A powerful incentive to pay back TARP funds and avoid the risk of future bailouts? Will it be possible to attract competent management at those companies? Can the Fed be trusted to curb compensation when it never recognized that as a problem before?

Responded on October 26, 2009 8:02 AM

Scott Talbott, the top lobbyist for the Financial Services Roundtable has this assessment of the new compensation rules:

“The Treasury executive compensation proposal focuses on compensation for top executives at 7 institutions that have accepted exceptional assistance from the federal government. For any institution that accepts taxpayer dollars, reasonable restrictions are part of the territory. It should be noted that Congress has imposed restrictions on TARP companies by limiting tax deductions and prohibiting any incentive compensation.

The Treasury proposal correctly focus on reducing excessive risk-taking and eliminating those compensation programs that focus on the short-term, rather on the long-term risk horizon. This focus on excessive risk eliminates incentives for executives to maximize quarter-over-quarter profits. This is the correct focus because it benefits the bank, the sales force, and the customer.

While the Treasury has the correct focus, it relies on reducing or banning pay and setting specific dollar limits on all types of pay to achieve its objective. While there are arguments on both sides about whether this is appropriate for the 7 institutions, this approach should not be applied to the broader industry.

The danger created by setting specific pay restrictions is they will be both over-inclusive and under-inclusive at the same time. Each institution and employee is unique and compensation packages need the flexibility to recognize this. Additionally, specific pay restrictions will cause a “brain drain” of executives who will leave the company for compensation based on market forces. Specific restrictions will thus reduce the ability of the company to attract and retain qualified employees, who are needed to help strengthen financial institutions.

The Fed guidance focuses on the entire industry under the Fed’s jurisdiction and potentially applies to all employees working at those institutions. It divides the industry and gives extra levels of scrutiny to the largest 28 banking organizations. The financial services industry did a poor job of managing some of its risks, including ‘compensation risk’, and this contributed to the failure of many institutions.

The guidance from the Federal Reserve shares the same goals as the Treasury proposal of reducing risk, however it achieves those goals with a different carrot.

The remedy the Fed proposes is the more effective one. It does not focus on setting specific dollar pay caps, but rather, it is search and destroy mission to attack the root of the problem: excessive risk. The proposal seeks to eliminate any compensation practice that encourages any employee- from CEO to loan officer to trader- from engaging in behavior that exposes customers or the institution to excessive risk. The Fed proposal threads the needles of protecting institutions and consumers and attracting and retaining talented employees.

It is important to note that the financial services industry has already moved to eliminate incentives to take excessive risk and to better align compensation practices with the long-term risk horizon. The industry is using claw backs, salary deferrals, stock options, and long vesting schedules for stock options. These devices will align the interests of all employees with the long-term risk horizon of the company and the customer.

Both the Treasury and the Fed proposal focus on long-term risk, they just achieve their goals in different manners. The Fed method will help individual institutions, the industry, the economy, and the consumer better realize the benefits of financial transactions.”

Dodd Calls for Interim Freeze on Credit Card Fees and Rates

Andrew Martin

New York Times

October 26, 2009

Senator Christopher J. Dodd, Democrat of Connecticut, on Monday proposed freezing interest rates and fees on existing credit card balances until a new law took effect.

Senator Dodd, the chairman of the Senate Banking Committee, said his bill was necessary because banks were raising rates “to squeeze customers” before the remaining provisions of law took effect in February.

The new credit card law, which was passed in May, seeks to stop banks from arbitrarily raising interest rates.

Last week, the House Financial Services Committee passed legislation to move up the effective date for the credit card law, which will restrict interest rate increases and hidden fees, from Feb. 22 to Dec. 1. The measure is opposed by the banking industry, which says it will be difficult if not impossible to meet the expedited deadline.

“At a time when families are struggling to make ends meet, jacked-up rates can quickly create crushing debt,” Mr. Dodd said in a statement. “People need to be responsible with their money, but they shouldn’t be taken to the cleaners by outrageous fees.”

Kirstin Brost, a spokeswoman for the banking committee, said none of the industry's objections about expediting the provisions of the credit card law applied to a simple rate freeze.

"Everybody has been trying to figure out a way to move this up, so Dodd said, 'O.K., we are calling your bluff,' " she said.

In the last year, as the economy sputtered and credit card delinquencies increased, banks have slashed credit lines and raised interest rates and fees on many customers to offset the losses. The banking industry predicted that the credit card law would mean higher fees and fewer rewards, even for better customers.

Scott Talbott, senior vice president for government affairs at the Financial Service Roundtable, said his organization, which represents large financial institutions, opposed the bill to freeze rates. He said the bill was based on the faulty premise that credit card interest rates were going up because of legislation.

Instead, he said, interest rates were rising because of risks posed by the unsteady economy and by card holders themselves, who are defaulting on their payments or paying late more often.

Panels Unveil Deal on Offshore Taxation

Peter Cohn

Congress Daily

Tuesday, October 27, 2009

House Ways and Means and Senate Finance committee Democrats today unveiled a measure aimed at forcing offshore banks, trusts and corporations to provide more information to the IRS about foreign account-holders or face financial penalties.

The proposal caps a months-long review of offshore tax compliance measures by the tax-writing panels. As scored by the Joint Committee on Taxation, the proposal would raise \$8.5 billion over the next decade -- money that can be used to pay for a variety of popular initiatives, such as the extension of expiring tax breaks.

President Obama and Treasury Secretary Geithner, who outlined similar proposals in their budget blueprint this year, quickly endorsed the measure.

"I look forward to working with Congress to turn these proposals into law so that honest Americans no longer shoulder the burden of the few individuals and businesses that put profit before responsibility," Obama said.

According to a summary of the measure, it would slap a 30 percent withholding tax on income from U.S. financial assets held by a foreign bank unless the

institution agrees to disclose the identity and assets of any U.S. individual with an account. The bill's sponsors said the mere threat of this tax should be enough to get foreign financial institutions to disclose the required information.

Any individual or entity holding an offshore account worth more than \$50,000 would be required to report that information. Failure to comply would carry penalties of \$10,000 -- ratcheting up to \$50,000 if the individual did not do so within 90 days after receiving notice from the Treasury Department.

In addition, financial advisers who derive more than \$100,000 in fees for helping U.S. individuals set up offshore accounts would have to disclose their activities or pay a fine equal to the greater of \$10,000 or 50 percent of the gross income they received for aiding such transactions. The measure also clarifies and strengthens rules governing money transferred by a U.S. individual to a foreign trust.

The measure is similar to a draft Senate Finance Chairman Max Baucus circulated in March and pulls from proposals contained in Obama's budget as well as more ambitious legislation introduced in both chambers by Rep. Lloyd Doggett, D-Texas, and Sen. Carl Levin, D-Mich.

For example, as in the Doggett-Levin bill, it aims to end the practice of complex transactions, such as cross-border equity swaps, that enable investors to avoid dividend taxes by clarifying that such payments are in fact dividends.

The bill drops two provisions in the Doggett-Levin bill that were considered overly onerous by the international business community: a \$5.4 billion revenue-raising proposal to treat any firm that is "managed and controlled" in the United States as a domestic corporation for tax purposes, and a 34-country "gray list" of tax haven countries that Treasury should pay particular attention to.

Industry officials argue those provisions could put U.S. companies at risk of discriminatory treatment abroad. **"We strongly support cracking down on companies who violate U.S. tax law. We are on guard to ensure that the bill doesn't put U.S. firms that operate overseas at a competitive disadvantage," said Scott Talbott, senior vice president of government affairs at the Financial Services Roundtable.**

In a statement, Levin commended the Ways and Means and Finance bill but said he would work to strengthen it by including some of the other provisions in his legislation. Levin may offer his bill as an amendment to the Senate healthcare bill, an aide said.

Plan would end taxpayer bailouts for financial firms deemed 'too big to fail'
Jim Puzzanghera
Los Angeles Times
October 28, 2009

The cost of future government rescues of huge financial institutions would be paid by their surviving rivals while the troubled firms' management would be fired, their unsecured creditors would face losses and their shareholders could be wiped out, according to a proposal released Tuesday by the Obama administration and a key House panel chairman.

The legislation tries to address the issue of large bank holding companies and other complex financial firms, such as American International Group Inc., that have been deemed "too big to fail" because of the damaging effect that a bankruptcy filing by one of them could have on the overall economy.

The proposal would seek, in effect, to allow such firms to fail but in a controlled manner that would minimize the collateral damage -- and not leave the government with the tab.

The legislation would "ensure that the industry and shareholders absorb the risk and cost of failure, not taxpayers," according to a statement released late Tuesday along with the legislation by the Treasury Department and Rep. Barney Frank (D-Mass.), chairman of the House Financial Services Committee.

By putting a financial firm's shareholders, creditors and executives at risk, the legislation also is designed to discourage companies from taking excessive risks and from becoming too large in the first place.

Such incentives could diminish the concern expressed by many economists and government officials that last fall's bailouts had set a precedent for the government to bail out "too big to fail" firms with taxpayer money, creating a "moral hazard" and encouraging them to engage in risky behavior.

The 258-page bill, which also would provide for increased oversight of the economy to look for signs of "systemic risk," is a major component of the Obama administration's proposed sweeping overhaul of financial regulations, which is working its way through Congress.

Scott Talbott, a lobbyist for the Financial Services Roundtable, which represents about 90 large financial firms, said it had concerns about some provisions in the bill but supported its overall goals, including the idea of assessing firms to pay for the failure of rivals.

"There are plenty of instances of asking the industry to cover the costs of others," Talbott said.

Treasury Secretary Timothy F. Geithner has said that the Federal Reserve had to take over AIG, and federal officials had to help prop up banking giants such as Citigroup Inc. and Bank of America Corp., because there is no orderly process for seizing them and selling them off. Geithner will testify about the new plan before Frank's committee Thursday.

Under current law, the Federal Deposit Insurance Corp. seizes troubled banks, sells their assets and insures deposits of up to \$250,000 per account in most cases with a fund paid for by assessments on all banks. But there is no similar mechanism for huge, complex financial institutions, including companies that own investment arms and other businesses as well as banks.

Under the proposed legislation, such firms in danger of failing also would be taken over by the FDIC. Management would be removed, unsecured creditors would have to take unspecified losses and shareholders would not be paid until all other claims were settled.

The company's assets would be sold, but if the proceeds didn't cover the money spent by the government to pay off claims, financial institutions with total assets of at least \$10 billion each would be required to pay into a fund that would reimburse the government. There are about 120 firms with at least that amount of assets, Talbott said.

The proposal mirrors suggestions made by Elizabeth Warren, head of a congressional panel that monitors the \$700-billion Troubled Asset Relief Program, or TARP.

"We need a system that spells out the high prices that would be imposed if any company ever calls on the government for help," she said Tuesday before the legislation was released.

"If the price of government support is that the equity is wiped out, the debt holders take a haircut and the management team is replaced, moral hazard evaporates," Warren said. "The people running big companies will not gamble with company assets in a way that makes taxpayer support the first option when something goes wrong. They will run their companies in a way that prevents the need for taxpayer bailouts."

It's unclear how many firms would be considered big enough under the proposal to be dismantled under its provisions. In the spring, the government in effect treated the 19 U.S. bank holding companies with more than \$100 billion in assets as too big to fail, putting them through special "stress tests" to determine whether they needed further infusions of capital from the government.

The measure is unlikely to satisfy lawmakers, including Republicans and some Democrats, who have opposed provisions in it that would grant the Treasury Department power to put up unlimited amounts of taxpayer money to seize and dismantle giant financial institutions -- a power these opponents have called "permanent bailout authority."

The TARP fund, on the other hand, will expire by late 2010.

Rep. Brad Sherman (D-Sherman Oaks), who has criticized attempts by the administration to cut Congress out of any future bailout decisions, challenged the assertion that the proposal released Tuesday follows a "polluter pays" model.

"It's not the polluter that pays. It's the entities that were clean and had to compete with the polluter," Sherman said. He said he would prefer a fund that large firms pay into in advance, just like the FDIC's Deposit Insurance Fund.

More preferable, Sherman said, would be a prohibition on financial institutions whose liabilities are greater than \$120 billion or 1% of the country's annual economic output. If a government bailout is required, it should be approved by Congress, as the \$700-billion TARP fund was, he said.

It's Not About (Just) the Money

Dusty Nix

Atlanta Ledger-Enquirer

October 28, 2009

Americans overwhelmingly believe in capitalism, the laws of the marketplace and the free enterprise system. The issue for most is not whether corporate executives — particularly executives at financial institutions with the most direct impact on the economy — make a lot of money.

The issue is how and why they're getting it.

Recent reports have indicated that Wall Street salaries and bonuses are on track to be higher than they were in 2007 — before the financial crisis, and before massive taxpayer subsidy of ... Wall Street.

Such news has hard-working Americans fuming, as well it might.

And it has both the Federal Reserve and the Treasury Department planning direct oversight of executive compensation, as a condition of firms receiving significant taxpayer bailouts.

Apologists for multimillion-dollar salary and bonus packages — meaning mostly the executives who get them and the boards of directors that approve them — say such high-dollar incentives are necessary to lure the best and most able people to corporate leadership positions. That’s on some level a rational argument, but one without a lot of public-relations traction in the wake of a devastating financial meltdown and 11-digit public bailouts of private businesses.

At the same time, the decision by Treasury “Pay Czar” Kenneth Feinberg to cap at \$500,000 the actual salaries, and cut in half the bonuses, of executives at large financial institutions getting taxpayer money is not just arbitrary, but arbitrarily low. Yes, a half-million-dollar salary is lavish beyond the dreams of avarice for the average working American. But that doesn’t change the fact that financial institutions have to be able to compete for executive talent with other corporations not under such restrictions. (One part of the Treasury plan that does make both fiscal and ethical sense is company stock as a larger percentage of executive compensation. As an incentive to performance, that’s as direct as it gets.)

Again, the problem is not a CEO’s or other executive’s paycheck per se; it’s the formula by which it is calculated. The Fed’s concern — and, it would seem, rightly so — is with executive compensation formulas based on short-term profit goals at the expense of longer-term outcomes. Such short-sighted pay plans, financial analysts say, were an incentive to high-risk investments with immediate, but unsustainable returns.

Even the Financial Services Roundtable, the lobbying organization for major financial institutions, acknowledges the failure:

“From a banking standpoint, [the Fed] proposal is correctly focused on eliminating compensation practices that cause employees to take excessive risk,” said Scott Talbott, an FSR vice president.

The American free enterprise system is about the creation of wealth. But not by any means whatever, and not at massive public expense.

Misguided Civil Conspiracy Law Hampers Business Investment

Steve Bartlett

Reuters

October 27, 2009

The following is an opinion editorial provided by Steve Bartlett of The Financial Services Roundtable:

Illinois citizens hoping to see the state recover quickly from a particularly grim recession get no comfort from some plaintiff lawyers` manipulation of obscure Illinois case law in a manner that hampers the ability of banks to increase lending aimed at spurring economic growth.

The civil conspiracy statute originally evolved as an attempt to prevent two parties from colluding to harm a third party, but now is being used by some members of the plaintiffs` bar to sue businesses with whom they have no connection whatever.

In the banking sector, that expansive interpretation means lawyers can sue to hold lenders responsible for what their customers do with their loans.

Using that theory, lawyers recently sued a Chicago-area bank because it provided a loan to a business that then used the funds to finance an allegedly fraudulent scheme.

Instead of directing their fire at those actually accused of illegalities, lawyers can now haul "innocent bystander" banks into court even though they obviously had no way of predicting exactly how their loans might be used by a borrower.

With the financial service industry facing this added and somewhat bizarre liability, banks and other lending institutions likely will turn to "defensive banking" - more actively monitoring how their customers use their loans.

The result: additional costs for the lenders and those who rely on their loans. Such practices also raise invasion of privacy issues about how far lenders may go in scrutinizing how loans are being used.

Sadly, this new exposure to lawsuits is not limited just to financial institutions. Churches, hospitals, government entities, trade associations, law firms and other businesses have been forced at great expense to defend themselves against spurious civil conspiracy claims.

The evolving Illinois approach on what constitutes civil conspiracy appears to be in direct contradiction to a recent U.S. Supreme Court decision which held that investors in a company cannot bring securities fraud claims against its business partners - when those partners had no duty to investors and the investors had not relied on anything they said or did.

The high court's ruling makes good sense. Imagine, if you will, the horrible injustices that would arise if an office supply firm that sold Enron Corp. its pens, papers and staplers was then held liable for Enron's fraudulent manipulation of its own stock.

In deciding the case, the Supreme Court emphasized two major risks in extending one company's liability to unconnected business:

First, it noted that plaintiffs with weak claims could force settlements from innocent companies, simply because of the steep costs and uncertainties of defending themselves in a trial.

Second, contracting parties would have to consider the cost of potential liability and add it into their prices - thus raising the costs for both businesses and consumers.

Indeed, that already is happening in Illinois, where once implausible risks have become today's reality. When Illinois companies are sued for civil conspiracy, they must tabulate the cost of defending themselves against frivolous claims along with the possibility of an unfavorable and unwarranted verdict that could necessitate an even costlier appeal.

Their best and least costly option often is settling a spurious claim rather than fighting it - giving in to what the Supreme Court bluntly characterized as extortion.

The expanding Illinois case law acts also as an economic deterrent to companies locating or expanding business in the state. Why would any company with an eye to the bottom line locate a major facility or expand an existing business in Illinois and expose itself to risks that aren't present elsewhere?

Illinois' civil justice system and its legislature should take a hard look at the broadened interpretation of civil conspiracy and narrow it to bring it back into the nation's commercial mainstream.

In a recession that has caused so much suffering for so many, including the state's nearly 700,000 currently unemployed workers as well as thousands of struggling businesses, to take this simple step is an obvious choice.

Steve Bartlett is president and chief executive officer of The Financial Services Roundtable in Washington, D.C.

Credit Cards up Rates Ahead of New Rules
The Today Show
Wednesday, October 28, 2009

Scott Talbott appeared on the Today Show to discuss credit card rates. To view the clip, please click [here](#).

Frank Unveils Bill Giving Government Resolution Authority
Bill Swindell
Congress Daily AM
Wednesday, October 28, 2009

Large financial firms would be liable to cover the cost of any competitor if it is taken over by the federal government because it is too big to fail, under legislation unveiled by House Financial Services Chairman Barney Frank Tuesday.

The measure would give resolution authority to the federal government so it can take over top-tier financial firms, unwind their assets and get them back into the private market -- similar to the process the FDIC uses for failed banks.

The Obama administration and congressional Democrats want to prevent a case similar to American International Group, in which the federal government took over the firm and extended a \$180 billion-plus line of credit to prevent its failure from triggering a market collapse.

The cost of resolving a failing firm would be first paid from its assets, before shareholder and creditor claims. Any subsequent shortfall would be paid by fees assessed on large financial firms with assets of \$10 billion or more, which could be paid out when such dues would not be a financial burden upon a company.

The fee would apply to all systemically important firms, not just top banks but also possibly insurance carriers, hedge funds and private equity firms.

Policymakers ruled out creating a permanent fund for such scenarios because Congress is suffering from bailout fatigue over the Troubled Asset Relief Program and worries over mounting debt, making the measure a tough sell politically. Frank is touting that the payment scheme is similar to the "polluter pays" principle of environmental law, forcing Wall Street to pay for its mistakes.

Frank declined comment on the bill Tuesday, waiting for a Thursday hearing on the bill where witnesses will include Treasury Secretary Geithner and federal banking regulators.

Republicans are pushing an alternative to have a more streamlined bankruptcy process, but that has been rejected by Treasury because it argues current law does not account for the complex interrelationships between large firms that could trigger financial instability.

Capital Markets Subcommittee ranking member Scott Garrett, R-N.J., said he still had concerns because the Frank bill would require the federal government to at least initially outlay funds with the promise of being repaid. "We're on the hook up front, and we hope to get paid back by all the Tier 1 companies? If we do, we get paid back in a timely manner? I don't know if there is a guarantee of that any more than there is that [General Motors Corp.] will pay us all the money back and our AIG investment will be paid back." The bill gives regulators the ability to borrow from the Treasury for the takeover.

"The law will specifically require who has to pay for the resolution. We don't put the taxpayers on the hook, unlike Republican economic policies that have cost this country dearly," said a Democratic aide.

The Frank bill would create an eight-member council to monitor systemic risk throughout the financial system, including identifying companies whose operations could pose a risk threat to the market if they were to collapse. They would be under tougher capital, leverage and liquidity requirements. The council would be headed by Treasury and contain nonvoting representatives from state insurance and banking offices. The council would also share information between agencies to ensure they are not locked into silos where they could miss potential problems.

The bill also would rein in the Federal Reserve's power to conduct emergency lending, by requiring Treasury approval and limiting such allocations to available credit facilities. But the central bank would have authority to oversee companies subjected to consolidated regulation, removing a key provision of the 1999 Gramm-Leach-Bliley Act.

It would eliminate the Office of Thrift Supervision but preserve the thrift charter for mortgage lending. Those thrift holding companies would now be under Fed supervision. And it would force industrial loan companies, which are state-chartered banks that offer limited financial services, to restructure as bank holding companies. Many commercial companies use ILCs to cut down on costs.

Those holding companies would face limits on the transactions they conduct with any commercial affiliate. The bill also would prohibit any additional commercial companies from owning banks.

The Financial Services Roundtable said it agreed with the bill's overall focus, especially on eliminating regulatory silos between agencies.

But it has concerns on the negative repercussions for ILCs with the requirements and a mandate that lenders retain 10 percent of a loan that they sell onto the secondary market.

Reaction to the Pay Czar on Executive Compensation

BBN

Wednesday, October 28, 2009

Scott Talbott appeared on BBN to discuss the executive compensation and the different ways to approach the issue. He also addressed how the financial institutions are handling the situation. To view the segment, please click [here](#).

Credit Card Hikes Raise Congress' Blood Pressure

Jennifer Liberto

CNNMoney

Wednesday, October 28, 2009

WASHINGTON (CNNMoney.com) -- As credit card companies continue raising rates and fees, lawmakers are considering bills to stop such hikes until new credit card laws take effect.

In the House, a key committee passed a bill to move up by nearly three months the start date of new laws aimed at cracking down on the way credit card issuers raise fees and assess credit risk. The new start date would be Dec. 1, [up from Feb. 22](#).

"It was argued. . . that they needed more time, and we granted them more time, but it was under the understanding that abusive practices would not continue, and double and increase dramatically," said Rep. Carolyn Maloney, D-N.Y., a bill sponsor, debating amendments to it.

The House Financial Services committee passed it on a voice vote.

In the Senate, Sen. Chris Dodd, D-Conn., Sen. Charles Schumer, D-N.Y., and others have introduced a bill to freeze credit card interest rates until the new legislation takes effect Feb. 22.

"We worked long and hard to enact the safeguards included in the Credit CARD Act," Dodd said. "And no sooner had it been signed into law, but credit card companies were looking for ways to get around the protections this Congress and the American people demanded."

Congressional watchers say that the odds are against passage for either bill, especially since the two are not identical.

"For now, this seems to be much more about scoring political points by beating up on unpopular credit card companies than on pushing legislation that can get

enacted quickly," said Jaret Seiberg, an analyst with Concept Capital's Washington Research Group.

Public up in arms

Still, public outrage continues to boil over on the topic, especially as card issuers continue to hike rates.

On Tuesday, the Pew Charitable Trusts released a study showing that interest rates rose by an average of 23% from December 2008 to July 2009.

Also, they found that all the largest banks and card issuers had engaged in practices that would be prohibited under the new credit card laws, such as hiking penalty rates on those who are just barely late on a credit card payment. The new law would only allow such a hike if the cardholder is more two months late.

"The unfair and deceptive practices that the credit card act targets remain widespread, and in some cases we've seen it getting worse," said Nick Bourke, manager of the Pew Safe Credit Cards Project.

The banks say that tinkering with the new law start date is unnecessary. They say rates are rising because customers and economic times are riskier. Record number of cardholders have been walking away from card debt, unable to pay, according to Federal Reserve data.

"We oppose it, because the two main factors driving the changes are the increased risk of nonpayment from the borrower and the riskiness of the economy," said Scott Talbott of the Financial Services Roundtable, a business lobbying group.

Last week, Republicans on the House panel pointed to a letter that Federal Reserve Chair Ben Bernanke wrote, in response to questions asking about the consequences if Congress moves up the effective date. Bernanke said it could be tough on companies, and it would prevent the Fed from getting feedback on proposed its new rules cracking down on fees.

"Although a December 1 effective date could provide benefits for consumers, the Board continues to believe that. . .card issuers must be afforded sufficient time for implementation to allow for an orderly transition and to avoid unintended consequences," Bernanke wrote.

The Credit CARD Act was signed into law by President Obama on May 22, with a first round of changes -- including giving cardholders 45 days notice before a hike takes effect -- taking hold in August. The more substantial changes were slated to take effect about six months later.

Among other things, the new law bans rate hikes unless a consumer is more than 60 days late -- and then restores the previous rate after six months if minimum

payments are made. It also makes it harder for people under age 21 to get credit cards.

An Easy First Round For Financial Reforms

Joshua Zumbrun

Forbes Online

October 29, 2009

This week, congressional Democrats and the U.S. Treasury unveiled the draft of their proposals for financial reform, including a council of regulators and a fund that would actually allow "too big to fail" institutions to fail. But before any votes, the drafts must make it through hearings.

Round one begins on Thursday with a marathon hearing in the House Financial Services Committee. The proposals are likely to receive mostly supportive treatment.

First on the docket is Treasury Secretary Timothy Geithner--as architect of the plan, his appearance will be in defense of the none-too-radical proposal. (See "Familiar Flavor to Financial Reform Bill.")

Next up are five regulators. Sheila Bair of the FDIC pushed hard since the start of the summer for a council of regulators to oversee "systemic risks" in the economy. (See "Bair Cautions Banking Crisis Is Not Over.")

Daniel Tarullo, one of the governors of the Federal Reserve, will testify too. The Fed once wanted more responsibility for overseeing those risks, but in testimony earlier this month, Bernanke backed away from taking on too much more power for the Fed. (See "Bernanke Says No Thanks To More Power.")

Also on the docket is John Bowman, the acting director of the Office of Thrift Supervision. Under the current proposal, the Office of Thrift Supervision would be killed off entirely. (With so much banking distress, apparently one regulatory lamb must be slaughtered.)

The third panel will be the most informative, as lobbyists from the financial industry appear before Congress. **Representatives of the Financial Services Roundtable, the American Bankers Association, the Managed Funds Association and the Securities Industry and Financial Markets Association will all testify.**

The financial lobby has fiercely opposed the creation of a Consumer Financial Protection Agency. They argue that laws to protect consumers already exist and current regulators have the authority they need, and that the CFPA would impose an onerous regulatory burden that could restrict the availability of some financial products. Supporters, of course, say that consumers were clearly inadequately protected in the past decade and need a regulator focused directly on that task.

But the lobby is more supportive of the new round of proposals. **Scott Talbott, a lobbyist for the Financial Services Roundtable, says that the industry doesn't object to the Systemic Resolution Fund, which would close massive financial institutions rather than bailing them out. The money for resolutions would come from financial institutions with more than \$10 billion in assets (currently around 120 institutions), but because the fees are not assessed until after a failure, Talbott says the industry does not object.**

The American Bankers Association also supports the resolution fund and the council of regulators, according to a statement released Wednesday. In its statement, however, the ABA reiterated its opposition to a new consumer protection agency: "Enhanced consumer protection should fix what's broken and not create another layer of federal bureaucracy that consumers will end up paying for."

The proposals are not going totally uncriticized, however. Douglas Elliott of the Brookings Institution fears that the council of regulators will be ineffective. "[Financial bubbles] are invariably quite popular. They arise because a large portion of the population accepts some tenet, such as the inevitability of rising house prices," says Elliott. Imagine if the council had tried to stop the housing bubble in 2005. Instead of averting the Great Recession, they'd be remembered as the regulators who murdered the great wealth-generating housing boom for no reason.

Peter Wallison of the American Enterprise Institute, who will also testify Thursday, has argued that the existing bankruptcy system is superior to a resolution authority, which could too easily come to resemble a permanent bailout fund.

But with the support of major financial lobbies, these key provisions of the legislation unveiled only yesterday could easily make it into law. Tomorrow's hearings will say more about where objections lie--for now, the Consumer Financial Protection Agency looks like the most contentious proposal.

Obama Embraces House Financial Overhaul Bill

Tamara Keith
NPR-Morning Edition
October 28, 2009

STEVE INSKEEP, host:
It's MORNING EDITION from NPR News. I'm Steve Inskeep.

RENEE MONTAGNE, host:
And I'm Renee Montagne.

When the financial crisis was at its worst a year ago, the government had two bad options. It could spend billions to bail out troubled and large financial firms, or it could let them fail and risk economic disaster. The government has been trying to figure out a way to prevent a repeat of that, and Treasury Secretary Timothy Geithner talked about this problem yesterday in New York.

Secretary TIMOTHY GEITHNER (Department of Treasury): You want to build a system where neither investors nor institutions live with the expectation that the government will come in and insulate them from the cost of their mistakes in the future.

MONTAGNE: After Timothy Geithner spoke, the Obama administration and Barney Frank, the chairman of the House Financial Services Committee, unveiled a draft bill intended to put the burden on the large financial companies and not the taxpayers.

NPR's Tamara Keith explained how it would work.

TAMARA KEITH: The financial regulatory system gets a makeover in this bill. To start with, it creates a powerful new council charged with finding and eliminating threats to the system. The Financial Services Oversight Council would include the whole alphabet soup of regulators who, in the past, didn't do such a good job of working together. **Scott Talbott is the chief lobbyist for the Financial Services Roundtable, an industry group.**

Mr. SCOTT TALBOTT (Chief Lobbyist, Financial Services Roundtable): Each regulator had their areas, had their institutions that they were regulating, but they didn't share information across and between the regulators.

KEITH: Which is how you got a mortgage broker putting a family in a loan they couldn't afford, selling the loan to a bank that bundled it and sold it to an investor who went out and bought a credit default swap.

Mr. TALBOTT: And no one stopped along the way to say the emperor has no clothes. Each regulator had a small piece of that transaction, but no one stopped to look over the entire transaction to see the threat that that transaction multiplied a thousand times, a million times posed to the entire system.

KEITH: So this council would look out for those kinds of things. But it would also pay extra attention to firms that on their own could pose a systemic risk, either because they are very large, or as Jane D'Arista says, very connected.

Ms. JANE D'ARISTA (Researcher, Economic Policy Institute; Americans for Financial Reform): It's so connected with others - as Lehman was or as Bear Stearns was or AIG - that if it were to go down, it would cause other firms to become much weaker.

KEITH: D'Arista is a researcher at the Economic Policy Institute, and she's working with a group called Americans for Financial Reform. She isn't convinced this draft bill goes far enough. Under the legislation, the council would have sweeping powers to create new rules for these big systemically important firms. It could set capital requirements and even tell a company it needs to split off a risky part of its business. And if a firm is in trouble, the council can decide it's time for the government to step in and wind things down in an orderly fashion. Darrell Duffie is a finance professor at Stanford.

Professor DARRELL DUFFIE (Finance, Stanford University): The idea is rather than trying to patch them together with government money, to try to take them apart as quickly and efficiently as possible with the least amount of government money and make the shareholders bear the costs of getting themselves into that situation.

KEITH: Or in other words...

Prof. DUFFIE: Allow us to avoid, you know, the \$85 billion emergency investment - I'll call it, to put it in a kind light - in AIG.

KEITH: If the council decides the end is near, the FDIC would come in and wind down the institution, just like it does now with banks. But how to pay for the unwinding of the next AIG? The firm's assets would be sold off to cover some of the costs. The rest would be picked up by the nation's largest institutions, those with more than \$10 billion in assets. Again, Scott Talbott.

Mr. TALBOTT: They've structured it so that anybody over 10 billion would be on the hook for the costs of the failure of one of their brethren, and that's a pretty small club, above 10 billion.

KEITH: Talbott says there are about 120 firms in that club. His industry does have some concerns with the legislation, but is generally supportive. The bill will get its first hearing on Thursday.

Obama seeks new powers to dismantle nonbank firms

Anne Flaherty

Associated Press

October 29, 2009

A year after Lehman Brothers collapsed, helping to trigger the worst financial crisis in seven decades, the Obama administration is pressing Congress for the power to dismantle other nonbank firms considered so large and influential that they could bring down the entire economy.

Treasury Secretary Timothy Geithner was asking a House panel on Thursday to pass legislation that would enable federal regulators to identify and monitor big financial firms and step in to wind them down before they collapse.

The proposal, worked out in an agreement with House Financial Services Committee Chairman Barney Frank, D-Mass., also will give new powers to the Federal Reserve to enforce tougher requirements for these "too-big-to-fail" companies.

The bill is aimed at preventing another Lehman situation in which government officials watched helplessly as nervous investors withdrew funds from money markets and credit lines froze.

The alternative would have been a hefty federal bailout, which the government later approved for insurance giant American International Group — another influential financial firm outside regulators' control because it wasn't a bank. Democrats are largely behind the plan. But Republicans say it will create the expectation that certain companies are so big that the government won't allow them to fail and will always rescue them with taxpayer dollars.

Democrats and the administration counter that the proposal would prevent future bailouts by insisting that large companies hold more capital in reserve. And if a firm does fail, the government would be able to sidestep a bailout by dismantling the company in such a way that it would minimize the economic impact.

"We may disagree over details of how to best fix those flaws, but that cannot mean we do not act," Geithner told lawmakers when he testified last.

Republicans also say the bill would put the taxpayers on the hook for administrative costs. Under the bill, the government would front the money to dissolve a company. If the firm doesn't have enough assets to repay the government, regulators would assess a fee to other firms with more than \$10 billion in assets.

Representatives of large financial firms testifying after Geithner on Thursday were expected to tell lawmakers that they oppose being stuck with the cost of dissolving a competitor and suggest that the government seek restitution from a bigger pool of financial firms.

Meanwhile, banks oppose a provision that puts the Federal Deposit Insurance Corporation in charge of dismantling these failing firms. Banks pay the FDIC to insure deposits, and they don't want their premiums to pay for the FDIC's new power.

"If our fund is strong and a major nonbank fails, there will be a strong temptation to unfairly raid the bank FDIC fund to pay for it," said Edward Yingling, president of the American Bankers Association, in prepared testimony.

Another issue is how much risk financial companies should retain when they issue loans. Lawmakers say a culprit in the economic crisis was that lenders would write bad loans, then pass the risk off to investors.

Frank's bill says creditors must retain at least 5 percent — and preferably 10 percent — of any loan that is transferred or sold.

Scott Talbott, senior lobbyist at the Financial Services Roundtable, said his industry group supports a requirement that lenders keep some "skin in the game."

But "5 percent should be the ceiling, not the floor," he said.

Geithner: Legislation Won't Lead to More Bailouts

Anne Flaherty

Associated Press

Thursday, October 29, 2009

WASHINGTON — Treasury Secretary Timothy Geithner says the government's ability to dismantle mammoth financial institutions like Lehman Brothers and American International Group, when necessary, won't lead to future bailouts.

In testimony before the House Financial Services Committee, Geithner said legislation being considered by the panel would ensure that firms big and small could fail without risking catastrophic damage to the market as a whole.

Republicans say establishing a category of businesses deemed "too big to fail" implies they would always be rescued by the government. The legislation also puts the government on the hook to pay the initial costs to dismantle failing firms.

THIS IS A BREAKING NEWS UPDATE. Check back soon for further information. AP's earlier story is below.

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But "5 percent should be the ceiling, not the floor," he said.

After credit card outrage, Ohio couple gets relief

Jessica Yellin

CNN

Thursday, October 29, 2009

Washington (CNN) -- Chuck and Jeanne Lane got some good news earlier this week: After more than doubling the Lanes' monthly minimum payment, their credit card company is now slashing their payment.

The Ohio couple was featured in a CNN story about credit card companies jacking up rates in advance of a law going into effect that would prevent them from doing that. Because of the story, the couple says their bank agreed to give them relief: Chuck Lane told CNN that he'll now be able to afford surgery for his wife and college for his son. But he worries about others: "I really don't want to gain

because CNN's come and done a story on me when there's millions of others. I want it to be right for all of us."

Chase, their credit card company, wouldn't comment on the Lanes' case, citing privacy issues.

The Lanes are one of millions of families who saw their credit card bills skyrocket after Congress passed a new law that would rein in credit card fees and rate changes. The law doesn't fully take effect until February 2010.

Joe Ridout, an advocate with Consumer Action, says that in the meantime, "It's really touched off a chase to the bottom" among credit card companies. Some members of Congress are making a modest effort to change credit card practices immediately. After CNN's story aired, Rep. Betty Sutton, the Lanes' congresswoman, prodded the bank to make the Lanes a new offer.

Now she's trying to extend the help to others, introducing a bill Thursday that would ban fees on people who don't carry debt -- those who don't use their card or those who pay off their balance every month.

"Our work is not done," Sutton told CNN, "It's clear with the credit card companies ... it's always some excuse out there for hammering the American consumer, and it has to stop, so our work in Congress continues."

Rep. Betsy Markey, who said she was "outraged" after seeing the story on the Lanes, has introduced a Credit Card Rate Freeze Act that would halt any increases in credit card interest rates before new regulations go into effect.

"Credit card companies are just blatantly increasing rates solely because they know once the law takes effect, they won't be able to do this anymore," she said. Sen. Mark Udall has introduced a similar bill in the Senate. And there's yet another bill that would move up the date when new the credit card law takes effect. But none of these three bills is close to becoming law. And in the meantime, cardholders are being squeezed.

According to a new study by the nonprofit Pew Charitable Trusts, 12 of the nation's largest banks are adding fees and rate changes that will be illegal when the new law goes into effect. All of the banks in Pew's survey have raised interest rates, and 90 percent have jacked up late fees or made other changes that, in the words of the study's authors, are "likely to cause substantial monetary injury to consumers."

Nick Bourke of the Pew Credit Card Project offers this advice for consumers who see their card payments increase:

First, call the card company; then call your member of Congress because, Bourke says, "Congress could act right now" to stop those practices. And finally, he said, "You should also ask your congressman to ask what the Federal Reserve is doing because they have a lot of responsibility under this bill to protect people, and they should use that responsibility."

The credit card banks think the criticism is unwarranted.

Scott Talbot of the Financial Services Roundtable, the lobby that represents the credit card companies, said the companies are operating in a tough environment because "credit card lending is the riskiest type of lending." He insisted that rising interest rates are directly connected to the state of the economy.

Companies are working to balance competing needs, Talbot said, "to ensure that customers have the credit they need and the companies have a viable business model going forward."

But Sutton doesn't think the banks are striking that balance.

"This is not the way it should be after the American people came to the rescue of the banks," she said.

Credit-card rates up before new law

By Rachel Beck

Associated Press

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NEW YORK — Have you checked the interest rates on your credit cards lately? Odds are they're going way up.

That's because credit-card companies are rushing to raise rates and tack on extra fees ahead of a law slated to take effect Feb. 22 that is supposed to limit such moves in the future. In some cases, rates are doubling to as high as 30 percent or more, even for people who pay their bills on time.

The current maneuvering by the card companies is serving up another blow to American consumers who are already struggling with their finances. U.S. lawmakers let that happen by giving the card companies nine months to prepare for the rules.

"The delay allowed them to restock their arsenal with weapons," said Lloyd Constantine, an attorney who has spent 22 years litigating cases tied to the credit-

card industry and is the author of the new book "Priceless: The Case that Brought Down The Visa/Mastercard Bank Cartel."

It's hardly surprising that banks and other credit-card issuers would use a grace period afforded to them by Congress to their advantage.

The changes required under the Credit Card Accountability, Responsibility and Disclosure Act, or CARD Act, could go a long way to stop deceptive practices in the card industry. But before that happens, card issuers are grabbing what they can from the millions of Americans who are their customers.

Constantine is one of them. The interest rate on his Chase Visa card doubled to 17 percent earlier this month. He got a notice announcing the change and couldn't figure out why. Constantine, who has a high net worth, rarely uses the card, and when he does he pays his bill on time.

Come late February, the CARD Act will prohibit lenders from raising rates on outstanding card balances. In other words, if you have a balance of \$1,000 and the company wants to change your rate, it only applies to new purchases. It wouldn't be retroactive on old debt.

Card issuers also won't be able to change the terms of a contract so long as the cardholder makes a minimum payment on time.

The rules ban a practice known as "universal default." That's where lenders raise a cardholder's interest rates when that person misses payments to other creditors or takes on new debt like a mortgage or a car loan.

The card companies lobbied Congress hard for the delay. They argued they needed the time to overhaul their computer systems, craft new sales' pitches and rewrite disclosure documents to be sent to customers.

While all that may be true, the facts indicate that they are using the time for something else.

Even though interest rates set by the Federal Reserve are at historic lows — which has let banks and other issuers borrow cheaply — cards have become more costly for Americans, according to research released Wednesday from the Pew Charitable Trusts' Safe Credit Cards Project.

The nonprofit organization found that credit-card companies boosted interest rates on new cards by an average of 20 percent from January to July. That data doesn't include increases over the last four months when many lenders stepped up their pace of raising rates and fees.

The study reviewed nearly 400 cards offered by the largest 12 U.S. card issuers. It found nearly all contracts still allow banks to raise interest rates on outstanding balances. Card companies also have added or raised fees for things like balance transfers, cash advances and overdraft protection.

Representatives of the card business say the increases reflect the realities of the recession, not an attempt to gouge customers. **The weak economy means a greater risk that all cardholders could potentially default, said Scott Talbott, senior vice president of government affairs for the Financial Services Roundtable, an industry group.**

Banks and other card issuers have been seeing more late payments, and industry forecasts call for at least 10 percent of cardholders to default on their unpaid bills.

Bank of America's annualized default rate in September was 14.25 percent on its credit cards, while payments more than 30 days past due were about 7.5 percent, according to LowCards.com. Capital One's annualized default rate in September neared 10 percent, while 5.38 percent of cardholders were delinquent.

Now U.S. lawmakers are waking up to what they let the card companies do.

The House Financial Services Committee recently introduced legislation to move up the effective date for the credit card law from February to Dec. 1. But Federal Reserve Chairman Ben Bernanke, while acknowledging that change would benefit consumers, rejected the idea. He said it would force the Fed to implement provisions of the new law without adequate public comment and could lead to "unintended consequences."

There have been bills introduced in both the House and Senate to immediately freeze interest rates on existing balances for the estimated 700 million credit cards in circulation.

"We worked long and hard to enact the safeguards included in the Credit CARD Act," Sen. Chris Dodd, a Democrat from Connecticut who had introduced the bill in 2004, 2005 and 2008 before successfully passing last spring, said in a statement. "But as soon as it was signed into law, credit card companies were looking for ways to get around the protections this Congress and the American people demanded."

His spokesman declined further comment about why Congress is being so aggressive with its actions now. Too bad they couldn't see this coming a lot earlier.

Frank Splits With Obama, Sets Up Battle With Industry on Fund

Alison Vekshin

Bloomberg

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Oct. 30 (Bloomberg) -- Barney Frank, chairman of the U.S. House Financial Services Committee, split with the Obama administration over how to fund the unwinding of large failed firms, setting up a possible fight with the financial industry.

Legislation Frank crafted with the Treasury Department and unveiled this week will be amended to impose a fee on financial institutions with more than \$10 billion of assets before any firms fail, he said today on Bloomberg Television's "Political Capital with Al Hunt" to be broadcast this weekend. The administration wants to collect fees after a company fails.

"If you wait until after the fact, you would then have to go to the taxpayer first and get the assessment to repay it and some people are afraid that would never happen," said Frank, a Democratic representative from Massachusetts.

In the interview, Frank said the House of Representatives will vote in December on his committee's regulatory-overhaul package. Frank called "excessive" the record amounts set aside for bonuses by Goldman Sachs Group Inc. and other companies. The lawmaker also said Congress should redirect unused bank rescue funds to help unemployed homeowners avoid foreclosure and he would increase aid to state and local governments.

Regulators agree that large companies should pay into the fund to resolve failed firms, sparing taxpayers who were forced to finance a \$700 billion bailout last year after the near collapses of Bear Stearns Cos. and American International Group Inc.

At issue is whether companies are tapped in advance or after a failure. Federal Deposit Insurance Corp. Chairman Sheila Bair said prepayments make all companies responsible and avoids letting a failed company escape liability. Treasury Secretary Timothy Geithner said building a fund in advance could encourage more risk taking.

'Create Expectations'

"A standing fund would create expectations that the government would step in to protect shareholders and creditors from losses," Geithner told Frank's committee yesterday.

While Frank had agreed with the administration, he said today that the concern Geithner described as a "moral hazard" would exist whether companies pay before or after a failure.

"The fear that the administration had, that I shared, was if you put it out there beforehand, that will be announcement to people that it's available and they might behave irresponsibly," Frank said. "It turns out that doesn't have any impact because everybody thinks it's going to be there anyway." Frank's committee will mark up the bill next week.

The Financial Services Roundtable, representing many of the largest U.S. companies, said paying in advance will tie up much-needed capital.

‘Undefined Expense’

“It will expose the industry to an undefined expense at a time we are rebuilding the deposit insurance fund and the economy,” said Scott Talbott, the group’s senior vice president of government affairs. “A pre-funded assessment would take the total tab to hundreds of millions of dollars per institution.”

Republicans oppose letting the government disassemble failed firms, saying they would prefer to use bankruptcy laws. Republicans also criticize the administration for intending to keep secret the list of risky firms.

The Frank legislation creates a council of regulators, which includes the Federal Reserve and the FDIC, to monitor large financial firms and the economy for systemic risk. The FDIC would get power to take apart companies whose failure would pose a risk to the economy. A similar Senate bill hasn’t been proposed.

On executive compensation, Frank said he opposed record bonuses being set aside at some of the largest banks, acknowledged Congress was limited in its powers and urged the Senate to pass legislation giving shareholders more of a voice on executive pay.

‘Very Unhappy’

“If I were a shareholder, I would be very unhappy at overcompensating some of these people,” Frank said today. “I would tell them that they are missing the anger they have kindled in the American people. If I were they, I would substantially reduce them.”

Goldman Sachs set aside \$16.7 billion for compensation and benefits through September, up 46 percent from a year earlier and enough to pay each worker \$527,192, the company said Oct.

15. JPMorgan Chase & Co. allocated \$8.79 billion for investment bank employees, or \$353,834 each, and Morgan Stanley had \$10.9 billion for compensation, or \$175,344 for each worker.

Frank's panel has approved legislation to create a Consumer Financial Protection Agency, regulate the \$592 trillion derivatives industry and make it easier to sue credit-rating companies over their assessments.