WEEKLY FINANCIAL SERVICES REPUBLICAN ROUND-UP 5.08.2009

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MESSAGING RESOURCES/POLLING UPDATE

• REGULATORY REFORM/SYSTEMIC RISK REGULATOR/OBSERVER

We Must Modernize Our Outdated Regulatory Structure, Ensure Taxpayer Protections One of the most important tasks of this Congress will be to modernize our 1930's regulatory structure to meet today's 21st century financial markets. However, there is a need for smarter regulation, not necessary more regulation. Any new regulatory initiatives must ensure that tax dollars are not used to continue the cycle of bailouts. The most important question regarding the Administration's plan is who pays for the orderly unwinding of the affairs of large complex non-bank financial institutions. We should not be saddling future generations of Americans with perhaps hundreds of billions in losses for the mistakes of a few institutions. This generational theft is unacceptable, and must end.

The Doctrine of ‘Too Big to Fail' Should Not Be Accepted Practice. AIG is the ultimate example of why the ‘too-big-to-fail' doctrine is a complete and costly failure. It appears the Administration's plan formalizes the practice of privatizing profits and socializing losses. This is squarely rejected by the American people, who want and deserve an exit strategy from the bailout business, not a permanent bailout agency.

Government Should Not Be Picking Winners and Losers. Identifying certain firms as "systemically significant" means the government is designating some companies as more important than others. This could confer significant competitive advantages on financial institutions that are perceived by the marketplace as enjoying an implicit guarantee of government support, undermining market discipline and promoting moral hazard in the process. This is fundamentally unfair, and serves only to further institutionalize the discredited ‘too big to fail' doctrine.

We Must Do It Right - Not Fast. We must engage in comprehensive due diligence, open debate and discussion of all alternatives and views before overhauling our regulatory structure. We must avoid the kind of rush to judgment and disregard for regular order that has characterized recent congressional efforts to "rescue" the financial system.

Former Federal Reserve Chairman, and current Obama economic adviser, Paul Volcker emphasized caution in his Group of 30 report"Initiatives to address these immediate challenges must take precedence over even the most pressing agendas for financial regulatory reform. Moreover, until the full costs of the current crisis are known-including the financial costs from its economic fallout-there will not be clarity on the extent of needed reforms and a sensible timetable for implementing them and for rolling back of greatly extended safety nets." (Page 58)

Volcker also urged caution: "My personal feeling is 'not too fast'". (Reuters, Don't rush on US systemic risk regulator-Volcker, 3/24/09)

- STRESS TEST RESULTS

This Process Has Reinforced The Need For An Exit Strategy. These tests serve as a reminder that enormous government intervention into the private sector is bad policy not only because it creates uncertainty, but also because it leaves taxpayers responsible for poor decisions made by a small group of individuals. We need an exit strategy from this continued cycle of bailouts that ensures the American people are repaid in full. The longer government remains involved in the banking system - picking winners and losers - the longer it will take for an economic recovery to take hold.

The Premise, Timing Is Suspect. We are concerned that the administration may use the results of the stress test to justify a further expansion of its role in the banking system. The administration's budget set aside $750 billion in additional bailout funds. And recently, Treasury announced that it is considering converting its preferred shares in TARP recipient banks to common stock, which some characterized as a step closer to nationalization.

Stress Tests Assume Further Economic Downturn. Republicans Have Better Solutions to Grow the Economy. The tests are supposed to gauge how much capital the largest 19 banks may need if the economy continues to shrink. The bigger question is, though, what can government do to help grow the economy, and get Americans back to work? While Democrats have offered more borrowing and spending, coupled with massive job-killing tax hikes, Republicans have worked to hold the line on spending and allow working families and small business to keep more of what they earn. Borrowing and spending helped create this crisis, and more it is not the answer. And a command-and-control government approach to regulating the financial sector will only make our economic problems worse.

Gallup: "Ahead of Stress Tests, Confidence in U.S. Banks Remains Low ... As Thursday's official release of the so-called bank "stress tests" approaches, Americans' confidence in U.S. banks remains at low levels. Between 18% and 20% of Americans have expressed "a great deal" or "quite a lot" of confidence over the past four weeks, while between 35% and 39% have said they have "very little" confidence."

WEEKEND MUST-READS

Washington Post: "U.S. to Wind Down Help for Some Banks ... The government signaled yesterday that its financial rescue efforts may have reached their high-water mark, announcing that the much-anticipated "stress tests" of 19 large banks showed that only one, GMAC, was likely to need additional taxpayer aid and that it would begin to unwind assistance for the healthiest firms."

Wall Street Journal: "Fed Sees Up to $599 Billion in Bank Losses ... The federal government projected that 19 of the nation's biggest banks could suffer losses of up to $599 billion through the end of next year if the economy performs worse than expected and ordered 10 of them to raise a combined $74.6 billion in capital to cushion themselves."

Bloomberg: "Friedman Quits New York Fed on Concern About Goldman Sachs Ties ... Stephen Friedman, chairman of the New York Federal Reserve Bank's board of directors, quit effective immediately to avoid the appearance of a conflict of interest over his ties to Goldman Sachs Group Inc."

The Hill: "$75B needed for banks, but Congress not in the picture ... The nation's largest banks need to raise $75 billion in equity, federal regulators said on Thursday, but the administration has no plans to return to Congress for new money to stanch the financial crisis."

ON THE HORIZON

Wednesday, May 13: The International Monetary Policy Subcommittee will hold a hearing entitled ‘Implications of the G-20 Leaders Summit for Low Income Countries and the Global Economy' at 10:00am in 2128 Rayburn. The Housing and Community Opportunity Subcommittee will hold a hearing entitled ‘The Role of NeighborWorks and Housing Counseling Intermediaries in Preventing Foreclosures' at 2pm in 2128.

Thursday, May 14: The Capital Markets Subcommittee will hold a hearing entitled ‘How Should the Federal Government Oversee Insurance?' at 10am in Rayburn 2128.

COMMITTEE REPUBLICANS IN THE NEWS

Rep. Erik Paulsen issued this statement: The Wrong Kind of Housing Reform; and delivered this floor speech.

Rep. John Campbell penned this op-ed in the Ripon Forum: A Holiday to Invest.

Rep. Tom Price issued this statement: Financial Crisis Commission No Place for Partisan Gamesmanship.

Rep. Michele Bachmann appeared on Fox News' Neil Cavuto; was featured in this Washington Examiner article: ACORN got $53 million in federal funds since 94, now eligible for up to $8 billion more; and issued this statement: Chairman Frank Chooses ACORN Over Taxpayers.

Rep. Jeb Hensarling was quoted in this Associated Press article and appeared on CNBC's Kudlow and Co.

Rep. Ron Paul gave this tribute to Jack Kemp: Ron Paul's tribute to Jack Kemp, champion of free-markets, low taxes, and gold.

Rep. Scott Garrett delivered these statements: Rep. Garrett Statement on Hedge Funds; and Rep. Garrett Statement on Passage of the Mortgage Reform Bill.

Rep. Thaddeus McCotter made appearances on Fox Business.

Rep. Spencer Bachus issued these statements: Bachus Amendment to Protect Struggling Homeowners From Scams Wins House Approval; Bachus Statement on Stress Test Results; Bachus Statement on House Passage of Mortgage Legislation; and Bachus Statement on Illegal Online Gambling Legislation.

CARTOON OF THE WEEK

(Boston Herald’s Jerry Holbert, 5/8/09)