WEEKLY FINANCIAL SERVICES REPUBLICAN ROUND-UP 5.29.2009

May 29, 2009

MESSAGING RESOURCES/POLLING UPDATE

FINANCIAL REGULATORY REFORM

We Must Modernize Our Outdated Regulatory Structure, Ensure Taxpayer Protections.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.

 - Rep. Bill Posey outlined these principles in this YouTube commentary.

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.

 - Ranking Member Bachus echoed these principles in this YouTube commentary.

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

Rasmussen: "Just 24% Favor Federal Bailout for California ... Twenty-four percent (24%) of voters nationwide favor federal bailout funds for states like California that are encountering "serious financial problems." The latest Rasmussen Reports national telephone survey found that 59% are opposed to such bailouts."

FUTURE OF FANNIE, FREDDIE

Fannie Mae and Freddie Mac Continue To Receive Capital Infusions. After years of mismanagement and accounting violations, Fannie and Freddie were placed into conservatorship last year. Since the conservatorship, the GSEs have continued to report record losses and tap their taxpayer line of credit to stay afloat. The Committee must maintain oversight of the conservatorship to ensure that taxpayers are being protected. More importantly, the Committee needs to evaluate the progress of the conservatorship.

· Washington Post: "The sobering earnings report was a reminder of the far-reaching implications of the government's takeover in September of Fannie Mae and the smaller Freddie Mac. Losses have proved unrelenting; the firms' appetite for tens of billions of dollars in taxpayer aid hasn't subsided; and taxpayer money invested in the companies, analysts said, is probably lost forever because the prospects for repayment are slim." (Fannie Loses $23 Billion, Prompting Even Bigger Bailout, 5/9/2009)

· Wall Street Journal: "Federal investigators looking into possible accounting violations at Freddie Mac are raising questions about whether the giant government-backed mortgage company improperly delayed the recognition of billions of dollars of losses, according to people familiar with the matter." (FBI Looks Into Losses at Freddie, 4/30/2009)

We Need An Exit Strategy From Fannie, Freddie. We cannot keep throwing taxpayer dollars at Fannie and Freddie without a long-term resolution of their status. It is clear that Fannie and Freddie should not retain their quasi-government status. The Committee needs to evaluate the best role for the GSEs and their relationship to the Federal government. Options include privatizing them, breaking them up into a number of smaller companies, and transforming them into financial equivalent of public utilities.

ON THE HORIZON

Wednesday, June 3: The Financial Institutions Subcommittee will convene a hearing on remittances at 10 am in room 2128 Rayburn. At 2 pm the Capital Markets Subcommittee will meet for a hearing on the future of Fannie Mae and Freddie Mac in room 2128 Rayburn.

Thursday, June 4: The Housing Subcommittee will hold a hearing on Section 8 at 10 am in room 2128 Rayburn.

WEEKEND MUST-READS

Washington Post: "Federal Reserve's Next Test: Reeling In Lifelines ... As if the worst recession since World War II, the near collapse of the financial system, and the prospect of double-digit unemployment weren't enough to deal with, the Federal Reserve now has something else to worry about: success."

Wall Street Journal: "Banks Aiming to Play Both Sides of Coin ... Some banks are prodding the government to let them use public money to help buy troubled assets from the banks themselves."

Financial Times, Op-Ed: "Why ‘too big to fail' is too much for us to take ... Neither a democratic society nor a market economy can accept the notion that a private business is "too big to fail"."

Forbes: "The Need For Failure ... There has been constant chatter about the fact that our regulatory institutions don't really know how to deal with firms that are deemed "too big to fail" but may be insolvent. Throughout 2008, policymakers improvised a solution for each case that came along--Bear Stearns, Fannie and Freddie, Lehman Brothers, AIG. But improvisation is not a policy, and the weakness of that approach has become increasingly apparent as we drag through 2009."

Wall Street Journal: "Single-Regulator Plan for Banks Now Close ... Top Obama administration officials are close to recommending that Congress create a single regulator to oversee the entire banking sector, people familiar with the matter said, a departure from the hodgepodge of federal agencies that failed to contain the financial crisis as it ballooned out of control last year."

New York Times, Editorial: "Another Rescue? ... Remember the days, not so long ago, when you had never heard of subprime mortgages or credit default swaps or collateralized debt obligations? As government officials try to sort out those messes, states and localities are asking for federal aid for another financial trouble child: the VRDO, or the variable rate demand obligation."

Economist, Editorial: "The regulatory rumble begins ... "YOU want to move at the point where people still have the memory of the trauma," Tim Geithner explained recently when asked about financial regulation. Aware that the crisis is moving into a new phase, with the emphasis shifting from firefighting to working out how supervision should be restructured, America's treasury secretary wants to seize the moment. He plans to unveil a comprehensive regulatory overhaul by mid-June."

COMMITTEE REPUBLICANS IN THE NEWS

Rep. Jeb Hensarling sent this letter to Treasury Secretary Geithner regarding GM.

Rep. Michele Bachmann penned this op-ed: Obama's auto takeover shocks.

Rep. Thaddeus McCotter appeared on Fox News Neil Cavuto regarding GM.

Rep. Chris Lee posted this YouTube video regarding credit card legislation.

CARTOON OF THE WEEK

(The Hill's Chris Weyant, 5/27/2009)