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COMMITTEE ON FINANCIAL SERVICES

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Does the Democrats' Financial Regulation bill (H.R. 4173) really end bailouts?

Just ask Democrats on the House Financial Services Committee!

"Since last September, we have ***continuously voted for bailouts*** *and reform for the very institutions that created this devastation, without properly protecting the African American community, or small business."* – Statement by Congressional Black Caucus Financial Services Committee Members, 12/02/09.

"Well I don't like bailouts either, but there are certain circumstances where we have to step up to the plate." – Rep. Mel Watt, Financial Services Committee markup, 11/17/09.

"There is going to be a point where institutions we find insolvent or are systemically risky, and we take them down, we liquidate them, and ***that's going to require federal funds****."* – Rep. Ed Perlmutter, Financial Services Committee hearing, 10/29/09.

If H.R. 4173 ends the bailouts, why is a bailout fund necessary?

H.R. 4173 establishes a new statutory regime for addressing the failures of large, complex financial institutions, codifying the bail-out authorities used by the Treasury and Federal Reserve to bail out large U.S. and European banks that were creditors and counterparties of AIG and Bear Stearns, and that were used to rescue Bank of America and Citigroup. Future bailouts will be paid for by a $150 billion tax on large financial firms, the majority of whom did not cause the financial crisis and do not pose a threat to the stability of the financial system. If sufficient funds cannot be extracted from the industry to pay for the failures of firms the government deems "systemically significant," taxpayers will be on the hook.

During consideration of this bailout bill in the Financial Services Committee, Democrats defeated several amendments that would have ended taxpayer-funded bailouts of large financial institutions, including:

- An amendment offered by Rep. Shelley Moore Capito to require failed financial firms to be resolved through bankruptcy, which would have resulted in losses being borne by the creditors of failed institutions. This amendment would have strengthened market discipline by encouraging creditors to be more vigilant in assessing the creditworthiness and management of the parties to whom they extend credit, ensuring that capital would be allocated to productive activities, rather than feeding bubbles;

- An amendment by Reps. Lynn Jenkins and Erik Paulsen to prohibit federal agencies from using a number of tools that put taxpayers on the hook for bailing out various firms and their creditors, including AIG, Fannie Mae, Freddie Mac, Chrysler and GM; and

- An amendment by Rep. Erik Paulsen to prevent the Treasury Department from extending the Troubled Asset Relief Program (TARP) beyond December 31st, when it is set to expire.

The debate on H.R. 4173 comes down to a fundamental question of who should pay when a firm fails: the creditors of a failed institution, or the institution's competitors and taxpayers? Republicans believe that costs should be borne by the parties that willingly took risks and reaped the benefits of decisions they made. Democrats want to privatize gains and socialize losses by imposing the costs of failure on a failed firm's competitors, investors and taxpayers.