REPUBLICAN PRESS OFFICE
COMMITTEE ON FINANCIAL SERVICES

December 4, 2009

10 Reasons to Oppose H.R. 4173, the Democrats' 1300 Page Financial Regulation Bill

1. Creates a Permanent TARP-Like Bailout Authority – The 1300 page bill codifies the bail-out authorities used by the Treasury Department and Federal Reserve to throw taxpayer-funded lifelines to the creditors and counterparties of failed Wall Street firms during the recent financial market turmoil. The bill establishes a permanent bailout authority or, as Rep. Brad Sherman (D-CA) described it, "TARP on steroids." This permanent bailout authority will promote systemic risk and undermine financial stability because the government will continue to spare financial firms from the consequences of their mistakes by imposing those costs on others, including the taxpayers.

2. Imposes a Massive Tax During a Credit Crisis and Weak Economy – The 1300 page bill pays for the government's "bailout authority" by assessing 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, which will be passed on to consumers and investors in the form of higher interest rates and increased fees. 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. The assessments will drain capital from the financial system that could be used for lending or investment that would create jobs and fuel economic growth.

3. Expands the Powers of the Federal Reserve – The 1300 page bill will increase the risk of catastrophic failure of financial firms by concentrating responsibility for overseeing "systemically risky" firms in the Federal Reserve, whose inability to identify and address systemic risk helped cause the financial crisis in the first place. These provisions represent the most breathtaking expansion of Fed power since the central bank's creation almost a century ago. The extraordinary market interventions conducted by the Federal Reserve since the onset of the financial crisis have added trillions of dollars to the government's balance sheet and taken it far afield from its core mission of conducting the nation's monetary policy.

4. Creates a Credit Czar with the Authority to Restrict Access to Credit and Impose Taxes on Consumers and Small Businesses – The 1300 page bill establishes a new, cumbersome and costly bureaucracy, otherwise known as the Consumer Financial Protection Agency (CFPA), to review and approve consumer financial products and ration consumer credit. This agency will be led by a "Credit Czar" who will have unprecedented (and virtually unchecked) authority to restrict product choices for consumers, and impose fees and other assessments on providers of financial products and services and financial transactions. Chairman Frank has promised to seek the appointment of liberal Harvard Professor Elizabeth Warren to this position, which will instantly become one of the most powerful in all of government.

5. Undermines the Safety and Soundness Regulation of Financial Institutions – The 1300 page bill allows the CFPA to develop rules and regulations that may be entirely inconsistent with protecting the safety and soundness of a covered institution. Last year's collapse of Fannie Mae and Freddie Mac – which operated under a regulatory framework that assigned mission-related and safety and soundness supervision to two separate agencies – demonstrates the danger of divorcing consumer protection from safety and soundness regulation. Republicans, banking regulators and other banking experts have consistently stated that consumer protection and safety and soundness regulation are "two sides of the same coin," and that bifurcating these two complementary functions will again undermine the stability of our financial system.

6. Rewards Trial Lawyers at the Expense of Investors – The 1300 page bill provides the trial bar with a windfall by authorizing the SEC to restrict mandatory pre-dispute arbitration agreements for disputes arising under Federal securities laws (and granting similar authority to the CFPA in the consumer credit context). Arbitration agreements in the securities industry provide investors the opportunity to have their claims heard close to home, before highly trained and experienced arbitrators, in a forum that has proven to resolve disputes at least as fairly as the judicial system, and much faster and less expensively.

7. Kills Jobs by Undermining the Ability of Main Street Companies to Manage Risks – The 1300 page bill imposes a new system of complex regulation and overly-burdensome margin and capital requirements on end-users of derivatives in every sector of the economy, including manufacturing, energy production, utilities, healthcare and commercial real estate, to name a few. The government mandating these businesses to post collateral in order to hedge everyday business risks will create significant and unnecessary working capital problems for those firms, and will cost jobs and adversely affect the economy. Provisions advertised by Democrats as curbing speculative excesses on Wall Street will instead inflict significant collateral damage on Main Street.

8. Empowers Regulators to Impose Wage Controls on Workers and Enterprises – The 1300 page bill gives federal financial regulators the authority to determine wages for all employees — not just officers — of any covered financial institution. This means the rank and file employees of any firm the regulators deem to be a "financial institution" could all have their compensation determined by unelected Washington bureaucrats.

9. Continues Business As Usual At Fannie Mae and Freddie Mac – The 1300 page bill does nothing to address the systemic failures of Fannie Mae and Freddie Mac, which have cost taxpayers tens of billions of dollars. By remaining silent on the GSEs, the bill perpetuates the government's bailout of the GSEs, and seeks to expand the government's bailout authorities to virtually all sectors of the economy.

10. The Republican Substitute Ends the Bailouts, Restores Market Discipline, and Protects Consumers, Small Businesses and Taxpayers – Republicans will offer a comprehensive substitute that will modernize our financial regulatory structure, end bailouts, enhance consumer protection, rein in the Federal Reserve, and protect taxpayers.