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How The Democrats' 1300 Page Financial Regulation Bill (H.R. 4173) Kills Jobs

1. H.R. 4173 creates a Credit Czar with a mandate to limit consumer choice, ration credit, and increase the cost of financial transactions – A recent study by Professors David Evans and Joshua Wright found that the provisions of H.R. 4173 that create a so-called "Consumer Financial Protection Agency" would reduce net new jobs created by at least 4.3 percent[i]. A similar study by the U.S. Chamber of Commerce found that it would further exacerbate the credit crunch for small businesses:

   "The CFPA would likely reduce an important source of credit to small businesses. This induced credit squeeze comes at a time when it is likely that small business credit will be already highly restricted as the lending industry digs out of the current financial crisis....The CFPA credit squeeze would likely result in business closures, fewer startups, and slower growth. Overall, this would cost a significant number of jobs that would either be lost or not created. ...Many suppliers of consumer financial services products are small firms such as community banks. The CFPA would harm these smaller suppliers because the new agency would impose fixed costs of compliance that weigh disproportionately on smaller firms, and because it would encourage product standardization that benefits larger firms."

2. H.R. 4173 imposes a massive bailout tax that will drain capital from the economy – H.R. 4173 creates a bailout fund to be capitalized by a $150 billion tax on approximately 30 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. To capitalize a fund at this amount, covered institutions would each have to pay an average tax of $4.5 billion. A review of economic models suggests that a new tax of this magnitude could reduce overall lending by as much as $55 billion and cause the loss of as many as 450,000 jobs.

3. H.R. 4173 limits the ability of Main Street businesses to hedge their risks – H.R. 4173 establishes a new system of complex regulation and overly burdensome margin and capital requirements that will make it more expensive for American business that depend on derivatives to manage risks. The additional margin and capital requirements will lead to fewer jobs, greater volatility in food and energy prices and loss of capital investments in new projects. The Financial Services Committee received testimony on October 7th that describes the devastating impact these new regulations will have on job creation and business investment:

   - Steven Holmes of Deere & Company stated: "We have a number of contracts that extend well into the future. If these existing contracts are not permitted an exemption from clearing and collateral requirements, we would have to terminate the transactions at significant cost."

- John Hixson of Cargill, Inc. said: “For us, we've estimated it (collateral requirements) would cost approximately $1 billion depending upon market conditions – an additional amount of money we'd have to borrow. We've built a brand new oil seed facility. Our largest in the U.S. is in Kansas City. So we have to choose: whether you put that money in margin, or do you continue and build that plant? That's the type of thing we'd have to decide.”

4. H.R. 4173 punishes secured creditors who fund large financial institutions – H.R. 4173 requires secured creditors to take losses of up to 20 percent in any resolution of a failed financial company by the U.S. Government. Currently, secured creditors lend funds to financial institutions against collateral that can be seized to pay off that debt if the institution turns out to be insolvent. Because of this protection, creditors are willing to lend to banks at lower costs, increasing the amount of credit available to fund further lending to businesses and consumers, which fuels economic growth and creates jobs. Secured lending also makes bank financing more stable: knowing that collateral protects them against loss, creditors do not have the incentive to run on a non-bank financial institution at the first sign of trouble, pulling out their funds and causing the firm to collapse. But H.R. 4173 arbitrarily punishes secured creditors and deprives them of the protection they bargained for and priced credit to reflect. H.R. 4173 will increase the cost of borrowing for large financial institutions, which in turn will dramatically increase the cost of credit to businesses and consumers. And during an economic crisis, secured creditors who no longer enjoy the benefits of being fully protected will yank their funding, hastening the collapse of a systemically significant firm, which will plunge the economy into recession and kill jobs.

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[i] http://republicans.financialservices.house.gov/images/stories/evans-wright%20cfpa%20100609.pdf