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The Balance Sheet

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The Balance Sheet: The Democrats' Financial Regulation Bill: Privatizing Profits, Socializing Losses

House Republicans believe any financial regulatory reform bill must:

- ✓ **Stop the Democrats' Taxpayer-Funded Permanent Bailouts for their Wall Street Allies**
- ✓ **Reform Fannie Mae and Freddie Mac, the Root Causes of the Housing Meltdown & Financial Crisis That Cost Taxpayers $145 Billion and Counting**
- ✓ **Empower Businesses Small and Large to Create Jobs and Spur Economic Growth**
- ✓ **Demand Accountability from Failed Federal Regulators and Bureaucrats**

The Democrats' financial regulation bill, which runs over 2,300 pages, falls short of ending taxpayer funded bailouts. In fact, the Democrats double down on the ad-hoc improvised bailouts designed to spare big Wall Street firms and their creditors from the consequences of their mistakes. H.R. 4173 permanently enshrines taxpayers as the backstop of the financial system. The legislation is nothing more than an early Christmas gift to Wall Street from the Democrats.

While Americans are sick and tired of paying for Wall Street's mistakes, Democrats want to shift all risk from the private sector onto the taxpayer. The Democrats have relied heavily on rhetoric to claim their bill ends the bailouts and "too big to fail. Don't be misled, the Democrats' financial regulation bill continues "too big to fail" and taxpayer bailouts…here's how:

AIG-Style Bailouts Will Be The Norm. Under H.R. 4173, the FDIC will continue AIG-style bailouts by using its discretion to bail out certain creditors and counterparties at up to 100 cents on the dollar. The FDIC will bail out these creditors with funds that it has borrowed from Treasury. *Sections 204((d)(6) and 210(d)(4)*

$8 Trillion Taxpayer Liability. To pay off the creditors of a "too big to fail" financial institution, among other things, the bill confers upon the FDIC the authority to borrow an amount equal to the assets of the firm being liquidated. For the largest firms, such as JP Morgan Chase, Citigroup, and Goldman Sachs, this amount would be $2 *trillion* dollars or more; for the six largest firms combined, this amount would be more than $8 *trillion*. *Sections 210(n)(5) and 210(n)(6)*

Taxpayers Forced To Pay For Wall Street's Mistakes. The Democrats' bill fails to provide taxpayers with the protection they deserve from ever having to step in and bail out Wall Street. H.R. 4173 lacks an up-front funding mechanism to capitalize its bailout fund. Instead, the legislation relies on the FDIC to “claw back” the difference between what creditors and counterparties would have received in bankruptcy and what they received from the FDIC in the course of the resolution of a non-bank financial institution. *Section 210(o)(1)(D)* The taxpayer thus bears the trillions of dollars of risk that bailed-out creditors either cannot (because they themselves are insolvent) or will not (because the resolution authority does not set forth either a mechanism or a legal theory to make the claw back provision effective) pay the FDIC back.

A Star Chamber For Wall Street. Title II confers upon the FDIC the discretion to pick and choose which creditors will get bailed out and how much they will get. *Sections 210(b)(4); 210(d)(4); and 210(h)(5)(E)* By setting up a Star Chamber in which the FDIC can secretly reward some creditors and punish others, the “resolution authority” perpetuates the unfairness and arbitrariness of the 2008 bailouts, in which government bureaucrats were able to subvert the rights of senior creditors in order to reward politically-connected creditors or favored constituencies.

Taxpayer Guarantees For “Too Big To Fail” Firms. The Democrats’ bill provides the FDIC authority to guarantee the obligations of financial institutions. Under this provision, the FDIC will guarantee the obligations of solvent financial institutions during times of severe economic distress. There is no cap on this authority. This guarantee program is a handout to financial institutions at the expense of taxpayers.

The Bailout of Fannie Mae And Freddie Mac Continues. The bailout of Fannie Mae and Freddie Mac has cost taxpayers $145 billion so far. The Democrats fail to end the bailout of Fannie Mae and Freddie Mac. Instead of confronting the “complicated” need to reform the Government Sponsored Enterprises, the Democrats direct Treasury to study the GSEs, while also exempting Fannie and Freddie from the resolution authority set up by this bill. Taxpayer funded bailouts will not end until we reform Fannie and Freddie and get them off the backs of American taxpayers.