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**Steve Bartlett, Financial Services Roundtable**  
**CSPAN**  
**January 18, 2010**

President Obama has proposed a new financial crisis responsibility fee for banks that received TARP money. Roundtable President Steve Bartlett says the new fee would "stifle economic recovery."

To view the video click [here.](#)

**Obama Bank Tax: Wall St. Mulls Court Challenge**  
**Sources: Top Supreme Court Lawyer Hired for Possible Suit**  
**January 18, 2010**  
**By Matthew Jaffee**

Just days after President Obama unveiled a new tax on the country's biggest banks, Wall Street is already preparing for a possible legal challenge to the administration's proposal.

Last week – when the President unveiled his proposal – executives at the lobbying group sent an e-mail to the legal departments of Wall Street's biggest firms warning that the bank tax could be unconstitutional, the sources said.

**"Using the tax code as a punitive measure, besides being bad policy, creates Constitutional problems," Scott Talbott, chief lobbyist for the Financial Services Roundtable in Washington, told ABC News Monday.**

The President's bank tax – known as the "Financial Crisis Responsibility Fee" – will be included in the President's 2011 budget proposal. It would tax about 50 of Wall Street's biggest firms with assets of \$50 billion or more. The administration hopes it would bring about \$90 billion into government coffers over the next decade.

"We want our money back and we're going to get it," the President said last Thursday at the White House.

The recouped money would then go towards reducing around \$120 billion in expected taxpayer losses from the \$700 billion Troubled Asset Relief Program, or TARP.

"We oppose this very targeted and punitive tax, especially when it affects firms that have either already repaid, with interest, their TARP funds or never took TARP funds in the first place," said Andrew DeSouza, spokesman for the Securities Industry & Financial Markets Association.

A Treasury spokesman adamantly rejected the idea that the bank tax could be ruled unconstitutional.

"Any assertion that this fee is unconstitutional is totally without merit," Treasury spokesman Andrew Williams told ABC News Monday.

Since the specific language of the President's proposal will not be released until the budget is unveiled, the lobbying group at this point has not decided on a specific course of action.

"There is not even legislative language and thus it is premature to speculate on any potential actions beyond opposing the proposal itself as both punitive and counterproductive to increasing lending to support the economic recovery," DeSouza said.

Last Thursday the President's Treasury Secretary, Tim Geithner, disputed the argument that the bank tax was a punishment for Wall Street.

"This policy is not designed to punish," Geithner said in an interview on CNBC. "It's designed to meet the simple, practical, legal obligation, and we're doing it in a way, I think, it makes economic sense because we're doing it in a way that is, in effect, a tax on leverage, it's a tax on risk in some ways, and it's borne by the people that benefited most from the crisis. That seems fair."

The proposed tax, though, would not apply to government-backed mortgage giants Fannie Mae and Freddie Mac, nor would it apply to bailed-out automakers General Motors and Chrysler, a fact that has some critics crying foul.

"It is very unlikely that the government is going to be able to get back its money from GM and Chrysler and if it levies a tax on them it makes it more difficult for them to get its money back," said Peter Morici, professor at the University of Maryland's Smith School of Business.

"This tax," he said, "makes no sense at all."

Last Thursday, in his remarks announcing the proposed tax, President Obama warned Wall Street not to fight it.

"Instead of sending a phalanx of lobbyists to fight this proposal, or employing an army of lawyers and accountants to help evade the fee, I'd suggest you might want to consider simply meeting your responsibilities," President Obama said. "I'd urge you to cover the costs of the rescue not by sticking it to your shareholders or your customers or fellow citizens with the bill, but by rolling back bonuses for top earners and executives."

But Wall Street was already voicing its opposition to the proposal even before the President outlined it.

"I think using tax policy to punish people is a bad idea," said JPMorgan Chase CEO Jamie Dimon.

Dimon cautioned that these taxes may ultimately be passed on to ordinary Americans.

"All businesses tend to pass their costs onto their customers," he said. "That's not abnormal."

Morici argues that Wall Street is really making much ado about nothing.

"The bankers are screaming about a death wound when the tax is merely a paper cut," he said, calling the tax "meaninglessly small."

"I don't think they've got much of a Supreme Court case because there are all kinds of examples of the government singling out firms by size," he said. "The corporate income tax does that. I don't think they've got a leg to stand on. But if you ask a lawyer if we've got a case here, he'll take your money."

Find a Workaround: How Wall Street Saved Bonuses

## **Find a Workaround: How Wall Street Saved Bonuses**

**Rush Limbaugh Show**

**January 15, 2010**

RUSH: The assault on the American private sector is relentless. It continues. Interesting story from the Associated Press: "How Wall Street Boldly Saved Big Executive Bonuses." You know, there's always a work-around of these things. And does Obama really believe this new tax will do anything other than raise fees to customers? Your ATM fee, look out, it's going to go up. If you bank at one of these 50 big banks that have paid back their TARP money with interest and are now going to get taxed -- by the way, did you hear how mad he was when he spoke about these guys, these banks? Outta control angry. The things that make him angry and the things that don't make him angry are quite telling. Boy, he's got it in for these bankers and he's got it in for the insurance companies, too. He really does. But the way the Republicans ought to frame this tax on the banks is, "Barack Obama just raised your bank fees yesterday. Your checking account charges, your fees, your ATM fees. These banks are going to pass it on." They do. Mark my words.

Here's more: "The fat cats were supposed to get their comeuppance. After Wall Street's most prominent firms -- by their own admission -- helped cause the 2008 financial meltdown and got bailed out by the government, they were supposed to stop handing out million-dollar bonuses to their employees. No one was supposed to get seven- and eight-figure rewards, not after the Great Recession left one in 10 Americans unemployed. Not after President Barack Obama -- who on Thursday called such pay 'obscene' -- had promised to clamp down on lavish bonuses. It turns out little actually changed. Americans will see that starting Friday when JPMorgan Chase & Co. releases its 2009 financial results." They have, and it's a huge profit for JP Morgan Chase, I think \$3.3 billion. This is not chump change.

"The other big banks will follow. The messages will be the same: compensation is at near-record levels. The form of the pay is changing. Instead of cash, bonuses will be paid mostly in stock that can't be redeemed for years. But the numbers are still staggering. Together, the six biggest U.S. banks are on pace to pay \$150 billion in total compensation for 2009, slightly less than the record \$164 billion in 2007 before the financial crisis struck, according to the New York state

comptroller's office. How this happened is complicated, like most things involving Wall Street and Washington. It involves a remarkable financial turnaround by the banks, but one that was fueled by the federal bailout. It shows the power of the financial lobby. And it highlights the age-old debate about how much U.S. companies need to pay to retain talented bankers and traders. **Scott Talbott of the Financial Services Roundtable says keeping those workers from going to overseas firms is critical. 'The market will find a way to pay these people what they're worth,' says Talbott, who is chief lobbyist for the industry group representing some of the largest financial firms. 'This is not a giant talent pool. There's only a few people who can catch a touchdown in the Super Bowl,' and that's how he's comparing these people.** And it's probably true to a certain extent.

"The best performers and executives stand to earn millions. 'What we've allowed is for the banks to be nursed back to help with various forms of assistance provided by the government, but they haven't been required to change their ways,' said Rep. Brad Miller, a Democrat from North Carolina." Yet. Wait 'til Barney Frank and Chris Dodd get hold of them with their Financial Services Committee, banking committee reform of financial regulations and so forth. But, at any rate, intelligent people will find a way to get paid what they are worth. That's one of the big problems in capitalism is everybody sees the different salaries and compensation people get and they don't know why. It's the age-old argument, how come teachers get paid so little compared to athletes. Because people think teachers are far more valuable than athletes are, and you may be able to make that case, although -- well, I'm not going to go there. But in purely economic terms, supply and demand, achievement, talent, there's no comparison. The amount of revenue generated for the business.

How much money do teachers generate for their school business? How much money do they generate? No, no, no. Serious question. I'm not being derogatory at all. But how many fans does Ben Roethlisberger pull in for the Pittsburgh Steelers? How many fans did George Brett pull in for the Kansas City Royals versus how many fans are going to see the Royals now when there is no George Brett? I mean it's simple. And they get whatever they can get as a percentage of what they are creating, even though they don't own it. But how many people are paying to watch teachers do what they do and how do you associate the money that goes to school systems with teachers and what they're doing? I know that sounds callous to many people and heartless and insensitive, but it's not. It's economics.

**Big banks prep for fight on Obama fee  
The Hill  
January 19, 2010**

**By Ian Swanson**

The financial industry won't be shy in fighting a new fee proposed by President Barack Obama that could strip as much as \$2 billion from some balance sheets.

The industry sees the fee as an unjust punishment on firms that have paid back money received from the government under the \$700 billion bailout with warrants and dividends. The Treasury Department has estimated it has earned a 14 percent average return on money repaid from the banks, and projects a \$19 billion profit.

The industry also argues it will hurt consumers and depress lending.

**“We’ll focus on the negative economic effects the tax will have on the economy,” said Scott Talbott, senior vice president of the Financial Services Roundtable.**

Faced with arguments that Wall Street's profits soared in 2009 because of the help of taxpayers, banks, insurers and others hit by the fee will remind lawmakers that big banks not only paid the government back with interest, they did it far earlier than expected.

They'll also point out that General Motors and Chrysler may never be able to pay the taxpayer back. Yet those companies would not be subject to the new fee.

Industry sources charge the arbitrary nature of the fee is further exemplified by the fact that a number of companies that did not take money from the Troubled Asset Relief Program (TARP) could end up paying the new fee.

Wall Street knows it's in for a tough slog. The industry's reputation is in the gutter because of the financial crisis, and bonus season isn't helping. Obama essentially declared it public enemy No. 1 in a series of fiery remarks last week.

To win, the industry will focus on the Senate.

Though conservative House Democrats will have issues with the fee, once legislation is crafted, industry sources believe a proposal will get through the lower chamber. The Senate is another matter.

Centrist senators have repeatedly served as a bulwark for big banks in the aftermath of the financial crisis. The Senate defeated legislation that would have allowed judges to adjust the terms of mortgages, and didn't take up a punitive bill that would have stripped AIG employees of their bonuses.

If Republican Scott Brown, who criticized the tax, wins Tuesday in Massachusetts's Senate race, the financial industry's confidence in defeating the new proposal will be bolstered. Some think Obama's vilification of the industry has gone over the top, and that the public will see the fee as something that will just be passed on to consumers.

However, if the winner is Democrat Martha Coakley, who in the campaign's final days blasted Brown over his position on the tax, the message may be that attacks on the banks worked. Then it could be difficult to stop the bank fee and other proposals targeting the financial world.

North Dakota's strong economy

The political winds in North Dakota appear to be shifting against Democrats, despite a state economy that ranks among the nation's strongest.

The state's 4.1 percent unemployment rate in November (up from 3.1 percent when the recession started) was the nation's lowest. The state also enjoys a budget surplus and a growing population, big news in a place that saw its population gradually decline for most of the 20th century.

Yet Sen. Byron Dorgan (D-N.D.) dealt a severe blow to his party the first week of January by announcing he would not seek reelection. Dorgan insisted his decision had nothing to do with his reelection, but Rasmussen Reports had him trailing the state's Republican governor, John Hoeven, 36-58 in a December poll.

Hoeven officially announced his run for the Senate the next week, and The Cook Political Report has the seat as a solid Republican pick-up.

Cook has Rep. Earl Pomeroy's (D-N.D.) race rated as "likely Democratic," but Pomeroy expressed worries last week about how the healthcare debate is affecting his reelection effort. His statewide district leans Republican by 10 percent, according to Cook.

Three candidates have lined up to take on Pomeroy. All hope that Hoeven will create coattails that could allow them to win in November.

Mark Jendrysik, a political science professor at the University of North Dakota, said Pomeroy is still "probably going to win" in 2010.

Pomeroy is serving his ninth term in the House and is generally well-liked in the state, Jendrysik said.

He also thinks Pomeroy can use the economy to his advantage. “I think the state’s economy is helpful for all candidates if they can take some plausible credit for it,” he said.

Republicans will try to paint Pomeroy as a vote for Speaker Nancy Pelosi (D-Calif.), an argument Democrats running in red districts across the country are used to.

On the economy, the argument will be that the policies of the national government, including healthcare reform, are a threat to the state’s economy.

Hoeven told ABC last week that the “biggest concern” for the state’s economy is the drag of the national economy.

**Scott Brown Wins in Massachusetts: A Reaction Round-Up**  
**Wall Street Journal Washington Wire**  
**January 19, 2010**  
**By Susan Davis**

Republican Scott Brown succeeded tonight in executing one of the biggest U.S. political upsets in modern history when he defeated Democrat Martha Coakley to fill out the Senate term of the late Sen. Edward Kennedy.

Associated Press

Supporters of Massachusetts State Sen. Scott Brown react to his U.S. Senate election victory Tuesday night. Here’s a quick snap shot of the reactions coming from Democrats and Republicans tonight on his stunning victory.

–Sen. Robert Menendez, chairman of the Democratic Senatorial Campaign Committee: “I have no interest in sugar coating what happened in Massachusetts...In the days ahead, we will sort through the lessons of Massachusetts: the need to redouble our efforts on the economy, the need to show that our commitment to real change is as powerful as it was in 2008, and the reality that we cannot take a single thing for granted and cannot afford even a second of complacency.

–Jerome Armstrong, Democratic strategist, via Twitter: “This is what Nov 2 will look like unless D’s get their act together.”

–Mississippi GOP Gov. Haley Barbour: “That a Republican can win a Senate seat formerly held by Ted Kennedy for nearly five decades is a clear indicator of the

resurgence of our message and the rejection of the massive lurch to the left by the Democrats in Washington and Boston.”

–Howard Dean, on MSNBC: “We’ve got to be tougher. I’ve said Democrats haven’t been tough enough...I don’t think this was a backlash on health care reform, I think it was a backlash on Washington.”

–Sam Geduldig, GOP lobbyist and former House leadership aide, via e-mail: “There is nothing left to spin. [Democrats] can blame whoever they want, pollsters, campaign advisers, candidates, tea partiers, their agenda, Obama. Their problems are deeper than any single issue. It’s them. If Brown wins with high turnout in Massachusetts, of all places, we can win in Nevada, California, Arkansas, New York, and hold Missouri, Ohio, and New Hampshire.”

–Ellen R. Malcolm, president EMILY’s List: “Every one of us who believes in President Obama’s agenda and progressive change got a real wake-up call today. Voters’ frustration and anger, especially among independents, led to the Republican victory tonight.”

–Mitt Romney, on Fox News: “This is really a referendum, if you will, on the Barack Obama agenda...I think the people here in Massachusetts, in the bluest of blue states, are saying they don’t like this kind of arrogance.”

–New York Democratic Sen. Charles Schumer: “The country is speaking to us, and we will show we hear them in the agenda we pursue over the next year. Our focus must be on jobs, the economy and delivering for the middle class.”

–Alex Castellanos, GOP strategist, on CNN: “This may be a good day for Barack Obama in the sense that instead of waiting for November of this coming year to really lose his Democratic majority in the House, he may in effect lose it now...Democrats may start moving away from him and he may have to govern in a more bipartisan way, moving away from the left more towards the center and some conservative ideals. It may center this administration.”

–Senate Minority Leader Mitch McConnell: “There’s a reason the nation was focused on this race: The voters in Massachusetts, like Americans everywhere, have made it abundantly clear where they stand on health care. They don’t want this bill and want Washington to listen to them.”

–Michelle Malkin, conservative commentator, via Twitter: “Tea Party comes full circle. Can they hear you now? Dems’ ears are ringing.”

**–Scott E. Talbott, senior vice president of government affairs at the Financial Services Roundtable, said Brown’s win makes it all but certain that any regulatory reform legislation will be bipartisan. “Tonight’s vote moves the needle toward center,” he said. On Obama’s proposed bank fee, Talbott said the Republican’s victory “puts an almost insurmountable hurdle on enactment.”**

–Frank Donatelli, chairman of GOPAC, a group that focuses on electing Republicans to state and local offices: “I think it’s clear that the public is saying thumbs down to the administration’s agenda.” Donatelli called Brown’s win “rocket fuel for recruitment” of Republican candidates.

–Linda McMahon, Republican Connecticut Senate Candidate: “Scott Brown is only the beginning. The people are just warming up.”

–Andy Stern, Service Employees International Union president: “The reason Ted Kennedy’s seat is no longer controlled by a Democrat is clear: Washington’s inability to deliver the change voters demanded in November 2008. Make no mistake, political paralysis resulted in electoral failure.”

–Sarah Palin, via Facebook: “You know that there’s something wrong with this legislation when opposition to it inspired a Republican victory in a state that currently has no Republicans in Congress and last sent a Republican to the Senate nearly 40 years ago. Clearly this victory is a bellwether for the big election night ten months from now.”

**Tax Aims at Big Banks But Could Hit Others**  
**The American Banker**  
**January 20, 2010**  
**By Cheyenne Hopkins**

Like any public policy, the Obama administration's proposed bank tax will likely yield some unexpected outcomes.

The administration's 15-basis-point tax would be levied against bank assets minus Tier 1 capital and domestic deposits, so the large banks affected could soften the blow by increasing deposits. That, in turn, could drive up funding costs for smaller banks that rely more heavily on deposits for liquidity.

"There are unintended consequences of this tax that affect the entire industry, not just banks above \$50 billion," said Jim Chessen, the chief economist for the American Bankers Association. "There will be a tremendous focus on deposit

funding with this kind of tax. ... It has ramifications for all institutions that use deposits to fund themselves."

Bob Clarke, a senior partner at Bracewell & Giuliani LLP, agreed.

"That's the obvious way, to do more of your funding through deposits," he said. "It could drive up the cost of the funding for everybody else, because the money-center banks would be paying more. So the community banks would have to match what the big banks are paying for deposits."

Large banks could also cut back on advances from the Federal Home Loan banks.

"Some traditional commercial banks use a lot of home loan bank financing, and now they will rely less on that," said Kip Weissman, a partner at Luse Gorman.

Building equity is another way to reduce the impact. Kevin Jacques, a former Treasury official who now chairs the finance department at Baldwin-Wallace College in Cleveland, noted that the industry's weakest players were forced to increase equity capital as part of last spring's stress tests.

"There is a bias that helps the banks that really got into trouble," Jacques said. "If you had to raise Tier 1 capital, you are going to have a smaller tax bill."

The administration's plan identifies the deposits being exempted as those that are assessed by the Federal Deposit Insurance Corp.

The idea is the government does not want to tax the same liabilities twice. If banks are paying insurance premiums on a deposit, they shouldn't pay a tax, too. That led many sources to assume the administration's plan focuses on "insured deposits," but the FDIC actually assesses premiums against a bank's domestic deposits, a somewhat higher figure than insured deposits.

Some sources said large banks seeking to avoid the tax would face some offsetting costs if they decide to beef up domestic deposits.

"To build up deposits quickly to replace wholesale funding, you'd have to do it most likely through brokered deposits, and brokered deposits tend to be more expensive than wholesale sources, so that's a partial offset," said Jaret Seiberg, a political analyst at Concept Capital. "There could be regulatory hurdles to loading up on brokered deposits. ... I'm not saying [regulators] would stop it. I'm saying this is one of the hurdles out there that needs to be resolved."

Former FDIC Chairman Bill Isaac said a bank would also have to consider the premiums it would pay on those added deposits. "Deposits carry a tax, so you need to do the math," he said.

Robert DeYoung, a professor at the University of Kansas, agreed.

"If you have to raise deposits in a hurry, you have to pay a premium," DeYoung said. "You have to start by assuming that the liability structure that they have is the cheapest one for them, and to change it is going to be expensive."

As proposed by the president, the tax would be levied against roughly 50 financial companies, including 20 to 27 U.S. commercial banks with assets of more than \$50 billion. Investment banks and insurance companies as well as the U.S. units of foreign banks make up the balance of targeted firms.

The administration has said it wants to raise roughly \$90 billion over 10 years — and said the 10 largest firms would contribute 60% of this total — to cover losses expected from government programs put in place to stabilize the financial system.

The administration plans to provide more detail on Feb. 1 when it releases its budget for fiscal 2011. Congress would have to approve the idea, and most sources reached Tuesday said they expect Congress to make some changes. Lawmakers may raise the bar on bank participation, limiting the tax to companies with assets of \$100 billion. Congress also might include the car companies or Fannie Mae and Freddie Mac.

The President has said he would like to have the tax in place by June 30, and sources said it would likely be determined on a quarterly basis. The administration is assuming the tax would be deductible, but its final form will be determined by Congress.

Populist anger is giving the idea momentum, and the tax is expected to pass the House. Both Ways and Means and the Financial Services committees are expected to vet the plan.

Odds of passage are longer in the Senate, where the proposal would also have to get through two committees, Banking and Finance.

A wild card was the special election Tuesday in Massachusetts to succeed Sen. Ted Kennedy, who died Aug. 25.

Over the weekend, Republican challenger Scott Brown criticized the White House bank tax, saying at a rally that it would be passed on to consumers. But his

Democratic opponent, Martha Coakley, supports the tax. And in his weekly address Saturday, President Obama sharply criticized the banks for opposing the plan.

"If Scott Brown comes out and wins this, it may suggest the bank tax is not as politically potent that people thought last week," said Brian Gardner, a political analyst at KBW Inc.'s Keefe, Bruyette & Woods Inc. "Even though we are living in a populist age, there are some limits to populism,"

With the tax only being proposed Jan. 14 and the details still forthcoming many institutions are still weighing the best strategy to fight it, or lessen its sting.

**But industry trade groups have been vocal in their opposition. "We think it's bad, so everybody should be carved out," said Scott Talbott, the senior vice president of government affairs at the Financial Services Roundtable.**

The Securities Industry and Financial Markets Association is arguing that the tax is unconstitutional, because it singles out and punishes a specific industry. The New York Times reported the group has hired Carter G. Phillips of Sidley Austin to study the plan's constitutionality.

Interestingly, community bankers — who agree the large banks could become more threatening competitors for deposits because of this tax — also oppose it.

"I think it is an outrageous tax," said James D'Agostino, the chairman and chief executive of the \$1.5 billion-asset Encore Bancshares Inc. in Houston. "It is a penalty tax on a specific industry, and it is unparalleled in our history as a country."

Cindy Blankenship, vice chairman of the \$300 million-asset Greater Southwest Bancshares Inc. in Grapevine, Texas, said she worries that what is starting out as a tax on large banks will be extended to community banks.

"I am all for a big-bank tax, but you can have amendments and changes and it can become a very slippery slope," she said. "As this tax policy evolves, we need to make sure it doesn't have unintended consequences on Main Street banks like mine."

**Banks, Credit Card Issuers Lend Help to Haiti  
Under Siege by Regulators and Public, Financial Firms Step Up  
January 21, 2010  
By Charles Herman**

**"The entire industry is responding to the crisis in Haiti," said Scott Talbott, senior vice president for government affairs for the Financial Services Roundtable, a Washington, D.C.-based lobby group. "It's the right thing to do."**

**Asked about the timing of the industry statement, just hours after Dodd's, Talbott said, "I think everyone just had the same idea at once."**

Credit card companies have been widely criticized for imposing new fees and higher interest rates in recent months ahead of congressionally mandated credit card user protections set to take effect next month.

Big banks are giving money for Haiti at a time when controversial bonus pools are about to be announced, probably prompting new public backlash.

Regardless of their motivations, financial companies took similar steps supporting the Haiti relief effort:

Bank of America, Goldman Sachs, JPMorgan Chase and Morgan Stanley all announced that they were making donations of \$1 million to the Red Cross and other charities poised to help Haitians.

Discover told customers that they could use Cashback Bonus points to make donations and that Discover would match them.

Citigroup, which has been doing business in Haiti since 1971 and has a three-story building in Port-au-Prince that reportedly suffered extensive damage, sent a search-and-rescue team to look for its people. Meanwhile, it donated supplies, such as satellite phones, to the overall effort. Citigroup also said it was donating \$2 million to Haiti-relief charities, including \$250,000 to the Red Cross, and that it is starting a separate fund for employees.

Manhattan-based investment bank Jefferies Group earmarked a day's worth of trading commissions Friday for Haiti relief, raising approximately \$5 million. Jefferies donated an additional \$1 million.

**Official: Obama seeks bigger banking restrictions**  
**Bloomberg Business Week**  
**January 21, 2010**  
**By Jim Kuhnenn**

President Barack Obama, eager to harness and redirect voter anger over bank bailouts, is ramping up his war on Wall Street Thursday by pushing tougher regulation of big banks.

Building on his own proposals and the work of the House, the president wants new federal government powers to limit the size and complexity of large financial institutions and to limit their ability to engage in high-risk trades, an administration official said late Wednesday.

Obama will make the announcement Thursday in a bipartisan display aimed at capitalizing on the one issue in his agenda still standing after a devastating Democratic electoral loss in Massachusetts.

The president will be flanked by former Federal Reserve Chairman Paul Volcker and William Donaldson, appointed by President George W. Bush as head of the Securities and Exchange Commission. Both men have advocated tighter banking restrictions. Volcker heads the President's Economic Recovery Advisory Board.

Obama's announcement comes as the White House renews his demand that any overhaul of banking regulations contain an independent consumer financial protection agency. The proposed agency is one of the major sticking points in the Senate and the central focus of negotiations between Democrats and Republicans on the Senate Banking Committee.

"The president is not going to compromise because lobbyists tell somebody that we shouldn't have an agency that protects consumers," White House spokesman Robert Gibbs said. "That's something the president's not willing to give up."

The tougher measures to be announced Thursday aim to limit speculation by commercial banks and to keep financial institutions from becoming so big that they pose a risk to the overall economic system.

In focusing attention on Wall Street, however, the administration is also seeking to halt a wave of public anxiety that is benefiting Republicans and undermining Obama's agenda. Obama has assumed a populist tone lately, calling big bank CEOs "fat cats" and, last week, proposing a fee on large banks to cover shortfalls in Treasury's \$700 billion financial rescue fund.

Obama last year proposed a series of measures to tighten the reins on financial institutions in hopes of preventing a recurrence of the crisis that struck both Wall Street and Washington in the fall of 2008. The House passed a bill last month.

But his announcement Thursday will broaden those measures, particularly by endorsing Volcker's proposal to restrict proprietary trading by commercial banks. Such a limit would separate commercial banks from investment banks, a line that was blurred a decade ago by the repeal of the Depression-era Glass-Steagall Act. That restriction would affect some of the nation's biggest banks, including banking giants Bank of America Corp., Goldman Sachs and Citigroup Inc.

**"The better answer is to modernize the regulatory framework and not take the industry and the economy back to the 1930s," said Scott Talbott, chief lobbyist for the Financial Services Roundtable, an industry group that represents large Wall Street institutions.**

Volcker has been pushing for a return to the two-tiered banking system of Glass-Steagall for nearly a year. Volcker's views, however, were not included in Obama's initial regulatory overhaul proposal last year.

The senior administration official, speaking on the condition of anonymity because the plan had not yet been made public, said Obama has been planning for months to toughen proposed legislation to reduce risk-taking and limit the size and scope of financial institutions.

"The White House will work closely with the House and Senate to work this into legislation moving on the hill," the official said.

News of the announcement came shortly after Treasury Secretary Timothy Geithner had a private dinner Wednesday night with chief executives from some of the top Wall Street banks.

There was a new urgency in the Senate to move on the legislation -- an attempt to respond to voter anger at Wall Street and bank bailouts that helped propel Republican Scott Brown to victory in a contest for the seat formerly held by the late Democratic Sen. Edward M. Kennedy.

Brown's victory gave Republicans 41 votes in the Senate, enough to mount successful filibusters and prevent Democratic legislation on health care or climate change from getting final votes.

But financial regulations could survive.

"I don't want to see us have to go through what we've been through here where we've been relying on one party to get something," Senate Banking Committee Chairman Christopher Dodd, D-Conn., said Wednesday.

Moreover, Geithner met with Senate Republican leader Mitch McConnell of Kentucky on Tuesday. Administration officials now believe that while Republicans may seek to block other aspects of the president's agenda, McConnell is considering making financial regulations an exception.

To that end, Dodd has been negotiating with the Banking Committee's top Republican, Sen. Richard Shelby of Alabama.

"We're talking, and obviously my hope is that in the next few weeks we'll have a markup and move forward," Dodd added, referring to official committee action on the bill.

## **2nd UPDATE: Obama Unveils New Restrictions On Big Banks**

**CNNMoney**

**January 21, 2010**

**By Henri J. Pulizzi**

Adding more teeth to its drive to stamp out risky practices on Wall Street, the White House detailed a new proposal Thursday that would force institutions to choose between commercial banking and proprietary trading for their own profit, while seeking to limit the size of megabanks.

"Never again will the American taxpayer be held hostage by a bank that is too big to fail," President Barack Obama said Thursday.

The White House plan, backed by former Federal Reserve Chairman Paul Volcker, would prevent commercial banks and institutions that own banks from owning and investing in hedge funds and private equity firms, and limit the trading they do for their own accounts.

A second proposal unveiled by the White House seeks to limit the size of any one financial firm in relation to the entire sector by updating the current 10% cap on the share of insured deposits. Under the White House plan, the limitation would take into account nondeposit funding.

Officials said they would work with lawmakers to define the specifics of the new cap.

Though the proposal appears to move the U.S. back toward Depression-era barriers between commercial and investment banking, White House officials denied they are pushing for a return of the Glass-Steagall Act, which was repealed in 1999.

Obama said institutions shouldn't be allowed to use the safety net provided by deposit insurance and access to the Federal Reserve's discount window as an unfair trading advantage.

"We should no longer allow banks to stray too far from their central mission of serving their customers," he said. "We simply cannot accept a system in which hedge funds or private equity firms inside banks can place huge, risky bets that are subsidized by taxpayers and that could pose a conflict of interest. And we cannot accept a system in which shareholders make money on these operations if the bank wins, but taxpayers foot the bill if the bank loses."

The House of Representatives has passed a regulatory reform measure. The Senate Banking Committee is working on its own version of the legislation. Rep. Barney Frank's (D., Mass.) House bill gives regulators the underlying authority to prohibit proprietary trading, but administration officials said the legislation would have to be supplemented to require authorities to stop commercial banks from trading for their own accounts.

The administration plan is the latest in a series of recent confrontations with Wall Street, including Obama's proposal to levy a tax on banks to recoup the cost of the financial-sector bailout and his insistence that the regulatory overhaul legislation include an independent consumer protection agency.

It will inflame already-uneasy relations between the White House and Wall Street, and could prompt investors to shed shares of financial firms. Jaret Seiberg, an analyst at Concept Capital, said Democrats seem eager to force Republicans to choose between defending big banks--deeply unpopular on Main Street--or accepting new limits.

"There is no positive story here," Seiberg wrote Thursday. "The political climate for the mega banks is getting worse by the day."

Obama--flanked by Volcker, Frank, Treasury Secretary Timothy Geithner and other top officials--urged Wall Street to work with the administration on the reform drive. But he said that if the financial sector wants to fight over the effort, "it's a fight I'm ready to have."

**The Financial Services Roundtable, which represents the biggest financial firms, signaled its opposition to the new White House plan. "The proposal will restrict lending, increase risk, decrease stability in the system, and limit our ability to help create jobs," said Roundtable President Steve Bartlett.**

On Capitol Hill, meanwhile, House Republican Whip Eric Cantor (R., Va.) complained that the proposal would add uncertainty to the economy at a time the country is enduring double-digit unemployment.

"The President's proposal will do nothing to help put Americans back to work or help small businesses hire more workers," Cantor said in a statement.

The White House says it will work with lawmakers to incorporate the plan into legislation moving on Capitol Hill, but it is unclear how the process will play out. The politics of the reform drive were complicated already, and Scott Brown's surprise win in Massachusetts's special Senate election this week added another layer of uncertainty.

Obama struck populist tones as he lashed out at big banks that helped start the financial crisis by taking "huge, reckless risks in pursuit of quick profits and massive bonuses," activities he characterized as a "binge of irresponsibility."

Firms seen as most at risk from the proposal include J.P. Morgan Chase & Co. (JPM), Citigroup Inc. (C), Bank of America Corp. (BAC), Wells Fargo & Co. (WFC), Goldman Sachs Group Inc. (GS) and Morgan Stanley (MS).

Obama's announcement came hours after Goldman Sachs posted a \$4.95 billion profit in the fourth quarter. The figure was bigger than expected because it cut back on its bonus pool and gave \$500 million to charity, steps taken to temper public criticism of sky-high Wall Street compensation.

"My resolve is only strengthened when I see a return to old practices at some of the very firms fighting reform, and when I see soaring profits and obscene bonuses at some of the very firms claiming that they can't lend more to small businesses, they can't keep credit card rates low, they can't pay a fee to refund taxpayers for the bailout without passing on the cost to shareholders or customers," Obama said.

## **Banks Kick Off Effort Against Volcker Rule**

**Congress Daily**

**January 21, 2010**

**By Bill Swindell and George E. Condon Jr.**

A furious lobbying effort among large banks was set off today by President Obama's announcement that he will push a rule forcing them to choose between being a commercial institution or an investment bank that focuses primarily on trading for its own profits.

Obama dubbed the plan the "Volcker Rule" after former Federal Reserve Chairman Paul Volcker, who has pushed to prohibit commercial banks from engaging in proprietary trading -- transactions conducted for an institution's benefit rather than a client -- because it is too risky for the financial system.

"Banks will no longer be allowed to own, invest, or sponsor hedge funds, private equity funds, or proprietary trading operations for their own profit, unrelated to serving their customers," said Obama, who argued these actions put the financial system at too much risk and that banks should not have federally provided benefits if they make such trades. "If financial firms want to trade for profit, that's something they're free to do."

The proposal would affect such banks as Citigroup, Goldman Sachs, Morgan Stanley, Bank of America and JPMorgan Chase, all bank-holding companies with access to the low-interest loans from the Federal Reserve and federal deposit insurance, as well as the leeway to engage in highly profitable investment banking activities such as derivatives.

In addition, the Obama plan would not allow commercial banks to invest in a hedge fund or private equity group, and a rule limiting what each bank can hold in the deposit market to other financial activities and nonbanks would be expanded from the current cap of 10 percent.

Obama said he would push for the proposal to be included in the financial regulatory revamp that Congress is tackling. So far, amid strong Wall Street opposition, there is no such language in either the House bill passed in December or the draft authored by Senate Banking Chairman Christopher Dodd.

A senior White House official today said the plan is not being pushed as a populist move after GOP Sen.-elect Scott Brown's victory Tuesday, saying it had been studied for months by administration officials. But K Street speculation was rampant that the White House was embracing the idea for political reasons and was going against the advice of the Treasury Department.

Though disputed by the White House, banking officials are calling the proposal a backdoor to reimposing the Glass-Steagall Banking Act of 1933, which prohibited commercial banks from engaging in riskier investment banking.

The wall between commercial and investment banking eroded as a result of regulatory decisions in the 1980s, and was officially repealed with passage of the 1999 Gramm-Leach-Bliley Act.

Banking groups note that proprietary trading by commercial banks did not cause the financial crisis, which rather was the result of risky bets made by investment banks such as Lehman Brothers and Bear Stearns, and poor lending decisions, mostly in the home mortgage market.

Groups also argued that policymakers should focus on better risk management purposes, with regulators focusing on leverage, capital and risk standards rather than on creating a brick wall in the globalized financial system.

**"The administration's new proposal is inconsistent with achieving these goals," said Steve Bartlett, president and CEO for the Financial Services Roundtable. "The proposal will restrict lending, increase risk, decrease stability in the system, and limit our ability to help create jobs."**

Big banks are also questioning how regulators will define proprietary trading, and whether it would prevent a bank from making a trade that would also serve to benefit a client. The White House official said such trades must be for the benefit of customers and would allow "market making" to provide more liquidity.

Other stakeholders speculated whether the language would force Goldman Sachs to get out of its bank charter, given that it has no commercial branches like other traditional banks but enjoys the charter's protections.

All the same, big banks face a political hurdle on Capitol Hill given the bipartisan anger they face over the financial bailout and bonuses they are handing out. Sen. John McCain, R-Ariz., has co-sponsored a bill with Sen. Maria Cantwell, D-Wash., to reimpose Glass-Steagall.

Banking ranking member Richard Shelby could be sympathetic to the Obama plan, given he voted against Gramm-Leach-Bliley and has cited concerns over putting taxpayer money at risk. A Shelby spokesman said he wants Dodd to hold a hearing on the proposal.

Dodd today did not specifically endorse the plan. "I look forward to studying the president's proposal and will give it careful consideration as the committee moves forward on financial reform," he said in a statement following Obama's remarks.

Meanwhile, House Financial Services Chairman Barney Frank told CNBC he did not want a fire-sale to force the big banks to quickly sell off their operations.

One banking lobbyist said they would argue such a bill would result in job losses if banks were forced to downsize.

"It's jobs, jobs, jobs," the lobbyist said, noting that Sen. Kirsten Gillibrand, D-N.Y., has opposed Obama's tax on big banks, citing the impact it could have on the New York economy.

**'Volcker rule' takes bankers by surprise**

**Financial Times**

**January 21, 2010**

**By Edward Luce and Tom Braithwaite**

Until this week Paul Volcker was virtually an outcast from the White House – and he was an increasingly vocal critic of Barack Obama's proposed banking sector reforms.

But on Tuesday the voters of Massachusetts spoke. By Thursday the octogenarian former Federal Reserve chairman was standing prominently next to Mr Obama – “this tall guy behind me” – when he unveiled his latest proposals to limit the size and complexity of banks.

Officials added that Mr Volcker had met with Mr Obama “more than a dozen times” since taking office.

Almost everyone else, including key figures in the banking sector, which is likely to lobby fiercely against the proposals, which Mr Obama aptly dubbed the “Volcker Rule”, were taken by surprise.

**“We had absolutely no idea this was coming,” said Scott Talbott of the Financial Services Roundtable, a leading Wall Street lobby group.**

**Nor, Mr Talbott added, were bankers precluding further initiatives from a White House that has been deeply shaken by its humiliation in Massachusetts.**

“Nothing can be ruled out in an election year,” said Mr Talbott, when asked if bankers now feared the possibility of the White House endorsing the proposed transaction tax on the trading of securities – a much bigger fear on Wall Street.

Before the electoral debacle in Massachusetts, most bankers interpreted Mr Obama's escalating rhetoric against Wall Street as more bark rather than bite.

On Thursday, however, Mr Obama married substance with words. The president, whose key healthcare reform now looks to be in the balance, so potentially robbing him of a signature accomplishment at November's mid-term polls, hinted he would be prepared to go further.

“If these folks want a fight, it’s a fight I’m ready to have,” said Mr Obama. “And my resolve is only strengthened when I see a return to old practices at some of the very firms fighting reform. We have come through a terrible crisis. The American people have paid a very high price. We simply cannot return to business as usual.”

The return of Mr Volcker also raises further doubts about the security of Mr Geithner’s position in the Obama administration. For months, in speeches, interviews and private meetings in Capitol Hill and in New York, Mr Volcker has made the case for a more far-reaching reform of the financial sector. Not, he says, a return to Glass-Steagall, the law dividing commercial from investment banks that was abolished in 1999, but a return to its “spirit”.

For most of that time, Mr Geithner and his team, working with Democratic leaders such as Barney Frank in Congress, thrashed out what they called “comprehensive” regulatory reform.

Mr Volcker acknowledged himself in an interview with BusinessWeek earlier this month that he “wasn’t persuasive enough”.

Mr Geithner, who has frustrated Democrats in the House and Senate with an avowedly apolitical position on reform, is now the one whose influence is under question. In addition, the dynamic political situation could lead Democrats to conclude that it is in their political interests to take a more populist stance against the banks and run on that platform in the November elections.

Prominent critics of Mr Geithner’s proposals applauded Mr Obama’s announcement but called for him to go further. “The administration’s existing proposals, including their latest bank tax, are ineffectual at best,” Simon Johnson, former chief economist of the International Monetary Fund, wrote on his blog. “Today’s announcement is a major (and welcome) course correction – but by itself this is unlikely to be enough.”

**Obama Calls for Restrictions on U.S. Banks  
Investment Executive  
January 21, 2010  
By James Langton**

U.S. President Barack Obama unveiled strict new rules on on the size and scope of the financial industry Thursday, a move that the industry is strongly against.

Obama called for new restrictions on the operations of banks and other financial institutions to rein in excessive risk taking and protect taxpayers.

Obama said that he, and his economic team, will work with Congress “to ensure that no bank or financial institution that contains a bank will own, invest in or sponsor a hedge fund or a private equity fund, or proprietary trading operations unrelated to serving customers for its own profit.”

He also announced a new proposal to limit consolidation of the financial sector, that aims to, “place broader limits on the excessive growth of the market share of liabilities at the largest financial firms, to supplement existing caps on the market share of deposits.”

The move comes amid bank earnings season, which has seen some firms report record profits, accompanied by huge compensation rewards, just a year after the system was near collapse and required a taxpayer-funded rescue. Obama has already proposed a tax on the country’s biggest banks designed to recoup the cost of the bailout over the next 10 years. This has been met by criticism that he isn’t doing enough to change the industry’s ways to avoid a recurrence of the crisis.

“While the financial system is far stronger today than it was a year one year ago, it is still operating under the exact same rules that led to its near collapse,” said Obama.

“My resolve to reform the system is only strengthened when I see a return to old practices at some of the very firms fighting reform; and when I see record profits at some of the very firms claiming that they cannot lend more to small business, cannot keep credit card rates low, and cannot refund taxpayers for the bailout. It is exactly this kind of irresponsibility that makes clear reform is necessary.”

Obama made the announcement of these new proposals along with the former head of the Federal Reserve Board, Paul Volcker, former chairman of the Securities and Exchange Commission, Bill Donaldson, and the heads of the Congressional committees that deal with financial services regulation (Barney Frank, chair of the House Financial Services Committee, and Chris Dodd, chairman of the Senate Banking Committee).

In the coming weeks, they will work to craft a financial reform bill “that puts in place common sense rules of the road and robust safeguards for the benefit of consumers, closes loopholes, and ends the mentality of ‘too big to fail’, it said.

Financial industry lobby groups immediately reacted negatively to the news. The Financial Services Roundtable said it shares the goals of promoting responsible lending, creating jobs and promoting a stronger economy, and it supports reforms

that will strengthen the financial system, help avoid another financial crisis, and promote good risk-management practices.

**But, Steve Bartlett, president and CEO for the Roundtable, said, “The Administration’s new proposal is inconsistent with achieving these goals. The proposal will restrict lending, increase risk, decrease stability in the system, and limit our ability to help create jobs.”**

The Securities Industry and Financial Markets Association also released a statement in response. “As we have said many times, our industry agrees with president Obama on the need for responsible reforms that end ‘too big to fail’ and protect against systemic risk,” said SIFMA’s president and CEO, Tim Ryan.

“Like the president proposed last year, we continue to believe the best way of achieving those goals is to establish a tough, competent and accountable systemic risk regulator. We believe providing for strengthened regulatory oversight and flexibility like that originally proposed by the Administration, as opposed to arbitrary restrictions on growth and activities, is a more effective way of mitigating systemic risk and ending ‘too big to fail’.”

Apart from these new proposals, the federal banking regulators (the Fed, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision) announced the final risk-based capital rule related to the Financial Accounting Standards Board’s adoption of new accounting standards that make substantive changes to how banks account for many items, including securitized assets, that had been previously excluded from these organizations’ balance sheets.

Banking organizations affected by the new accounting standards generally will be subject to higher risk-based regulatory capital requirements, they noted, adding that the rule “better aligns risk-based capital requirements with the actual risks of certain exposures. It also provides an optional phase-in for four quarters of the impact on risk-weighted assets and tier 2 capital resulting from a banking organization’s implementation of the new accounting standards.”

The final rule will take effect 60 days after publication in the Federal Register, which is expected shortly.

**Obama’s bank reform slammed by The Financial Services Roundtable,  
SIFMA  
Investment News  
January 21, 2010**

**By Sara Hansard**

As part of his plan to limit the size of banks, President Barack Obama today proposed prohibiting financial institutions that own banks from investing in or advising hedge funds or private-equity funds.

“We intend to close loopholes that allowed big financial firms to trade risky financial products like credit default swaps and other derivatives without oversight,” Mr. Obama said in announcing the plan, which was immediately criticized by financial services industry groups and Republican lawmakers.

The administration proposed the two new reforms, which are in addition to changes put forward in June 2009, to move banks “more to identifying their core business as being something like serving their clients,” an administration official said on a background basis at a telephone press briefing.

Congress is currently working on the regulatory-reform proposals the administration made last year. The House on Dec. 11 approved its version of the financial-reform measures.

The administration’s proposal would substantially crimp the kinds of activities in which banks could engage. Regulators would be required to prevent commercial banks from owning, investing in or advising hedge funds or private-equity funds. Moreover, the president wants to limit the proprietary trading that they do for their own accounts that is not related to the clients’ interests.

The government provides deposit insurance and other safeguards and guarantees to firms that operate banks, the president said in explaining his plan. “But these privileges were not created to bestow banks operating hedge funds or private-equity funds with an unfair advantage,” he said. “When banks benefit from the safety net that taxpayers provide, which includes lower-cost capital, it is not appropriate for them to turn around and use that cheap money to trade for profit. And that is especially true when this kind of trading often puts banks in direct conflict with their customers’ interests.”

Groups representing the financial services industry slammed the administration’s proposal.

**The plan is inconsistent with achieving the goals of promoting responsible lending, increasing jobs and promoting a stronger economy, Steve Bartlett, president and chief executive of The Financial Services Roundtable, said in a release. “The proposal will restrict lending, increase risk, decrease stability in the system and limit our ability to help create jobs,” he said.**

The Securities Industry and Financial Markets Association also criticized the administration's plan. In a statement, SIFMA president and chief executive Tim Ryan said the best way to achieve the goals of ending "too big to fail" and protecting against systemic risk "is to [establish] a tough, competent and accountable systemic-risk regulator." Mr. Ryan added that "providing for strengthened regulatory oversight and flexibility like that originally proposed by the administration, as opposed to arbitrary restrictions on growth and activities, is a more effective way of mitigating systemic risk ending 'too big to fail.'"

Senate Banking Committee Chairman Christopher Dodd, D-Conn., issued a statement supporting the changes. "The financial crisis highlighted the dangers of excessive risk taking by financial institutions," he said. "I agree with President Obama that taxpayers should not be underwriting these risky activities."

But Rep. Spencer Bachus, R-Ala., the ranking member of the House Financial Services Committee, said in a statement that the problems being targeted by the president would be better addressed by legislation proposed by Republicans. "The Republican plan would end the bailouts, get the government out of picking winners and losers, and restore market discipline," he said.

Financial firms could continue to make markets, since that would be a service for customers, said one administration official speaking at the background press briefing.

The official denied that the changes would constitute returning to regulations in effect for many years under the Depression-era Glass-Steagall Act, which was repealed in 1999. "We're not returning to Glass-Steagall," the official said. "This is about making sure that firms that own banks aren't doing trading for their own account, not for the benefit of their customer, and benefiting from taxpayer subsidies due to deposit insurance and the discount-window access."

## **Obama proposes new limits on big bank risky trading Commercial banks could be prohibited from owning hedge funds, buyout shops**

**MarketWatch**

**January 21, 2010**

**By Ronald D. Orol**

In his toughest response yet to the financial crisis, President Barack Obama proposed Thursday that strict limits be imposed on the size and trading activities of the nation's biggest banks.

"While the financial system is far stronger today than it was a year one year ago, it is still operating under the exact same rules that led to its near collapse," said President Barack Obama at the White House.

"My resolve to reform the system is only strengthened when I see a return to old practices at some of the very firms fighting reform; and when I see record profits at some of the very firms claiming that they cannot lend more to small business, cannot keep credit card rates low, and cannot refund taxpayers for the bailout. It is exactly this kind of irresponsibility that makes clear reform is necessary," Obama added.

The proposal aims to deter commercial banks from becoming so large that they put the broader economy at risk and distort normal competitive forces

It also could require some big banks to divest hedge funds, private equity investments and proprietary trading investment banking units so they can continue to operate as commercial banks.

The proposal was backed by former Federal Reserve Chairman Paul Volcker, who chairs Obama's economic team. Volcker has been calling for legislators to reinstate Glass-Steagall -- a statute approved in 1933 that prohibited a commercial bank with retail depositors from investment-banking activities such as owning full-service brokerages.

However, the Obama proposal does not go as far as Volcker's urgings to break up the banks. It places restrictions on commercial banks to prevent them from using federally insured deposits to finance speculative or risky investment banking activity, including proprietary trading of their own accounts such as mortgage-backed securities. Packaging and trading of mortgage securities are considered central to the crisis that shook the economy to the brink in 2008.

Commercial banks could continue to engage in trading as long they could show regulators that they are doing it for their clients, not their own proprietary accounts. An Obama administration official said it is inappropriate for large institutions to do proprietary trading of their own accounts at the same time as they have access to a broad safety net provided to commercial banks with depositors.

"This proposal says you can choose to engage in proprietary trading for our own account or you can choose to own a commercial bank," said a senior administration official. "Are you going to do proprietary trading for your own benefit or are will you be a bank that engages in traditional commercial activities?"

The White House proposal also prohibits commercial banks from owning or investing in hedge funds or owning, investing or advising private equity funds.

The White House also proposes creating a nationwide cap on certain risky investments that would be based, in part, on a 10% cap on nationwide deposits that was put in place in 1994. Congress prohibits banks from acquiring institutions that would result in the acquiring bank holding more than 10% of U.S. bank deposits.

The proposal requires legislative action to become law. Administration officials are talking with Senate Banking Committee Chairman Christopher Dodd, D-Conn., and House Financial Services Committee Chairman Barney Frank, D-Mass., about the legislation. Dodd said he looks forward to studying the proposal while Frank said he would be supportive of it as long as divestitures of hedge funds and investments in private equity are not required right away.

"I will be supportive of this with a time frame of no less than 3 or 5 years before it gets done," said House Financial Services Committee Chairman Barney Frank, D-Mass., on CNBC TV. "To have all these hedge fund sales at the same time would be a fire sale and I can't support that."

Based on the proposal, only commercial banks that don't do proprietary trading on their own accounts would have access to the Federal Reserve's discount window, a government-lending facility through which banks borrow reserves at a discount.

Peter Schiff, president of the brokerage firm Euro Pacific Capital and a candidate for Senate in Connecticut, contends that should the proposals become law it would have the effect of forcing some major financial institutions that own both commercial banks and investment banks to split up.

He argues that Bank of America Corp.'s (NYSE:BAC) acquisition of Merrill Lynch may need to be reversed should the proposals become law.

"Proprietary trading for their own account is how Wall Street makes its money, not brokerage services to help out third parties," Schiff said. "Should this be embodied in law it would force them [Bank of America-Merrill] to separate because it makes the whole merger detrimental to shareholders."

Part of broader reform

Obama is seeking to have Congress include the prohibitions he is proposing as part of broad bank reform legislation lawmakers are considering. The Senate

Banking Committee is working on legislation that would impose new restrictions on big banks

The measure seeks to expand on a provision approved as part of broad bank reform legislation that passed the House in December that would give bank regulators the authority to limit the kind of trading a bank can engage in if government officials deem it to be too risky. A senior administration official said this measure would require bank regulators to impose prohibitions on proprietary trading at commercial banks.

The White House proposal comes as Obama and Democrats experienced a major set back on Tuesday when Republican Scott Brown won a stunning victory in Massachusetts special senate election. Brown defeated Martha Coakley in the race to fill the late Sen. Edward Kennedy's seat.

Also as part of his effort to hike prohibitions on big banks, Obama also is seeking to have Congress approve a proposal to impose a fee on banks with \$50 billion or more in assets to raise \$90 billion over ten years to cover the remaining costs of a \$700 billion bank bailout package.

Republican lawmakers reacted to the proposal with concern, arguing that it is an attempt by the Obama administration to change the subject after the Massachusetts election.

"This renewed focus on financial services reform by the Obama administration is clearly a transparent attempt at faux-populism, in light of the outcome of the Massachusetts Senate race," said Rep. Scott Garrett, R-N.J. "The American people have rejected extreme government expansion into the private sector, be it in the health care, financial services or auto industry."

"Clearly Tuesday night's election results reaffirm that the American people reject the Obama administration's policies of trying to spend, borrow, tax, takeover and bailout our way to prosperity. With unemployment still in double digits I can understand why the Administration would want to try to change the subject," said Rep. Jeb Hensarling, R-Texas.

Key banks that would be covered by the proposed restriction include Citigroup Inc. (NYSE:C) , Bank of America Corp. (NYSE:BAC) , J.P. Morgan Chase (NYSE:JPM) , Wells Fargo Co. (NYSE:WFC) .

Traditional investment banks such as Goldman Sachs Group Inc. (NYSE:GS) and Morgan Stanley (NYSE:MS) could need to give up their status as commercial banks to continue proprietary trading of mortgage securities.

As the crisis widened in late 2008, large investment banks rushed to register as commercial banks with the Federal Reserve, in part, so they could have access to a broader safety net as well as discounted lending by the central bank.

An administration official said that the White House did not discuss the proposal with the banking industry prior to making it public.

**Steve Bartlett, president of The Financial Services Roundtable, an association of large financial institutions, said the proposal would "restrict lending, increase risk, decrease stability in the system, and limit our ability to help create jobs."**

Dwight Smith, partner at Alston & Bird LLP in Washington, said he believed prohibiting commercial bank proprietary trading in mortgage securities could hurt the mortgage market.

"The secondary market provides a very large part of financing for mortgages and supports the ability of banks to fund mortgages, if you are taking one set of customers for secondary products out of the market then you may have reduced the demand for some of these but on the other hand you will have eliminated a source of liquidity to the mortgage market," said Smith

## **Obama moves to restrict banks, takes on Wall Street**

**McClatchy Washington Bureau**

**January 21, 2010**

**By Kevin G. Hall and Steven Thomma**

Riding a wave of public anger at Wall Street, President Barack Obama on Thursday proposed tough new restrictions designed to limit the size of the nation's largest commercial banks and reduce the risks they take in complex and exotic investments.

The president stopped short of urging a return to the days when commercial banks just lent money and were completely locked out of investment activities. But his proposal Thursday, likely to play well in the heartland, is designed to rein in what are viewed as Wall Street excesses.

Flanked by his economic team, congressional leaders and the towering former Federal Reserve Chairman Paul Volcker, who has long been urging much of what Obama announced, the president took verbal aim at Wall Street, today's political pinata.

"While the financial system is far stronger today than it was a year one year ago, it is still operating under the exact same rules that led to its near collapse," Obama said before cameras at the White House. "My resolve to reform the system is only strengthened when I see a return to old practices at some of the very firms fighting reform; and when I see record profits at some of the very firms claiming that they cannot lend more to small business, cannot keep credit card rates low, and cannot refund taxpayers for the bailout. It is exactly this kind of irresponsibility that makes clear reform is necessary."

Financial markets didn't like what they heard. The Dow Jones Industrial Exchange cratered more than 224 points right as the president concluded his speech.

Obama's announcement came on the same morning that banking titan Goldman Sachs reported \$4.79 billion in fourth-quarter earnings and \$16 billion in salaries and bonuses for its employees in 2009.

This latest tough proposal follows one earlier this month to tax the nation's 50 biggest banks to recoup the indirect benefits from the taxpayer bailout of the industry.

It also comes just days after the Democrats lost a Senate seat in Massachusetts, as Obama strives to assure voters that he's siding with working people rather than the wealthy elite and searches for ways to redirect voter anger away from him to other foes — such as big bankers.

Americans are angry at bankers and Wall Street, as they get huge bonuses while the rest of the country still struggles to hold jobs and recover from recession.

In a recent CBS poll, a vast majority of Americans, 70 percent, said they were angry or bothered by the bonuses.

Worse, Americans by a margin of 72-19 think that taxpayer money that bailed out the big banks was used to help Wall Street fat cats rather than homeowners and working people.

In a briefing for reporters ahead of Obama's announcement, senior White House officials said the president's proposals seek to make explicit what's implied in financial regulatory overhaul legislation that's already cleared the House of Representatives.

That legislation, shepherded by House Financial Services Committee Chairman Rep. Barney Frank, D-Mass., would grant regulators broader powers to break

apart financial institutions deemed so large that their failure would threaten the financial system.

"It's designed to constrain future growth" in size of these institutions, a senior staffer said, demanding anonymity because the president had not yet spoken.

The administration hopes that the new proposal, which Obama called the "Volcker rule," will be added to the Senate's version of the financial regulation bill. The proposal prohibits commercial banks from conducting proprietary trading in securities and other investments. If they invest in stock markets or commodities exchanges on behalf of clients, they would not be allowed to do it for their own individual benefit too.

"This proprietary trading issue is a lot more complex than is being presented," warned Douglas Elliot, a former investment banker and now a financial researcher for the Brookings Institution, a center-left research center.

Many banks invest in securities because they are easier to cash in than loans if the bank has a quick need for cash. Preventing banks from trading in securities, he said, may actually make the banks less stable.

**The Financial Services Roundtable, the lobby for the financial sector, put out a statement immediately after the president's speech calling it bad policy.**

**"The proposal will restrict lending, increase risk, decrease stability in the system, and limit our ability to help create jobs," Steve Bartlett, the group's president, said.**

The administration's proposal would also extend a 10-percent cap on how much of a market share of insured deposits any one bank can have to a wider range of investment activities. This addresses the evolution of the banking sector into activity beyond lending, White House officials said.

Banks also wouldn't be allowed to invest in or own hedge funds or private-equity funds. Hedge funds pool contributions from the very wealthy and institutional investors such as pension funds. Private equity firms are also closed pools of capital used to purchase companies or invest in exotic financial instruments.

"When you put a system of regulation in place, they (Wall Street) figure out ways to get around it. It's an invitation to change corporate structures that may move stuff more off the radar screen," Vincent Reinhart, a former top economist at the Federal Reserve, said of the proposed prohibition on hedge-fund activity by banks.

A wiser approach, he suggested, would be to create stronger firewalls between activities conducted by banks, and impose higher cash reserve requirements on each part of a bank's business.

"I empathize that the firms are too complicated, markets can't discipline themselves, (firms) can't run themselves, you can't supervise them," said Reinhart, now a senior researcher at the American Enterprise Institute, a conservative research center.

The administration's approach, he said, amounts to "being on the right side of the mob."

Taking on bankers will be a key part of Obama's political message going into this 2010 mid-term congressional election year, when the Democrats hope a tidal wave of voter anger won't cost them their majority control of both the House of Representatives and Senate.

"I think that's a lot of what 2010 is going to be about," White House Press Secretary Robert Gibbs said Sunday after Obama railed against banks in Massachusetts in a vain effort to stave off defeat for the Democratic Senate candidate.

"People are going to have to decide whether the people they have in Washington are on the side of protecting the big banks, whether they're on the side of protecting the big oil companies, whether they're on the side of protecting insurance companies, or whether they're on the people's side. I think what he laid out today is what you'll hear him talk a lot about."

**Obama seeks tighter limits on banks' reach  
'If these folks want a fight, it's a fight I'm ready to have,' president says  
MSNBC via AP  
January 21, 2010**

President Barack Obama stepped up his campaign against Wall Street on Thursday with a far-reaching proposal for tougher regulation of the biggest banks.

"We have to get this done," Obama said at the White House. "If these folks want a fight, it's a fight I'm ready to have."

The stock market reacted by dropping more than 200 points by midday as shares in Bank of America, Citigroup Inc. and JPMorgan Chase & Co. each fell by more than 5 percent.

It was a stern, populist lecture from the president to Wall Street for what he perceives as its abandonment of Main Street. Obama said the government should have the power to limit the size and complexity of large financial institutions as well as their ability to make high-risk trades.

He said it wasn't appropriate that banks have been able to run these trading operations with the protections afforded to regular banking services.

"We have to enact commonsense reforms that will protect American taxpayers and the American economy from future crises," Obama said. "For, while the financial system is far stronger today than it was one year ago, it's still operating under the same rules that led to its near-collapse."

Joining Obama for the announcement were former Federal Reserve Chairman Paul Volcker, who heads the president's Economic Recovery Advisory Board, and William Donaldson, chairman of the Securities and Exchange Commission under President George W. Bush. Volcker and Donaldson have advocated stronger restrictions on banks.

Overhauling financial rules is the one issue on Obama's legislative agenda that appears still alive after Democrats' devastating loss Tuesday in the Massachusetts Senate race. The White House is renewing Obama's demand for an independent consumer financial protection agency as part of any overhaul. That's one of the major sticking points in the Senate; the House has passed its version already.

The new proposal from Obama intends to limit speculation by commercial banks and to keep financial institutions from growing so big that they pose a risk to the economic system.

"When you see more and more of the financial sector basically churning transactions and engaging in reckless speculation and obscuring underlying risks in a way that makes a few people obscene amounts of money but doesn't add value to the economy — and in fact puts the entire economy at enormous risk — then something's got to change," Obama said in an interview released Thursday by Time magazine.

'Fat cats'

Obama has branded bank executives as "fat cats" and proposed a fee on large banks to cover shortfalls in the government's \$700 billion financial rescue fund.

Expanding on earlier measures, Obama endorsed Volcker's proposal to restrict proprietary trading by commercial banks. That would separate commercial banks

from investment banks, a line blurred a decade ago by the repeal of the Depression-era Glass-Steagall Act.

This restriction would affect some of the biggest banks, including Bank of America Corp., Goldman Sachs and Citigroup Inc.

**"The better answer is to modernize the regulatory framework and not take the industry and the economy back to the 1930s," said Scott Talbott, chief lobbyist for the Financial Services Roundtable, an industry group that represents large Wall Street institutions.**

Goldman Sachs Group Inc. said Thursday it earned \$4.79 billion in the fourth quarter as its trading business again outdistanced the rest of the industry. The company rewarded its employees with \$16.2 billion in salaries and bonuses for 2009, 47 percent more than the previous year but still lower than many had expected.

There was a new urgency in the Senate to respond to the voter anger at Wall Street and bank bailouts that helped propel Republican Scott Brown to victory in Massachusetts for the seat long held by Democratic Sen. Edward M. Kennedy, who died in August.

Brown's victory gave Republicans 41 votes, enough to mount successful filibusters and prevent Democratic legislation on health care or climate change from getting final votes.

But financial regulations could survive.

Administration officials believe that while Republicans may seek to block other aspects of the president's agenda, Senate GOP leader Mitch McConnell of Kentucky is considering making financial regulations an exception.

## **Obama Moves to Limit 'Reckless Risks' of Big Banks**

**New York Times**

**January 21, 2010**

**By Sewell Chan and Eric Dash**

Declaring that huge banks had nearly brought down the economy by taking "huge, reckless risks in pursuit of profits," President Obama on Thursday proposed legislation to limit the scope and size of large financial institutions.

The changes would prohibit bank holding companies from owning, investing, or sponsoring hedge fund or private equity funds and from engaging in proprietary

trading — what Mr. Obama called the Volcker Rule, in recognition of the former Federal Reserve chairman, Paul A. Volcker, who has championed the restriction.

In addition, Mr. Obama will seek to limit consolidation in the financial sector, by placing curbs on the growth of the market share of liabilities at the biggest firms. An existing cap, put in place in 1994, put a limit of 10 percent on the share of insured deposits that can be held by any one bank. That cap would be expanded, officials said, to include liabilities other than deposits.

Both changes require legislation by Congress, and Republican leaders, as well as the banking industry, signaled on Thursday that they would resist the proposals.

Mr. Obama, speaking in the Diplomatic Reception Room at the White House, said he anticipated such opposition, saying an “army of industry lobbyists” had already descended on the capital to oppose regulatory reform.

“If these folks want a fight, it’s a fight I’m ready to have,” he said.

With his comments, the president, for the first time, threw his weight behind an approach long championed by Mr. Volcker, who flew to Washington for the announcement. Mr. Volcker’s chief goal has been to prohibit proprietary trading of financial securities, including mortgage-backed securities, by commercial banks using deposits in their commercial banking sectors. Big losses in the trading of those securities precipitated the credit crisis in 2008 and the federal bailout.

Mr. Obama was flanked Thursday by Mr. Volcker; William H. Donaldson, a former chairman of the Securities and Exchange Commission; Barney Frank, the chairman of the House Financial Services committee; and Christopher J. Dodd, the chairman of the Senate Banking Committee.

The principal obstacle to Mr. Obama’s proposals may come from the Senate Republicans. Even before the White House announcement, the Senate minority leader, Mitch McConnell of Kentucky, had scheduled a meeting with the Republicans on the Senate Banking Committee, a contingent led by Senator Richard C. Shelby of Alabama.

Even so, other Republicans on Thursday were restrained in their response to the Obama proposal, suggesting that they did not want to be perceived as defending the bailed-out banks.

Spencer Bachus of Alabama, the top Republican on the House Financial Services Committee, said that his party had already put forward a plan last July to “end the bailouts, get the government out of picking winners and losers and restore market

discipline.” That approach would address the “uncertainties created by repeated government interventions and ever changing policies,” Mr. Bachus said.

The president — still stinging from a stunning setback on Tuesday, when Republicans captured the Senate seat formerly held by the late Edward M. Kennedy of Massachusetts — took a populist posture on Thursday in criticizing the banks for bringing on the crisis and necessitating hundreds of billions of dollars in government assistance.

Taxpayers were “forced to rescue financial firms facing a crisis largely of their own creation,” he said.

Mr. Obama said of the Troubled Asset Relief Program, the 2008 bank bailout: “That rescue, undertaken by the previous administration, was deeply offensive, but it was the necessary thing to do.” But he said the financial system was “still operating under the same rules that led to its near-collapse,” and vowed: “Never again will the American taxpayer be held hostage by a bank that is too big to fail.”

Under existing rules, he said, the banks “concealed their exposure to debt” through complex financial maneuvers, made “speculative investments,” and took on “risks so vast that they posed threats to the entire system,” Mr. Obama said.

Investors, nervous about the impact the proposed rules could have, sent bank shares down on Wall Street, even with the record earnings reported Thursday by Goldman Sachs.

In late morning trading, Morgan Stanley fell 5.45 percent, to \$28.93; JPMorgan Chase dropped 5.2 percent, to \$41.16; Bank of America. 5.52 percent, to \$15.58; Goldman Sachs 4.6 percent, to \$160.19; and Citigroup 3.8 percent, to \$3.32.

Wells Fargo, a consumer banking giant that lacks a big trading unit, fell 1.5 percent, to \$27.41.

Administration officials played down any suggestion that the proposals were a reaction to the president’s falling approval ratings and popular anger over the huge profits newly announced by giants like Goldman Sachs and JPMorgan Chase.

The proposals, they said, have been brewing since last summer, and partly arose out of meetings of the president’s Economic Recovery Advisory Board, a panel Mr. Obama created last February.

Mr. Volcker, who is the board’s chairman, and Austan Goolsbee, who was Mr. Obama’s economic adviser during the 2008 campaign and is the board’s chief

economist, emerged as advocates of the new restrictions, and worked to persuade crucial administration officials, including Timothy F. Geithner, the Treasury secretary, and Lawrence H. Summers, the director of the National Economic Council.

The proposals go farther than a package of reforms approved by the House last month on a vote of 223-202. That overhaul would consolidate some oversight, require stronger capital cushions for the largest banks and Wall Street firms and impose regulation of some derivatives. It would also require financial institutions to pay as much as \$150 billion into an emergency fund that could be tapped when a giant firm needs to be taken over and dissolved. And it would create a Consumer Financial Protection Agency to regulate products like credit cards and mortgages.

Bank executives appeared to be caught off-guard by the proposal, and were still digesting its impact. More than 40 chief executives of the largest financial institutions were scheduled to hear from Mr. Geithner on Tuesday at a closed-door forum of the Financial Services Roundtable.

The executives found themselves stewing over all types of thorny questions. How will the administration define risky activities? Where will it draw the line between trading that bank executes for itself, and trading that is done on behalf of its clients? And how exactly will the proposed changes be put in place?

Some in the industry quickly moved to mobilize their lobbying forces against the proposal.

**“It will reduce liquidity and increase risk,” said Scott E. Talbott, the chief lobbyist for the Financials Services Roundtable, which represents dozens of large lenders and insurance companies. “That is the direct opposite of the goals we want to achieve.”**

Mr. Dodd, who would be responsible for shepherding the measures through his committee, reacted cautiously. He said he agreed with Mr. Obama that taxpayers should not be underwriting “excessive risk-taking,” and added: “Companies that choose to take such risks should do so on their own dime and not in a way that threatens the stability of our economy.”

But he would only commit to studying the proposal and to “give it careful consideration as the committee moves forward on financial reform.”

**2nd UPDATE: Obama Bank Plans Could Delay Regulatory Overhaul  
Wall Street Journal  
January 21, 2010**

**By Michael R. Crittenden and Sarah N. Lynch**

The Obama administration's proposed new curbs on the country's biggest banks could further stall progress on a broad financial overhaul bill in Congress.

Obama's new proposals to limit the size and scope of banks come amid sensitive Senate negotiations for a bipartisan bill to rein in Wall Street.

The Senate Banking Committee's top Republican, Sen. Richard Shelby (R., Ala.), was open to considering the Obama plan. But he urged committee Chairman Christopher Dodd (D., Conn.) to hold a series of hearings to explore its implications.

"Reinstituting Glass-Steagall, or something like it, over a decade later, however, requires serious consideration," Shelby spokesman Jonathan Graffeo said in a statement. He was referring to the Depression-era Glass-Steagall Act, which separated investment and commercial banking. That separation was repealed in 1999 with the Gramm-Leach-Bliley Act. "In the absence of details and hearings, we're left with nothing but press releases," Graffeo said.

Shelby and Dodd have been conducting extensive negotiations on the regulatory overhaul bill. The Obama proposal would prevent commercial banks and institutions that own banks from owning and investing in hedge funds and private equity firms, and limit the trading they do for their own accounts.

"Senator Shelby has a long-standing record in regards to his concerns about exposing taxpayers to the losses of financial institutions," Graffeo said. Sen. Shelby opposed the 1999 Gramm-Leach-Bliley Act.

Other Senate aides said the new proposals are not radically different than what has already been under discussion and shouldn't create any new gridlock in negotiations.

Dodd said he agrees taxpayers should not be "underwriting" risky activities by banks, but stopped short of fully endorsing the president's plan. "I look forward to studying the president's proposal and will give it careful consideration," he said.

The plan enjoys some support in the committee. Sen. Jeff Merkley (D., Ore.), a fellow Banking Committee member, praised the plan and said it is an "absolutely necessary step."

"Banks have to return to their mission of providing customers with prudent lending and investment opportunities instead of aspiring to be hedge funds," he said.

If the plan is included in a Senate version of the financial bill, it would still need to be considered in the House as well. The financial overhaul bill approved by the House last month did not contain such a provision.

In an interview on CNBC Thursday, House Financial Services Committee Chairman Barney Frank (D., Mass.) said he supports the president's proposal but that it should be implemented over a three- to five-year time frame and not immediately.

"Enforcing divestitures has to be done over time," Frank said. He added that he suspects under such a plan, Goldman Sachs (GS), which became a commercial bank holding company during the financial crisis, would get rid of its bank charter.

Republicans view the White House plan as a political ploy following Democrats' loss this week in the U.S. Senate special election in Massachusetts.

"This renewed focus on financial services by the Obama administration is clearly a transparent attempt at faux-populism in light of the outcome of the Massachusetts Senate race," said Rep. Scott Garrett (R., N.J.), one of the top Republicans on the House Financial Services Committee.

Some outside analysts agreed.

"The administration is turning its focus to the banking industry and believes that the current populist mood in the country will help...push through new limits on the banking industry," Brian Gardner, an analyst at Keefe Bruyette & Woods said in a research note.

Financial trade organizations, meanwhile, raised concerns about the proposal Thursday, calling it "inconsistent" with the goals of strengthening the financial system.

**"The proposal will restrict lending, increase risk, decrease stability in the system, and limit our ability to help create jobs," said Steve Bartlett, the chief executive for the Financial Services Roundtable.**

The Securities Industry and Financial Markets Association also warned against "arbitrary restrictions on growth and activities," noting that the best way to end "too-big-to-fail" is by establishing a systemic risk regulator.

Lendell Porterfield, a lobbyist and former senior adviser to Shelby, said the new limits could appeal to both sides of aisle.

"It is potentially politically appealing to people, and not so much as just 'let's beat up the big banks'," Porterfield said. "There's a very real policy rationale to taking that approach."

Porterfield added that it could be difficult for Wall Street to block the proposal if Dodd and Shelby get behind the idea.

"With Volcker behind it, it is obviously something that people need to take seriously," Porterfield said, referring to former Federal Reserve Chairman Paul Volcker

**Obama Gets Tough, Seeks Size Limitations on U.S. Banks**  
**Associated Press**  
**January 21, 2010**

President Barack Obama stepped up his campaign against Wall Street on Thursday with a far-reaching proposal for tougher regulation of the biggest banks.

"We have to get this done," Obama said at the White House. "If these folks want a fight, it's a fight I'm ready to have."

It was a stern, populist lecture from the president to Wall Street for what he perceives as its abandonment of Main Street. Obama said the government should have the power to limit the size and complexity of large financial institutions as well as their ability to make high-risk trades.

He said it wasn't appropriate that banks have been able to run these trading operations with the protections afforded to regular banking services.

"We have to enact commonsense reforms that will protect American taxpayers and the American economy from future crises," Obama said. "For, while the financial system is far stronger today than it was one year ago, it's still operating under the same rules that led to its near-collapse."

Joining Obama for the announcement were former Federal Reserve Chairman Paul Volcker, who heads the president's Economic Recovery Advisory Board, and William Donaldson, chairman of the Securities and Exchange Commission under President George W. Bush. Volcker and Donaldson have advocated stronger restrictions on banks.

Overhauling financial rules is the one issue on Obama's legislative agenda that appears still alive after Democrats' devastating loss Tuesday in the Massachusetts Senate race. The White House is renewing Obama's demand for an independent consumer financial protection agency as part of any overhaul. That's one of the major sticking points in the Senate; the House has passed its version already.

The new proposal from Obama intends to limit speculation by commercial banks and to keep financial institutions from growing so big that they pose a risk to the economic system.

"When you see more and more of the financial sector basically churning transactions and engaging in reckless speculation and obscuring underlying risks in a way that makes a few people obscene amounts of money but doesn't add value to the economy - and in fact puts the entire economy at enormous risk - then something's got to change," Obama said in an interview released Thursday by Time magazine.

Obama has branded bank executives as "fat cats" and proposed a fee on large banks to cover shortfalls in the government's \$700 billion financial rescue fund.

Expanding on earlier measures, Obama endorsed Volcker's proposal to restrict proprietary trading by commercial banks. That would separate commercial banks from investment banks, a line blurred a decade ago by the repeal of the Depression-era Glass-Steagall Act.

This restriction would affect some of the biggest banks, including Bank of America Corp., Goldman Sachs and Citigroup Inc.

**"The better answer is to modernize the regulatory framework and not take the industry and the economy back to the 1930s," said Scott Talbott, chief lobbyist for the Financial Services Roundtable, an industry group that represents large Wall Street institutions.**

Goldman Sachs Group Inc. said Thursday it earned \$4.79 billion in the fourth quarter as its trading business again outdistanced the rest of the industry. The company rewarded its employees with \$16.2 billion in salaries and bonuses for 2009, 47 percent more than the previous year but still lower than many had expected.

There was a new urgency in the Senate to respond to the voter anger at Wall Street and bank bailouts that helped propel Republican Scott Brown to victory in

Massachusetts for the seat long held by Democratic Sen. Edward M. Kennedy, who died in August.

Brown's victory gave Republicans 41 votes, enough to mount successful filibusters and prevent Democratic legislation on health care or climate change from getting final votes.

But financial regulations could survive.

Administration officials believe that while Republicans may seek to block other aspects of the president's agenda, Senate GOP leader Mitch McConnell of Kentucky is considering making financial regulations an exception.

### **Obama sets up tough battle with plan to curb banks**

**AsiaOne**

**January 22, 2010**

A proposal by President Barack Obama to curb the size and scope of US banking firms sets up a tough battle to pass and implement an ambitious plan to reduce risk in the financial system, analysts say.

News of the effort Thursday sent shivers through Wall Street, where investors feared limits may hurt US firms, and drew mixed reactions from economists and other analysts.

The plan is aimed at limiting 'excessive' risk taking and preventing banks and other financial institutions from owning, investing in or sponsoring hedge funds or private equity funds.

This would force a financial firm to choose between proprietary activities - trading in stocks and sometimes risky financial instruments on its own account - and commercial activities, like making loans and collecting deposits.

The initiative, which needs approval by Congress, includes a new proposal to limit the consolidation of the financial sector, placing broader limits on 'excessive growth of the market share of liabilities' at the largest financial firms.

Some analysts said the measure could be a setback for the financial system by bringing back a number of the measures from a Depression-era law that separated investment banks and commercial banks, known as the Glass-Steagall Act.

'It seems to me that going backward is not the right thing for us to do, I think we should be going forward,' said Sung Won Sohn, economist at California State University.

Sohn said the measure, even if approved, might not achieve its desired impact because the global system is interconnected.

'Most countries including Europe have no Glass-Steagall acts so they have a free range to get into almost every aspect of finance,' he said. 'I don't think we should handicap American institutions.'

But Joseph Stiglitz, a Columbia University economist and Nobel laureate, said the general idea of the Obama plan was positive.

'I think we do need to change the regulatory framework,' Stiglitz said at a Washington forum before details of the Obama proposal were announced.

'If you look at the incentives at the individual level and the organizational level, they're distorted, they encourage the kind of risk taking that we got. When you have banks that are too big to fail, they gamble.'

**The Financial Services Roundtable, which represents 100 of the largest integrated financial firms, said the proposal would do little to improve risk management or protect consumers from irresponsible loans and trades.**

**'The proposal will restrict lending, increase risk, decrease stability in the system, and limit our ability to help create jobs,' said Steve Bartlett, president and chief executive of the Roundtable.**

David Easthope, analyst with Celent, a Boston-based financial research and consulting firm, said the effort could hit the banks in one of their most profitable areas.

Proprietary trading 'has been the sweet spot for leading investment banks over the last few years, and executives will be concerned that Washington will be taking away the frosting,' he said.

Top Obama economic aide Austan Goolsbee said the goal is to refocus banks but is not a return to the Depression-era law creating a wall between investment and commercial banks.

'It's not returning to Glass-Steagall,' Goolsbee said.

While the the act repealed in 1999 barred commercial banks from underwriting or investing in securities, Goolsbee said, 'This is not that. This says a bank cannot own a hedge fund, cannot own a private equity fund or do trading for its own account that is not related to its client business.'

He added that the goal is 'to get back to the fundamental nature of the bank, which is serving its clients, rather than investing for its own profit.'

**Frank Takes Aim at Wall Street Bonuses**  
**Panel to discuss ways of capping executive pay**  
**Boston Globe**  
**January 22, 2010**  
**By Jeremy Herb**

As bonus season arrives on Wall Street, heralded by yesterday's announcement that Goldman Sachs set aside \$16.2 billion for total compensation, Representative Barney Frank is opening a new review by the House Financial Services Committee of ways to impose limits on executive pay.

The Newton Democrat will hold a hearing today on Capitol Hill to discuss ways to curb performance-linked, multimillion-dollar bonuses and potentially reduce the securities industry risk-taking that critics say is promoted by such whopping rewards. Frank may seek to tack additional executive pay limits onto a set of broader financial regulations that the House approved in December in response to the 2008 economic collapse.

"His hearing is well timed, given it's likely to coincide with heart-stopping bonus numbers from the big banks," said Barbara Roper, director of investor protection for the Consumer Federation of America, a consumer lobbying group.

Goldman Sachs responded yesterday to the public outcry over executive compensation by announcing that it was slashing the percentage of revenue dedicated to bonuses.

The company will give out \$16.2 billion in overall compensation for 2009, or 36 percent of revenue, down from 48 percent in 2008. But it is still a big number and will allow for many rich bonuses, analysts said.

"There's lot of anger about the financial system, a real sense the playing field is decidedly uneven," said Vincent Reinhart, resident scholar at the American Enterprise Institute and a former economist for the Federal Reserve. "The issue is how do you channel this anger?"

The centerpiece of Frank's December financial regulatory overhaul - which was also proposed by the White House - is creation of the Consumer Financial Protection Agency, which would write new lending and credit rules. But fierce lobbying from the financial industry and united opposition from Republicans has

left its fate in peril in the Senate Banking Committee. One goal of today's hearing on executive pay is political, Frank said, to "help generate some pressure on the Senate to stick with us."

In an interview with the Globe, Frank said he does not buy the banking industry's argument that curbing bonuses will cause companies to lose their top talent. No other industry outside of professional sports or the entertainment business pays the kind of salaries investment bankers receive, Frank said.

"People say, 'If you do these restrictions, it'll drive people out of the industry,' " Frank said. "I want to raise the question: 'What if we do? What is it you do that's so valuable? Why is it your people have to be compensated so much more than anyone else?'"

**Scott Talbott, head lobbyist for Financial Services Roundtable, a group representing the industry, said companies have already taken steps to reform their pay practices, including tying bonuses to stock options and establishing "clawbacks," where executives would give back bonuses if investments go sour. He accused the Democrats of playing politics.**

**"Clearly this is driven by the politics of a midterm election," Talbott said. "That's a bad way to set policy."**

No banking executives will testify at Frank's hearing today, but a witness list includes Nobel laureate Joseph Stiglitz; Harvard professor Lucian Bebchuk; and Nell Minow, cofounder of the Corporate Library, a major compensation and financial services research firm.

Representative Spencer Bachus of Alabama, ranking Republican on the Financial Services Committee, has opposed Frank's legislation on finance reform, arguing that excessive government regulation will harm private financial companies.

Economists have cited excessive bonuses for short-term performance as one reason banks took the risks that caused the housing market collapse and forced the government bailout. Ben Branch, a finance professor at the University of Massachusetts, said executives took chances because the bonuses gave them much more to gain than lose.

If bonuses are curbed, or if they are tied to stock options and long-term performance goals, then executives are more likely to have the same goals as their companies and its shareholders, Branch said, which was not always the case before the crisis.

Across the Atlantic, Britain's chancellor, Alistair Darling, has announced a 50 percent tax for all bonuses above \$41,000. The tax sparked outcry from banks, which have already started changing their bonus system. Branch said banks in

the United States would probably do the same if bonuses were taxed, finding some other way to compensate their employees.

Regulating the banking industry is like a cat-and-mouse game, said Detlev Suderow, a lecturer in business at Brandeis University, who is skeptical that reforms can change the industry.

“After the crisis is over, after people pay back their TARP funds, they will go back to the old model,” Suderow said. “Does Barney Frank really see any fundamental changes on Wall Street? I don’t see it. I don’t think he sees it.”

**Obama unveils new bank regulations**  
**The Globe and Mail**  
**January 22, 2010**  
**By Barrie McKenna and Boyd Erman**

President Barack Obama is launching a historic campaign to remake Wall Street that threatens to throw the banking industry into turmoil.

Tapping into mounting Main Street anger, the combative U.S. President is proposing sweeping changes to how the industry operates, rules that would restrain the size and scope of the major banks and force them to choose between commercial banking and proprietary trading.

Mr. Obama's proposals, which must be approved by Congress, hark back to Depression-era measures and would turn back the clock on more than a decade of deregulation. The moves could force Wall Street giants such as JPMorgan Chase & Co. to restructure their operations, and threatens some of the banks' most lucrative lines of business.

The controversial plan unveiled Thursday, partly inspired by the now-repealed Depression-era Glass-Steagall banking laws, comes a week after Mr. Obama proposed a hefty bailout tax on large financial institutions.

The announcement signals a renewed push by the White House to pass strict post-financial crisis reforms, which the U.S. Congress has watered down and let languish in recent months.

Investors read Mr. Obama's tough talk as a declaration of war on Wall Street, sending stocks of the country's largest banks tumbling.

The Dow Jones industrial average fell 213.27 points or 2 per cent to 10,389.88, and the TSX composite index lost 210 points or 1.9 per cent to 11,469.10.

Mr. Obama insisted he is now prepared to take on Wall Street after watching banks return to their old ways of excessive risk and bloated bonuses. He's also listening much more closely to his advisers, such as former Federal Reserve chief Paul Volcker, who have been quietly advocating a much tougher stance on financial reforms.

“Never again will the American taxpayer be held hostage by a bank that is too big to fail,” the President said at the White House, surrounded by his top economic advisers.

It's still unclear exactly how the measures would play out on the Street, or whether Congress will embrace the crackdown in the face of the fierce and almost immediate pushback from Wall Street.

Goldman Sachs chief financial officer David Viniar called the ideas “impractical” because they run counter to global deregulation.

“You have global institutions around the world who are set up in a certain way and to put rules in place that roll back the financial system by 10 years is going to be a very, very hard thing to do,” Mr. Viniar said in a conference call.

While many banks may push back, the Obama moves may be more popular with others in the financial world, especially big investors. Many have long worried about the excesses that emerged after the 1999 repeal of Glass-Steagall, which had kept walls between the various branches of the financial services to avoid conflicts.

In fact, the proposals are in step with two recommendations last summer made by the Investors' Working Group, a panel of big-name financial thinkers created by two financial industry groups – The CFA Institute Centre for Financial Market Integrity and the Council of Institutional Investors.

That group has warned that “proprietary trading creates potentially hazardous exposures and conflicts of interest, especially at institutions that operate with explicit or implicit government guarantees” and that new rule are needed to “prevent the sector from becoming dominated by a few giant and unwieldy institutions.” Proprietary trading is that done for the bank's own profit.

Kurt Schacht, a member of the group and the head of the CFA Institute Centre, said the White House push gives the reforms a boost.

“The surprise is people were thinking that, with the rally, a lot of the urgency for regulatory reform had gone out of the sails because the industry had been successful in pushing back,” he said.

Limiting proprietary trading won't be easy. If it's done too broadly, it can actually limit a bank's tools to manage and lessen the risks of their everyday business.

The Obama proposal appears to try to draw a line between trading that's done purely for profit and trading carried out on behalf of clients or related to client business. Mr. Obama also appears particularly troubled by what he has called banks taking positions that are “in direct conflict with their customers' interests.”

While in some cases, it's clear that banks are just laying bets on the direction of interest rates or a stock, in other cases the distinction is much murkier.

For example, banks use a lot of trading to limit risks, which in the big picture is something that regulators have been trying to encourage. But that can lead to banks taking positions that, on the surface of it, may look contrary to what they are selling clients.

A bank, for a example, may have a large block of stock in a company.

It may be trying to sell that stock to investors. However, for the time being, if the stock goes down while it's on the bank's books, it could cause a loss. To limit that potential loss, the bank may take short positions, betting against that stock with other trades as a hedge. Similarly, a bank that lends a lot to the real estate industry may hedge against losses on those loans by betting against the industry in another manner.

Bank executives said bank customers will suffer if the Obama plan goes ahead – the same argument they made in criticizing the special tax on banks.

**“The proposal will restrict lending, increase risk, decrease stability in the system, and limit our ability to help create jobs,” warned Steve Bartlett, president and chief executive of the Financial Services Roundtable, which speaks for the big banks.**

And yet many banks are already embracing some of the reforms on their own. For example, JPMorgan said in late 2008 that it would exit proprietary trading, and moved most of the people in the unit into other jobs on the trading floor.

Citigroup Inc. is also backing out of such businesses, selling its Phibro commodities trading unit even though it was one of the bank's most consistent profit generators. For that reason, many shareholders were critical of the sale.

**President Obama Wants Big Restrictions on the Nation's Biggest Banks**  
**PBS Nightly Business Report**  
**January 21, 2010**

SUSIE GHARIB: President Obama proposed today tough new rules on the nation's biggest banks, restricting their size and their activities. Tom, he said the plan would limit quote reckless risks.

TOM HUDSON: Quite the announcement Susie, in fact from the president in Washington reverberating all the way up to Wall Street and investors really dumping some stocks; the Dow off by 213 points and the NASDAQ Susie down by 25. Both indices now are in negative territory for the year.

GHARIB: A rough day on Wall Street. The core concern here is that the Obama plan forces banks to choose commercial banking or investment banking. They can't do both. Washington bureau chief Darren Gersh explains.

DARREN GERSH, NIGHTLY BUSINESS REPORT CORRESPONDENT: The president said he was naming his new banking rules after the big guy standing behind him. That big guy is Paul Volcker, the former Federal Reserve chairman and a fierce critic of excessive risk taking on Wall Street. With the Volcker rule, the president hopes to make banking a bit safer.

BARACK OBAMA, PRESIDENT OF THE UNITED STATES: When banks benefit from the safety net that tax payers provide, which includes lower-cost capital, it is not appropriate for them to turn around and use that cheap money to trade for profit.

GERSH: The Volcker rule would ban banks that take government-insured deposits from trading for their own benefit. Wall Street calls that proprietary trading. The ban includes investing in or advising private equity and hedge funds. The Volcker rule also sets a limit on the overall size of a bank as a share of the financial sector, though the details haven't been worked out. Banks say the rules, which must be approved by Congress, will cut revenue and raise lending costs. Industry lobbyist Jill Hershey says another problem with today's announcement is the lack of specifics.

**JILL HERSHEY, VP, GOVERNMENT AFFAIRS, FINANCIAL SERVICES  
ROUNDTABLE: Merely floating an idea that lacks detail, we saw the  
immediate market reaction. You know, the market dipped about 225 points.**

GERSH: Banking experts say it won't be easy to draw a clear line between proprietary trading and the many thousands of other trades banks make every day. After the president's announcement, I asked Obama economic advisor Austan Goolsbee whether that was a concern.

AUSTAN GOOLSBEE, CHIEF ECONOMIST, PRESIDENT'S ECONOMIC RECOVERY BOARD: First it lays out this general principle, the bank can't own a hedge fund, can't own a private equity fund. If it is doing proprietary trading, it should be related to a client account, not for its own account. And obviously you work with regulators who have to do the enforcing of the rule. But that's the basic principle that they are trying to enforce. And so if a bank is taking big positions, it will be up to them as part of their regulatory inspection to explain how is that related to client business. And if it's not, the regulator will say you got to get out of there.

GERSH: But if the big banks make less money on their proprietary trading or their investments that they have which they do trading on, the argument comes back, we make less money. We're going to have less money to lend and we're also going to charge more for the lending we do.

GOOLSBEE: Look, I think there's a very dangerous thing to get into on two reasons. The first is when they are paying bonuses and they are paying dividends, they are not saying the same thing as that. They are not saying well, we're going to pay all these bonuses even though we know it is coming out of the money we have for lending. But the second is if they are making profits, because they are getting cheap cost of capital backstopped by the American tax payer, that is not a broker. They can give up that backstop, not be banked, not have access to these kinds of supports and they can make the investments as the president said in a way they can -- if done responsibly -- benefit the economy. It is just that they shouldn't be getting this inappropriate backstop from the taxpayer.

GERSH: It kind of seems hardly a coincidence that here we have Goldman Sachs reporting which does a lot of proprietary trading and makes a lot of money off of it and today you come out and say banks can't do proprietary trading. Connection there?

GOOLSBEE: Well, obviously this event was planned long before anything came out with Goldman. It is the case, however, that over recent months you have seen several of the biggest financial institutions that got access to the safety net of the

American people turn around and use the cheap capital that they were able to get because of the taxpayer safety net and invest it for their own account and make big profits. And that is exactly the kind of thing that this rule is meant to address.

**Obama: Set size cap for banks**  
**Kansas City Business Journal**  
**January 22, 2010**  
**By Kent Hoover**

President Obama escalated his war on Wall Street on Thursday, proposing new limits on the size of banks and their trading activities.

According to the proposal, large financial firms could not increase their national market share of assets other than insured deposits beyond a certain point, similar to the 10 percent market share cap already in place for insured deposits.

The idea is to prevent a few firms from dominating the financial system. This limit, in addition to other financial regulatory reforms being considered by Congress, would protect taxpayers from having to bail out “too big to fail” financial firms in the future, senior administration officials said.

“The American people will not be served by a financial system that comprises just a few massive firms,” Obama said. “That’s not good for consumers; it’s not good for the economy.”

Obama also wants to prevent financial institutions that own a bank from also owning, investing in or sponsoring a hedge fund, private equity fund or proprietary trading operations that are not related to serving customers.

This type of trading, which profits only the financial firm, often creates a conflict between the firm’s interest and its clients’ interest, Obama said. Proprietary trading also is inappropriate because banks receive government support through federal deposit insurance and access to the Federal Reserve’s discount window, he said.

“When banks benefit from the safety net that taxpayers provide — which includes lower-cost capital — it is not appropriate for them to turn around and use that cheap money to trade for profit,” Obama said. “These kinds of trading operations can create enormous and costly risks, endangering the entire bank if things go wrong.”

The financial regulatory reform bill that passed the House in December authorized regulators to prohibit large financial firms from engaging in excessively risky activities. Similar legislation is being developed in the Senate.

The president said his latest proposals would strengthen these financial regulatory reforms. The legislation already includes enhanced consumer protections, higher capital standards and liquidity requirements, regulation of derivative markets and a resolution authority to wind down large firms if they fail.

Sen. Chris Dodd, chairman of the Senate Banking Committee, said he would give “careful consideration” to the president’s new proposals.

“I agree with President Obama that taxpayers should not be underwriting these risky activities,” Dodd said. “Companies that choose to take such risks should do so on their own dime and not in a way that threatens the stability of our economy.”

**The Financial Services Roundtable, however, said the administration’s proposed limits on financial firms would be counterproductive.**

**“The proposal will restrict lending, increase risk, decrease stability in the system and limit our ability to help create jobs,” said Steven Bartlett, CEO of the group, which represents large financial firms.**

Wall Street reacted negatively to the proposals. Shares of big banks dropped sharply, contributing to a 213-point drop in the Dow Jones Industrial Average as of 1 p.m.

House Minority Whip Eric Cantor, R-Virginia, criticized the proposals, saying they “will only create more uncertainty in the economy.”

Obama said “an army of industry lobbyists from Wall Street” is trying to block “common-sense rules” that would protect the economy.

“If these folks want a fight, it’s a fight that I’m ready to have,” he said.

**S&P's Wyss: Obama's Proposals Could Accelerate Banking Power Toward Asia**

**Market News International**

**January 22, 2010**

Asia's banking industry could gain power from the Obama administration's proposals to limit large banks' operations and size, should they become law,

Standard & Poor's Chief Economist David Wyss told Market News International Friday.

Should the proposals be adopted, he said, "It could accelerate the shift of banking power toward Asia and away from New York," as regulatory changes could make that region more attractive.

On Thursday, the president proposed a ban on proprietary trading at commercial banks and from owning or investing in hedge funds and private equity funds. Additionally, Obama proposed wider limits on non-deposit funding sources and urged banks to focus on core business.

Markets interpreted the move more as a punishment than a constructive reform, which weighed on U.S. equities and widened counterparty risk among the top financial firms.

**That drew quick opposition from the Financial Services Roundtable, whose president Steve Bartlett said, "The proposal will restrict lending, increase risk, decrease stability in the system, and limit our ability to help create jobs."**

For now, however, Wyss said, Standard & Poor's sticks to the analysis of the financial sector it released on Thursday in a report titled "The New Normal: Fundamental Changes And The New Face Of Finance," which expects the ramifications of new regulation to possibly "take years to play out."

"We expect financial institutions, especially those in the U.S., to return to building solid, sustainable sources of deposit funding as they reduce continued reliance on complex structured securities," the report said. "This will reduce banks' leverage, we think, while fostering more reliable, albeit lower, returns."

The analysts also expects accounting changes, especially those that will force banks to consolidate securitized assets on their balance sheets -- a practice they had been relying on to expand their lending capacity in -- to "make the practice of transferring risks off balance sheet much less common, if not obsolete."

In fact, bank regulators Thursday published a final rule confirming that risk-based capital will take such accounting changing into account, in effect increasing capital requirements, especially for financial institutions.

The latter, however, benefit from an optional four-quarter phase-in to adjust their capital levels to the accounting changes.

Economic conditions will also play a key role in the improving stability of the financial sector and the banks ratings, the report said, warning that "any severe deterioration in these conditions could bring about a repeat of 2008, with multi-notch downgrades and perhaps some defaults on smaller, regional banks."

"At the same time, improving conditions would help banks to continue to trim leverage and maintain margins to the point that we could see a stabilization in the industry's outlook," it added.

And when it comes to the global economic outlook, Asia's role will be key, even more so than the U.S., the report said, calling it a "profound change."

"In our view, any diminished role of the dollar, the potential for the globe's financial center to shift to Asia, and what could be a new era for financial regulation could make the next couple of decades a stark contrast to the past decade or two," it concluded.

That said, in Asia, "Major obstacles stand in the way of widespread international use of China's renminbi, despite the country's greater political willingness to see it through."

## **Obama's effort to rein in banks isn't likely to hurt the largest financial institutions**

**Associated Press**

**Stevenson Jacobs and Daniel Wagner**

**January 22, 2010-01-25**

President Barack Obama's latest broadside against big banks may have more bark than bite.

Obama's plan to limit banks' size and risky trading has spooked investors, but analysts say it would have only marginal effect on institutions like JPMorgan Chase, Bank of America and Citigroup — and would be hard to enforce. And it's not clear the rules would reduce taxpayers' risk of having to bail out another big bank.

The White House has yet to provide details of the plan outlined Thursday. But attention has centered on Obama's effort to bar the biggest banks from doing what's called proprietary trading. That's when banks use their own money to make high-risk bets. If those bets go bad and a bank goes under, taxpayers could be on the hook.

Fearing the Obama plan might reduce bank earnings, investors reacted by dumping financial stocks Thursday, helping send the Dow Jones industrial average down 213 points. The pessimism continued Friday, with the Dow losing more than 216 points. Also weighing on the market were corporate earnings reports that failed to meet investors' expectations.

The proposed overhaul marked Obama's latest effort to more tightly police the nation's largest banks. Last week, the president proposed a tax on banks to recoup billions in bailout money that was handed out at the height of the financial crisis in 2008.

The moves come as banks face increasingly hostile rhetoric from Obama. The president has called bankers "fat cats" and vowed to defeat the banking industry's lobbying efforts against financial reforms.

Still, several analysts called Wall Street's reaction to the latest proposals overkill.

One reason is that most big banks derive only a tiny fraction of their revenue from proprietary trading. At JPMorgan Chase & Co. and Bank of America Corp., for instance, proprietary trading brings in 1-2 percent of revenue, according to a Citigroup report. Less than 5 percent of Citi's revenue comes from proprietary trading. The figure is 3-4 percent for Morgan Stanley and less than 1 percent at Wells Fargo & Co.

"Proprietary investment restrictions probably won't have a huge impact on most banks," said Douglas Elliott, fellow at Brookings Institution and a former investment banker. "That's a pretty small part of what banks do."

Elliott said much will depend on how lawmakers write the legislation, which has yet to be put even in draft form.

Citing banks' limited proprietary trading activity, Citigroup analysts Keith Horowitz and Ryan O'Connell said in a note that the effect of Obama's proposal "may be less severe than expected."

The banking industry has reacted sourly to Obama's proposal. Edward Yingling, president and CEO of the American Bankers Association, said his members are "very concerned" about it.

One worry is how the limits on a banks' size would affect their competitiveness against large foreign rivals like Barclays Plc, Royal Bank of Scotland and Deutsche Bank. Of the biggest 50 banks in the world by assets, only six are U.S.-based, Yingling said.

"We've been a world leader in financial services, and we need to be very careful about doing something to undermine that," he said.

Several U.S. banks said they need more details of Obama's plan before they assess its effect. Bank of America said it's already acted to scale back risk. That includes no longer issuing complex financial products known as derivatives, spokesman Scott Silvestri said.

At Wells Fargo, proprietary trading "is a non-issue," spokeswoman Julia Tunis Bernard said.

"Products and services that help our customers succeed financially are core to our business, not risky proprietary trading," she said.

Obama's proposal would also prevent banks that take federally insured deposits or that borrow from the Federal Reserve from owning or investing in hedge funds or private equity groups. That raises questions about JPMorgan's ownership of Highbridge Capital, a London-based hedge fund that manages more than \$20 billion. The fund, however, is funded solely with client money. So it's unclear what effect Obama's proposal would have on the bank.

JPMorgan declined to comment.

Some banks would be affected more than others. Goldman Sachs Group Inc., for example, has long been among the most aggressive trading firms on Wall Street. On Thursday, Goldman reported a \$4.79 billion quarterly profit, the biggest three-month gain since the bank went public in 1999 and one generated largely from risky trading in bonds, commodities and currencies.

Proprietary trading accounts for roughly 10 percent of Goldman's yearly revenue. That works out to \$4.5 billion based on the company's 2009 performance. Adjusted for expenses, the new rules could, in theory, cost Goldman \$1 billion in annual profit, according to the Citigroup report.

David Viniar, Goldman's chief financial officer, downplayed the impact of the new rules, calling proprietary trading "a very small part" of Goldman's business.

Other analysts warn Obama's proposal could cause serious damage to banks. Meredith Whitney, an analyst who predicted much of the industry's tumult in recent years, said the new rules could hammer banks' trading profits.

"Our bet: This goes through, and it will not be pretty for banks or consumers," Whitney said of Obama's proposal in a report.

Enforcing the restriction on proprietary trading could be difficult. That's because defining which trades are proprietary and which aren't isn't always clear, said Daniel Alpert, managing partner at the investment bank Westwood Capital LLC, which invests in banks.

"Banks buying and selling securities is just like anybody who buys and sells inventory," Alpert said.

He said banks can buy securities they intend to sell to clients but sometimes hold them because there isn't enough demand.

A big question is whether the proposed rules would make the financial system — and by extension U.S. taxpayers — safer.

**Scott Talbott, chief lobbyist for the Financial Services Roundtable, a trade group whose members include the largest banks, said restricting proprietary trading could do more harm than good by limiting banks' ability to reduce or offset risk.**

**"You're eliminating a tool in the arsenal to manage risk," Talbott said. By doing so, "the banks are going to be more at risk, and that's not the goal right now."**

Others say Obama's proposal doesn't go far enough.

John Boyd, a finance professor at the University of Minnesota, said the financial crisis had many causes beyond trading — including the repackaging of mortgages and banks taking on so much risk that they nearly collapsed the system.

"If all we're talking about is limiting proprietary trading, it's simply not adequate," he said. "The fundamental problem is too big to fail, and until that's dealt with in a serious way, we're going to have problems."

**Banks find new way forward by reducing costs**  
**Bloomberg**  
**January 24, 2010**

Some of the biggest US banks cut back on lobbying last year even as Congress tried to impose new rules on the institutions blamed for the economic meltdown.

Bank of America Corp., the largest US lender, reported spending \$3.6 million (Dh13.2 million) in 2009, a third of it in the last three months, Senate records show. The total was 12 per cent less than the \$4.1 million it spent a year earlier.

Goldman Sachs Group Inc. reduced its lobbying costs to \$2.8 million in 2009 from \$3.3 million in 2008, a 15 per cent decline. Citigroup Inc. spent \$5.5 million, unchanged from 2008.

The Consumer Bankers Association, the Arlington, Virginia-based trade group that includes the largest banks as well as PNC Financial Services Group Inc. and SunTrust Banks Inc., spent \$1.4 million, down a third from \$2.1 million in 2008.

Threaten the economy

The US House in December passed legislation tightening rules for derivatives and allowing regulators to break apart large firms that threaten the economy.

The measure is pending in the Senate.

Last week, President Barack Obama proposed making banks more secure by requiring them to give up their stakes in hedge funds and private equity funds and imposing new limits on proprietary trading.

The Washington-based Securities Industry and Financial Markets Association, whose members include Goldman, Morgan Stanley and New York-based Bank of New York Mellon Corp., cut its spending on lobbying by four per cent in 2009, to \$5 million from \$5.2 million.

**The Financial Services Roundtable, a Washington-based industry trade group, spent \$6.9 million, a 12 per cent decline from \$7.8 million a year earlier.**

The American Bankers Association's spending was unchanged at \$8.4 million.

Some financial institutions boosted spending.

New York-based Morgan Stanley spent \$2.9 million, up 16 per cent from \$2.5 million in 2008, while New York-based JPMorgan Chase & Co. Inc., spent \$6.2 million, a 15 per cent increase over \$5.4 million in 2008. San Francisco-based Wells Fargo & Co. increased its spending on lobbying to \$2.9 million from \$2.3 million, a 26 per cent boost.

Shirley Norton, a spokeswoman for Charlotte, North Carolina-based Bank of America, said its spending in 2009's fourth quarter included dues paid to trade associations and coalitions.

At Wells Fargo, spokeswoman Julia Tunis Bernard said the bank's "modest" spending increase followed its merger with Wachovia Corp. "We as a company have doubled in size," she said.

**Video: Talbott, Madrick Debate Obama's Bank Limits Proposal**  
**Bloomberg**  
**January 22, 2010**

Scott Talbott, senior vice president of government affairs at the Financial Services Roundtable, and Jeff Madrick, senior fellow at the New School and Roosevelt Institute, talk with Bloomberg's Lori Rothman and Bloomberg Columnist David Reilly about President Barack Obama's proposals to limit the size and trading activities of financial institutions. The Financial Services Roundtable believes the proposal will actually increase risks by limiting the banks' ability to manage their own money. Madrick says banks have proved their inability to manage risk.

Click [here](#) to view the video.

**New Mortgage Crisis Looming; Obama Administration's HAMP Program**  
**Ill-Equipped**  
**FinCriAdvisor**  
**January 24, 2010**

Big banks and mortgage servicers face an exponential increase in mortgage delinquencies beginning this summer. But the government's signature program to modify troubled home loans - HAMP - is ill-equipped to handle even the current volume of modifications, warn servicers and housing advocates.

The issue: Alt-A and Option ARMs that became popular before the financial crisis and begin to reset this summer. Those products, whose credit quality hovers between prime and subprime, provide borrowers with ultra-low initial rates that change after two to five years. But where the subprime market approached \$1 trillion, the Alt-A and Option ARM market exceeds \$1.5 trillion.

"The option ARM crisis laps the subprime crisis," says David Berenbaum, chief program officer for the National Community Reinvestment Coalition, a Washington, D.C.-based housing advocacy group. Even if interest rates rise only modestly, it could be too much for borrowers making interest-only payments.

**"That's potentially becoming an issue," agrees Paul Leonard, a VP at the Financial Services Roundtable, which represents the nation's 100 largest financial services companies and where he heads government affairs for its Housing Policy Counsel.**

HAMP, or the Home Affordable Modification Program, is a lynchpin in the government's efforts to alleviate the mortgage crisis. The Administration has budgeted \$75 billion to modify up to 4 million loans under HAMP through 2012. Since HAMP's inception last spring, servicers in the program have modified 1.16 million mortgages, according to Treasury data - mainly through lower rates and extended terms.

But HAMP is not the best modification alternative for many Option ARM borrowers, says Tom Goyda, a home mortgage spokesperson for Wells Fargo in St. Louis. He points to the HAMP numbers for Wachovia, which was acquired by Wells Fargo just over a year ago and has a preponderance of Option ARMs. It is last in HAMP modifications among 22 servicers, and its Option ARMs were unusual in having 10-year initial periods.

HAMP needs to be restructured before the next crisis hits, Berenbaum says. "National servicers are not even looking at HELOCs or Option ARMs" which will become a problem "around the corner this summer," he warns. "This is the second wave, and it is much larger than the subprime crisis."

Is HAMP a Bust?

The Treasury and HUD released a report last week indicating a 17% increase in December loan modifications and a 100% increase in borrowers who move to permanent from trial status. About 112,000 were approved, with median monthly payment reductions in the program of about \$589.

But Berenbaum says this is an illusion because many servicers in the HAMP program - citing the volume of applications - stopped new intakes in December and devoted themselves to boosting their completion numbers. "There is no question the Administration was putting political pressure on them to ramp up operations," he says. "We don't have much to applaud."

HAMP relies on incentive payments from Treasury to about 60 servicers to get borrowers down to a 31% debt-to-income ratio, from an average of 45%. Servicers must evaluate all loans that are 60 or more days delinquent, and all borrowers who ask for a modification face and say they face imminent hardship. Foreclosure sales then stop. Servicers begin a 3-month trial modification based on a verbal

commitment. Once recent income and other documentation are verified, and the borrower makes three monthly payments, the loan moves to permanent status.

The Administration points to several steps it has taken to compel servicers to comply with the program, including sending representatives to servicers' offices to speed decisions and complete documentation, and creation of an extended trial period through Jan. 31 to give servicers more time to review files. Treasury officials also threaten to withhold incentive payments.

"The big commercial banks, their HAMP numbers are terrible," says attorney Alys Cohen of the National Consumer Law Center in Washington, D.C. "The program has a vast compliance problem."

None of the largest servicers has modified even 50% of its eligible 60+-day delinquencies in any month since the program began, Treasury data shows. The average is 25%. The three best were in December: CitiMortgage (47%), Saxon (46%) and GMAC (44%). Each of 19 other listed servicers modified no more than about a third of their delinquent loans in December, among them Wachovia (3%), Bank of America (19%), USBank (26%), PNC Mortgage (30%), Wells Fargo (34%) and JPMorgan Chase (fourth overall at 36%).

And of the 854,000 active modifications, only 66,000 (7.8%) have moved to permanent status. The most successful servicer is Ocwen Financial, which has had 5,332 permanent modifications out of 12,884 HAMP trials (41%). Right behind, with a fifth as much volume, is Carrington Mortgage Services at 40%.

Ocwen General Counsel Paul Koches notes that many servicers have not staffed up sufficiently, pointing to a statement by Rep. Ron Klein at a House Financial Services Committee meeting last month that called on Treasury to ensure that servicers have enough quality personnel and adequate procedures to handle caseloads.

Constituents "send in requested forms two, three, or four times - with the mortgage service companies repeatedly misplacing paperwork," Klein said. "It is particularly unacceptable for banks that have received taxpayer assistance to delay or deny mortgage relief through lost paperwork and inadequate staffing."

Four servicers - Bank of America, CitiMortgage, JPMorgan and Wells Fargo - have started at least 120,000 trials (three times the next largest servicer), but none has more than a 6.6% completion rate. Of 23 servicers in the Treasury report, 17 have a completion rate in single digits.

Why It's Tough to Move Mods to Permanent Status

Cohen, who testified before Congress on the issue, claims servicers have no incentive to modify loans. "They make more money from foreclosing than from providing loan modifications under the program," she says. "And many servicers are still doing many more non-HAMP loan mods. They claim it's because people don't qualify. But we know of many people that do qualify" and are directed into other programs.

Wells Fargo's Goyda disagrees. "Nobody wins with foreclosure," he says. "It's an unfortunate reality that in some cases you can't find an affordable option. In those cases, we will look for a short sale or deed in lieu."

One tactic used by servicers is to send foreclosure notices and schedule foreclosure sales even after the modification has been signed and payments are being made, Cohen says. This is done to put the servicer in prime position to seize the house if the modification fails. HAMP program rules state that a servicer must not complete a foreclosure sale if a borrower enters the program. But if it takes 10 steps to foreclose, the servicer can complete nine of them without violating the rules.

A servicer is legally obligated to send a foreclosure notice if a homeowner is in violation of his contract, Leonard explains. "The key thing is the difference between the foreclosure process and foreclosure sale," he says. "The vast majority of services are not going to sale until the person has been evaluated for a HAMP or other modification. But there are times when the system gets overloaded. There are problems."

"It's hard to run a long race and stop right before the finish line," Cohen adds. "If you are pursuing that process down the road, it is very hard to stop before the sale unless communication is top notch. But it turns out the communication between servicer and foreclosure attorney is automated and not very detailed." One reason is that loan modifications and foreclosures are processed by different personnel and systems, so a last minute modification may not be communicated in time.

Once foreclosure proceeds, the borrower has no way to fully check if the eligibility analysis was accurate or done at all. "While some new reporting requirements apply in 2010, homeowners still do not have the ability to see the servicer's full analysis or to check it independently," she says.

### How to Improve HAMP

Wells Fargo was among the first to sign up for HAMP for both its portfolio loans and loans it services for other lenders, Goyda says. Among the four main HAMP

participants, Wells has been most successful in moving borrowers to final status, with a 6.6% completion rate.

The rate is indicative of a program created to deal with the subprime crisis but now is working through a new issue: unemployment. "We can push HAMP to its limit, but no matter what we do we can't get some borrowers down to the 31% affordability level," Goyda says. "That is the most significant factor to date."

But Goyda acknowledges that Wells Fargo and other servicers did underestimate staffing needs. "There was mismatch in expectations and the ability of servicers to implement the program," he says. "Our customer service fell short of our expectations in some cases. We know customers were frustrated." Result: Wells Fargo has increased its home retention staff to 15,000 from 8,000.

"The major servicers have staffed up, but [modifications are] a more labor intensive process," says Leonard of the Financial Services Roundtable. "It's not just processing payments. It's almost a variation of re-underwriting the loan. We're talking about hundreds of thousands of people. It is a lot of work."

There are plenty of unemployed mortgage professionals available they could hire, Berenbaum counters. "The resources to bear are inadequate," he maintains. "They were able to originate loans at the height of the market and they can modify them at the bottom of the market. We are a national HUD counseling intermediary. We are seeing repeated problems with document submission, document processing, needed extensions, balloon payments rather than principle reduction."

The backlog was highlighted last week in a report from the State Foreclosure Prevention Working Group, made up of bank regulators and state attorneys general. One way to alleviate it is to greatly simplify the HAMP application, Goyda says. "The final modification agreement sent today is a very long, legalistic, intimidating document," he says. "A lot of customers get nervous."

Wells Fargo also advocates requiring that borrowers provide supporting documentation - pay stubs, income tax returns, hardship letters - before the trial begins. Currently, a verbal statement is sufficient, and only about half the borrowers who complete the trial period can move to permanent status, Goyda says. About 25% are found to be ineligible and 25% are missing documentation.

The Financial Services Roundtable suggests allowing salaried workers to provide just pay stubs or a W2, bypassing tax returns, Leonard says. Alternatively, servicers could be legally empowered to obtain tax returns rather than force borrowers to drum up this information.

Meantime, the National Community Reinvestment Coalition (NCRC) is pushing the Treasury to accept bulk loan modifications, alleviating servicer staffing problems, Berenbaum says. This could be done through a reverse auction where Treasury buys troubled loans in bulk at market prices, passes the savings to borrowers in the form of lower mortgage payments and then securitizes the reworked paper back into the market.

NCRC also has lobbied Treasury and HUD about providing short-term, zero-interest loans to unemployed homeowners so they can pay their mortgages until they find work, Berenbaum says. This would push off short sales that reduce home values and, consequently, the tax base.

**Wall Street slams Obama's bank proposals**  
**Financial Services Roundtable, SIFMA say changes will stifle economic growth**  
**InvestmentNews**  
**January 24, 2010**  
**By Sara Hansard**

Financial services industry groups and Republican lawmakers last week criticized President Barack Obama's plan to rein in bank holding companies. Specifically, the critics object to a provision that would prohibit companies that own banks from investing in or advising hedge funds or private-equity funds. "We intend to close loopholes that allowed big financial firms to trade risky financial products like credit default swaps and other derivatives without oversight," Mr. Obama said in announcing the plan.

The administration proposed the two new reforms, which are in addition to changes put forward last June, to move banks "more to identifying their core business as being something like serving their clients," an administration official said on a background basis at a telephone press briefing.

Congress is working on the regulatory-reform proposals that the administration made last year. The House on Dec. 11 approved its version of the financial-reform measures.

The administration's proposal would substantially crimp the kinds of activities in which banks could engage. Regulators would be re-quired to prevent commercial banks from owning, investing in or advising hedge funds or private-equity funds.

Moreover, the president wants to limit the proprietary trading in client accounts that isn't related to the account holders' interests.

Enlarge This Photo BloombergBack to basics: President Obama wants to limit the size and trading activities of financial institutions as a way to reduce risk taking. The government provides deposit insurance and other safeguards and guarantees to firms that operate banks, Mr. Obama said in explaining his plan. “But these privileges were not created to bestow banks operating hedge funds or private-equity funds with an unfair advantage,” he said.

“When banks benefit from the safety net that taxpayers provide, which includes lower-cost capital, it is not appropriate for them to turn around and use that cheap money to trade for profit,” the president said. “And that is especially true when this kind of trading often puts banks in direct conflict with their customers' interests.”

Groups representing the financial services industry slammed the administration's proposal.

**The plan is inconsistent with achieving the goals of promoting responsible lending, increasing jobs and promoting a stronger economy, Steve Bartlett, president and chief executive of The Financial Services Roundtable, said in a statement.**

**“The proposal will restrict lending, increase risk, decrease stability in the system and limit our ability to help create jobs,” he said.**

The Securities Industry and Financial Markets Association also criticized the administration's plan.

In a statement, SIFMA president and chief executive Tim Ryan said that the best way to achieve the goals of ending “too big to fail” and protecting against systemic risk “is to [establish] a tough, competent and accountable systemic-risk regulator.” He added that “providing for strengthened regulatory oversight and flexibility like that originally proposed by the administration, as opposed to arbitrary restrictions on growth and activities, is a more effective way of mitigating systemic risk, ending “too big to fail.”

“The financial crisis highlighted the dangers of excessive risk-taking by financial institutions,” he said. “I agree with President Obama that taxpayers should not be underwriting these risky activities.”

But Alabama Rep. Spencer Bachus, the ranking Republican member of the House Financial Services Committee, said in a statement that the problems being targeted by the president would be better addressed by legislation proposed by Republicans.

“The Republican plan would end the bailouts, get the government out of picking winners and losers, and restore market discipline,” he said.

Financial firms could continue to make markets, since that would be a service for customers, one administration official said at the background press briefing.

The official denied that the changes would constitute returning to regulations in effect for many years under the Depression-era Glass-Steagall Act, which was repealed in 1999.

“We're not returning to Glass-Steagall,” the official said. “This is about making sure that firms that own banks aren't doing trading for their own account, not for the benefit of their customer, and benefiting from taxpayer subsidies due to deposit insurance and the discount-window access.”

### **Mortgage-modification programs' weak spots**

**Philadelphia Inquirer**

**By Alan J. Heavens**

**January 24, 2010**

Two years of agony have ended for Claire and Nick Zalepka. Bank of America Corp. has foreclosed on the house in Hatfield, Montgomery County, they bought for \$350,000 in 2002, when Claire's former employer, a pharmaceutical company, relocated her from North Jersey. With their two children, the couple now live in a rental in Lansdale.

In today's market, their house was worth only \$200,000, said Claire Zalepka, 48. She and Nick, 47, a cabinetmaker, owed \$300,000 on it when they finally said, "Enough."

"We've spent every dime of our savings," said Claire Zalepka, who was making six figures when she lost her job in January 2008, after almost two decades with the firm.

They tried to get a mortgage modification, but couldn't qualify because the house's value had decreased.

"When I lost my job, I even contacted my creditors to let them know," said Zalepka, who describes herself as the family's primary breadwinner. In response, the Zalepkas' credit card interest rates were raised to 40 percent. Their debt tripled.

"We were careful and never lived beyond our means," said Zalepka, who felt so uncomfortable taking unemployment compensation that she now works two lower-paying part-time jobs. "We tried to do everything right."

The Zalepkas' experience is far from unusual these days. Unlike the subprime defaults of the last two years, which resulted from mortgages approved despite little evidence the applicants would be able to keep up with the payments, banks now are foreclosing on people who have worked hard, lived within their means, and tried to do the right thing when they lost their jobs.

To the extent that the government's mortgage-modification programs even include many such homeowners, most analyses suggest they are not succeeding.

"President Obama cannot control the banks," said Allison Devinney, 46, of Mays Landing, N.J., whose mortgage modification was approved by JPMorgan Chase & Co., then withdrawn when her husband, Brian, 50, a union electrician, went back to work after nine months and their income increased.

The ranks of the newly jobless fill the North Broad Street offices of the Philadelphia Unemployment Project, which advises those at risk of losing their houses.

The organization's housing counselor, Tim Styer, says the government's Home Affordable Modification Program (HAMP) is not much help.

"There is an overall consensus that the program has failed, mostly due to the small [number] - about 20 percent - of trial modifications becoming permanent," Styer said. "We are aware of myriad problems homeowners are facing."

At 6 p.m. Tuesday, the Unemployment Project is sponsoring a meeting at its offices with housing lawyers and advocates from several groups to discuss the federal program, including what homeowners can do if trial modifications do not become permanent.

The latest government data showed that "more than half of all modified loans defaulted within six months of modification."

That Dec. 21 report by the Office of Thrift Supervision and the Office of Comptroller of the Currency also said that of the 680,000 mortgage modifications completed in the third quarter of 2009, 274,000 were "trial plans" under HAMP.

Four million mortgages were targeted for modification by the now 11-month-old program. Treasury data show that as of Dec. 30, the program accounted for just 697,026 trial modifications and 66,465 permanent ones.

To qualify for HAMP, a homeowner must be at least 60 days delinquent on a monthly mortgage payment (including principal, taxes, insurance, and homeowners association dues) that accounts for more than 31 percent of his or her gross monthly income.

If the homeowner is current on the mortgage but sees delinquency down the road and applies for modification, a rejection is likely.

To be considered for HAMP, the Devinneys said, they were told to stop making full mortgage payments.

Unemployed borrowers are typically excluded from modification programs. While Brian Devinney was unemployed for nine months, Allison Devinney continued to work for the Atlantic City School District.

"We were put on a trial payment schedule starting in April and paid on time," she said. When Brian Devinney returned to work, they no longer qualified for modification and were \$11,000 behind on their loan.

"One woman at Chase even suggested that he take a layoff" to get back on the program, Allison Devinney said.

Moody's Economy.com chief economist Mark Zandi said he believed that mortgage servicers participating in HAMP were reluctant to modify loans, "given the high probability that homeowners will redefault because so many are so deeply underwater" - that is, owing more on a mortgage than the house is worth.

Unless the federal program is expanded to allow a write-down of mortgage principal, Zandi said, "it will struggle to have a meaningful impact on the foreclosure crisis."

Rick Sharga, chief economist for RealtyTrac Inc., which tracks foreclosures nationwide, said government analysis had indicated a much lower redefault rate when the principal balance is reduced as part of a loan modification.

Sharga also cited other problems with HAMP: that it is a voluntary program on the part of banks and was not designed in a way "that would be successful on securitized loans. In order to get to the payment levels indicated by the program,

servicers would have been outside the parameters they were contractually bound to adhere to."

"No other voluntary program has worked during this foreclosure cycle, and there was no reason to expect HAMP to do so either," he said.

**The HopeNow Alliance, a consortium of public and private groups that includes most of the nation's lenders, says its efforts since 2007 have resulted, outside the government's programs, in 2.6 million mortgage modifications and repayment plans to homeowners at risk, according to data released Dec. 2.**

Photographer Dean Gazzo said he had been told he made too much money to qualify for mortgage modification.

Gazzo was renting a home and space for his business when he found a Blue Bell property that had both.

"The mortgage [from Washington Mutual, now Chase] was for \$400,000, but because I was self-employed, I had to pay points through the nose," Gazzo said. He was able to get only a 9.75 percent adjustable-rate mortgage that he was hoping to refinance.

The recession intervened, however, and his primary business, corporate photography, took a huge hit.

Gazzo exhausted more than \$40,000 of his savings to keep up the mortgage payments. It took six months, starting in September 2008, for his loan to be assigned a negotiator.

The ensuing 18 months, he said, largely have been spent on the phone, being cut off at close of business at 5 p.m. and told, when he calls back, that he needs to pay \$4,000 more to continue the process another day.

"So far I've received no foreclosure notice," Gazzo said, "but every day, I expect one in the mail."

**Homeowner Wants To Walk, Despite New Loan Terms**  
**WBUR 90.0FM**  
**January 26, 2010**  
**By Ted Robbins**

Some 900,000 U.S. homeowners are enrolled in the government's Home Affordable Modification Program, or HAMP. But as of December, the Treasury Department reports that only 66,000 of them had gotten permanent loan modifications.

The program was announced by President Obama in February 2009 in Arizona. That's where Thad Salter lives, in the town of Maricopa, with his wife and two boys. Sitting at his dining-room table, he sifts through a 3-inch-thick pile of paper — the record of a long process to get a mortgage modification through HAMP.

**A Mound Of Paperwork:** Thad Salter sifts through papers related to his home mortgage in Maricopa, Ariz.(Ted Robbins/NPR)  
Salter needed to lower his \$2,300 monthly payment because he lost his job as a human resources executive — and with it, 40 percent of his family's income.

It took a year, but his lender, Chase, offered to extend the mortgage from 30 to 40 years and lower the interest rate from 6.8 to 2 percent. That would cut his payment roughly in half, which makes Salter's initial reaction to the offer seem bizarre.

Thad Salter stands in front of the home he bought for \$300,000 in 2006. The house in Maricopa, Ariz., is now appraised at \$125,000.(Ted Robbins/NPR)  
"I call it extortion," Salter said. "Government-backed extortion. I mean, who in their right mind would accept this? No one would. No one should."

The mortgage modification solves a short-term problem: It allows Salter to stay in his home. But it doesn't address a long-term issue. Salter's mortgage is about \$300,000. Today, his home is worth \$125,000. He's underwater.

To keep the bank from taking a loss, the loan modification includes a \$107,000 balloon payment before he can pay off the mortgage. So financially, Salter says he feels like a hostage.

"I'm not gonna gain \$200,000 value on this home," Salter said. "That's just not gonna happen. You know, I think it's gonna take a lot longer than that to even break even on this house, if ever."

Salter decided to take the modification and stay in his home for a few years. But he still wonders if it would be better to walk away from his home and give it back to the bank. Many of his neighbors did: 15 of the 22 homes on his block went into foreclosure over the past couple of years.

Until recently, Salter says he never thought of walking away.

"I'm not one of those who believes in that, but I've seen so many other people do that," he said.

**Chase would not comment for this story; it referred us to the Financial Services Roundtable, a banking industry association.**

**Spokesman Scott Talbott points out that walking away from a mortgage would bring down the Salters' credit rating. And, he says, if everyone did it, home values would go down even more. But mainly, Talbott says that homeowners who get modifications have an obligation to stay — and pay.**

**"The borrowers have signed a contract," he said. "They have signed a promissory note, which says, 'I promise to repay.' So in addition to a legal obligation, you can argue there's a moral obligation to repay."**

University of Arizona law professor Brent White disagrees. He says there are good reasons for homeowners to break their contract, and that companies do it all the time when it makes financial sense.

"A contract is not a moral document, it's a legal document," White said. "So all this language about moral obligation and contractual obligations rest upon homeowners not knowing what a contract is."

White's ideas have been criticized by the banking industry, former Treasury Secretary Henry Paulson, and at least one government-sponsored credit counseling agency. He says banks and the government aren't acting out of homeowners' financial interests; instead, they're playing on their emotions.

"And for the bank, the rules of the game are, make as much money as possible," White said. "And use the fact that the homeowner is following moral norms to the bank's advantage."

White is not suggesting that everyone walk away from their mortgage. Emotional attachment or the desire to remain in a neighborhood are good reasons not to.

Salter ultimately decided to accept the modification, but not for financial reasons. He says he didn't want to disrupt his family.

"You know, I could care less about myself," he said. "But the kids I was more concerned about, and my wife."

Salter's struggle emphasizes both the modification program's purpose and weakness. It was set up to keep people in their homes, not bail them out of a mortgage that could be underwater for as long as it lasts.

**Thomas Renyi Appointed to CVC's U.S. Advisory Board and Global Financial Institutions Advisory Board**  
**PRNewswire**  
**January 26, 2010**

CVC Capital Partners ("CVC"), a leading global private equity firm, is pleased to announce the appointment of Thomas ("Tom") Renyi as a senior advisor to CVC. Mr. Renyi will become a member of CVC's U.S. Advisory Board and Global Financial Institutions Advisory Board to support CVC's activities in the financial services sector.

Mr. Renyi has had a distinguished career in the financial services industry and recently retired as Executive Chairman and Director of The Bank of New York Mellon Corporation. Previously, Mr. Renyi served as Chairman and Chief Executive Officer of The Bank of New York Mellon Corporation and its predecessor institution, The Bank of New York, from 1997 to 2007. In addition to successfully growing the Company through numerous strategic initiatives, Mr. Renyi played an essential role in initiating, leading, executing and integrating the merger of The Bank of New York and Mellon Financial, one of the industry's most successful and transformational transactions.

Mr. Renyi's career at the Bank of New York began in 1971 and included key leadership roles in securities servicing, credit policy and capital markets. In 1989, Mr. Renyi led the transition team responsible for integrating the Irving Trust Company into The Bank of New York, which was the largest merger in the U.S. Banking industry at the time and set the stage for the next chapter in The Bank of New York's global growth.

Mr. Renyi currently serves on the Board of Directors of Public Service Enterprise Group Incorporated and RiskMetrics Group. **He is a past chairman of The Financial Services Roundtable.**

Kamil Salame, CVC Partner and Head of the U.S. Financial Institutions Group, said: "We are delighted to welcome Tom to CVC. He is a tremendously successful executive who is held in the highest regard in our industry. Tom has played an important role in shaping and transforming the financial services sector and we are confident Tom's experience will be extraordinarily valuable to CVC as we assess opportunities at this particularly dynamic time."

With 19 offices throughout Europe, Asia, and the United States, CVC has an industry-leading global presence. CVC currently has approximately \$20 billion of uninvested equity capital, making the firm one of the top five sources of available private equity funds in the world. CVC has significant experience in financial services investments, and its dedicated Global Financial Institutions Group focuses on investing in leading financial businesses across Europe, North America and Asia.

## **U.S. Bancorp head Richard Davis positions himself for key role in banking industry review**

**MinnPost**

**January 26, 2010**

**By Brad Allen**

Richard Davis, chairman, president and CEO of Minneapolis-based U.S. Bancorp, is positioning himself front and center in discussions with the administration and Congress over the direction of the nation's financial industry regulation.

In a radio interview Monday, for example, he criticized the banking industry, saying that "as an industry, we failed the American people," a view he said is shared by most of his banking colleagues.

**As the new chairman of a powerful industry lobbying group, the Financial Services Roundtable, based in the nation's capital, his views will inform the debate in Washington on financial regulatory reform. U.S. Bancorp recently hired an experienced lobbyist to set up its first Washington office. Davis also is a member of the Financial Services Forum, an association of CEOs of 18 of the largest financial firms.**

Davis faces a tough political environment where he said banks have a "very negative reputation for [being] the responsible party for this financial downturn." He gave Minnesotans a preview of a decidedly more conciliatory tone coming from the industry as the debate moves forward in Washington and across the country.

In an hour-long interview on Minnesota Public Radio with talk show host Kerri Miller Monday morning, Davis was alternately apologetic, diplomatic and combative in discussing the future of the banking industry. He insisted most leaders in the industry recognize their low credibility with both Washington and the public, saying they have done "a lousy job of describing our position and our relevance in this economy. We haven't done a very good job of describing what

we've done right and what we've done wrong. ... As an industry, we failed the American people."

But he resisted the notion that there was widespread opposition to financial regulatory reform within the banking industry. Acknowledging that there are "a few outliers" resisting change, Davis said the majority of his colleagues "believe now is the time ... we start making amends for the things we did wrong, and also show how important we can be in the recovery going forward."

Davis is optimistic that he can work with the Obama administration but acknowledged the challenges. Saying the president was speaking to individual Americans in a recent "60 Minutes" interview, Davis was "not at all surprised by the outrage" Obama expressed, calling some bankers "fat cats" as he criticized their compensation practices. While calling the reference "unfortunate," he acknowledged that "this is our president saying, 'I hear you. I feel your pain. I'm not out of touch with what the problems are.'"

"Behind the scenes. I'm more excited about conversations we've had with the White House in trying to develop new ideas and new plans than perhaps we can see publicly," Davis added. "I suspect I'll be disappointed at the State of the Union address where he'll have to continue that longstanding rhetoric against banks."

Davis voiced strong support for the reappointment of Ben Bernanke as chairman of the Federal Reserve, scheduled for a vote this week in the Congress. He described the current Fed chairman "as probably one of the most important figures in the last couple of years ... in averting a financial collapse. Even people like me who were in it ... will never quite appreciate how close we may have come to ... an imminent collapse and failure of so many pieces and parts of the financial system both domestically and globally."

But Davis gave a more tepid endorsement to Treasury Secretary Timothy Geithner. Saying Geithner "is doing a better job now that he's been in the job a while," he described himself as "generally satisfied" with the secretary's performance. "I'd just like to have more dialogue," with the secretary, he said.

Davis called for changes in monitoring and overseeing risks to the financial market as a whole, "systemic risk," in industry jargon.

One idea he floated was establishment of an oversight panel made up of representatives from the major regulatory agencies. This panel would evaluate the systemic risks posed by a small number of financial institutions to ensure that "no company can get that important or become that complicated. And if they start to

demonstrate some areas of risk that we can no longer manage, then we should have the right to dissolve the company.”

But he opposed the notion that size alone creates systemic risk. Using U.S. Bank as an example, he described the nation’s fifth-largest bank as “one big regional, simple bank... not in the middle of some of these very complicated products.” Davis argued: “It’s not the size ... it’s the complexity, interconnectedness, interrelatedness, global activities ... It’s the house of cards theory ...that if something breaks it starts to ... affect so many other things. That’s what should be identified as systemically important.”

Calling it “a huge nuance,” he also explained the banking industry opposition to a new consumer protection agency, pointing out they favor establishing “bright line laws and rules around how to litigate when a consumer hasn’t been treated fairly. We need that. We welcome it. Bring it on,” he said.

**The White House vs. the Banks**  
**WBUR/NPR Boston**  
**January 26, 2010**  
**Tom Ashbrook**

“If these folks want a fight, it’s a fight I’m ready to have,” President Obama said last week.

He was talking about America’s big Wall Street banks.

After a year of bailing out and working with the banks, the president looks ready to do some pruning and trimming. Ready to draw some lines.

He’s looked past Treasury Secretary Tim Geithner and economic adviser Larry Summers to the grand old man of financial rectitude, former Fed Chairman Paul Volcker. And with the so-called “Volcker Rule,” he wants to rewrite the rule book.

This hour, On Point: We’re weighing Obama’s move to rein in Wall Street.

**Guests:**

Joining us from New York is Diane Brady, senior editor at Bloomberg BusinessWeek.

Joining us from Valley Forge, Penn., is John Bogle, founder and former CEO of the Vanguard Group, one of the world’s largest mutual fund groups, and president of Vanguard’s Bogle Financial Markets Research Center. He’s written several

books on investing and financial history, including “Common Sense on Mutual Funds,” now out in an updated 10th anniversary edition.

**And from Washington we’re joined by Steve Bartlett, president and CEO of the Financial Services Roundtable, which lobbies on behalf of the largest “integrated financial services companies” in the country. He was a U.S. congressman from 1983 to 1991, and served on the House Banking Committee. He played a key role in passing the Gramm-Leach-Bliley Act, which in 1999 repealed parts of the Glass-Steagall Act of 1933.**

Click [here](#) to listen to interview.

**Bank tax ‘strictly political,’ but popular  
Triangle Business Journal  
January 26, 2010  
By Kent Hoover**

President Barack Obama's proposed new tax on large financial institutions has a good chance of passing Congress, despite objections that it is unfair and could make credit even harder to get.

The president wants to slap a tax on financial institutions with more than \$50 billion in assets as a way to ensure that taxpayers recover “every single dime” of the federal government's \$700 billion financial rescue program.

The new Financial Crisis Responsibility Fee would raise an estimated \$117 billion over 12 years – the amount of Troubled Asset Relief Program funds that likely won't be repaid by TARP recipients. TARP funds primarily went to banks, but most of the program's losses are expected to come from investments in insurance/financial products giant American International Group and auto makers General Motors and Chrysler.

Most of the TARP money that went to banks has been repaid, with interest, to the government.

Obama, however, contends these banks still have an obligation to the taxpayers because “the entire industry benefited not only from the bailout, but from the assistance extended to AIG and homeowners, and from the many unprecedented emergency actions taken by the Federal Reserve, the FDIC and others to prevent a financial collapse.”

The chairmen of the House and Senate banking committees endorsed Obama's proposal.

“I do think it's very fair,” said Rep. Barney Frank, D-Mass., who chairs the House Financial Services Committee. “The whole financial industry benefited from the TARP.”

Sen. Chris Dodd, D-Conn., who chairs the Senate Banking Committee, said, “Wall Street owes a great debt to the American public, and we have the right and the obligation to recoup as much money as we can for the taxpayers.”

Sen. Chuck Grassley of Iowa, the ranking Republican on the Senate Finance Committee, agrees that banks should pay back every cent they received from the government. But he is waiting for an analysis of the proposed fee's impact on the cost and availability of credit.

“We need to make sure small businesses and John Q. Public don't get another raw deal,” Grassley said.

More loans equals more taxes

Critics of the new tax said banks would pass on the fee to consumers and restrict their lending at a time when businesses need greater access to capital, not less.

“Taxes on corporations are nearly always passed on to consumers,” said John Berlau, director of the CEI Center for Investors and Entrepreneurs.

Obama, however, urged financial institutions to cover the cost of the tax “not by sticking it to your shareholders or your customers or fellow citizens ... but by rolling back bonuses for top earners and executives.”

The U.S. Chamber of Commerce is concerned the tax could make it harder for businesses to get credit.

“A tax on liabilities is a tax on loans, and the more loans that are written, the more taxes that would have to be paid,” the chamber contended.

Since bank deposits are excluded from the fee, “this tax will have a disproportionate impact on wholesale capital markets, which support U.S. consumers through mortgages, home loans and student loans,” said Timothy Ryan, president and CEO of the Securities Industry and Financial Markets Association.

'Inherent unfairness' of tax

Then there is the fairness argument.

“What I find hard to fathom, except on purely political grounds, is that some banks were encouraged – some forced – to take TARP money, and now they will find that there was a hidden penalty in all of this,” said Harold Reichwald, a Los Angeles attorney who co-chairs the banking and specialty finance practice group at Manatt, Phelps & Phillips. “There is an inherent unfairness in how this so-called policy has come about.”

**“This tax is strictly political,” said Steve Bartlett, president and CEO of the Financial Services Roundtable, which represents large financial services companies. It “will do nothing more than stifle economic recovery and encumber more pressing concerns, such as covering new regulatory costs.”**

The National Association of Mutual Insurance Companies complains that several large insurance companies would be subject to the tax, even though they took no TARP money and played no role in the financial crisis.

Other critics fear the bank tax will stay in place even after the federal government recovers all of its TARP money.

“Congress rarely eliminates a tax once it goes away,” states the Washington Research Group of Concept Capital, a division of Sanders Morris Harris Inc. “Extensions of this tax could serve as revenue offsets for future spending programs in what will be a very tight budget environment for the foreseeable future.”

Obama's proposed bank tax

Name of tax: Financial Crisis Responsibility Fee

Who would pay it: Banks, insurance companies and securities broker-dealers with more than \$50 billion in assets

Amount of tax: 0.15 percent of covered liabilities per year

Length of tax: At least 10 years

Revenue raised: Up to \$117 billion

## **Stunned Wall Street Firms Don't Want to Wage War on Obama**

**Bloomberg BusinessWeek**

**January 27, 2010**

**By Robert Schmidt**

When Treasury Secretary Timothy F. Geithner and White House adviser Valerie Jarrett hosted a private dinner with the leaders of six banks to discuss financial regulation on Jan. 20, the bankers soon changed the subject. The president needed

to stop demonizing Wall Street, they told Jarrett, according to three people familiar with the meeting.

What the executives, including Brian Moynihan, the chief executive officer of Bank of America Corp., and Robert Kelly, the chief executive of Bank of New York Mellon Corp., didn't know was that President Barack Obama, who had proposed a new tax on the biggest banks six days earlier, was about to strike again.

After leaving the meeting around 9 p.m., the executives learned that Obama would ask Congress the next day to ban commercial banks from running proprietary trading operations, owning hedge funds, and rapidly increasing market share. In his remarks, Obama indicated his willingness to go to the mat with the industry: "So if these folks want a fight, it's a fight I'm ready to have."

**Industry officials said they were stunned. "We did not know it was coming, that's for sure," said Scott Talbott, a lobbyist for the Financial Services Roundtable, which represents large banks and insurance companies and whose chairman, Richard Davis, the CEO of U.S. Bancorp, also attended the dinner.**

'Don't Want to Fight'

Now the firms and their chiefs, confronting a wave of public anger against their bonuses awarded in the wake of the financial industry bailout, are trying to devise a strategy to fight both the proposed new limits on banks' size and activities as well as the bank tax. While they are still plotting tactics, one thing has become clear: The banks don't want to go to war with the commander-in-chief.

"We don't want to fight the administration," said Rob Nichols, whose trade group, the Financial Services Forum, represents the chief executive officers of the largest financial companies. "We just want to sit at the table and have a productive conversation about the kinds of reforms needed to address the real causes of the recent crisis."

That the president's top advisers failed to give the financial executives a heads-up, even while reporters were being briefed on the plan, underscores how strained the banks' relationship with the administration has become.

Political Attack

Some Wall Street executives are seething over what they see as a political attack by the president after the Democratic Party lost the late Senator Edward M. Kennedy's U.S. Senate seat in Massachusetts, according to interviews with a half-

dozen people who work for or consult with the largest financial firms and who declined to be named in order to speak freely.

They are equally concerned that they will remain targets for the rest of the year, the people said, and are willing to take steps to try to prevent that from happening. Some of the executives dining with Geithner and Jarrett indicated that Obama's bank tax would be a small price to pay if it made the taint of the Troubled Asset Relief Program go away, according to one attendee.

As a goodwill gesture, some executives whose firms are members of the Financial Services Forum agreed, at the Treasury's request late last week, to contact senators and urge them to confirm Federal Reserve Chairman Ben S. Bernanke, the people said. Nichols declined to comment.

### Slow the Momentum

The banks are not hanging up their lobbying spurs, and instead are counting on allies in Congress to slow the momentum. Senate Banking Committee Chairman Christopher Dodd, a Connecticut Democrat, has scheduled hearings for Feb. 2 on the president's plan to limit the size and scope of commercial banks. Volcker has agreed to testify. While the lobbyists predict the tax, which Obama would levy on financial companies with more than \$50 billion in assets to raise up to \$117 billion over 12 years, will easily pass the House, they say it will be toned down in the Senate.

The administration's renewed push against the industry has caused a fissure in what has often been a unified industry front. Many smaller banks, for instance, aren't opposed to the trading and size limits in Obama's plan.

Wall Street firms "are ramping up their lobbying machines like there is no tomorrow," said Camden Fine, president of the Independent Community Bankers of America. "I'm sure they feel threatened, but when you get down to it, they brought this on themselves."

Obama hasn't shied away from criticizing bankers in recent weeks. Former Fed Chairman Paul Volcker, who had trouble getting the president to accept tougher restrictions on the financial services industry than his administration first proposed, stood behind him for the Jan. 21 announcement.

### 'Every Single Dime'

Earlier this month, when Obama called for a tax on large banks, he said his aim was to recover "every single dime" of the \$700 billion financial rescue, even if it

meant taxing large banks that had repaid their TARP money with interest. At the same press conference, Obama challenged bank CEOs to stop “sending a phalanx of lobbyists to fight this proposal, or employing an army of lawyers and accountants to help evade the fee.”

The increasingly strident comments are “unfortunate,” said Fine, of the community bankers. “If the populist rhetoric intensifies, then there is a danger that the entire banking industry, including community banks, could be vilified.”

The Obama administration plans to keep its distance from Wall Street. As the Treasury begins to draft the legislation they will send to the Senate on bank size and trading restrictions, the agency doesn’t plan to consult the industry, said Deputy Secretary Neal Wolin.

He argued that the administration has been tough and direct with financial firms since it began pushing for changes to oversight in the wake of the subprime crisis. “We’ve not been shy in expressing our views,” he said. “We’ve not minced words with them.”

### **Vanguard’s Bogle on the ‘Volcker Rule’ Reforms**

**WBUR On Point with Tom Ashbrook**

**January 26, 2010**

**By John Wihbey**

John Bogle, founder of the Vanguard Group, joined us again today. He took on Wall Street and endorsed the “Volcker Rule” reforms put forward by President Obama, based on the proposals of White House advisor and former Federal Reserve Chairman Paul Volcker.

Asked about the proposed reforms, which would re-draw the line between commercial and investment banking, Bogle had this to say:

**JOHN BOGLE:** It seems to me like the right thing to do. Largely because we’ve developed a system of enormous complexity, where people don’t understand the risks, where the banks and the bank holding companies...have gotten into all sorts of activities that have nothing to do with taking deposits and paying interest on them, lending the money out usually long and paying interest on these short term liabilities.

And that system worked pretty well for a long time. But we are – to state the very, very obvious – a long, long way from what we saw in “It’s a Wonderful Life” with Jimmy Stewart, that little savings and loan out there in Peoria or wherever it was. And that complexity has been very expensive, and in fact very expensive to the

banks themselves. The market capital of all of our banks was probably in round numbers, the total value of their equity – common stock in the marketplace – around two and half trillion dollars only a few years ago. And it's probably under \$500 billion today. So these bank executives have cost their shareholders, if you will, \$2 trillion. And yet they still get these huge bonuses. That's a little different issue. But it just shows how badly this system is working. So we've got to do something, and I think the Volcker plan is a good start.

**Steve Bartlett, who represents a financial services trade group, also appeared on the show today and said there's no going back to "It's a Wonderful Life"-style banking. He pushed back against the idea of reinstating walls between different kinds of banking. Those walls had been in place until 2000, when the Glass-Steagall Act was repealed, and deposit-taking banks started operating in different, riskier, ways.**

**STEVE BARTLETT: ...The difficulty with the so-called Glass-Steagal is that it was a concept to try to separate into fifty or sixty different categories of how to offer financial services. So you have a credit card is separate from a checking account, is separate from an insurance coverage, is separate from a 529, is separate from a mutual fund. And frankly, that whole system had simply broken down by demand of the customers, who wanted financial services and still do. Now, they do want those financial services to be offered in a safe way, with better regulation. And a lot of that regulatory structure broke down and it needs to be rebuilt in a much better way. But restoring back to "It's a Wonderful Life" is just simply not feasible and would do a lot of harm.**

TOM ASHBROOK: John Bogle, simplicity's too much to hope for?

JOHN BOGLE: No, I don't think it's too much to hope for. I mean, we're in a complex world. I'm the first one to say that. But investors have to wake up to the fact that all this complexity has produced virtually nothing but losses for them.

Click [here](#) to listen to the full interview.

**Business digest: Foreclosure risk workshop today  
News-Press.com  
January 27, 2010**

A workshop sponsored in part by the Obama administration's Making Home Affordable Program will be held in Fort Myers today for area homeowners at risk of foreclosure.

**The free workshop is from 1 to 7:30 p.m. at Harborside Event Center. It also is sponsored by HOPE NOW Alliance and NeighborWorks America.**

Homeowners will be able to meet face-to-face with their mortgage company and a HUD-approved counseling agency to work on a solution to help them stay in their home.

Homeowners also will learn if they are eligible for the Obama administration's Making Home Affordable Program.

For more information visit [HopeNow.com](http://HopeNow.com), [makinghomeaffordable.com](http://makinghomeaffordable.com) or call the free Homeowner's HOPE hot line at 888-995-HOPE.

Drywall mitigation company forms

A new company, Chinese Drywall Experts, has been formed in response to widespread problems with defective drywall.

The company provides remediation and reconstruction services with turnkey management for homeowners with defective drywall.

Chad Boisselle and Vito Ciaramitaro have been named managing directors.

Boisselle previously was the project manager for Toll Brothers at Firano at Naples, a community of single-family homes off Davis Boulevard.

Ciaramitaro previously worked with Shear Corp. as residential specialist in sales. He also worked for Toll Brothers as senior construction manager.

Chinese Drywall Experts is a partner firm with Shear Corp., one of the largest stucco, drywall and metal framing corporations in Southwest Florida.

The company is managed by licensed Florida contractors. For more information, visit [WallTrouble.com](http://WallTrouble.com).

2010 Free File tax program launched

The Free File Alliance, a coalition of industry-leading tax software companies partnered with the Internal Revenue Service, announced the launch of the 2010 Free File program.

Every taxpayer with a 2009 adjusted gross income of \$57,000 or less can visit [IRS.gov](http://IRS.gov) to prepare, complete and e-file their federal tax returns at no cost.

Money managers attend conference

Donald Haisman and Catherine Jackson of Haisman Wealth Management Inc. in Fort Myers recently attended a national investment conference in Boca Raton.

The conference, titled "Inside ETFs," was attended by more than 800 participants from around the world, and focused on new investment products known as exchange traded funds.

CNBC featured coverage as "The View from the World's Biggest ETF Conference."

Mr. Rooter moves up in franchise ranking

Entrepreneur magazine included Mr. Rooter Corp., which has a franchise in Naples, in its 31st annual Franchise 500 ranking. Listed at No. 139, the plumbing company moved up eight spots from last year's ranking. The company also ranked No. 132 in the AllBusiness AllStar Franchises. AllBusiness.com, an online media and e-commerce company, assembled the list of the top 300 franchises.

### **Wall Street's Fishbowl**

**Newsweek**

**January 27, 2010**

**By Daniel Gross**

**The surviving investment banks are bristling at efforts aimed at recouping taxpayer losses and forestalling a repeat of the panic of 2008: congressional proposals to tax bonuses, President Obama's planned tax on large banks' liabilities, and his suggestion that banks be prohibited from using taxpayer-insured funds for proprietary trading. The latter proposal "will restrict lending, increase risk, decrease stability in the system, and limit our ability to help create jobs," says Steve Bartlett, CEO of the Financial Services Roundtable, the trade group for megabanks.**

But if the banks want us out of their business, they should get out of our business first. We've (barely) lived through a 40-year period in which investment banks, which had their origins in partnerships, have imposed themselves on us. They effectively moved into our house, raided our fridge, and set the joint on fire. Now they're complaining that our renovation efforts are cramping their style.

The process began when Merrill Lynch went public in 1971. It was followed by the four other horsemen of the 2008 credit apocalypse: Morgan Stanley (1986), Bear Stearns (1985), Lehman Brothers (1994), and Goldman Sachs (1999). The Gang of Five went public so they could compete with the international banking giants that were encroaching on their core business of underwriting stock offerings and advising firms, and in order to boost their activities in risky, capital-intensive businesses like proprietary trading. "In order to have a capital base that would support the funding they needed, they had to be public," says Roy Smith, a former Goldman Sachs partner and a professor of finance at New York University.

Going public allowed investment banks to get bigger, which gave them the heft to mold the regulatory system to their liking. Perhaps the most disastrous decision of the past decade was the Securities and Exchange Commission's 2004 rule change allowing them to increase the amount of debt they could take on their books—a move made at the request of the Gang of Five's CEOs. Before it went down, Lehman had amassed more than \$600 billion in debt. No partnership or private corporation could have accomplished that feat.

The shift to public ownership also replaced the accountability of partnerships—when there are no profits, there are no bonuses—with the dangerous fecklessness of public boards. In theory, boards are supposed to oversee the activities of CEOs. In practice, they act as expensive rubber stamps. "These companies had board members who either weren't paying attention or, at Lehman in particular, were deliberately selected because they were unqualified or out of it," says John Gillespie, a former investment banker at Lehman and Bear Stearns and coauthor of new book *Money for Nothing: How the Failure of Corporate Boards Is Ruining American Business and Costing Us Trillions*. Gillespie notes that Lehman's compensation committee included the actress Dina Merrill, an heiress to the E. F. Hutton fortune who was 85 in 2008.

When Lehman ended its 14-year run as a public company with a bagel (a stock worth zero), some \$45 billion in shareholder value had been destroyed. The other capers didn't end much better for shareholders. Bear Stearns was rescued from bageldom when JPMorgan bought it at a fire-sale price with the help of the Federal Reserve. Morgan Stanley and Goldman managed to remain independent and solvent, but only because huge subsidies were made available to them. In late January, Morgan Stanley's stock stood where it did in early 1998.

But these puny returns come at a huge cost to shareholders: massive employee and executive compensation. At investment-banking partnerships, compensation is contentious—epic brawls would take place each December as partners argued over bonuses. But they would take place in private, and the process essentially involved

rich people taking money out of each other's pockets. Now it's a zero-sum game between aristocrats and commoners, with all the sordid details laid out in public.

The public—as aggrieved owners, taxpayers, and savers—has every right to question the banks' methods and practices. If they don't want us poking around their business, they can shrink their balance sheets, replace subsidized debt with market debt, stop relying on the Federal Reserve for funding, and get out of our index funds. As film mogul Samuel Goldwyn once said: "Include me out

## **Borrowers and lenders meet in Fort Meyers**

**News-press.com**

**January 28, 2010**

**By Dick Hogan**

About a thousand people with mortgage problems poured into the Harborside Event Center in Fort Myers on Wednesday, eager for a rare chance at a face-to-face meeting with their lenders.

They were at a traveling workshop sponsored by the Obama administration's Making Home Affordable program, which aims to help people reach an accommodation with their banks to avoid foreclosure.

In the Cape Coral-Fort Myers area, more than 3,600 families are in the program's trial phase: They're paying a reduced amount to their bank while their documentation is checked and a few months go by to make sure they can pay the new amount.

Some walked away happy from Wednesday's event, which also included counselors approved by the U.S. Housing and Urban Development Department.

"It was nice," said Tammie Hughes, 33, of Lehigh Acres, who was there for a meeting with a representative of her bank, Ocwen. "She gave me hope."

Like many, Hughes is in foreclosure. Her banker gave her advice on how she could qualify for a federal program she's been trying to get into.

Roughly 30 percent to 40 percent of the people who come to the workshops "walk away with some kind of modification," said Alvina McHale, director of communications for the Home Ownership Preservation Office of the U.S. Treasury Department.

Many of the remaining participants get what Hughes did: a connection with a real person at the bank and some help working on what could be a final resolution.

People in trouble with their mortgages need to get in touch with their bankers to see what can be done, McHale said.

“We’ve got to get the homeowners talking to their lenders,” McHale said.

Some banks have been overwhelmed and hard to contact, she said, but “we’re seeing less and less of that” as the foreclosure crisis grinds on.

Turnout at the workshops depends on the size of the area and how dire the foreclosure situation is, McHale said.

**Eric Selk, director of outreach for the Hope Now Alliance, a nonprofit group of mortgage servicers, investors, counselors and others that is co-sponsoring the workshops, said the workshops will continue at least through 2010 and may expand to two or three days to make it easier for people to complete modifications.**

“There are so many people,” he said. “You can’t facilitate it all in one day.”

**Garrottes and sticks**  
**The Economist**  
**January 28, 2010**

A RECENT episode of “Mad Money” on CNBC, a financial-news network, featured the “Lloyd Blankfein piñata”. Hung from the studio ceiling to symbolise the beating that bankers—not least Goldman Sachs’s boss—have been taking lately at the hands of politicians, the effigy rained down fake gold coins when split apart.

Wall Street’s predicament is the inverse of the one it faced in late 2008, says Frederick Cannon of Keefe, Bruyette & Woods, a broking firm. Then, officials wheeled out weekly plans to save banks. Now they are rushing out measure after measure to punish the survivors, accompanied by increasingly fiery rhetoric. Barack Obama kept up the assault in his State of the Union address this week. Admitting that the bank bail-out was “as popular as a root canal”, he vowed to take on lobbyists who were “already trying to kill” financial reform.

The bombardment began on January 14th, with a new ten-year tax on big banks’ liabilities. But it intensified greatly on January 21st with a plan to cap their size, ban their “proprietary” trading (bets made for their own account) and limit their

involvement in hedge funds and private equity. Mr Obama wants these measures to be wrapped into a broader set of reforms that is grinding its way through Congress. A bill passed by the House of Representatives, but not yet taken up by the Senate, already allows regulators to limit the scope and scale of firms that pose a threat to financial stability. The new proposals require them to do so.

Though widely characterised as a return to the Glass-Steagall act, the plan falls far short of the Depression-era law that separated commercial banking and investment banking (and was repealed in 1999). Banks can continue to offer investment-banking services to clients, such as underwriting securities and making markets. The plan's aim, say officials, is narrow: to stop Wall Street from gambling in capital markets with subsidised deposits.

The timing of the proposal—two days after Mr Obama's party suffered a thumping Senate-election loss in Massachusetts—looks nakedly political. But it was not dreamed up overnight. Last year the president's economic lieutenants had seemed content to shackle the banks with tougher regulation and higher capital ratios, rather than limiting their activities. In recent months, though, they warmed to the ideas of Paul Volcker, a former chairman of the Federal Reserve, who was advocating more drastic action—and after whom the new rule is named (see article).

Banks have been scrambling to estimate the potential damage. Despite the lack of detail, for most the impact looks manageable. Officials admit that new limits on non-deposit funding are designed to prevent further growth rather than to force firms to shrink. Banks were already scaling back their proprietary-trading activity sharply as a result of the crisis: some say its contribution to revenue has fallen by more than half in the past three years. Prop trading now typically accounts for a mere percentage point or two of firms' revenues (see table)—if it is defined narrowly to exclude risk-taking related to client business. Drawing a line between the two will be horribly difficult, but that will be the regulators' problem.

Moreover, banks will be allowed to keep hedge funds that hold clients' money. JPMorgan Chase will not have to offload its prized Highbridge subsidiary, for instance. American banks have only \$10 billion of their own capital invested in hedge funds, according to Preqin, a research firm. Private equity is more problematic. Several firms have large dollops of their own capital in buy-out funds, which also generate fees for their advisory and lending arms.

Even if the Volcker rule's financial impact is modest, banks could face “a thousand cuts” to profits when the full range of regulatory initiatives is totted up, says Richard Ramsden of Goldman Sachs. The latest proposals, on top of recent credit-card and overdraft restrictions, could together cost JPMorgan Chase \$4.5

billion in after-tax profit, he says. Meredith Whitney, an independent analyst, sees banks losing “several points” of return on equity.

Much attention is focused on the new rule’s impact on Mr Ramsden’s own firm. Goldman says that 10% of its revenues come from proprietary trading, well above rivals’ shares. Some analysts put the figure much higher. With its blend of advisory work, trading and co-investing with clients, the firm’s “entire culture is, in a sense, proprietary,” says Ms Whitney.

Fortunately for Goldman, it has an escape hatch. If it gives up its small deposit-taking arm, it can go back to being a broker-cum-hedge fund, free to trade as it likes. Officials defend this get-out, saying Goldman would have no access to central-bank funding and would still be subject to enhanced capital requirements and supervision. But it would continue to enjoy implicit state support, unless markets can be convinced that it would be allowed to fail if it got into trouble. That seems unlikely.

Congressional leaders may balk at giving what could be portrayed as a free pass to such an unpopular firm. The Volcker rule could easily get mangled in the legislative process. Republicans loathe such government heavy-handedness, even if they are wary of being seen to support bankers. Some senior Democrats, such as Chris Dodd, head of the Senate banking committee, have given the plan a lukewarm reaction. Mr Dodd already faced a struggle to craft a financial-reform bill that would win some Republican support. If the White House’s new initiative makes his task harder, it could prove to be a spectacular own goal.

Nor has the plan won overwhelming support across the Atlantic. Britain’s opposition Conservatives, who are likely to reassume power this year, reacted positively, as did Jean-Claude Trichet, head of the European Central Bank. The Financial Stability Board, a Basel-based body which is marshalling the international reform drive, gave a qualified thumbs-up, stressing that a broader mix of approaches was needed to tame financial monsters.

France and Germany were less enthusiastic. Both are wary of following an initiative that could be stillborn. “A lot of people here are saying that we shouldn’t fool ourselves into doing something that America will not do because of lobbying by American banks,” says Nicolas Véron of Brueghel, a Brussels think-tank. Many in Europe favour higher capital charges for all trading activity, arguing that risky bets are the real enemy, whether they are placed for clients or made on banks’ own accounts.

If Europe fails to follow America’s lead, it would be a blow for efforts to create a joined-up approach to global regulation. With the American plan coming on the

heels of Britain's tax on bonuses, there are fears of growing unilateralism. One danger is that this fragmentation results in what Sir Howard Davies, a former head of Britain's Financial Services Authority, has called "reckless prudence": a cumbersome patchwork of inconsistent, overlapping rules. That would create a second risk, regulatory arbitrage. If American banks were at a real disadvantage to foreign rivals, they would try to game the rules.

For America's big banks a more immediate worry is that Mr Obama, stung by accusations that he has been too soft on bankers, unveils more punitive measures in the run-up to mid-term elections in November. The back-in-vogue Mr Volcker, it should be noted, supports inflicting bank-like regulation on money-market funds, many of which sit within Wall Street firms. The Securities and Exchange Commission voted on January 27th to impose new disclosure and liquidity rules on these funds.

**The administration is "trying to legislate by shouting," Steve Bartlett of the Financial Services Roundtable, an industry group, told NPR radio, pointing out that when Mr Obama unveiled the Volcker rule he devoted more words to trashing banks than to outlining the plan.** But bashing banks is good politics: a majority of Americans say Wall Street should not have been bailed out. Moves to assuage the outrage over bonuses, such as Goldman's capping of London partners' total pay at £1m (\$1.6m), are doomed to disappoint. If public anger grows, a reintroduction of Glass-Steagall may just start to look possible.

The uncertainty bred by this regulatory risk has a financial impact. Bankers are growing worried that institutional shareholders, spooked by regulatory unpredictability, will start to lose faith. It could also raise the cost of issuing debt. Moneymen fret about possible unintended consequences, too (see Buttonwood). Trading limits and caps on bank liabilities could make the huge, low-margin business of repurchase ("repo") lending much less economical, reducing liquidity in mortgage-backed securities and Treasuries, which are used as collateral in such loans.

This is no time for bankers to carp publicly. Dick Bove, a veteran bank analyst with Rochdale Securities, may overdo it in describing Mr Obama's assault on the banks as "Venezuelan-style democracy", but open dissent is unwise. An investment banker likens the atmosphere to the aftermath of the September 11th attacks, when no one dared call for restraint in torturing suspected terrorists. That choice of analogy may reveal as much about the depth of Wall Street's persecution complex, and its inability to face up to its role in the crisis, as it does about those beating it with sticks.

**Avoid foreclosure, manage mortgage debt in 2010**

**MyfoxAL.com**

**January 28, 2010**

**By Andrew Houser**

Last year, U.S. home foreclosures totaled 2.8 million. This year, analysts anticipate that number will rise, with about 3 million homes to be foreclosed. Combined with unemployment rates hovering around 10 percent, many Americans are justifiably concerned about keeping homes they have purchased.

On the other hand, some people see this as a perfect time to buy a home. Mortgage rates are lingering around historic lows, home prices fell again last year, and for home purchase contracts made through April 30, new and "move-up" home buyers can receive an income tax credit of up to \$8,000 to smooth their moves.

Whether you are among those looking to own a home or those worried about losing one, now is prime time to review and manage your mortgage debt to sustain your financial health.

For those starting out, remember these tips to avoid exceeding your ability to pay:

Stay within safe margins

For most people, a good rule of thumb is that monthly payments on your home mortgage should not exceed 28 percent of your monthly gross income. Paying more than this amount on your mortgage may put you in a risky financial situation.

Know the real costs of buying

The principal and interest portions of a mortgage payment are only the beginning of home-related costs. Escrow payments -- the funds withdrawn to cover home insurance and taxes -- and mortgage insurance can add a few hundred dollars per month to a mortgage payment. In addition, home owners must pay for repairs and maintenance. A rule of thumb is to budget 1 percent of the home's purchase price per year for upkeep.

Understand private mortgage insurance (PMI)

Mortgages with less than 20 percent equity (which means a 20 percent down payment for those purchasing a home) require PMI to insure against the risk that the owner defaults on the loan. When the home owner pays a conventional mortgage down to 80 percent or less of the home's value, the home owner can

request the lender to cancel the PMI and then be able to stop paying the additional amount. Meanwhile, PMI is tax-deductible, at least through 2010.

People who are concerned about being able to pay their mortgage may consider these options:

### 1) Rebuild your budget

Reduce expenses by eliminating any flab from your budget. Cut out cable TV, extra cars, dining out, vacations, gifts and unnecessary shopping to provide extra cash to pay the mortgage. If possible, add income streams by taking an additional job, doing consulting work, bartering to free up money, selling unneeded items or borrowing from relatives. If you will receive a tax refund this year, decreasing withholding may provide more incoming cash. Make sure to discuss any tax changes with a tax advisor.

### 2) Find out if you qualify for help

The Hope for Homeowners program, initiated by the U.S. Department of Housing and Urban Development (HUD), helps certain homeowners refinance their mortgages into a 30- or 40-year mortgage to avoid foreclosure. Homeowners must have originated the existing mortgage before Jan. 1, 2008, and the existing payment must exceed 31 percent of the homeowner's gross income. Visit the Hope for Homeowners Web site to learn about other criteria and details:  
[www.hud.gov/hopeforhomeowners](http://www.hud.gov/hopeforhomeowners).

### 3) Look at refinance options

In the past, one option would be to refinance the mortgage for a lower interest rate and/or lower monthly payment. In today's credit market, refinancing is much more difficult, especially for people with financial problems.

If you have not yet had late payments, contact a trusted mortgage lender or broker to determine if refinancing is an option for you. Educate yourself on current rates by checking online rate comparison sites and using online calculators to determine the real costs of refinancing.

If you have an interest-only loan: Find out when principal payments kick in (call the mortgage company if you are unsure). Evaluate whether you can pay the higher payment. If not, consider refinancing. If that is not an option, can you get a raise? Take a second job? Acquire a roommate? Otherwise, consider selling the home. Allow plenty of time, as homes still are moving slowly in many areas of the country.

If you have an adjustable-rate mortgage (ARM): Interest rates are projected to stay low for the time being. Check your credit score (you can do so for free once a year at [www.annualcreditreport.com](http://www.annualcreditreport.com), or pay a small fee to check throughout the year). Build your score by paying bills on time and reducing or eliminating debt on credit cards. This will position you to refinance to a fixed-rate loan if you choose to do so.

#### 4) Inquire about forbearance

For temporary hardship -- for instance, an earner has an unusual, seasonal or otherwise-temporary loss of income -- lenders might grant a forbearance agreement to temporarily lower or eliminate some payments.

#### 5) Consider loan modification

**A loan modification seeks a permanent change to the loan, such as lowering the payment and extending the loan's term, or incorporating any delinquencies into future payments. Contact your mortgage lender directly, or the Hope Now Alliance ([www.hopenow.com](http://www.hopenow.com)), to ask about this option.**

#### 6) Sell the home

Selling the home may not be ideal, but it is a way to avoid foreclosure proceedings on the house and repay the lender. Today, some homes are worth less than the mortgage amount. These cases might require special permission from the lender to sell the home at a loss (known as a "short sale").

#### 7) Obtain a "deed in lieu" of foreclosure

A "deed in lieu" essentially allows the borrower to return the title or deed of the property -- giving the home back -- to the mortgage holder to avoid foreclosure. The borrower forfeits rights to the property. Although this action damages credit, it is less harmful than having a foreclosure on a credit record.

#### 8) Be cautious

Be wary of so-called equity skimmers. If you face fore-closure, you will probably receive solicitations from companies looking to "help" you prevent foreclosure by offering to sell your home for you or by taking ownership of your home. In most cases, these solicitations are scams trying to take advantage of people in difficult situations. Instead, work with a trusted lender, broker and/or real estate agent.

#### 9) Get help

If you cannot pay because of extraordinary circumstances, and the home is unlikely to sell -- or a sale won't help your financial situation -- talk with a reputable debt settlement company to determine if you have additional options.

Missing mortgage payments or losing a home creates major damage to your credit rating and your financial -- and overall -- well-being. If you are a struggling homeowner, do all you can to save your home. If you are just ready to embark on the journey of home ownership, begin as an educated buyer. Either way, you will help secure your future and grant yourself peace of mind.

### **Facing foreclosure? Free workshop set for Jan. 29 in Coral Springs**

**SunSentinel.com**

**January 28, 2010**

**By Paul Owens**

We've heard from dozens of readers over the past couple of weeks, many looking for help on how to avoid foreclosure.

If you're on the verge of losing your home, plan to attend a free workshop Friday, Jan. 29, at the Coral Springs Marriott, where you can meet with housing counselors and mortgage companies.

**The event is sponsored by the Obama Administration's Making Home Affordable Program and nonprofit groups HOPE NOW Alliance and NeighborWorks America.**

The workshop is from 1 p.m. to 7:30 p.m. at the Marriott, 11775 Heron Bay Blvd. in Coral Springs.

### **Analysis: Bernanke's Senate fight may undercut Fed**

**The Associated Press**

**January 29, 2010**

**By Jeannine Aversa**

WASHINGTON (AP) -- Ben Bernanke survived a Senate battle, bruised. The question is whether the Federal Reserve was scarred, too.

The anti-bailout anger that eroded Bernanke's support in the Senate on Thursday produced the most "no" votes ever on the confirmation of a Fed chairman. That could have lasting impact on the Fed's ability to manage the economy without regard to the political winds.

To shore up his support, Bernanke made the rounds on Capitol Hill, meeting privately with senators including Senate Majority Leader Harry Reid of Nevada and Dick Durbin of Illinois, the No. 2 Democrat leader in the Senate, in the days leading to Thursday's 70-30 confirmation vote.

Bernanke was in the awkward position of having to lobby for his own job and defend the Fed against efforts to strip it of some of its regulatory authority.

Those meetings alone raise at least the perception of a Fed co-dependency with Congress. What, if any, assurances did Bernanke give lawmakers about interest rates and other Fed policies?

"We don't know what Bernanke agreed to do in those meetings, what he promised," said Allan Meltzer, a professor at Carnegie-Mellon University and author of a history of the central bank. "The Fed's job is to be independent, and the Fed isn't doing that."

The Fed often must make decisions, such as raising interest rates to keep inflation in check, that are unpopular with individuals and companies. Its role in bailing out Wall Street banks to prevent a broader crisis angered the public, too. That's why economists say the Fed's political independence is essential to its mission.

Its interest-rate policy can have huge consequences, affecting everything from large companies, to a homebuyer's ability to get an affordable loan, to the price of cereal. Any influence from the political arena risks compromising the Fed's credibility.

Keeping rates too low for too long could unleash inflation and trigger another speculative bubble like the one in housing that plunged the country into a recession in the first place.

Senate opposition to Bernanke intensified after Republican Scott Brown's upset victory in the Senate race in Massachusetts. Brown's election jolted congressional Democrats and led some to reconsider their support for Bernanke. The Fed chairman's critics cast him as a symbol of the Wall Street bailouts.

"This is a perfect example where the world of politics collides with the world of economics, and the result is not good," said Kenneth Thomas, a lecturer in finance at the University of Pennsylvania's Wharton School.

If the Fed were to lose credibility on Wall Street and from investors around the globe, it would fan inflation pressures and send up interest rates, choking the U.S. economic rebound.

Bank industry lobbyists say Congress' increased scrutiny could lead the Fed to weigh the political consequences of its regulatory actions.

**"They will be more aware of the political forces," said Scott Talbott, chief lobbyist for the Financial Services Roundtable, a trade group whose members include the largest banks.**

Bernanke's confirmation comes as Congress is writing an overhaul of financial regulations aimed at avoiding another financial crisis.

A House bill would remove its power to oversee consumer protections and subject it to a congressional audit. A Senate bill would create a single banking regulator that would strip the Fed of its supervision of bank holding companies, such as Citigroup, JPMorgan Chase and Goldman Sachs.

Even Bernanke's supporters worry about the long-term consequences of his nomination fight.

It sends "the message that the Federal Reserve and its monetary policy decisions are under the thumb of Congress," said Sen. Chuck Schumer, D-N-Y., who voted for Bernanke.

The Fed wasn't always independent.

The Treasury Secretary used to serve on its board. Congress changed that in 1935. And past Fed chairmen have battled with Congress and presidents.

Some lawmakers called for Paul Volcker's ouster when the country was gripped by soaring inflation and high unemployment in the late 1970's and early '80s.

"Congress would always love to get its paws on monetary policy," said economic historian John Steel Gordon.

President Lyndon Johnson was so angered by a Fed rate increase that he feared it would make it too expensive to expand social programs and fight the Vietnam War that he ordered staffers to find a replacement for Fed Chairman William McChesney Martin. But Martin refused to yield and didn't back down on the rate increase. He became the longest-serving Fed chairman ever.

President Harry Truman also tried to influence the Fed to keep rates low. He summoned the Fed's policy-making committee to the White House, the first and the only president to do so.

Bernanke himself may have hurt the Fed's independence by involving the central bank in deciding to bail out some Wall Street banks but not others, like Lehman Brothers.

The Fed's involvement began in 2008 with its financial backing of a deal letting JP Morgan take over ailing investment house Bear Stearns. But the biggest of all bailouts was for insurance giant American International Group. Eventually, government lifelines to the company would total \$182 billion. The Fed provided a \$60 billion line of credit to AIG.

"The Fed sacrificed its independence long ago," Meltzer said.

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**The New York Times**  
**January 29, 2010**  
**By Jeannine Aversa**

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Bernanke was in the awkward position of having to lobby for his own job and defend the Fed against efforts to strip it of some of its regulatory authority.

Those meetings alone raise at least the perception of a Fed co-dependency with Congress. What, if any, assurances did Bernanke give lawmakers about interest rates and other Fed policies?

"We don't know what Bernanke agreed to do in those meetings, what he promised," said Allan Meltzer, a professor at Carnegie-Mellon University and author of a history of the central bank. "The Fed's job is to be independent, and the Fed isn't doing that."

The Fed often must make decisions, such as raising interest rates to keep inflation in check, that are unpopular with individuals and companies. Its role in bailing out Wall Street banks to prevent a broader crisis angered the public, too. That's why economists say the Fed's political independence is essential to its mission.

Its interest-rate policy can have huge consequences, affecting everything from large companies, to a homebuyer's ability to get an affordable loan, to the price of cereal. Any influence from the political arena risks compromising the Fed's credibility.

Keeping rates too low for too long could unleash inflation and trigger another speculative bubble like the one in housing that plunged the country into a recession in the first place.

Senate opposition to Bernanke intensified after Republican Scott Brown's upset victory in the Senate race in Massachusetts. Brown's election jolted congressional Democrats and led some to reconsider their support for Bernanke. The Fed chairman's critics cast him as a symbol of the Wall Street bailouts.

"This is a perfect example where the world of politics collides with the world of economics, and the result is not good," said Kenneth Thomas, a lecturer in finance at the University of Pennsylvania's Wharton School.

If the Fed were to lose credibility on Wall Street and from investors around the globe, it would fan inflation pressures and send up interest rates, choking the U.S. economic rebound.

Bank industry lobbyists say Congress' increased scrutiny could lead the Fed to weigh the political consequences of its regulatory actions.

**"They will be more aware of the political forces," said Scott Talbott, chief lobbyist for the Financial Services Roundtable, a trade group whose members include the largest banks.**

Bernanke's confirmation comes as Congress is writing an overhaul of financial regulations aimed at avoiding another financial crisis.

A House bill would remove its power to oversee consumer protections and subject it to a congressional audit. A Senate bill would create a single banking regulator that would strip the Fed of its supervision of bank holding companies, such as Citigroup, JPMorgan Chase and Goldman Sachs.

Even Bernanke's supporters worry about the long-term consequences of his nomination fight.

It sends "the message that the Federal Reserve and its monetary policy decisions are under the thumb of Congress," said Sen. Chuck Schumer, D-N-Y., who voted for Bernanke.

The Fed wasn't always independent.

The Treasury Secretary used to serve on its board. Congress changed that in 1935. And past Fed chairmen have battled with Congress and presidents.

Some lawmakers called for Paul Volcker's ouster when the country was gripped by soaring inflation and high unemployment in the late 1970's and early '80s.

"Congress would always love to get its paws on monetary policy," said economic historian John Steel Gordon.

President Lyndon Johnson was so angered by a Fed rate increase that he feared would make it too expensive to expand social programs and fight the Vietnam War that he ordered staffers to find a replacement for Fed Chairman William McChesney Martin. But Martin refused to yield and didn't back down on the rate increase. He became the longest-serving Fed chairman ever.

President Harry Truman also tried to influence the Fed to keep rates low. He summoned the Fed's policy-making committee to the White House, the first and the only president to do so.

Bernanke himself may have hurt the Fed's independence by involving the central bank in deciding to bail out some Wall Street banks but not others, like Lehman Brothers.

The Fed's involvement began in 2008 with its financial backing of a deal letting JP Morgan take over ailing investment house Bear Stearns. But the biggest of all bailouts was for insurance giant American International Group. Eventually, government lifelines to the company would total \$182 billion. The Fed provided a \$60 billion line of credit to AIG.

"The Fed sacrificed its independence long ago," Meltzer said.

**Housing Experts Gather to Discuss the State of American Homeownership**  
**Insurancenewsnet.com**  
**January 28, 2010**

PHILADELPHIA--(BUSINESS WIRE)-- Radian Group Inc. today released highlights from a recent panel discussion among housing experts from corporate and government sectors on the state of American homeownership. Confidence in a slow but steady housing recovery and optimism in the country's core value of homeownership were dominant themes.

The forum, held last Friday in Washington, DC, brought together prominent housing and mortgage industry thought leaders to discuss how best to preserve the dream of homeownership in America. "Whatever our opinions, we're all in this together, working side-by-side to find common solutions," said moderator Teresa Bryce, president of Radian, which organized the event for congressional staffers, industry leaders and news media.

**Joining Ms. Bryce was John Courson, president and CEO of the Mortgage Bankers Association; Mark Fleming, chief economist, First American CoreLogic; Larry Gilmore, director of the Hope Now Alliance in Washington, DC; and Andrew Jakabovics, associate director for Housing and Economics at the Center for American Progress.**

Radian CEO S.A. Ibrahim welcomed the group and encouraged an open dialogue while emphasizing that "American homeownership is not the interest of a single industry, but a value of our entire country." Mr. Ibrahim then introduced Congressman Paul Kanjorski (D-PA), Chairman of the House Financial Services Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises. Congressman Kanjorski urged the audience to face the current challenges by thinking outside the box and creating good programs. He emphasized optimism in the American system of homeownership and the opportunities that exist for entrepreneurs and bright people to share ideas and solve these problems.

The forum can be viewed in its entirety at [www.radian.biz/media/homeownershipamericandream.aspx](http://www.radian.biz/media/homeownershipamericandream.aspx). Discussion highlights include:

Home price trends

Trends in home prices are “bouncing around the bottom,” but showing positive signs of improvement. Following an expected downturn in home prices in Q4 2009 due to typical seasonal home buying trends, forecasts from First American CoreLogic data point to rebounds in the spring and summer and continued recovery beyond.

#### Loan modifications and foreclosures

A growing “shadow” inventory of properties in distress that have not yet hit the market, but are expected to result in default, will adversely affect gains in the housing recovery.

Despite difficulty in addressing the vast numbers of homeowners attempting loan modifications, a continued slow but steady recovery is expected. Portfolio lending will rebound, and post-bubble corrections in loan product offerings will keep tabs on high-risk lending and over-extension among borrowers.

**Technology is a key component in ensuring success with loan modifications and HAMP applications. Online programs and user-friendly processes, such as the recently launched HOPE NOW LoanPort, will allow both borrowers and servicers to improve the speed and effectiveness of application and document submission, status updates and tracking loan performance.**

Studies show that borrowers whose loan amounts were reduced by 20 percent or more are more likely to avoid further default.

#### Mortgage insurance – government and private

FHA loans now account for approximately 30 percent of all mortgage originations, a 10-fold increase from just a few years ago. FHA has made recent changes to tighten lending requirements and raise credit standards in order to better position its book of business.

Private mortgage insurance has continued to provide important liquidity to the mortgage market for new originations; private mortgage insurers pay claims and assist borrowers with loan modification and workout solutions.

#### Macroeconomic factors

Long-term unemployment is one of the biggest factors hindering a more robust and aggressive recovery in the housing sector. Addressing this issue will be fundamental to ensuring more Americans’ right to homeownership.

#### **Moneybags To Punching Bags**

**National Journal**  
**January 29, 2010**  
**By Peter Stone**

It was hardly how Wall Street and banking-industry lobbyists wanted 2010 to begin.

Facing fresh political headwinds, public ire over bank bonuses, and tough election prospects in November, the Obama administration has grabbed Wall Street's attention by adopting a more populist and critical tone toward the nation's largest banks and backing its rhetoric with high-profile proposals for new taxes and regulations.

The first salvo came on January 14 when the administration announced plans to impose a decade-long tax on the nation's 50 largest banks. The levy would offset projected losses of about \$117 billion in the Troubled Asset Relief Program, which helped Wall Street firms and other financial institutions recover from the recession. The tax proposal, details of which are still being worked out, is expected to be included in President Obama's budget next month.

Obama fired another blast at giant banks one week later when he embraced a plan pushed by adviser Paul Volcker, the former Federal Reserve Board chairman, who had previously enjoyed scant influence in the White House. The president called for limiting the size of the largest financial firms. To lessen risks further, the administration indicated that it would bar the biggest banks from owning hedge funds or private equity funds and curb their ability to engage in proprietary trading for their own accounts.

It's all making the financial industry anxious. "I think the White House tax and regulatory proposals have sparked utter fear and panic, not only among large banks but others on Wall Street who wonder, 'What's next?' " says Dave Franasiak, a principal at Williams & Jensen, who lobbies for hedge funds and other financial services firms.

It will be difficult for large Wall Street institutions to fight back, Franasiak notes: "Some banks are nervous about being too visible on these proposals because they feel they would become political lightning rods."

The Obama proposals will need congressional approval, which may further complicate passage of broader financial services reform measures working their way through Congress. The House in December approved a sweeping package of changes that include creation of a Consumer Financial Protection Agency to

regulate products such as credit cards and mortgages; new regulations for some risky derivatives; and requirements for deeper capital cushions and more oversight for the largest banks and Wall Street firms. Lobbyists are focusing their attention on the Senate Banking, Housing, and Urban Affairs Committee, where Chairman Christopher Dodd, D-Conn., has been trying to forge a bipartisan compromise. K Streeters hope that the financial protection agency will be left on the cutting-room floor.

Lobby powerhouses and hired guns are moving quickly to respond to the broadsides by hiring legal talent for possible court challenges, pitching new coalitions to fight the administration plans, and stepping up efforts to ensure that a consumer protection agency isn't included in the final financial reform measure.

The Securities Industry and Financial Markets Association recently retained Carter Phillips, a prominent Supreme Court litigator with Sidley & Austin, to explore a possible court challenge to the bank tax on constitutional grounds, because it targets only the biggest institutions.

Sam Geduldig, a lobbyist with Clark Lytle & Geduldig and a former aide to Republican House leaders, sent e-mails last week to six large Wall Street banks to gauge their interest in forming a coalition to fight the proposed bank tax.

Leading financial services lobbyists complain that the flurry of White House initiatives and the sharper criticism are largely partisan populism.

**"The tone has become, frankly, way too political and way too aggressive to suit my style," says former Rep. Steve Bartlett, R-Texas, who runs the Financial Services Roundtable, a trade group consisting of 98 of the nation's largest integrated financial services companies. Bartlett concedes that "there are clearly differences" on reform between his members and the White House but adds that "they're not between good and evil." The roundtable, like many other industry trade groups, is hoping that the Senate winds up with a bipartisan bill that is weaker than the House measure, which passed with no Republican support.**

At a meeting of the roundtable's board in Washington on January 21 -- the very day the White House unveiled the Volcker plan -- the lobby group's members decided to finance a more vigorous communications and image effort. Or, as Bartlett puts it: "We're looking for relief from the pain. We're getting hammered every day." He said that the largest roundtable members would contribute \$75,000 to \$100,000 each, while some of the smaller ones would donate as little as \$5,000 apiece.

Other lobbyists share Bartlett's dismay over the administration's hotter rhetoric. "A big concern of bankers around the country is the language being used in Washington," says Ed Yingling, president of the American Bankers Association, which includes both large and small banks. He contends that people are getting an erroneous picture of the banking industry as a whole because they don't realize that the new tax and regulatory initiatives are largely aimed at the biggest banks and not the industry in general. "Our overall concern is that the loose use of the term 'bank' is leading to a misrepresentation with the public," he said, and is generating a false sense of the extent of risky investments in the broader banking sector.

Yingling and other lobbyists also point out that the proposed levy could slam several big banks that have repaid their TARP money with interest.

Last week, dozens of ABA members from the group's state associations made the rounds of Capitol Hill offices to voice their concerns about the latest White House reform proposals and other issues.

The association will continue to press lawmakers hard in the coming weeks. In March, the trade group will hold its annual government-relations meeting in Washington, an event that is expected to draw more than 1,000 bankers. The ABA is also known for its ability to mobilize grassroots support. "Last year, we generated over 300,000 letters to Congress mostly on financial services reform," Yingling said.

Meanwhile, securities industry association President Timothy Ryan issued a statement warning that the tax could hurt customers in the end. "In our industry, costs are typically passed along to institutions and individual investors, so the burden will likely fall on them."

On top of the two new initiatives, the White House has sent strong signals that it will keep fighting hard for the Consumer Financial Protection Agency as part of the final reform package. Obama met with Dodd this month to stress the importance of including the new agency in the Senate legislation.

In their battle, financial services lobbyists have benefited from the firepower of the U.S. Chamber of Commerce. For months, a chamber-led coalition has poured millions of dollars into television and other ads in an effort to kill the proposed agency. The chamber is currently running radio and online ads in several key states where senators are considered possible swing votes, such as Arkansas, Indiana, Montana, Nebraska, and North and South Dakota.

The ABA is one of many financial industry groups that have blasted the concept of a separate regulator devoted to consumer protection. Looking ahead to a Senate bill, Yingling noted that Republicans have "made clear that they're opposed to the CFPA," which gives him cause for optimism that the idea may not make it into the final legislation.