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Banks Prefer Schumer Over Sherrod Brown for Chairman

By: Kathleen Hunter and Cheyenne Hopkins – April 4, 2013

Senator Charles Schumer has shown no shortage of ambition. So the New York Democrat's silence about his possible interest in taking over as chairman of the Banking Committee worries large banks.
If Schumer were to pass on the job, one of the next Democrats in line is Sherrod Brown of Ohio, an outspoken critic of Wall Street who's behind a move to require the largest U.S. banks to shrink. Schumer, who declined through a spokesman to comment on whether he's interested in the post, is the Senate's third-ranking Democrat and is seen as a potential successor to Democratic Leader Harry Reid.
"The chairmanship is Schumer's for the taking but it seems like his aspirations are to be majority leader, and you don't usually become majority leader by taking over the Senate Banking Committee," said Jaret Seiberg, senior policy analyst at Washington Research Group, a unit of Guggenheim Securities LLC.

Banking Chairman Tim Johnson, a South Dakota Democrat, announced March 26 that he won't seek a fourth Senate term in 2014, opening the chairmanship of a panel that oversees housing and urban affairs along with the banking industry. The committee's next senior Democrat, Rhode Island's Jack Reed, is poised to lead the Armed Services panel in 2015 upon the retirement of current Chairman Carl Levin of Michigan.
Senate rules don't allow members to hold more than one committee chairmanship at a time.

Potential Risks

For Schumer, the chief message-maker for Senate Democrats, the banking gavel would carry potential risks. A Brooklyn native with strong ties to Wall Street, he has walked a fine line between catering to the banking industry and being careful not to alienate his party's base that wants lawmakers to be tougher on big banks. Serving as banking chairman would only heighten those tensions.

"A chairman of the Banking Committee from New York would probably serve as a lightning rod for a lot of criticism, deserved or not, because it would be his job to look out for his constituents in New York," said Jim Manley, a former spokesman for Reid, a Nevada Democrat.

Reid has given no indication that he intends to step down from the majority leader post and he's not up for re-election until 2016. So Schumer, who would have to leapfrog second- ranking Democrat Richard Durbin of Illinois for majority leader, probably won't be able to get that job any time soon.

Highly Sought

The post of banking chairman is highly sought in the Senate because of the campaign contributions it attracts from Wall Street. Schumer, though, already draws that kind of cash in part because he's from New York and in part because he twice has headed the Democrats' campaign committee.

And while senators often seek panel chairmanships as a way to spearhead legislation, Schumer exercises that kind of influence through his leadership position.

"If it turns out that he's getting, say, a bunch of campaign contributions and, in exchange, he appears to be favoring legislation that those folks want, the potential for bad publicity is always there," said Bruce Altschuler, a political scientist at the State University of New York at Oswego.

Schumer is positioning himself to be able to call in favors from senators of both parties. As head of the Democratic Senatorial Campaign Committee in the 2006 and 2008 campaign cycles, he helped elect or re-elect about half of the chamber's 55 Democrats. He's also chairman of the Senate Rules and Administration Committee, which allows him to dole out offices and parking spaces to Republicans as well as Democrats.

"I have no idea what he's going to do but it seems to be that he has the best of both worlds right now," Manley said.

Brown's Interest

Meanwhile, Brown's office says he's definitely interested in the post. He could use it to further his efforts to reduce the size of the largest U.S. banks, a push he has made each year since 2010 when he proposed the limits as an amendment to the Dodd-Frank Act.

"The risk that there would be legislation to shrink the six biggest banks would go up dramatically" with Brown as chairman, Seiberg said. "He's on the record that we haven't fixed too-big-to-fail and more needs to be done."

Debate over the issue has heated up as regulators have implemented the Dodd-Frank Act and banks have suffered scandals, including the multibillion-dollar JPMorgan Chase & Co. (JPM) London Whale trading loss, the Libor manipulation investigation, and a record fine againstHSBC Holdings Plc (HSBA) for money-laundering violations.

'Worry About'

With Brown as chairman, banks "would have to worry about the rhetoric coming out and the hearings," said Mark Calabria, director of financial regulation studies at the Cato Institute, a group in Washington that advocates for small government, and a former Republican Senate Banking aide.

"But it's not clear to me that there is a majority support for breaking up the banks on the committee," Calabria said.

Brown and Louisiana Republican David Vitter are set to introduce a measure this month that would impose additional capital requirements for the largest U.S. banks, including JPMorgan Chase & Co (JPM)., Bank of America Corp., Citigroup Inc. (C), Wells Fargo & Co (WFC).,Goldman Sachs Group Inc. (GS) and Morgan Stanley (MS). Capital Rules

The new capital rules wouldn't include risk weights that "can be manipulated and gamed," Vitter said in remarks on the Senate floor on Feb. 28.

Brown said the legislation's goal is to remove the "economic advantage the market gives" large banks and to reduce the risk they pose to the financial system.

"I'm confident that support is growing," Brown said in a March 10 interview with Bloomberg Television. "I don't know that we've got the 50 or maybe 60 votes we need yet."

Brown and Vitter last month added an amendment to the non- binding Senate budget resolution calling for an end to subsidies that credit markets give banks with assets greater than $500 billion because of the perception that the U.S. government would bail them out. The Senate adopted the amendment 99-0.

When Johnson retires, Schumer would be next in line to take over the banking panel, followed by Senator Robert Menendez of New Jersey. Menendez already leads the Foreign Relations Committee, meaning Brown would probably get the gavel if Schumer opted not to take it.

Chairmanship Gavel

Aaron Klein, director of the financial regulatory reform initiative of the Bipartisan Policy Center and former chief economist for the Banking Committee, predicted that Schumer will take the post because the banking panel's jurisdiction focuses on "vital issues to the state of New York."

"I think you'd see Senator Schumer becoming very involved in the substance and exploring the full jurisdiction of the committee," Klein said.

Still, a former lawmaker said big banks may hurt their interests by trying to persuade Schumer to take the job.

"To push for Schumer could well alienate Senator Brown and if Schumer gets to be chairman he may well bend over backwards to demonstrate that he is not a pawn of the Wall Street bank lobby," said former Senator Ted Kaufman, a Delaware Democrat.

Kaufman added, "Be careful what you wish for and be careful what you push for."