

# AMERICAN BANKER<sup>®</sup>

## What the Iowa Results Mean for Bankers

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February 2, 2016

WASHINGTON — The presidential race has been a nightmare for bankers, dominated on one side by an unpredictable billionaire businessman and the other by a self-avowed socialist who has called for breaking up the big banks and strict limits on interest rates and ATM fees.

But the results from the Iowa caucuses on Monday have shaken up the race, giving establishment candidates like Hillary Clinton a much-needed (though incredibly narrow) victory and Sen. Marco Rubio, R-Fla., an unexpectedly strong third-place finish.

What that could mean is that after a race in which there has been plenty of hot rhetoric about how to punish Wall Street for the financial crisis, it might ultimately boil down to a contest between two candidates that are, relatively speaking, more friendly to bankers. Yet it's clear this is the beginning of the process, and the next primary in New Hampshire in a week could shake things up again.

Following is our guide to the results and what they mean for bankers:

### **Republicans:**

Rubio's close third-place finish is likely to make him banks' No. 1 choice in the presidential race.

Until now, bankers have been backing former Florida Gov. Jeb Bush, who was widely seen as the frontrunner when he announced his candidacy last year. He has raised more than \$4 million from commercial banks, and the securities and real estate industries, but he finished sixth in the Republican race in Iowa with just 3% of the vote. Rubio, in contrast, finished third with 23% of the vote, just behind Donald Trump.

"What I think you will see is the financial services industry ... start to coalesce around Rubio," said Mark Calabria, director of financial services studies at the Cato Institute. "The Wall Street support you have seen for Bush in the past I think is going to start moving over to Rubio."

To be sure, bankers could also back Sen. Ted Cruz, R-Tex., who has received substantial donations from the financial industry thanks in part to the fact that his wife, Heidi, is an

executive at Goldman Sachs. But Cruz is seen as an extreme candidate less likely to be able to beat Clinton if she wins the Democratic race. He has also faced questions about allegedly failing to properly disclose a loan from Goldman, which has put Cruz on the defensive on financial issues.

"The banks are best off if you avoid the extremes and Rubio is positioning himself in the middle," said Jaret Seiberg, an analyst with Guggenheim Securities. "For the banks, Rubio is going to be preferable to Cruz."

Most bankers did not support Trump, meanwhile, because his policy positions on financial issues were unclear, whereas Rubio and Bush have both called for cutting regulations on small banks.

"Nobody knows where Trump is on banking issues. He's an empty cup," said one senior banking lobbyist who spoke on condition of anonymity. "Cruz has to be anti-bank because of the Goldman thing."

The lobbyist said the results of Iowa were positive for banks. "It's notable that two people who appear rational finished toward the top. That's not bad."

But Brandon Barford, a partner at Beacon Policy Advisors, cautioned that the results were not "a win at all. I would say it is not a loss, but it is not a win."

"I don't think the strong showing by Rubio should be read as saying that populism is being pushed back on by the Republican party or anti-bank or anti-Wall Street fervor went down at all," he said.

Aaron Klein, director of the financial regulatory reform initiative at the Bipartisan Policy Institute, also warned that "the history of Iowa caucuses is not terribly predictive of the Republican nominee."

### **Democrats:**

Clinton scored a critical victory in Iowa, rebutting fears by supporters that she would lose the first two primary contests (she is widely expected to lose in New Hampshire next week). Still, her win was a squeaker determined in part by coin tosses that gave her an edge. It leaves challenger Sanders with significant momentum headed into New Hampshire.

In the battle between Clinton and Sanders, bankers' choice is obvious, with Clinton receiving the most donations from the financial services industry of any candidate in either party. While Clinton's financial reform plan is measured, focusing on the nonbanks, Sanders has launched a full-throated attack on the big banks, vowing to split them apart within a year of taking office. He also wants to cap all lending rates at 15% and tax Wall Street executives' salaries to provide Americans with a free college education.

While Clinton's victory is important, Sanders' show of support is likely to spook bankers.

"On Wall Street there was a long a sense that Hilary was going to be the nominee and... this has revealed some weakness on her part," Calabria said. "There are a lot of people on Wall Street opening their checkbooks and making contributions to Hilary," to ensure that Sanders does not win the nomination.

One big fear is whether Sanders' close finish will push Clinton to the left on financial issues.

"Clinton will have to continue defending her left flank, which means we should expect the anti-bank rhetoric to continue into the summer and likely beyond," said Isaac Boltansky, senior vice president and policy analyst at Compass Point Research and Trading.

Seiberg agreed, saying Sanders' strong showing in the Hawkeye State proves that "bashing the banks works."

"Clinton was active in the state for years and it took every bit of her organizational skill to eke out a victory," Seiberg said. "The biggest difference is that Bernie Sanders is far tougher on the banks and his rhetoric is far sharper."