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How Crapo Would Lead Banking Panel After GOP Senate Victory

Ian McKendry

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Republicans had a big night on Tuesday, capturing not just the White House, but staving off a challenge to their control of the Senate, which will likely deliver the gavel of the banking panel to Sen. Mike Crapo, R-Idaho, next year.

Crapo is expected to push forward quickly on a bill to give regulatory relief to smaller institutions, but it remains an open question whether he can find accord with Senate Democrats after talks between current chairman Richard Shelby, R-Ala., and Sen. Sherrod Brown, D-Ohio, broke down last year.

Crapo and Brown are said to have a better working relationship, and the Idaho Republican has a history of reaching bipartisan deals, including with then-chairman Sen. Tim Johnson, D-S.D., on housing finance reform in 2014.

Crapo "would look out for community banks," said John Evans Jr., president and chief executive of the \$1.2 billion-asset D.L. Evans Bank in Burley, Idaho. "He will be able to work across the aisle. Community banks are in touch with him regularly and he is aware of our plight."

Crapo's agenda will likely be aided by the election of Donald Trump as president, but the Senate remains closely divided, leaving Republicans with a slim majority.

That will make it a challenge for Crapo to move legislation out of committee or the Senate at large unless he can appeal to either Brown or moderate Democrats such as Sens. Joe Donnelly, D-Ind., Jon Tester, D-Mont., and Heidi Heitkamp, D-N.D.

Mark Calabria, a former top GOP Banking Committee aide, said he doesn't see much common ground between Brown and Crapo, but suggests the Idaho Republican could try to appeal to others on the panel.

"The real question is going to be if Crapo can project enough of a moderate stance that some members of the other side break from Brown," said Calabria, who is now at the Cato Institute. "The ability of the committee to do nothing is simply not going to be sustainable."

But Isaac Boltansky, an analyst at Compass Point Research & Trading, said all roads lead through Brown, with the prospects for legislation resting on cutting a deal with the Ohio Democrat.

"Ultimately, if regulatory relief legislation is going to pass in the next Congress, it will only do so with the blessing of" Crapo and Brown, Boltansky said.

Some said the issue will be the size of institutions that get helped by legislation.

"He would like to do something for the community banks," said Ed Groshans, an analyst at Height Securities. "However, I feel his definition of community banks is a bit bigger than Brown's, so I think there is work to be done there."

While Calabria sees Crapo as just as conservative as Shelby, others see him as more moderate — a trait that could make it easier for him to cut a deal. During his time as lead panel Republican between 2012 and 2014, Crapo generally appeared center-right.

Crapo is clearly not as ideological as his counterpart in the House, Financial Services Committee Chairman Jeb Hensarling, who is viewed as a hard-line conservative, observers said.

"I don't think they are in the same place," said Oliver Ireland, a partner at Morrison & Foerster. "I think there will be differences in views in the House and the Senate."

Crapo has already demonstrated his ability to work in a bipartisan manner. In 2014, he cut a deal with Johnson on a bill to wind down the government-sponsored enterprises, one of the most contentious financial issues yet to be resolved.

Some said Crapo may take another stab at housing finance reform if he assumes the chairmanship.

"He put a big shoulder behind the Johnson-Crapo bill and I would guess he wouldn't like to see that work go to waste if he has the gavel," Groshans said.

The Johnson-Crapo bill would have eliminated Fannie Mae and Freddie Mac and replaced them with a federal mortgage insurer that would guarantee mortgages through a combination of private and public capital.

"We expect Crapo would re-engage on mortgage finance, although we are skeptical that his approach in 2014 will get more traction in 2017 than it did in 2014," Brian Gardner, an analyst at Keefe, Bruyette & Woods, said in a note to clients.

Though the bill had the support of a few Democrats, it was opposed by Brown and other progressives, who said it did not do enough to provide affordable housing.

Hensarling, meanwhile, argued that the Johnson-Crapo bill went too far when it came to promoting affordable housing, and favored his own bill that would have privatized the GSEs, leaving government without a significant role in the mortgage market.

Still, Brown has expressed a desire to work on housing issues, which could ease the path to reopening negotiations on the issue.

Crapo could also find his agenda swamped by battles over nominations. Clinton's victory may push her to nominate more liberal candidates for key regulatory positions, a prospect that may bother Crapo and other Republicans

"You are going to have a real fight if Crapo is chair because there is going to be a tension between what the [Sens.] Elizabeth Warren and Bernie Sanders wing of the party want versus what Republicans are willing to hold a hearing and confirm," said Ed Mills, a financial policy analyst and managing director at FBR Capital Markets.

Warren, D-Mass., and other liberals have publicly made it known that they would oppose regulators that are perceived to be too close to Wall Street.

It raises the question of whether Crapo might take the same approach as Shelby, who has not held votes on several pending financial nominees.

Most observers believe that's unlikely, however, with Crapo wanting to get things done.

"It has been a long, quiet term with Sen. Shelby and the committee will almost certainly be more active under either Crapo or Brown," Boltansky said.