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What Cantor's Surprise Ouster Means for Banks

By: Victoria Finkle
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WASHINGTON — House Majority Leader Eric Cantor's stunning defeat in Virginia's Republican primary Tuesday evening could usher in a new political era for the House — one that's likely to leave its imprint on the banking industry.

While Cantor was not intimately involved in the daily details of banking policy, he was considered an ally to the business community, taking the lead on some key bills, including the passage of flood insurance reforms earlier this year.

"Usually the loss of one member doesn't really make a big difference, but I think the exception is Eric Cantor. The biggest challenge of Republican leadership is having someone who's able to make a deal and sell that to at least the majority of the Republican caucus," said Edward Mills, a policy analyst at FBR Capital Markets. "Cantor in many ways was a firewall between Wall Street and the Tea Party."

Cantor said he will step down as Majority Leader on July 31, but jockeying for his position has already begun.

A handful of prominent lawmakers have been named as possible contenders for the No. 2 spot in the House, including Majority Whip Kevin McCarthy, R-Calif., Rep. Pete Sessions, R-Texas, and Rep. Jeb Hensarling, R-Texas, chairman of the House Financial Services Committee.

The banking panel leader has been coy about his ambitions for higher office in recent months, but observers suggested he's likely to strike while the iron is hot and make a bid.

"Hensarling is an unintended beneficiary of [Cantor's loss] in some ways," said Mark Calabria, director of financial regulation studies at the Cato Institute.

The Texas lawmaker gave a nod to the chatter Wednesday morning in a statement that suggested he's strongly considering a run.

"I am humbled by the many people who have approached me about serving our Republican Conference in a different capacity in the future," Hensarling said. "There are many ways to advance the causes of freedom and free enterprise, and I am prayerfully considering the best way I can serve in those efforts."

Cantor's surprising loss exposes deep and ongoing divisions within the GOP caucus that could give the Texas lawmaker, who has ties with both the party establishment and the Tea Party wing, an important edge in the leadership fight.

"The fight for the direction of the Republican Party is alive and well," said Calabria. "That raises the profile for someone in a position like Hensarling, who is trusted on both sides — and I just think there are a small number of those members."

Critics have raised questions about Hensarling's capacity as a dealmaker during his first eighteen months as chairman of the banking panel, and it's likely the free-market conservative would adopt a less business-friendly leadership style relative to Cantor.

"The lack of ability of Hensarling to negotiate on some financial services issues, should he become Majority Leader, raises concerns about his willingness to compromise and get some must-pass pieces of legislation done — especially where compromise is necessary as long as President Obama is in the White House, even if Republicans take the Senate next year," said Mills.

But it's possible a leadership position could play more to his strengths on messaging and framing than as a leader on banking issues, where he's been expected to dive into the weeds on policy.

"He's shown from his style of running the committee that he's interested in advancing broad arguments and framing issues than in the nuts and bolts of deal making," said Brandon Barford, a partner at Beacon Policy Advisors. "So for that reason, being able to control what comes to the floor or influencing the content of legislation as it is developed would be sweet spot for him."

If Hensarling wins a leadership spot, he will most likely have to give up the chairmanship of the Financial Services Committee. It's unclear who would succeed him, but possible candidates include Reps. Scott Garrett, Randy Neugebauer and Patrick McHenry, senior lawmakers on the panel.

In the short-term, Cantor's loss likely gives Hensarling and Neugebauer, R-Texas, a crucial leg up in negotiations over the reauthorization of the Terrorism Risk Insurance Act, which expires at the end of the year. Conservatives charge that the private sector should bear more of the costs in the event of an attack, and some even question whether the government should provide a backstop for terrorism insurance at all.

Analysts predicted that Congress will ultimately extend the program by yearend, but House Republicans may be able to drive a slightly harder bargain with the Senate absent concerns that Cantor will cut them out of the deal-making process, as happened over the flood insurance negotiations earlier this year.

"They don't have to worry as much about the threat of Cantor going around them," said Calabria. "It will be extended on slightly less favorable terms for the insurers."

As Majority Leader, Hensarling could also reignite momentum on reform of the housing finance system. The Texas Republican passed his conservative bill to unwind Fannie Mae and Freddie Mac through the Financial Services Committee last year but was unable to bring it to the House floor due to concerns by Cantor it lacked sufficient support.

If Hensarling takes Cantor's spot, he would be in a position to force the issue, although it remains uncertain if he could overcome industry opposition to the bill to secure sufficient votes.