



## **FAQ: What the Midterm Elections Mean for Banks**

By Victoria Finkle  
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WASHINGTON - The battle for the U.S. Senate this fall has important implications across the financial services spectrum.

Candidates with influence on banking policy issues are locked in tight races, while the larger contest for which party controls the Senate could also affect legislative efforts relevant to the industry, such as regulatory relief.

With the campaigning likely to intensify in the coming weeks leading up to the November elections, here are some frequently asked questions on what the races mean for banks.

What are the most significant races for the industry? While House races hold less significance for bankers, several elections in the Senate could affect the makeup of the Banking Committee and will involve candidates focused on industry issues.

Perhaps the two most relevant races for banks are Sen. Kay Hagan's bid to hold on to her seat in North Carolina, and the election for West Virginia's open Senate seat involving Rep. Shelley Moore Capito.

Hagan, a Democrat, is deadlocked in a battle with Thom Tillis, the GOP House speaker in the state legislature. First elected to the Senate in 2009, Hagan is a relatively junior member on the banking panel, but is seen as a key vote on issues important to bankers. She also brings industry experience to Washington after having been an employee at North Carolina National Bank, which is now Bank of America, for ten years.

"The single most interesting race for bankers is Hagan's - she's on the committee and North Carolina is an important state for banks. It's also where many of the mortgage insurers are based," said Mark Calabria, director of financial regulation studies at the Cato Institute.

In fact, the state is such a center for banking activity that, if Hagan were to lose, the industry would likely push for Tillis or North Carolina's other U.S. senator - Republican Richard Burr - to take her spot on the committee.

"It would be hard not to have Tillis on the committee if he wins, because North Carolina regularly has a member - it's the second biggest place for banking outside of New York," said Brandon Barford, a partner at Beacon Policy Advisors.

Meanwhile, Capito, who has been in the House since 2001, would also be a key voice for the industry in the Senate. Currently chairing the Financial Services Committee's financial institutions and consumer credit subcommittee, the senior Republican has been an advocate for community banks.

If she wins the seat now belonging to Democrat Jay Rockefeller, who is retiring, Capito would be a prime candidate to join the Senate Banking Committee. Polls show her well in front of West Virginia Secretary of State Natalie Tennant, a Democrat, in the race. According to Real Clear Politics, Capito is 12 points ahead in an average of various polls taken since May. The University of Virginia's Center for Politics rates the state's race as "likely Republican."

"Out of all the" candidates running for the Senate, "she is clearly the most capable and qualified of the potential incoming class of 2014 to join the Senate Banking Committee," Isaac Boltansky, an analyst at Compass Point Research & Trading, said of Capito.

Even if Capito does not sit on the Banking Committee, she would still likely be a strong voice in support of small banks and regulatory relief proposals.

"Whether she's on the committee or not, she's going to be an ardent force and a consistent, supportive voice for community banks," Boltansky said. "If she's on the committee, she could help advance a regulatory relief bill - she has experience following these issues in the House, consistently supporting the banks, and she brings new blood to the panel."

Why should I care about the balance of power in the Senate? Beyond individual Senate races, a key question for the banking industry remains which party will control the chamber next year. That will determine whether the Democrats or Republicans run the Banking Committee. The outcome could be a key factor in setting the agenda for financial services legislation, with a GOP victory likely spurring more efforts to roll back substantial pieces of Dodd-Frank.

Regardless of which party wins, the committee is expected to get new leadership. The current chairman, Sen. Tim Johnson, D-S.D., will retire at the end of the year. Sen. Sherrod Brown, D-Ohio, currently a frontrunner to take over if Democrats hold on to the Senate, has supported legislation to more strongly rein in the industry. If Republicans take the Senate, Sen. Richard Shelby, R-Ala., is poised to serve the last two years of his term as the chairman, where he could pursue controversial changes to the Consumer Financial Protection Bureau or a conservative plan to unwind Fannie Mae and Freddie Mac.

"It's all about control of the Senate," said one banking lobbyist, who spoke on the condition of anonymity. "The attention is going to be paid to who is in control of the agenda and whether you have Shelby or Brown as chair of the Banking Committee."

The University of Virginia's Center for Politics, which closely tracks elections data, currently predicts Republicans will pick up between four and eight seats, and lists five elections as toss-ups: Alaska, Arkansas, Iowa, Louisiana and North Carolina. The results of those five and a handful of others will likely go a long way to determining which party captures a slim Senate majority.

Are there other individual races that matter? Yes. Some of the closest races in the Senate could also prove significant for bankers in other ways.

Sen. Mary Landrieu, D-La., while not a member of the Banking Committee, has been supportive of banker-friendly measures, including changes to the flood insurance law passed earlier this year. She remains in a tight contest against Republican Rep. Bill Cassidy, who also backed the flood insurance provision.

Meanwhile, GOP Rep. Tom Cotton of Arkansas and Democratic Rep. Gary Peters of Michigan, both running for Senate seats in competitive races, are currently members of the House Financial Services Committee.

Friends of Traditional Banking, a SuperPAC formed ahead of the 2012 elections, has recently narrowed its races to watch list to four Senate elections. In all of them, the group is supporting the Republican candidate, including Cotton.

The group is backing Peters' opponent, Terri Lynn Land, a former secretary of the state in Michigan, noting that Peters "voted for Dodd-Frank three times and is proud of that."

Two of the group's endorsements are for candidates running against supporters of the credit union industry, which continually battles banks on a number of fronts. They include Rep. Cory Gardner, R-Colo., who is running in a tight race against Democratic

Sen. Mark Udall, and Joni Ernst, a Republican state senator in Iowa, who is running for Iowa's open Senate seat against Democratic Rep. Bruce Braley.

The banking SuperPAC will soon narrow down its list to two races and encourage bankers to contribute directly to its chosen candidates.

What other changes are possible on the Banking Committee?The Banking Committee is poised for a shakeup when the new Congress begins in January, regardless of the outcome of November's elections. Members of the committee set to retire at the end of the year include Johnson and Sens. Mike Johanns, R-Neb., and Tom Coburn, R-Okla. It is possible other members could leave the committee to fill seats on other panels.

"There could be four or five or six new members on the Banking Committee," said Calabria. "It's not uncommon that some members leave as slots open up on other panels, like appropriations and finance."

None of the current Republicans on the committee that plan to stay in Congress are up for reelection, but several Democratic members - including Sens. Jack Reed of Rhode Island, Mark Warner of Virginia and Jeff Merkley of Oregon - are all running to keep their seats. However, all of them are favored to win by fairly strong margins.