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Absence of Details Hurts Obama Plans

By Stacy Kaper, *American Banker*
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WASHINGTON — New initiatives from the Obama administration, including plans to tax large institutions and ban them from proprietary trading, and to offer community banks incentives to increase small-business lending, have run into a wall on Capitol Hill.

All three have suffered setbacks during the past week, with Democrats and Republicans complaining the administration has not provided key details. It also failed to lay the proper groundwork with Congress.

"I don't think we've seen real details … it just seems like they are throwing things out there and saying Congress should do it without actually discussing it with Congress first," said Mark Calabria, the director of financial regulation studies at the Cato Institute. "It really just looks like the politicos at the White House and Treasury keep trying to gin up as much as they can to make it look like they are going to stick it to the banks and do something about small-business lending."

Tuesday was a key day for the administration to tout its banking and economic proposals to a Congress hungry for policies that appeal to their voters — particularly the middle class, which has been pummeled by the weak economy.

President Obama rolled out a plan to convert $30 billion from the controversial Troubled Asset Relief Program into a new small-business lending program via community banks.

Paul Volcker, the chairman of the President's Economic Recovery Advisory Board, joined Treasury Deputy Secretary Neal Wolin in front of the Senate Banking Committee to make a case for why commercial banks should be banned from proprietary trading and have their growth constrained by restricting concentrations of liabilities. Treasury Secretary Tim Geithner, meanwhile, appeared before the Senate Finance Committee to defend the budget and the bank tax.

But by the end of the day, political support for the business lending program was in jeopardy, Geithner was criticized for pushing a tax that lawmakers said was unfair and counterproductive and Volcker and Wolin failed to give any details on the so-called Volcker Rule to assuage the concerns of Banking Committee members.

Several observers said they thought the reactions from Senate Banking Committee Chairman Chris Dodd and Sen. Richard Shelby, the panel's top Republican, telegraphed the Senate's position.

At the outset of the hearing, the Connecticut Democrat said he thought the Volcker idea had merit and should be considered, but then Dodd raised several practical considerations during his questioning concerning how the lines would be drawn on permissible versus impermissible trading.

Volcker and Wolin appeared unprepared for the questions. Volcker essentially said that issue should be left to regulators to figure out, and Wolin said the administration would work with lawmakers to craft a definition.

Similarly, when the two administration officials were asked what boundaries on growth should be placed on banks, Wolin said the details were not "nailed down."

But by the end of the hearing, Dodd expressed frustration with the administration's proposals, and put the onus back on Wolin and Volcker to sell the plan. He also said it was dangerous for the administration to continually roll out new ideas while he was trying to pass a bipartisan regulatory reform bill.

"We're in the process — we've got to get something done up here now. … It's not one that I can add ideas to it on a weekly basis and expect to get this done," Dodd said. "While I have certainly been familiar with the issue of dealing with proprietary trading and other issues, it does come up late, and the idea that the administration made such a major point a week or so ago, seemed to many to be transparently political and not substantive. And it's adding to the problems of trying to get a bill done."

But Dodd also said that any new ideas should at least have some details to back them up.

"When we call down and say, 'How does it work?' and specifically what you had in mind, I expect answers to the questions," Dodd said. "And we've made the calls and we're not getting good answers."

During the hearing Shelby questioned rumors that members of the economic team, including Geithner, did not support the plan and asked if the Obama administration had a consensus.

"Uncertainty created by the recent proposals from the administration regarding banks stems from uncertainty about cohesion among members of the administration and among regulators," he said. "Is there a consensus within the Obama administration and among the regulators concerning the Volcker rule and restrictions on size?"

Dodd told reporters afterward that he supports the general idea but that the administration needs to provide better details.

"How do you define proprietary trading? With all due respect, using Potter Stewart's standard of pornography is a little dicey to me, because it's more of a subjective test," he said. "To some degree you've got to be more defined than that."

The situation was much the same for the community bank fund to spur small-business lending. Geithner was sharply criticized by members of both parties who questioned the need for a new program rather than simply using the Small Business Administration or existing Tarp funds.

Several analysts said the administration appears to be flailing.

Last year it rolled out a detailed regulatory reform plan with data to back up various positions. But the latest proposals lack detail, and, at times, a convincing rationale, observers said.

"I don't think they helped themselves with the way the bank tax or the Volcker rule were laid out," said Brian Gardner, an analyst with KBW Inc.'s Keefe, Bruyette & Woods Inc. "My takeaway is that they don't have a lot of support."

Joseph Mason, an associate professor of finance and LeBow Research Fellow at Drexel University's LeBow College of Business, agreed the lack of specifics is hurting the administration's priorities.

"The devil's in the details: What do you mean by proprietary trading?" he said. "That's symptomatic of all the proposals. The ones that are currently in the House bill are only slightly more thought-out than the Volcker rule."

But not everyone thinks the proposals are a lost cause.

Some observers said the administration has tapped into politically popular themes, and could build momentum for the ideas.

"If you take the Volcker rule and the bank tax … both appeal to a very strong mood in the country that is not a Republican or Democratic base issue," said William Longbrake, an executive in residence at the Robert H. Smith School of Business at the University of Maryland.

"My sense would be that overall there is a definite possibility that if any legislation moves this year, it could be a smaller part of it that focuses on the 'too big to fail' issue."