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# Cloture Vote Adds Drama But Reform Still Likely

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WASHINGTON - For a bill that has already seen its fair share of fits and starts, regulatory reform legislation hit a wall Wednesday as it failed a key procedural vote in the Senate and lawmakers squabbled over whether to add more amendments.

Despite the political chaos, the bill is still considered likely to pass, although when or how was unclear.

"I have to believe this is just a temporary setback," said Douglas Elliott, a senior fellow with the Brookings Institution. "There's still powerful political forces pushing this bill forward. Because the bill is going to go through, you have people fighting to get their stamp on it."

The Senate voted 57 to 42 to invoke cloture, a procedural move that requires 60 votes to pass and would limit debate and amendments. A successful cloture vote is vital to moving the bill forward to final passage.

Speaking after the vote, Senate Majority Leader Harry Reid said he was betrayed by at least one unnamed senator who told him he would vote for cloture and did not. "I know how to count votes," Reid said. "A senator broke his word."

Two Democrats voted against cloture - Sens. Maria Cantwell of Washington and Russ Feingold of Wisconsin - while two Republicans - Maine Sens. Susan Collins and Olympia Snowe - voted for it. (Reid also voted no, but only for procedural reasons.)

Speaking on the floor after the vote, Cantwell criticized the section of the bill dealing with derivatives as too soft, saying it should require all over-the-counter swaps to be cleared.

Feingold said the bill did not go far enough in eliminating "too big to fail.

"The test for this legislation is a simple one - whether it will prevent another financial crisis," he said. "As the bill stands, it fails that test."

Observers marveled at the mess.

"What a debacle," said Jaret Seiberg, an analyst with Washington Research Group, a division of Concept Capital. "The Democrats have a real problem here, because they have moved the bill far enough to the left that they have lost Republican support and they are in an impossible position where if they moderate it, they will lose the left. But if they don't moderate it, then they can't get moderate

Republicans to support it."

Seiberg said he was beginning to have doubts that the Senate can approve the bill.

"While logic dictates that they are going to pull a rabbit out of the hat, I have to say for the first time in months there is a possibility that they are not going to get this out of the Senate," he said.

Speaking at a press conference, Reid and Senate Banking Committee Chairman Chris Dodd said they would try to invoke cloture again today, and blamed Republicans and bankers for the delay.

"The vote demonstrated the Republicans want to do the bidding of the big bank executives," said Reid.

The cloture vote left it unclear what other amendments would be brought to the floor for a vote. Already pending were measures that would strengthen the so-called Volcker Rule to ban proprietary trading and require credit card companies to adhere to the interest rate rules of the cardholder's state.

Observers said Democratic leaders will have to allow more votes on amendments to bring enough members on board for passage.

"What I think this means is that they are going to have to give some more votes on some of the amendments before members are ready to move forward," said Mark Calabria, the director of financial regulation study at the **Cato Institute** and a former Republican Senate aide. "The question facing Dodd, Reid and the administration now is you need four or five votes; where do you go now that some of the far left are threatening to walk the plank? Do you cut a deal with them or do you cut a deal with some of the moderate Republicans?"

Karen Shaw Petrou, managing partner of Federal Financial Analytics, agreed.

"It's going to end, it's just a question of how long it takes," she said. "The reason it didn't pass is a lot of dissatisfaction among Democrats... feeling they're being squashed by the leadership with amendments that go beyond even the reforms that the industry views as over the top."

Banking industry lobbyists were still working Wednesday to remove a provision added to the legislation by Senate Agriculture Committee Chairman Blanche Lincoln that would force banks to spin off their derivatives trading units.

Dodd proposed a compromise on the issue late Tuesday, drafting an amendment that would extend implementation of the spinoff requirement to two years and give regulators the power to suspend such a move after studying the issue.

But the banking industry rejected the amendment, saying it would only increase market uncertainty around the issue, and Dodd ultimately did not offer the compromise.

Ironically, an earlier threat to cloture was resolved Wednesday afternoon. Republicans attempted to stop a vote on an amendment from Sens. Jeff Merkley, D-Ore., and Carl Levin, D-Mich., to bolster the Volcker Rule. Both lawmakers threatened late Tuesday to vote against cloture unless their measure was voted on.

But Merkley and Levin found a way to end-run those objections, attaching their amendment to a separate pending measure from Sen. Sam Brownback, R-Kan., to exclude auto dealers from oversight by a proposed consumer protection bureau. Neither amendment had been voted on, but the move guarantees the Volcker measure would require only a simple majority of 51 votes to pass, not a tougher 60-vote standard being considered earlier in the day.

The Senate also was expected to reject a measure from Sen. Sheldon Whitehouse, D-R.I., that would require national banks to offer credit based on the interest rate limits in the cardholders' state. The measure would need 60 votes to pass, and some Democrats from states with large credit card operations, such as Sens. Tom Carper of Delaware and Tim Johnson of South Dakota, were expected to vote against it. Whitehouse said Wednesday that he wanted to stop national banks from exporting high interest rate limits to other states. "We need to correct the historical anomaly that has allowed credit card companies to escape state law interest rate limits," he said.

Whitehouse's amendment originally focused on barring any lender, including state banks, from exporting interest rate rules from the state in which they are based for any non-mortgage consumer credit offer.

The Rhode Island Democrat narrowed the amendment earlier this week to focus exclusively on national banks by excluding state banks and credit unions.

But the measure was fiercely opposed by the credit card industry and the American Bankers Association, which argued it would create chaos in the market.

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