THE HILL

Proposed banking overhaul sets up high-stakes battle

By Kevin Cirilli

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The chairman of the Senate Banking Committee on Tuesday proposed the largest overhaul of financial rules since the Dodd-Frank Wall Street reform law, pinning his hopes for passage of the sweeping bill on a small group of moderate Democrats.

Sen. Richard Shelby's (R-Ala.) plan, detailed in a 216-page "discussion draft," centers on provisions that would dramatically raise the threshold that determines which banks are labeled "systemically important" and thus subject to more stringent federal supervision.

The proposal aims to ease regulations on smaller banks and credit unions, while also making structural changes at the Federal Reserve designed to increase transparency and shift more influence to the central bank's regional outposts.

Shelby intends to move legislation forward quickly, and is looking to the panel's centrists for crucial support.

"This discussion draft is a working document intended to initiate a conversation with all members of the Committee who are interested in reaching a bipartisan agreement to improve access to credit and to reduce the level of risk in our financial system," Shelby said in a statement.

The proposal's rollout met with sniping from at least one prominent Senate liberal, and the initial reaction from centrist Democrats was tepid, at best.

Shelby is calling for changes in the criteria used to designate systemically important financial institutions (SIFI), a classification that subjects key banks to more federal supervision. The bill would increase the SIFI-designation threshold from banks with $50 billion in assets to $500 billion, though the bill would give regulators some leeway to make exceptions.

The provision is sure to draw fire from progressives Democrats like Sens. Elizabeth Warren (Mass.) and Sherrod Brown (Ohio), ranking member of the Banking Committee.

Brown panned the legislation as an effort to “dismantle Dodd-Frank’s consumer protections and sensible rules for large banks and nonbanks that played central roles in the financial crisis.”

The bill’s future hinges on whether Shelby can attract enough moderate Democratic support to clear a 60-vote procedural hurdle in the Senate. Republican Banking Committee aides said they’re hoping to have a vote before the August recess, with a markup scheduled next week on the bill.

That means he’ll need at least six Democratic senators to help him clear the procedural hurdle.

“Moderate Democrats will be critical for some version of the bill to be signed into law,” said Mark Calabria, a former senior GOP Senate Banking Committee aide who now heads up the Cato Institute’s financial services team.

Calabria described the bill as “largely modest and constrained.”

“So in substance it’s something moderate Dems should be able to support —whether they do or not is more a political question,” Calabria said.

Four moderate Democrats who could potentially lend Shelby the support are on the Banking Committee: Sens. Mark Warner (Va.), Heidi Heitkamp (N.D.), Jon Tester (Mont.) and Joe Donnelly (Ind.).

Warner’s spokeswoman, Rachel Cohen, said the bill “appears at first glance to be a significant overreach.”

“Senator Warner thinks that is a shame because there are a number of commonsense, bipartisan fixes that Democrats and Republicans alike want to enact,” Cohen said.

Tester expressed frustration with the negotiations leading up to the bill but didn’t say whether he’d support it.

“Today is the first time the chairman has shared the bill text with me,” Tester said. “Politics aside — I will look at the policy and see if it works, but this process has been disappointing thus far.”

Heitkamp said the bill “was drafted without any input from Democratic senators on the committee — including ones like myself who have long pushed for policies that would provide needed relief for community banks and small financial institutions.”

“I’m still reviewing the bill, but I hope we can actually work together to negotiate strong, bipartisan policies that best support community banks and credit unions,” Heitkamp said.

Though none of the panel’s centrists offered a ringing endorsement of the bill, they also didn’t rule out eventual support.

J.W. Verret, former GOP senior counsel on the House Financial Services Committee, said Shelby had carefully tailored the bill's language in an effort to attract the necessary votes.

"This bill reads section by section as artfully drafted to obtain 4 or 5 Democrat supporters on the committee," said Verret, now an assistant law professor at George Mason University.

Several of the proposals in the legislative text have bipartisan support, such as a provision championed by Sen. Jack Reed (D-R.I.) that would make the president of the New York Federal Reserve a presidential appointee, requiring Senate confirmation.

Supporters of that policy argue it would provide more oversight to the New York Fed, which critics say is too cozy with Wall Street. The bill would also create a commission to examine the Fed's structure.

Businesses applauded the bill.

"[It] appropriately addresses the repercussions of the 'one-size-fits-all' framework implemented by [Dodd-Frank]," said Richard Hunt, president and CEO of the Community Banker's Association.

Tom Quaadman, vice president of the U.S. Chamber of Commerce's Center for Capital Markets Competitiveness, dubbed it "an important step forward in addressing the unforeseen consequences of Dodd-Frank."

But progressives are lining up against the bill, setting up a fight in weeks to come.

Dennis Kelleher, president and CEO of the group Better Markets, for example, described the proposal as "the latest in a series of Trojan horse bills that try to hide Wall Street's special interest loopholes behind community banks."