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Congressman Stymied in Promise to Undo Dodd-Frank Rules

By Cheyenne Hopkins

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When Jeb Hensarling took over the congressional panel that spawned the Dodd-Frank Act, he vowed to roll back the landmark Wall Street law and eliminate government programs that backstop private markets.

More than a year later, the Texas Republican is boxed in. His initiatives to undo banking rules haven't won Democratic support. At the same time, his own party's leaders, backed by industry groups that disagree with Hensarling's purist free-market philosophy, have stymied his plans to abolish [Fannie Mae \(FNMA\)](#) and limit federal flood insurance.

Now, Hensarling must choose again. His chances of making an impact as chairman of the House Financial Services Committee may turn on whether he loosens his opposition to two programs pushed by business lobbies and top House Republicans: government-backed terrorism insurance and loans for buyers of U.S. exports.

"He's isolated himself a little bit," said [Brian Gardner](#), a former congressional staff member who is now senior vice president for Keefe, Bruyette & Woods Inc. in Washington. Hensarling, Gardner said, "has to make a strategic decision" about whether to bend on the next two big issues.

Since he was first elected to Congress in 2002 from the Dallas region, Hensarling, 56, has been one of the most outspoken proponents of a federal government with less heft and a shorter reach. He led House opposition to the \$700 billion bank bailout in 2008, calling it a "slippery slope to socialism," and voted against Dodd-Frank two years later.

Tea Party

"He was Tea Party before there was a Tea Party," said Mark Calabria, a former aide on the Senate's banking panel now at the [Cato Institute](#), a Washington-based research group that supports free markets.

In an interview, Hensarling said that while he hasn't backed off his principles, the committee has been productive under his leadership, approving more than 20 regulatory bills, some with Democratic votes.

“Many of them we’ve gotten across the House floor, and then they go where many good ideas go to fail -- and that’s the United States Senate,” he said.

Hensarling’s January 2013 appointment to head the committee after serving as chairman of the House Republican Conference, the fourth-ranking job in the party’s leadership, gave him an opportunity to put into action an agenda he had long espoused.

Debt Clock

He quickly put his stamp on the panel. He had a display installed in the hearing room to continuously tally the rising U.S. debt. He frequently cites the “debt clock” when spending issues are on the table. Hensarling also tries to script the committee’s sessions by handing out “Win the Debate Kits” to his fellow Republicans, complete with talking points and suggested questions for witnesses.

As a result, regulators summoned to testify have found themselves excoriated for their budgets as well as their rule-making. Hensarling told Securities and Exchange Commission Chairman Mary Jo White last month that while the agency says it’s underfunded, past increases were followed by “financial mismanagement, squandered resources and mission failure.”

The chairman has heaped his most intense criticism on the Consumer Financial Protection Bureau, the entity created by Dodd-Frank which he has called “the most powerful and least accountable government agency in the history of the Republic.” At a January hearing, he dueled with the bureau’s director, [Richard Cordray](#), slamming its plan to assemble databases on consumer finance products and its \$100 million project to renovate its offices.

Trump Tower

Hensarling told Cordray the bureau was spending more per square-foot than it cost to build New York’s Trump World Tower or the Bellagio Hotel and Casino in Las Vegas. “What on God’s green Earth is going on here?” he asked. Cordray responded that the renovation was initiated and managed by the General Services Administration, not the consumer agency.

Almost all 22 Hensarling-backed bills that would chip away at Dodd-Frank -- including some that would diminish the consumer bureau’s power -- have cleared the committee and full House with at best a handful of Democratic votes. While Hensarling won bipartisan support for bills dealing with derivatives and community banks, none of the measures gained enough backing to be taken up by the Democratic-controlled Senate, much less gain the signature of President Barack Obama.

Hensarling has had a “learning curve” as chairman, [Spencer Bachus](#) of Alabama, his Republican predecessor as committee head, said in an interview. Although Hensarling has begun to compromise, Bachus said, “I think that’s been a problem with him because he has strong ideological positions.”

Flood Insurance

While refusing to do much horse-trading with Democrats, Hensarling also defied House leaders over spending. He and fellow Texas Republican [Randy Neugebauer](#), for example, tried to stand in the way of a bill that rolled back reforms in federal flood insurance, saying the program is flawed and puts taxpayers at risk for actions by private landowners.

Republican leaders who wanted to prevent steep increases in flood-insurance premiums took extraordinary measures. House Majority Leader [Eric Cantor](#) bypassed Hensarling's panel and moved a bill following negotiations with the committee's top Democrat, Maxine Waters of California. The measure passed by a 306-91 vote that included 126 Republicans. Hensarling voted no.

"Jeb was championing a cause he believed in, very strongly," said Tom Cole, an Oklahoma Republican. Cantor "wanted to get something done and wanted to protect members in coastal areas, and frankly wanted to help Senate candidates," Cole said.

Winning 'Respect'

Former Senator [Phil Gramm](#), 71, who has known Hensarling since he taught the future congressman in his economics class at Texas A&M University in the 1970s, said the outcome of the flood insurance battle wasn't a setback.

"Sometimes you win by losing," Gramm said in an interview. "I think Jeb's willingness to stand on principle on that issue was the right thing to do and I think it earned him a lot of respect."

Hensarling spent much of his legislative capital on a bill that would overhaul the housing-finance system by eliminating [Fannie Mae](#) and [Freddie Mac](#) and almost entirely privatizing the mortgage market. He declined to modify the measure to gain more votes from those in both parties who think the government still needs to play a role in preserving broad access to mortgages.

The bill was approved with Republican votes by the committee in July 2013 and has won support from lawmakers with Tea Party ties as well as free-market groups including the Club for Growth and Heritage Action. Yet it failed to gain enough traction for a House floor vote. The task of coming up with a solution has moved to the Senate Banking Committee -- which last week approved its own bill in a 13-9 bipartisan vote.

'Same Page'

Hensarling said he has been recently spending more time communicating with the House leadership "to make sure we're on the same page."

Still, his history as chairman has cast into doubt the panel's next two big agenda items -- reauthorization of terrorism insurance and the U.S. Export-Import Bank.

House Speaker [John Boehner](#) said March 13 that extending the two programs were among his top priorities. House Majority Whip Kevin McCarthy said in April that the chamber will pass the insurance bill “come hell or high water.”

Hensarling presents his opposition as integral to his political identity. Last month, he told constituents at a senior center in Athens, Texas, that the bank is a “boondoggle” that “puts taxpayers at risk in order to lower costs for a few big corporations to sell their goods overseas,” according to a report in the Chandler Brownsboro Statesman newspaper.

‘Achievable Victory’

In a May 20 speech at the Heritage Foundation in Washington, Hensarling said the demise of the bank would “clearly be one of the few achievable victories for the Main Street competitive economy left in this Congress.”

The biggest beneficiaries of the bank, which backed \$38 billion in exports last year, are major manufacturers including [Boeing Co. \(BA\)](#), [General Electric Co. \(GE\)](#) and [Caterpillar Inc. \(CAT\)](#)

While the program has business critics -- including Atlanta-based [Delta Air Lines Inc. \(DAL\)](#), which says taxpayers shouldn’t make it easier for foreign competitors to buy jets -- Hensarling’s position puts him at odds with some of the biggest industry groups. They include the U.S. Chamber of Commerce, the National Association of Manufacturers, Aerospace Industries Association and Nuclear Energy Institute.

Congressional ‘Outreach’

“We are going to be intensely increasing our congressional outreach in the coming weeks,” said [Christopher Wenk](#), senior director for international policy at the U.S. Chamber, who said his group has held hundreds of meetings on Capitol Hill to discuss the issue in the past two years.

Opposing the bank’s reauthorization, which used to be a non-controversial matter in Congress, has now become “a point of orthodox litmus-testing on the right,” said Representative Gerald Connolly, a Virginia Democrat who supports the program. He predicted “a blood bath” among Republicans over the bill.

Also high on the business lobbying agenda is the Terrorism Risk Insurance Act enacted after the 2001 attacks, known by its initials TRIA. It provides a U.S. backstop when claims stemming from a single terror incident hit \$100 million. Congress renewed it in 2005 and 2007, and it expires again at year’s end.

Among firms urging Congress to extend the program are [American International Group Inc. \(AIG\)](#), [Wells Fargo & Co. \(WFC\)](#), [Loews Corp. \(L\)](#), NASCAR and the National Football League.

‘Economic Fallout’

“Without adequate coverage, our ability to mitigate further economic fallout in the event of an attack would be greatly impaired,” a business coalition wrote in an April 2 letter to lawmakers.

Hensarling and Neugebauer plan to propose extending TRIA through 2017 while limiting reimbursements for attacks with conventional weapons. That contrasts with a bipartisan Senate measure led by New York Democrat [Charles Schumer](#), which would extend the program for seven years and raise insurers’ co-payments to 20 percent.

Jaret Seiberg, an analyst at Guggenheim Securities LLC, said that if House Republicans decided to bypass Hensarling on terrorism as they did on flood insurance, it would be a more significant mark on his leadership of the committee.

“TRIA is going to be a real test as to whether he can get done must-pass legislation,” Seiberg said.

Hensarling’s supporters take a different view. Ron Bonjean, who was an aide to former Senate Majority Leader Trent Lott, a Mississippi Republican, said Hensarling’s willingness to stand firm against compromise can produce a better outcome.

“The Republican conference needs chairmen like Hensarling who remain conservative and start with policies further to the right before they even start negotiating,” Bonjean said.

Gramm, the former Senator who helped launch Hensarling’s political career and championed deregulation in the 1990s, said Hensarling’s strategy could pay off for him next year.

If Republicans gain House seats in the fall elections and win control of the Senate, the next Congress “almost certainly is going to be more favorable to his views,” Gramm said.