American Banker

August 27, 2009 Thursday

Will Dodd Leave Banking?;
Future of reg reform hangs in balance

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SECTION: WASHINGTON; Pg. 1 Vol. 174 No. 163

LENGTH: 1199 words

WASHINGTON -For Sen. Chris Dodd, the death of Sen. Edward Kennedy not only means losing his closest friend in the Senate, it also creates a dilemma for the Connecticut Democrat's political future and raises fresh questions about the fate of regulatory reform.

After months of standing in to lead the health-care debate on behalf of his colleague, Sen. Dodd must decide whether to stay as chairman of the Senate Banking Committee or assume Kennedy's mantle as chairman of the Health, Education, Labor and Pensions Committee.

If Dodd surrenders the banking chair, it is not immediately clear who would succeed him. By virtue of seniority, the position would fall to Sen. Tim Johnson of South Dakota, a community banking advocate and Democratic moderate.

But it's possible Johnson, still suffering the aftereffects of a brain injury two years ago, could step aside in favor of Sen. Jack Reed, a Rhode Island liberal who has been primarily focused on housing issues.

All three lawmakers are liable to take different approaches to regulatory reform - leaving the bill and the future of the banking industry in the balance.

Observers, lobbyists and former Hill aides were split Wednesday on whether Dodd would stay, with some saying he would attempt to keep his lead position in the health-care debate and remain chairman of the Banking Committee. Others, however, said Dodd is already facing pressure from the Obama administration and Democratic leadership to assume the chairmanship of the HELP panel.

Dodd was clearly not ready to discuss the issue yet.

"I haven't given that a second's worth of thought," Dodd told reporters on a conference call from Connecticut. "Obviously, I'll have to talk to the leader and others about it. But today, I'll leave that for a decision down the road over the next few days. Let me give it some thought and talk to some people. I really don't have an answer for you at this point."

Though Dodd would stay on the Banking Committee, surrendering his chairmanship would likely at least slow the reg reform debate. Either Johnson or Reed would likely want to take it in different directions.

The banking industry would be the most immediate beneficiary of a Johnson chairmanship. Though Dodd has been borderline hostile to banks during the past year, Johnson has close ties to bankers. Citigroup's credit card operation is based in his home state of South Dakota, and he has repeatedly staked out positions popular with smaller community banks.

Johnson was an early champion, for example, of deposit insurance reform, and led the fight to keep Wal-Mart Stores Inc. from buying an industrial loan bank in Utah - both issues that were critical to community banks. He was also the only Banking Committee Democrat to oppose a bill enacted earlier this year that was designed to rein in credit card abuses.

Though he has stayed largely silent on regulatory reform, many said he is likely to oppose stripping consumer protection enforcement power away from the banking regulators, as the Obama administration has recommended, and giving it to a new consumer protection agency. Johnson may also favor keeping at least some form of national bank preemption - something the administration has recommended eliminating.

"It would give reg reform a whole different twist," said Brian Gardner, an analyst with KBW Inc.'s Keefe, Bruyette and Woods. "I think a different level of preemption would survive. He may not be as enthusiastic about the whole idea of [the consumer protection agency] in general. I don't know exactly where we go on this, but I feel pretty confident that it would be a very different take."

In a June Viewpoints piece in American Banker, Johnson touted expanding the Federal Deposit Insurance Corp.'s resolution powers and setting up a systemic risk council."We would be much better advised if we simply dismantled gigantic, troubled firms instead of bailing them out," he wrote.

He argued that a "systemic risk council should be formed and charged with deciding whether a troubled firm should be forced to close or allowed to stay open."

Mark Calabria, a former Senate Banking Committee aide under its top Republican, Richard Shelby, said the "smaller banks would have a big win on this," and that Johnson would have an easier time cutting a deal with Republicans.

"You are actually more likely to get something done in terms of reform because Johnson ... has much more ability to reach across the aisle and find a moderate path that people could support," said Calabria, the director of financial regulation studies at the **Cato Institute.**

But it also remains possible that Johnson could choose not to take the banking committee chair - or, more unlikely, be passed over by Democratic leadership. Johnson has suffered a speech impairment since December 2006 after a brain hemorrhage, though sources universally said he remains mentally fit. Several observers said Johnson could assume the chairmanship, but put more emphasis on the use of subcommittees to help work out various aspects of reform.

If Dodd leaves and Johnson does step aside, Reed would likely take over the Banking Committee. The Rhode Island Democrat's views on regulatory reform are less well known. During recent hearings, he has hinted that he supports the creation of a single prudential banking regulator and questioned whether to give the Federal Reserve Board systemic risk oversight.

"Creating a new consolidated prudential regulator would bring all such oversight under one agency, streamlining regulation and reducing duplication and gaps between regulators," Reed said.

For now, the decision appears to be in Dodd's hands, and the pros and cons of switching chairmanships could cut both ways for his political fortunes.

It's clear the decision will be deeply personal. Kennedy, who had suffered from brain cancer, enjoyed a close friendship with Dodd that formed over their 30 years together in the Senate, and health-care reform has been the highest priority for both the Obama administration and Kennedy personally.

With the health-care-reform movement in serious jeopardy, the administration is said to want Dodd's full focus and leadership in helping to pass the bill in the Senate.

But Dodd has said he is committed to steering the Banking Committee through the financial crisis, and turned down an offer earlier this year to chair the Senate Foreign Relations Committee. Some sources close to Dodd said he is likely to stay on through fall of 2010 to complete regulatory reform.

Dodd's decision will be influenced by which issue - healthcare or banking - will help his re-election bid, which is in jeopardy. Political observers said neither option is a slam dunk as both issues have run into snags that could delay or scuttle them.

But observers are split on whether Dodd could maintain his position in healthcare without formally taking over the HELP Committee and while retaining chairmanship of the Banking Committee. Some said such a scenario is very unlikely. "I can't imagine that any committee chairman would say, 'Oh, this is the only important thing that this committee is doing, I'll give it to you.'... Not in a million years," said Charlie Cook, publisher of The Cook Political Report.

URL: http://www.americanbanker.com/

LOAD-DATE: August 26, 2009

LANGUAGE: ENGLISH

PUBLICATION-TYPE: Newspaper

JOURNAL-CODE: AB