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Dodd to Retire; Johnson To Take Banking Chair; As Dodd eyes legacy, reform looks more likely, less potent

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WASHINGTON - Senate Banking Committee Chairman Chris Dodd's decision not to seek reelection strengthens his ability to enact regulatory reform, but the final bill is also expected to be more moderate, observers said Wednesday.

Removing the campaign pressure of fighting to keep his seat will let Dodd fully focus on reform - and his legacy. But it also probably strengthens the hand of Republicans and moderate Democrats who want to tone down the bill.

"It makes it more likely that regulatory reform will be enacted," said Edward Yingling the president and chief executive of the American Bankers Association. "It frees him from political dynamics that would have made it more difficult for him to compromise."

For example, consumer groups are pushing hard for Dodd's effort to create a consumer protection agency - an idea that is deeply unpopular with Republicans and opposed by some moderate Democrats. Not facing a reelection fight, Dodd has more flexibility to drop the provisions that would delay enactment.

"Because he's retiring he'll be even more focused on completing the job while he's still in the Senate, and that means focusing on areas of consensus rather than areas of controversy," said former Sen. John Sununu, R-N.H., who once was on the banking committee.

At the same time it is clear that financial reform will now be a legacy issue - putting more pressure on him to close the deal, observers said. Criticized for running for president while the financial crisis came to a head and being too close to Wall Street, Dodd is said to want to pass reforms designed to prevent a repeat of the housing collapse. "The legacy of being able to complete that job and complete it in a way that is really consistent with the Senate traditions of compromise and consensus would be pretty meaningful," Sununu said.

Republicans, too, may be more free to deal with Dodd. With the GOP hoping to make inroads into the Democrats' 60-seat Senate majority this year, they might have been unwilling to go along with legislation that would help an endangered incumbent. But with Dodd out of the running, this is no longer an issue.

"It was clear he was going to have a difficult race on his hands," said former Rep. John LaFalce, a New York Democrat. "Now Chris' motives won't be held suspect that he's doing this or that for political purposes. His effectiveness is increased rather than diminished. People will not be able to cast aspersions on his motives. He's a well-liked person. The disposition on the part of his colleagues is more likely to be, 'Let Chris have his last hurrah' with financial reform."

The decision may also give Dodd more running room from the Obama administration, whose help he would have needed in his reelection campaign.

Dodd introduced a tough, sweeping reform bill in November but backed off it after committee members from both parties said he should instead seek a bipartisan bill. He has since assembled bipartisan pairs of committee members to hash out a consensus.

To do that, Dodd is expected to significantly scale back the proposed consumer regulator and reduce his ambition to consolidate banking regulators. His original bill would have combined all the regulators into one agency, stripping the Federal Reserve Board and Federal Deposit Insurance Corp. of their bank supervisory responsibilities. Sources have said Dodd now is likely to split bank supervisory responsibilities between the Office of the Comptroller of the Currency and the FDIC.

Though some Democrats could have been persuaded to support a tougher bill to help Dodd in his reelection fight, his impending retirement removes that pressure and gives Republicans and moderate Democrats more leverage.

"This shifts considerably more leverage back to Shelby," said Mark Calabria, a former aide to the banking committee's top Republican, Sen. Richard Shelby of Alabama, "partly because I think all the moderate Democrats no longer have any reason to take a bullet for Dodd."

But Calabria said that Dodd's willingness to deal may be limited by his view of reform as a legacy issue. "On one hand you want to get something passed, but on the other hand you don't want your legacy to be something that people" disparage, said Calabria, who is now the director of financial regulation studies at the **Cato Institute.** "You want something that you think people are going to be talking about 60 years from now ... . It cuts both ways."

Though most sources expect a compromise on consumer protection, those closest to Dodd insist he will continue to seek a bill that is true to his principles.

"This will not change his focus or change his pro-consumer attitudes," said Amos Hochstein, a former Dodd adviser. "He has strongly held views on consumer issues, and he's never pursued them for political motivation. I would expect him to be true to his values as he always has been."

Hochstein added that Dodd's decision to retain the banking panel's chairmanship when other committees opened up last year was motivated by a sense of obligation to fix the broken financial regulatory system.

"This continues to be something very important to him as he enters his last year in Congress but also because of the timing," he said. "We are arguably still in a recession and he would like to see the financial system fixed. This is the opportunity to do it while people still have the crisis fresh in their minds."

Roy Occhiogrosso, another former Dodd adviser, said the biggest likely change is that the Connecticut Democrat will no longer have the distraction of a campaign, requiring repeated trips to Connecticut, fundraisers and other events.

"It probably only means that he has more time to focus on the issue," he said.

"He won't have to worry about campaigning at all."

In his speech Wednesday announcing his decision to retire, Dodd said, "I still have one year left on my contract with the people of Connecticut. One year from this week, our state will have a new senator. In the meantime, we have important work to do."

Dodd will have served 36 years in Congress when he retires at yearend.

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