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Dodd Tactic: Down the Middle on Reg Reform

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WASHINGTON - Senate Banking Committee Chairman Chris Dodd introduced a moderate regulatory reform bill on Monday, packed with nods to Republicans in an effort to gain some bipartisan support.

The Connecticut Democrat's compromise strategy appears to be designed to make it tough for Republicans to vote against the bill. But by giving so much ground, Dodd may undermine the support of fellow Democrats.

Dodd acknowledged this dilemma at a press conference Monday.

"The legislation I present today contains bipartisan ideas and is the result of a bipartisan effort," hesaid. "It does not as of yet enjoy bipartisan support."

Facing time pressure, Dodd said he had to release a bill that was capable of generating as much support as possible.

"Every day we delay is a day we are unprepared for what lies around the corner," he said.

The revised legislation was radically different, and far less sweeping, than the vision of reform offered by Dodd last November.

Instead of proposing the creation of an independent consumer protection agency, it would now form a consumer division within the Federal Reserve Board that could have its proposals overridden by a proposed systemic-risk council.

While the original Dodd bill would have stripped the Fed of its bank supervisory responsibilities and created a single prudential regulator for all banks, the new version does not go that far. Though the Fed would lose oversight of holding companies and state banks with less than $50 billion of assets, it would gain oversight of all systemically important firms and keep supervisory responsibilities for all large financial holding companies.

Instead of creating a powerful Financial Institutions Regulation Administration as in the November draft, the new Dodd bill would just eliminate the Office of Thrift Supervision and merge its responsibilities into the Office of the Comptroller of the Currency.

Some observers panned the changes Dodd made, saying it was no better than the status quo.

"They have moved some things around, but it's a shell game," said William Isaac, a former Federal Deposit Insurance Corp. chairman who is now the chairman of LECG. "It's really not fixing the regulatory system. ... You are not solving any meaningful problems the way this bill is being watered down. It's a bill that the trade groups and the large institutions have worked hard to neuter and they have succeeded."

It remained unclear if Dodd could keep the necessary Democratic votes to pass the bill along partisan lines, or what changes they may attempt to make.

Although several Democratic panel members have objected to housing a consumer division within the Fed, Dodd was optimistic about their support.

"My hope is they'll be supportive of this," he said. "That is not to say that every one of them will be agreeable to every aspect. This is a large complex piece of legislation as it's proposed, but I've tried to listen to my colleagues."

Analysts said that when push comes to shove, Dodd will hold the Democrats in line, partly out of a desire for them to move the process forward. They said Dodd could then try and strike a deal with Republicans on the Senate floor to guarantee passage of the bill, even if he loses some Democrats in the process.

"Dodd's putting forward a plan that Sen. Richard Shelby can negotiate from," said Jaret Seiberg, an analyst with Washington Research Group, a division of Concept Capital. "This is the type of package where he is going to have to make promises to rewrite sections of the bill before committee action in order to get votes to get it out of committee. ... There's more compromising to come before the bill goes to the floor."

Mark Calabria, the director of financial regulation studies with the **Cato Institute** and a former aide to Shelby, the panel's No. 1 Republican, agreed that Dodd appeared to be headed toward a party-line vote in the committee.

"Dodd embraces a high-risk strategy of moving forward without Republican support while also alienating much of the Democrat base," he said. "With the administration's help, he should be able to maintain enough support on his own side to get out of committee, but substantial compromises will be needed for full Senate passage."

But Dodd may have little room to maneuver. Although President Obama supported Dodd's legislation in a statement Monday, he made it clear that he would oppose a substantially weaker bill.

"As the bill moves forward, I will take every opportunity to work with Chairman Dodd and his colleagues to strengthen the bill and will fight against efforts to weaken it," Obama said.

For example, the bill would allow the new consumer division to write rules for banks and nonbanks and give the division enforcement powers over banks with more than $10 billion of assets, all mortgage-related companies and large nonbanks such as payday lenders. Some Republicans have said oversight of nonbanks should be left to the states, but Obama clearly disagreed.

"American families deserve a strong, independent consumer financial protection agency that is accountable for setting and enforcing clear rules across the financial marketplace," he said. "And I will not accept attempts to undermine the independence of the consumer protection agency, or to exclude from its purview banks, credit card companies or nonbank firms such as debt collectors, credit bureaus, payday lenders or auto dealers."

While Democratic Sens. Chuck Schumer and Jeff Merkley put out statements of support Monday, both lawmakers have also questioned Dodd's decision to put the consumer division in the Fed.

Some consumer groups called the bill a sham, and said the system would be better off without it.

"I understand the need to build bipartisan support but when Dodd determined that he wasn't going to get Republican support and was going to introduce his own bill he should have at least put out what the House proposed with a strong, independent [consumer] agency," said John Taylor, the president and chief executive of the National Community Reinvestment Coalition. "What he's proposed is a glorified way of putting it back in the agencies."