



Weekly Update

Public Policy Network
FHLBank Pittsburgh

Policy Update May 17, 2010

The kind of detailed, wide-ranging legislative debate occurring on the Senate floor regarding S. 3217, the financial reform bill, is a unique legislative event. The Senate typically defers to the committee of jurisdiction (in this case the Senate Banking Committee) to hash through the technical details of arcane legislation. For reasons that lead each side to blame the other, no amendments to the Dodd bill were considered in the Committee so the bill came before the full Senate in need of much work. That work will continue throughout this week.

Senate Financial Reform Legislation Update

The Senate will resume debate on S. 3217 today. This evening, Senate Majority Leader Harry Reid (D-NV) is expected to file a motion that will limit Senate debate. The vote on this motion will be on Wednesday. If this motion passes (it needs 60 votes), the Senate will consider the bill under a time limit and could complete work by the following week.

On May 11, Senator Tim Johnson (D-SD) filed an amendment to exempt FHLBanks from the bill's concentration limits on entities deemed systemically important. The amendment is supported by a broad coalition and is currently cosponsored by a bipartisan group of fourteen Senators.

Two amendments to the Volcker rule to provide FHLBank securities equal treatment with those of Fannie Mae and Freddie Mac have been filed. One was offered by Republican Senator Saxby Chambliss (R-GA) and another was filed as part of a broader amendment by Democratic Senators Jeff Merkley (D-OR) and Carl Levin (D-MI). The Senate is working on a comprehensive amendment to the Volcker language that may include the FHLBank amendment.

The derivatives section of the bill is still very much a moving target, and the legislative end game to that section of the bill will come into greater focus as the issues are redefined.

Last week, the Senate considered a number of amendments.

Application of Bank Capital Standards to Systemically Important Institutions (Agreed to by voice vote) – The amendment from Senator Susan Collins (R-ME) will impose bank capital requirements on all bank holding companies and non-bank financial institutions deemed systemically important. If the FHLBanks were subject to such a rule, the impact could be severe. Redeemable FHLBank stock would not count toward such a capital rule. Senator Collins stated

on the floor it is not her intention to include FHLBanks and will work with Senate leaders to ensure the FHLBanks are not part of the final language.

Study of GSE/Housing Finance Reform (Agreed to 63-36) – A Dodd amendment directs Treasury to issue a report on GSE reform to the Congress by January 2011. This amendment followed the defeat (rejected 43-56) of an amendment offered by Senator John McCain (R-AZ) that would require terminating the conservatorships in two and a half years.

Credit Rating Agency Reform – An amendment offered by Senator George LeMieux (R-FL) removing statutory mandates to use the largest credit rating agencies was adopted. Another successful amendment offered by Senator Al Franken (DFL-MN) will require the Securities and Exchange Commission to establish an organization that will randomly assign credit rating agencies to examine securities transactions in an attempt to address conflicts of interest.

Interchange Fees – A surprising development was the passage of an amendment offered by Senator Dick Durbin (D-IL) setting limits on interchange fees applied to small businesses that accept debit cards. It will prohibit card networks from penalizing retailers for offering discounts to customers to use other forms of payment like cash or check.

GOP Derivatives Substitute (Rejected 39-59) – The amendment from Senator Chambliss would have provided more favorable treatment of corporate end-users and amended a provision in the derivatives language requiring banks to spin off their derivatives trading desks. The derivatives issues will be revisited by the Senate.

Preservation of Fed Supervision (Agreed to 91-8) – In a major victory for the Federal Reserve Banks, the amendment offered by Senator Kay Bailey Hutchison (R-TX) keeps the Federal Reserve as the supervisor of holding companies and State member banks.

Mortgage Underwriting Reform (Agreed to 63-36) – This Merkley amendment prohibits payments to brokers for steering homebuyers into higher cost loans and requires lenders to verify that a borrower can repay a loan.

Federal Reserve Audit (Agreed to 96-0) – The amendment offered by Senator Bernie Sanders (I-VT) directs the GAO to conduct an audit of the Federal Reserve and requires the Fed to disclose the recipients of its assistance during the crisis. This audit will not cover the Fed's open market operations.

FHLBank Letter of Credit Legislation Introduced

On May 13, Rep. Bill Pascrell (D-NJ) introduced “The Community Development Financing Act of 2010” (H.R. 5311), a bill that will make permanent the authority of FHLBanks to credit enhance tax-exempt bonds. The bill is co-sponsored by Rep. Charles Boustany (R-LA) and GSE Subcommittee Chairman Paul Kanjorski (D-PA). Work continues to secure other co-sponsors from both sides of the aisle.