The Washington Post

Talks continue as GOP senators block advance of financial overhaul bill

By Brady Dennis and Shailagh Murray
Washington Post Staff Writer
Tuesday, April 27, 2010; A01

Republicans voted unanimously Monday to block an effort to overhaul financial regulations from reaching the Senate floor, pledging to hold out for significant changes to the bill even as they acknowledged the political risk of appearing to obstruct a popular cause.

The 57 to 41 vote in favor of beginning debate, short of the 60 needed, was expected, although Democrats did suffer an unanticipated defection when Sen. Ben Nelson (Neb.) joined Republicans as a no. Senate Majority Leader Harry M. Reid (D-Nev.) was prepared to call further votes Tuesday, Wednesday and beyond.

"We need to keep the pressure on to get a deal as quickly as possible," Reid spokesman Jim Manley said.

About two-thirds of Americans supported stricter regulations on the way banks and other financial institutions conduct their business, according to a Washington Post-ABC News poll. Majorities also backed two main components of pending Senate bill: greater federal oversight of consumer loans, and a proposed fund paid for by the financial industry that would go toward dismantling failed firms that put the broader economy at risk.

Given the public support for tougher Wall Street rules, the unanimity that Republicans demonstrated Monday may not endure. GOP negotiators said their goal remains a final bill that includes enough changes that it can win broad support from both parties. But Democrats are looking to limit their concessions and say they will probably win a few conversions among Republicans who have expressed support for the overwhelming majority of the bill in its current form.

Democrats say they believe about half a dozen GOP lawmakers are open to switching their votes. They include Sens. Olympia J. Snowe and Susan Collins of Maine, Sen. Scott Brown (Mass.), and Sen. Charles E. Grassley (Iowa).

Grassley, a conservative who is up for reelection in November, surprised colleagues recently in voting to support strict new rules for derivatives, one of the most complex but fundamental parts of the legislation.

The 1,400-page bill would also create an agency to protect consumers against abusive lending practices, establish a council of regulators to monitor potential risks to the financial system, and give the government authority to shut down large, failing firms before they collapse.

Snowe has outlined two main concerns about the current version of the bill, including a proposed $50 billion fund to be used in liquidating distressed financial firms and restrictions on community banks that engage in certain types of small-business lending.

"There are some concerns about the legislation, and I want to make sure they're addressed," Snowe said. But she added: "We're not going to have unanimous support for this legislation."

Brown said he voted "no" Monday to allow the Senate banking committee's chairman, Christopher J. Dodd (D-Conn.), and the panel's ranking Republican, Sen. Richard C. Shelby (Ala.), more time to rewrite several major provisions. "People want this area addressed," Brown said. "They don't want to have problems like they had before, including me."

But even as Reid pledged to hold vote after vote, some Democrats warned privately that the strategy could backfire if he appears to be short-circuiting negotiations. Snowe and Brown, along with other GOP lawmakers, complained that the Monday vote was premature.

"It's clear that they're trying to score political points," Brown told reporters after the vote.

Nelson said he had opposed starting debate on the bill because he objected to consumer-protection provisions that could harm "Main Street businesses" back home, including dentists, whose patients often borrow to finance major procedures that their insurance policies don't cover, and auto dealers.

But after talking with Nelson, Dodd said, "Dentists and auto dealers did not come up."

Instead, Dodd said, Nelson had spoken with him about making a change to the derivatives portion of the bill. Nelson favored including a provision that would exempt owners of existing derivatives contracts from having to post additional collateral, as required in the legislation.

This requirement could force companies that use derivatives to set aside large sums of money to cover possible losses, and these set-asides could eat into profits by depriving the firms of resources they could use in another way. Critics of the requirement say firms should not have to redo existing contracts.

Dodd said he was not willing to insert the exemption Nelson wants in his bill.

In the latest Washington Post-ABC News poll, respondents were evenly split on President Obama's handling of financial regulation, with 48 percent of those polled approving of his performance and 48 percent disapproving.

But compared with congressional Republicans, Obama has a clear advantage. A slim majority -- 52 percent -- of Americans said they trust Obama over the GOP on the issue; 35 percent favored congressional Republicans. Independents preferred Obama by 47 to 35 percent, with 16 percent trusting neither side on the issue.

Dodd and Shelby have said in recent days that they are on the cusp of a bipartisan agreement, and they have expressed optimism that further negotiations will end with consensus.

Shelby aides said Monday that although the two men have continued to talk by phone and meet periodically, their staff members have not met to hammer out specifics for more than a week.

"We need to be in a room, at the staff level, nailing down the language, and that's not happening," one Shelby staff member said. "They stopped talking to us."

To illustrate the work that remains, the aide said that if Dodd and Shelby "met today and resolved every issue, it would still take us days to get it all together."

Shelby aides repeated previous criticisms of the Democratic legislation and said Republicans probably would introduce their own version of the bill.

"We have been drafting an alternative approach since the very beginning," said one staff member, who like others spoke on the condition of anonymity to discuss the situation more frankly. "It may come to the point where Republicans decide, 'Let's just put out specifically what we're for.' That decision hasn't been made yet."

Aides declined to talk in depth about how a Republican alternative bill would differ from the legislation sponsored by Dodd. But they said it almost certainly would include language to overhaul the government-sponsored entities Fannie Mae and Freddie Mac.

Staff members on the Senate banking and agriculture committees huddled through the weekend with Obama administration officials to merge competing measures aimed at reining in the $600 trillion derivatives market. Derivatives are private contracts that allow traders to bet on the direction of the prices of stocks, commodities and other assets. Many companies also use such deals to lock in prices for goods, such as oil, which often fluctuate in value.

Dodd and Sen. Blanche Lincoln (D-Ark.), who chair the respective committees, said late Monday that an agreement had been reached. Key provisions put forth by Lincoln's committee remained largely intact, including a measure that could force big Wall Street banks to spin off their derivatives operations.

The bill also aims to increase transparency by requiring nearly all derivative contracts be traded in public on exchanges and approved by a separate body called a clearinghouse. In addition, the measure imposes a "fiduciary duty" on dealers, like the one required of investment advisers, to look out for the best interests of clients such as municipalities and pension retirement funds.

The legislation provides exemptions for commercial businesses and manufacturers that use derivatives to hedge risk, such as an airline seeking certainty on fuel prices. But Dodd and Lincoln said the bill gives regulators the authority to close loopholes so financial firms cannot claim exemptions. The two senators said the measure also gives regulators "broad enforcement authority" to punish bad actors.

In the latest poll, support for federal regulations of derivatives draws an even split, with 43 percent supporting federal regulation of the derivatives market and 41 percent opposing. Nearly one in five -- 17 percent -- express no opinion on the complicated topic.

Staff writers Renae Merle and Ben Pershing and polling director Jon Cohen contributed to this report.