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Testimony In Support of Proposed Bill No. 5973:
An Act Concerning the Establishing of a Task Force to Study the Creation of a State-Wide Bank in Connecticut

Senator Leone, Representative Lesser and members of the Banking Committee: thank you so much for taking the time to publicly hear proposed Bill No. 5973, an act to establish a task force to study whether the creation of a public "State Bank of Connecticut" would help our State economy in some of the same ways that the Bank of North Dakota has been a stabilizing factor in that state since 1919.

It is not hard to understand why North Dakota established the first state owned bank in the nation bank in 1919. It was difficult for farmers to obtain credit. Banks were foreclosing on properties and did not have in place the legal means to protect depositors or the general public from stunning downturns in the economy which greatly limited public access to credit. The Great Depression of the late 1920s and 1930s brought new legislation that helped stabilize markets and was in place for much of the rest of the last century. Those limitations on markets were repealed in the latter half of the 1990s.

As we are all still painfully aware, apparently beginning in 2008, we suffered the greatest downturn in our economy since the Great Depression. Much of our economic tragedy was apparently precipitated by the changes made in our national banking laws. This began during my first term in office here in Hartford. Congresswoman Rosa DeLauro came to the Capitol and pitched the idea of public banking on the state and national level. I was impressed with her presentation and began researching the issue. Shortly after the DeLauro message was delivered here, Congress began to work on a solution to create increased stability in our banking system by passing the Dodd-Frank legislation. Unfortunately, those protections are being traded away and eroded on the national level when there is a threat to shut down our federal government.* Hence we could be faced with greater market instability in the future.

The Bank of North Dakota was set up to "promote agriculture, commerce and industry." It was not created to compete with other banks. Please refer to the 2012 report of former State Banking Commissioner Howard Pitkin on the Establishment of a State-Owned Bank in Connecticut. 2012. The report concludes that the Bank of North Dakota has a stabilizing impact on the North Dakota economy. Connecticut has a much larger economy than North Dakota. Nevertheless, our proximity to Wall Street and Washington DC makes us more susceptible to changes in the economy. The proposed task force for a state owned Connecticut Bank could study the question of whether our pension crisis including those who have been left out of defined benefit plans and relegated to inferior 401k plans would fare better via a state operated banking institution, and thereby increase the aggregate buying power of our residents and enhance business opportunities here. A state owned institution might be the best place to begin financing our newly proposed transportation projects. It might also be the optimum source for student loans.

Given the complexity of our economy here and our unfortunate experience of the past few years, it is time for Connecticut to pick up where Congresswoman DeLauro and former Commissioner Pitkin left off and create and empanel the task force proposed in Proposed Bill No. 5973HB to determine whether a State-owned bank could help address issues created by the instability and lack of regulation affecting the private markets today, and improve our economy and the fortunes of Connecticut citizens.

**Please see the attached Washington Post and New York Times articles addressing the repeal of some of the Dodd Frank protections during the December 2014 Congressional vote to keep governmental obligations funded.*

The New York Times | http://nyti.ms/1ChdXuS

ECONOMY

In New Congress, Wall St. Pushes to Undermine Dodd-Frank Reform

By JONATHAN WEISMAN and ERIC LIPTON JAN. 13, 2015

WASHINGTON — In the span of a month, the nation's biggest banks and investment firms have twice won passage of measures to weaken regulations intended to help lessen the risk of another financial crisis, setting their sights on narrow, arcane provisions and greasing their efforts with a surge of lobbying and campaign contributions.

The continuing assault on the 2010 Dodd-Frank law has achieved remarkable success, especially compared with the repeated failures of opponents of another 2010 law, the Affordable Care Act.

The financial industry has been methodical, drafting technically complicated legislation that can pass the heavily Republican House with a few Democratic votes. And then, once approved, Wall Street has pushed to tack such measures on to larger bills considered too important for the White House to block.

The House was back at it this week. Lawmakers approved by a vote of 250 to 175, with just eight Democrats in support, a broad measure to impose a variety of new restrictions on federal regulators, like stricter cost-benefit analyses and an expansion of judicial review. That measure would affect every regulatory agency, be it the new Consumer Financial Protection Bureau or the century-old Food and Drug Administration. And like past attacks on the health care law, it has little chance of overcoming a threat of a presidential veto.

But House members also took up a narrower measure that would slow enforcement of Dodd-Frank requirements and weaken other regulations on financial services companies. The legislation will almost certainly pass on Wednesday with Democratic support, and although its future as a stand-alone bill is not bright, elements of it are expected to return on spending bills and other must-pass legislation in the future.

"This all works together: Put it up for stand-alone vote, get some Democrats on it, and then when you push it onto a must-pass bill, say it's a bipartisan bill that's already passed," said Marcus Stanley, policy director of Americans for Financial Reform, which favors tighter regulation of Wall Street. "The strategy on Dodd-Frank is death by a thousand cuts."

Even with other interest groups seeking the same consideration, the financial industry likes its chances.

"There are limited opportunities for action in both the House and Senate," said James Ballentine, a lobbyist at the American Bankers Association. "And the moving trains generally have a lot of passengers on them."

Proponents of regulation say that they are badly outgunned by an army of Wall Street lobbyists, and complain that the Obama administration has been too weak in its response.

"The president was slow in drawing the same kind of line on financial reform that he did on health care," said Barney Frank, the retired chairman of the House Financial Services Committee who helped write Dodd-Frank.

The current efforts to undermine Dodd-Frank have been textbook lobbying. In the first three quarters of last year, the securities and investment industry spent nearly $74 million on lobbying — on 704 registered lobbyists — according to the Center for Responsive Politics. That was on track to easily beat out the $99 million spent in 2013.

The Securities Industry and Financial Market Association, Wall Street's biggest lobbying group, had spent $5.8 million alone through September, the last data available. The group spent $5.2 million in all of 2013.

Lobbying expenditures by every specific industry group declined in 2014, except for the finance, insurance and real estate sector. That sector increased its spending by 2.5 percent.

As of Nov. 16, Wall Street banks and other financial interests had spent $1.2 billion on campaign contributions and lobbying combined, a total that was on track to beat spending in 2010, when Dodd-Frank was being considered in Congress, according to Americans for Financial Reform.

And Wall Street has been a steady donor, particularly to members of the House Financial Services Committee, where the legislation typically gets started. During the last Congress, Representative Jeb Hensarling of Texas, the Republican chairman of the committee, received donations on 13 separate occasions from political action committees run by Bank of America, Citigroup, Goldman Sachs and JPMorgan Chase.

Of even greater importance, no influential business group opposes Wall Street's effort, making more Democrats open to the campaign. By contrast, while the Affordable Care Act, popularly known as Obamacare, might have powerful interests — like the U.S. Chamber of Commerce and the National Federation of Independent Business — against it, the health insurance and hospital industries, along with leading pharmaceutical companies, are strongly opposing its repeal.

"In American politics, when a particularly economically motivated group gets behind something, that can be more powerful than an ideological viewpoint," Mr. Frank said, comparing his law to the Affordable Care Act. "Nobody who makes their money in health care is going after that bill. There are a lot of people making money in finance that are going after this bill."

Financial industry lobbyists say they are being unfairly pilloried. The changes they have won and further revisions they seek do not undermine the core of Dodd-Frank, they say. What has changed, they contend, is the rise of Senator Elizabeth Warren, Democrat of Massachusetts, whose vocal attacks on Wall Street and its denizens have polarized the issue.

Sam Geduldig, who represents financial services companies, called her a "game changer."

"Legislation now almost has a Warren litmus test, the liberal version of what is happening in the Republican Party with libertarians and Tea Party conservatives," he said. "If Warren describes something as a gift to corporate industry, you have to kind of walk through that gantlet."

Separately, MetLife, the insurance company, went to court on Tuesday challenging its designation as a "systemically important financial institution," a label under Dodd-Frank that allows regulators to impose tighter rules aimed at lessening risk-taking that might threaten the overall financial system.

Administration officials say the tide is turning in their favor. Last week, the House tried to pass a measure that would delay by two years Dodd-Frank's requirement that banks sell off collateralized loan obligations, the bundled debt that helped cause the 2008 financial collapse. The bill was even titled the "Promoting Job Creation and Reducing Small Business Burdens Act."

But this time, most Democrats banded together against it, and the bill failed to get the two-thirds majority needed to pass under fast-track House rules. (Thirty-five Democrats did vote for it.)

Treasury Secretary Jacob J. Lew, in an opinion article this weekend, said President Obama was "prepared to defend the gains we have made against attempts to water down protections and expose the economy to the risky practices of the past."

That measure is now back on the House floor under normal rules that require only a simple majority to pass, and the White House has issued a veto threat against the bill, which officials said puts "working- and middle-class families at risk while benefiting Wall Street and other narrow special interests."

But those stands came only after other Wall Street-backed measures were attached to December's spending bill that funds the government through September and last week's bill reauthorizing federal terrorism insurance. Both were signed into law.

"You can argue that of all the very powerful special interests that work in this city, Wall Street is at the top of list," said Senator Bernie Sanders, an independent and liberal populist from Vermont.

For all its sway in Washington, Wall Street is also widely reviled. So, one of the secrets to its success is wrapping itself around a friendlier cause. Lobbyists have contended that measures long sought by the biggest banks and investment houses are actually for community banks, small businesses, farmers and ranchers.

"They have been very expert at controlling the narrative thus far," said Cornelius Hurley, director of the Boston University Center for Finance, Law and Policy.

One of Congress's last acts of 2014 was to pass a measure largely repealing a Dodd-Frank provision that required banks to push the trading of exotic financial instruments known as derivatives into subsidiaries that are not eligible for deposit insurance and other forms of government support. Members of Congress, echoing Wall Street's lobbying pitch, said the so-called swaps push-out rule was too onerous for small community banks.

In fact, according to the Office of the Comptroller of Currency, 95 percent of derivatives trading is conducted by five firms: Bank of America, Citigroup, Goldman Sachs, JPMorgan Chase and Morgan Stanley. By keeping such activity under their federally regulated banking arms, those behemoths get to keep borrowing costs down.

Mr. Ballentine, the banking industry lobbyist, said the chance of success had also increased as turnover in Congress reduced the number of lawmakers who voted on Dodd-Frank.

"There is a strong possibility, a strong possibility, that every single sentence in Dodd Frank is not perfect," he said. "And the newer members, they are not wed to every single word."

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The Washington Post

Wonkblog

Jamie Dimon himself called to urge support for the derivatives rule in the spending bill

By Steven Mufson and Tom Hamburger December 11, 2014

The acrimony that erupted Thursday between President Obama and members of his own party largely pivoted on a single item in a 1,600-page piece of legislation to keep the government funded: Should banks be allowed to make risky investments using taxpayer-backed money?

The very idea was abhorrent to many Democrats on Capitol Hill. And some were stunned that the White House would support the bill with that provision intact, given that it would erase a key provision of the 2010 Dodd-Frank financial reform legislation, one of Obama's signature achievements.

But perhaps even more outrageous to Democrats was that the language in the bill appeared to come directly from the pens of lobbyists at the nation's biggest banks, aides said. The provision was so important to the profits at those companies that J.P.Morgan's chief executive Jamie Dimon himself telephoned individual lawmakers to urge them to vote for it, according to a person familiar with the effort.

The White House, in pleading with Democrats to support the bill, explained that it got something in return: It said that it averted other amendments that would have undercut Dodd-Frank, protected the Consumer Financial Protection Bureau from Republican attacks, and won double digit increases in funds for the Securities and Exchange Commission and the Commodity Futures Trading Commission. "The president is pleased," said White House spokesman Josh Earnest.

Earnest said that Democrats were upset about "a specific provision in this omnibus that would be related to watering down one provision of the Wall Street reform law. The President does not support that provision. But on balance, the President does believe that this compromise proposal is worthy of his support."

But "that provision" isn't just any provision. It's one that goes to the heart of the Dodd Frank reform because it would let big banks undertake risky activities with funds guaranteed by the federal government and, hence taxpayers.

The omnibus appropriations bill would do that by undoing the Dodd Frank provision that ordered banks to move their riskiest activities -- such as default swaps, trading commodities, and trading derivatives -- to new entities so that deposits guaranteed by the Federal Deposit Insurance Corp. would not be in danger.

House Minority Leader Nancy Pelosi (D-Calif.) pointed to this item as the main reason she would vote against a bill backed by her own president.

"What I am saying is: the taxpayer should not assume the risk," she said. She said the amendment went "back to the same old Republican formula: privatize the gain, nationalize the risk. You succeed, it's in your pocket. You fail, the taxpayer pays the bill. It's just not right."

It isn't only liberal congressional Democrats up in arms about the proposed change. "It really is outrageous," said a former senior Obama Treasury official, who asked for anonymity to preserve business relationships. "This was the epicenter of the crisis. This is what brought AIG down, what brought Lehman Brothers down."

The nation's biggest banks -- led by Citigroup, J.P. Morgan and Bank of America -- have been lobbying for the change in Dodd Frank, which had given them a period of years to comply. Trade associations representing banks, the Financial Services Roundtable and the American Bankers Association, emphasized that regional banks are supportive of the change as well.

The banks have long argued that the Dodd Frank provision will limit their ability to extend credit to clients and that setting up separate entities to engage in derivatives and commodities trading isn't practical. The ABA's top lobbyist, James Ballentine, executive vice president of congressional relations and political affairs, said in an e-mailed statement that the requirement that banks move some swaps in to separate affiliates "makes one stop shopping impossible for businesses ranging from family farms to energy companies that want to hedge against commodity price changes."

But the regulatory change could also boost the profits of major banks, which is why they are pushing so hard for passage, said Simon Johnson, former chief economist of the International Monetary Fund and a professor at the MIT Sloan School of Management.

"It is because there is a lot of money at stake," Johnson said. "They want to be able to take big risks where they get the upside and the taxpayer gets the potential downside," he said.

Johnson said the amendment of Dodd Frank only affects a small portion of derivatives. "I don't want to make a mountain out of a molehill on this," he said. But he added that "on a forward looking basis this could become very big."

The effort to enact this language has been years in the making. Language that was written and edited in part by the major banks was originally inserted in a House bill that called for relaxation of the push out rules in 2013. Citi declined to comment on the role its lobbyists played in developing the legislation, which was originally disclosed in an e-mail exchange reported on by the New York Times. However, a blog post written in 2013 by the bank's head of global public affairs, referred to the effort to modify this portion of Dodd-Frank as "a great example of how the industry and Congress can work together to find common ground."

The banking lobby has always been a powerful force in Washington. The banks that could benefit from this change -- Citigroup and J.P. Morgan -- are among Washington's most influential corporate players. Each firm, for example, spent over $5 million a year lobbying in recent years, both of them ranking in the top 90 firms for lobbying expenditures, according to data prepared by the Center for Responsive Politics. In addition J.P. Morgan contributed over $5 million to federal candidates and parties in 2012, compared with $2.6 million in the last election cycle for Citigroup. And both firms have strong connections on Capitol Hill and the White House. Citi, for example, includes among its stable of lobbyists former House Speaker Bob Livingston (R-La.) and former Senators John Breaux (D-La.) and Trent Lott (R-Miss.).

Former House Financial Services Committee Chairman Barney Frank on Wednesday also urged his former colleagues to reject the omnibus appropriations bill. He called the amendment inserted into the bill "a substantive mistake, a terrible violation of the procedure that should be followed on this complex and important subject, and a frightening precedent that provides a road map for further attacks on our protection against financial instability."

Frank added that "ironically it was a similar unrelated rider put without debate into a larger bill that played a major role in allowing irresponsible, unregulated derivative transactions to contribute to the crisis." He said people could disagree about how best to regulate derivatives but that the way to do that was "not for a non-germane amendment inserted with no hearings, no chance for further modification, and no chance for debate into a mammoth bill in the last days of a lame-duck Congress."

Steven Mufson covers the White House. Since joining The Post, he has covered economics, China, foreign policy and energy.

Tom Hamburger covers the intersection of money and politics for The Washington Post.