Banks Rush to Shape Rescue Plan

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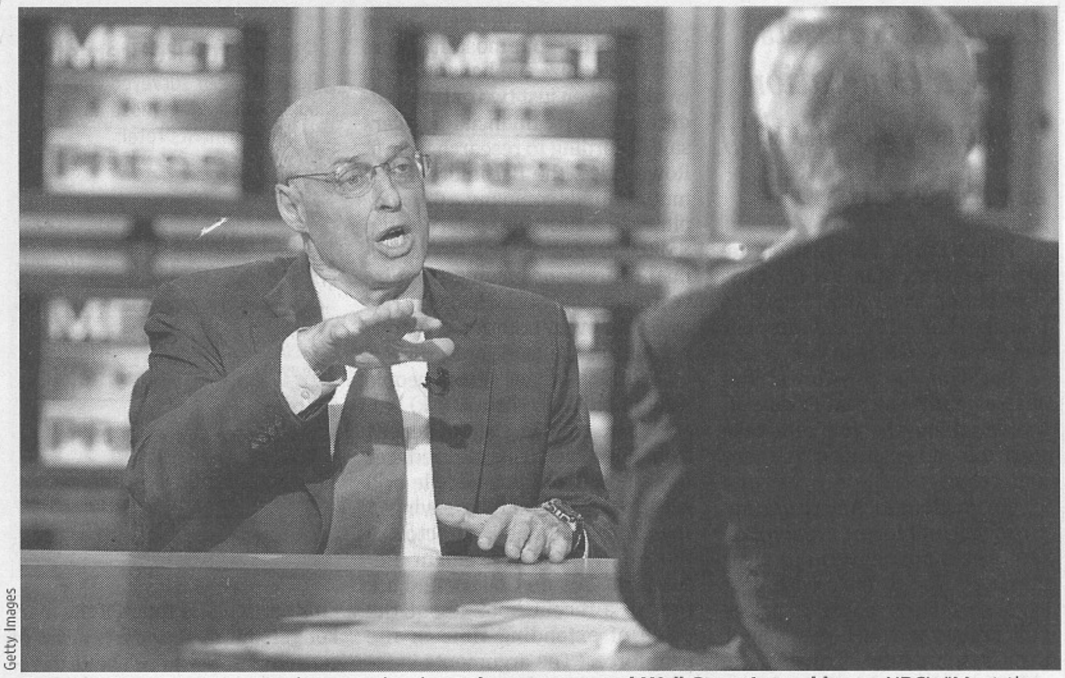
Lobbyists Face Small Window; No Time for Subtlety

By Elizabeth Williamson



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Treasury Secretary Henry Paulson speaks about **the economy and Wall Street's troubles** on NBC's "Meet the Press." Lobbyists are targeting him and other key players in Washington as they seek input into the rescue bill.

WASHINGTON—With as few as 72 hours before Congress votes on a federal financial-markets rescue, the financial industry has launched a ferocious effort to shape key provisions, in a fight that could yet stall the bill.

Lobbyists and financial-services executives are working deep connections within the administration to ensure as many institutions as possible benefit from a $700 billion federal mechanism to buy distressed assets, then sell them off in better times. In a particularly controversial move, they also oppose proposals by Democrats in Congress to provide mortgage reductions for homeowners facing bankruptcy. Bankers say such a move would raise rates for mortgage seekers, as banks factor in the possibility that a loan would be restructured in court.

"There's no time for subtlety," says Scott Talbott, senior vice president of government affairs at the Financial Services Roundtable, chief executives of the nation's most powerful banks, brokerages and insurers and a leader in the lobbying. "This is the Super Bowl and New Year's Eve of legislation."

But even as they press for changes that could determine which businesses survive the crisis, some lobbyists worry that questioning the $700 billion rescue plan sets up the industry for a public—and regulatory—backlash.

"How you publicly oppose loan modifications and bankruptcy law while at the same time advocating a huge taxpayer bailout is beyond me," said a lobbyist for a major bank holding company. "Pigs get fat and hogs get slaughtered."

Already, Democrats in Congress are talking about a regulatory crackdown.

"Next steps should also include an examination of the failed management and failed regulation of the financial markets and how it led us to this remarkable and historic crisis," House Majority Whip James Clyburn, of South Carolina said in a statement.

Foreign-owned institutions with U.S. mortgage-market exposure are fighting to benefit from the federal rescue. Influential Democrats, including Illinois Sen. Dick Durbin, the Senate majority whip, are said to oppose including foreign banks in a taxpayer-backed program. But late Saturday, lobbyists won the support of Treasury Secretary Henry Paulson to extend the government asset buys to a range of institutions that could potentially include insurance companies.

Sen. Durbin is sensitive to the fact that there are foreign-owned banks that employ a significant number of people in Illinois and across the country," said Durbin spokesman Joe Shoemaker. "But, his focus right now is on protecting the interests of the taxpayers and homeowners and ensuring that we place appropriate oversight over the banks that are being bailed out."

The industry has gone directly to the SEC demanding a letter changing U.S. accounting rules that require banks to state the value of their assets at the market price. Banks say that without such a change, the government would pay an artificially low price for distressed assets. But they face steep opposition to what some regulators and lawmakers say would lead to misleading financial statements.

In a skirmish with longstanding roots, banks and brokerages have banded together to push back against any effort by Congress to include a provision in the bill allowing judges to decrease the amount homeowners must pay on mortgages that are part of a bankruptcy proceeding.

The urgency of the situation and Congress's schedule leaves no time for traditional lobbying—which can involve months and even years of coalition-building, personal contacts, and campaign support to attract sponsors for changes the industry wants. Instead, lobbyists and industry CEOs worked the weekend on email, home phones and conference calls.

On Sunday, Mr. Talbott, attending a Redskins game with his wife, saw little of it. He spent most of the game typing on his blackberry, reviewing progress on the group's agenda.

By Sunday, the group had gained the support of Treasury Secretary Henry Paulson for its stance that foreign-owned banks must be included in the rescue.

When the contours of the plan were unveiled Saturday morning, it included only banks with headquarters in the U.S.

"We suggested that they make it explicit and put some flesh on the proposal, that a foreign flagged bank with significant U.S. mortgage presence...should be included," Mr. Talbott said. "They need to have broad authority and flexibility to send the relief where it would do the most good."

Within hours, Treasury issued a revised communiqué, that echoed the Roundtable's own wording: Banks with "significant operations" in the U.S. should be included. Further, the Treasury should be allowed to include other institutions at its discretion, leeway that could potentially include insurers' assets in the buy-up plan.

"If a financial institution has business operations in the United States, hires people in the United States, if they are clogged with illiquid assets, they have the same impact on the American people as any other institution," Mr. Paulson said on ABC News's "This Week with George Stephanopoulos," Sunday.

"This is about protecting the American people and protecting the taxpayers. And the American people don't care who owns the financial institution."

The Financial Services Roundtable and the American Bankers Association oppose proposals supported by some Democrats that would allow judges to order mortgage reductions for bankrupt homeowners. Ed Yingling, president and CEO of the bankers association, has said the issue is a vital one for bankers, who believe the possibility of a modification down the road would raise mortgage rates.

The Roundtable, bankers association and some individual banks also have teamed up to push for a change in how assets are valued on companies' financial statements, seeking valuation based on purchase rather than market price.

In a speech Thursday at a conference in New York, Robert Herz, chairman of the Financial Accounting Standards Board, pointedly addressed industry criticism of using market, or fair, values. There are "clearly issues with fair value, particularly in illiquid markets," Mr. Herz said. But the alternative, he said, is to suspend reality and deceive investors with overly optimistic financial reporting.

"That is what Japan tried to do rather unsuccessfully for over a decade," he said.

—Ken Brown and Kara Scannell contributed to this article.