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No Celebration for Lobbyists

By ELIZABETH WILLIAMSON

WASHINGTON -- Lobbyists for the financial industry worked hard in the run-up to Monday's vote to weaken elements of the financial-rescue package that amounted to punishment for the institutions whose failures ignited the crisis.

Now lobbyists are wondering how to get the deal passed.

"I think what we need to do is go back and make significant changes, not just tweaks," said Scott Talbott, senior vice president at the Financial Services Roundtable, which led the industry charge on the bill. "Everything's on the table."

Until the package's defeat in the House on Monday, the financial-services industry's lobbyists had won important victories.

The bill that came to the House floor Monday didn't include a measure held dear by many Democrats: mortgage reductions for homeowners in bankruptcy proceedings. That was rejected as a "deal killer" by financial houses and their allies in Congress.

The size of equity stakes for the Treasury in firms that participate in the rescue -- one means of recouping any taxpayer losses -- was left unspecified. Limits on executive pay were applied sparingly. Procedures for selling assets bought by the government were left up to Treasury, which was left to choose its own advisers on the sales -- likely from the industry itself.

In the wee hours of Sunday, a proposal to tax the financial-services sector for any net losses on Treasury's sale of assets five years down the road was changed -- ceding vague authority to the president. Trade groups from the sector managed to penetrate a sealed meeting in Congress by spamming scores of lawmakers and staff.

"This bill is a clear win for the largest institutions in the system...a way of dumping assets without having to fail or close," said **James Rickards**, former general counsel for Long Term Capital Management, who negotiated a federal

bailout for the defunct hedge fund in 1998, and is now senior managing director at Omnis Inc.

"The idea that taxpayers are not going to lose money on this is ridiculous."

Late on Saturday night, as key lawmakers and their staffers huddled over final language, the American Bankers Association got word that fiscally conservative Democrats in the Blue Dog coalition had proposed a tax on the financial sector to recoup any net losses from sales of government assets. The tax would take effect in five years.

"We said please don't do this...you would impose a tax on banks that had never made one subprime loan," said Ed Yingling, president of the American Bankers Association.

Raising the prospect of another expense for banks so far in the future would "put a cloud over bank stocks," Mr. Yingling said. The group and its lobbyists bombarded Congress with emails opposing the measure, in hopes some would pass the message inside the closed meeting -- where even Blackberrys were collected for secrecy. Legislators weakened the tax measure, leaving it at the discretion of the president, who would have to propose it separately, in five years.

Supporters of the bill and outside analysts say last-minute tinkering was focused on making the bill palatable to both parties in Congress. Giving the Treasury broad flexibility to craft rules was necessary to avert a market crisis nearly unprecedented in history, they say.

Lobbyists say that Congress's decision to punt to the Treasury on so many issues would have given them at least 45 days to press for more favorable terms over asset sales, oversight and taxpayer reimbursement.

In the end, the maneuvering helped fan voter anger at what many called a Wall Street bailout. Despite a last-minute push for speed by more than two dozen industry groups, and dire threats of financial ruin coming from Treasury, the Fed and the White House, lawmakers from both parties bolted.

Opposition came from fiscal conservatives -- but it also came from the congressional black and Hispanic caucuses, whose communities are hit hard by the housing crisis.

"People from districts that have higher foreclosure rates are more likely to question why we are bailing out one group of people and not my people?" said Steve Elmendorf, a former Democratic House leadership aide and president of lobbying firm Elmendorf Strategies.

Lobbyists say the options being discussed now include substantive ones, like

broadening Federal Deposit Insurance Corp. coverage to protect community bank depositors, and procedural ones, like crafting a version of the bill that only Democrats could support. But in the hours after the vote, one lobbyist said, "We've got nothing."

"In the end, it either sails or doesn't as a bipartisan effort," Mr. Elmendorf said. "But anything you add potentially drives some people away."

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