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Obama Pressing for Protections Against Lenders

By JACKIE CALMES and SEWELL CHAN

WASHINGTON — President Obama on Tuesday stepped into the middle of a fierce lobbying battle by reinforcing his support for an independent agency to protect consumers against lending abuses that contributed to the financial crisis. The president's move also signaled a tougher line and a more direct role as Congress weighs an overhaul of banking regulation.

The financial industry and Congressional Republicans have singled out the administration's proposed consumer agency in particular, hoping to greatly weaken if not kill it. With liberal Democrats and Web commentators fighting just as hard for a strong independent office, the issue is becoming the central flashpoint in the debate over regulation.

Mr. Obama personally weighed in on Tuesday in a one-on-one meeting at the White House with Senator Christopher J. Dodd, Democrat of Connecticut and chairman of the Senate Banking Committee. Reports last week suggested that Mr. Dodd might drop the consumer agency from the emerging Senate bill in order to attract support from Republicans and some centrist Democrats on his committee, but Democratic aides disputed that.

Some Democrats in Congress and the administration describe a possible fallback position that would give enhanced consumer protection powers to existing federal regulators, perhaps to the Treasury. The banking lobby would prefer that over an independent agency.

While administration officials declined to discuss the Obama-Dodd meeting, one said the president's proposal for a consumer protection office was "nonnegotiable." The administration sees political advantage in that position, believing that a consumer protection agency is the element mostly likely to be popular with the public in a complicated bill.

Coming days after Mr. Obama proposed a new tax on the nation's biggest banks to recover taxpayer losses from the 15-month-old financial bailout, the meeting on Tuesday suggested the White House would become more active in taking on industry lobbyists who have gained the upper hand in the Senate, winning support from Republicans and some moderate Democrats.

More broadly, Democrats say that Mr. Obama's stances on the consumer agency and the new tax on big banks, together with his public comments assailing the banks, suggests an effort to position himself as more of a populist fighter at the opening of a midterm election year.

As the president ends his first year in office, he confronts lower poll numbers and a perception among many liberals and independents that his administration has been too close to Wall Street and more consumed by overhauling health insurance than fixing the overall economy.

That narrative forced a political recalibration at the White House even before Democrats this month found their party in a sudden fight to keep the Massachusetts Senate seat long held by Edward M. Kennedy — a race interpreted partly as a referendum on the Obama administration. The unexpected competitiveness of that contest has accelerated the partisan skirmishing typical of an election year.

Rhetoric aside, administration officials say Mr. Obama's positions are nothing new. "These are things he's been fighting for since long before he took office," said Jennifer R. Psaki, the deputy White House communications director. But many Democratic operatives and activists say it is past time for the White House to become more engaged in challenging Republicans, and that the administration's reticence about appearing too partisan has enabled the out-of-power Republicans to shirk any responsibility for the financial crisis and high deficits Mr. Obama inherited.

"The midterm elections started for the Republicans the day Obama was sworn in and they declared war on him from the get-go," said Geoff Garin, a Democratic consultant and pollster.
Mr. Obama's push for bank fees and now for the consumer protections comes just as the largest banks are about to announce their multibillion-dollar bonus packages for top executives and earners — as he noted in recent days in some of his most populist comments to date.

In Boston on Sunday to campaign for the Democratic Senate candidate, Martha Coakley, Mr. Obama seized on the bank fee issue to distinguish her from her Republican rival, Scott Brown.
"Instead of taking the side of working families in Massachusetts, Martha's opponent is already walking in lockstep with Washington Republicans, opposing that fee, defending the same fat cats who are getting rewarded for their failure," Mr. Obama told the appreciative crowd.
But banking lobbyists say such offensives will not help Mr. Obama.

"Maybe the administration will decide that they want to turn this into a partisan battle but, coming out of health care, I don't think the majority of senators want to have a partisan battle," said Edward L. Yingling, president of the American Bankers Association. "They want a bipartisan bill."

Yet many Democrats and liberal activists are holding Mr. Obama to his proposal for an independent office for consumers' financial protection.

"The consumer agency is the litmus test," said Elizabeth Warren, the Harvard law professor who has been an outspoken chairwoman of the Congressional Oversight Panel on the financial bailout.

"Is the financial reform bill designed to paper over problems and continue to protect the banks, or is this bill about serious reform?" she continued. "It's the banks versus the people, and it's time to choose. For me, that's the frame, and that's what the conversation is about. If the White House forces that choice on the Congress, then we're getting the leadership we need."

As proposed by the Obama administration last June, the Consumer Protection Financial Agency would be governed by a board appointed by the president and financed partly by fees on the regulated companies.

Mr. Obama proposed that it would have power over banks, credit unions and mortgage brokers, and oversee products including mortgages, credit cards, loan servicing, consumer-reporting data, debt collection and real estate settlements. But the House, in the regulatory bill it approved last month, exempted smaller community banks, credit unions, retail merchants and certain other companies — leaving mainly big banks under the agency's oversight.

Now in the Senate, the proposal for an agency has faced stiff opposition from Senator Richard C. Shelby of Alabama, the senior Republican on the Banking Committee, and come under intense criticism from the industry.