



**Americans for Financial Reform**  
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April 23, 2010

The Honorable Harry Reid  
The Capitol, S-221  
Washington, DC 20050

Dear Senator Reid:

As members of Americans for Financial Reform, a coalition of more than 250 consumer, labor, investor, community, civil rights and business groups, we write to you today to convey our support for strong financial reform legislation that will prevent another financial crisis, end the casino economy, and hold big Wall Street banks accountable.

It has been nearly two years since American taxpayers were forced to bail out the big banks, whose reckless gambling brought them to the brink of ruin and almost took down the world financial system. It is time for the Senate to act, and we applaud you for bringing financial reform legislation to the floor that provides a framework for putting our financial system back to work for Main Street. We are urging Senators to support and strengthen this legislation, and to stand firm in your commitment to making the changes that our families and our economy need.

#### Consumer Financial Protection

Consumers need a strong, independent Consumer Financial Protection Agency with the reach and enforcement authority over banks and non-banks to end abusive practices that harm individual consumers and can damage the stability of our financial system. We will oppose any efforts to weaken the consumer agency or add carve-outs by car dealers, payday lenders or any other industry, and we will support needed improvements to its independence and enforcement scope. Preserving state ability to enact and state attorney general ability to enforce the laws is critically important.

We are also particularly concerned that the regulators who failed to protect consumers in the past must not be given veto authority over the agency's decisions. The appeal to any systemic risk council should be removed entirely; further, we oppose allowing the standard of its decision making to be lowered from systemic risk or lowering its decision-making threshold to simple majority. These weakening changes could destroy the effectiveness of the agency.

#### Derivatives

Regulation of the derivatives markets that requires clearing and exchange trading, with any exceptions sharply limited and narrowly defined so that they cannot undermine the purposes of the regulation, is vital to the safety of our financial system. The legislation

reported out by the Agriculture Committee forms a good basis for this system. We will strongly oppose what we expect will be forceful efforts to weaken it, and we will support changes that ensure that all loopholes are closed, and that good laws can be effectively enforced. An unregulated derivatives market was a central cause of the financial crisis; regulation will be a sham if loopholes undercut it.

#### Hedge Funds and Private Equity

Other pieces of the shadow market must also be brought into the light of day. The legislation currently includes new regulation for hedge funds, but exempts private equity and venture capital. We believe that these must be included as well. Private equity investment strategies can cause a systemic threat to the economy because the increased debt held on a company's balance sheet could cause company instability and subsequent default. Defaults would result in enormous losses to banks and investors, and job losses for many of the millions of Americans currently employed by private-equity owned firms. At minimum, regulators should oversee hedge funds, private equity and venture capital and should be given authority to require these funds to make disclosures to investors and creditors as was recommended by President Obama last summer.

#### Resolution Authority/Systemic Risk

AFR believes that in order to prevent future crises and bailouts, and end the “heads we win, tails you lose” gambling that caused the most recent financial crisis, we must both prevent excessive risk taking and speculation, and have in place an orderly system for liquidating failed institutions. We therefore support the bill's approach to extending prudential regulation over shadow markets and expanding resolution authority.

However, regulator deference did not prevent the last crisis. We are calling for structural changes written into law, such as a statutory leverage limit and a size cap on financial institutions as proposed in the Brown-Kaufman-Casey-Whitehouse proposal. We believe that 'Volcker rule' limits on proprietary trading and other risky behavior are essential to meet the test of true reform, and must be strengthened as in the Merkley-Levin amendment, and not negotiated away. We are seeking bans on hedging practices that enrich Wall Street insiders at the expense of shareholders (as in the Menendez executive stock hedging amendment) and clients (as in the Merkley-Levin "Goldman" securitization conflict amendment).

In the liquidation process, we believe that risky financial institutions should pay in advance, and support matching the House's \$150 billion fund. We support the payment of wages as a priority in settling the claims of unsecured creditors. Finally, to protect taxpayers in liquidation and enforce market discipline, we believe that secured creditors must be exposed to haircuts and derivatives counterparties not given safe harbor.

#### Credit Rating Agencies

The failure of the major credit rating agencies to accurately assess the quality of financial products featured prominently in the systemic breakdown that produced the current crisis. Credit rating agencies are subject to weak regulatory oversight and minimal standards of liability. Critically, the conflicts of interest inherent in the "issuer pays" business model

have corrupted the rating agencies' fundamental mission of analyzing risk. The new standards in the legislation, including increased liability and SEC authority, and reduced reliance on ratings on a case by case basis, must be preserved. We support stronger measures to put credit rating agencies and issuers at arm's length, require post-rating surveillance of securities, and increase credit rating agency accountability.

#### Investor Protections

Protections for average investors have suffered years of neglect, leaving investors with inadequate disclosures regarding the investments they purchase and inadequate protections in their dealings with investment professionals. The bill contains important new protections, but it is missing a vital element – the imposition of a fiduciary duty on all those who provide investment advice to act in the best interests of their clients. We support inclusion of this duty in the final bill. We also support restoring private civil liability against aiders and abettors of securities fraud.

#### Corporate Governance

The corporate governance reforms in this legislation, including say on pay and proxy access, will help hold corporations and their CEO's accountable for risky decisions that fatten their paychecks, but leave millions of Americans jobs and savings at risk. They must remain part of the final bill.

Once again, we thank you, and the entire Senate, for your work on this bill. We ask you to stand firmly with Main Street, and not be swayed by Wall Street pressure, and we look forward to working with you to strengthen and win passage of this fundamentally important legislation.

Sincerely,

Executive Committee of Americans for Financial Reform

Steve Abrecht, SEIU

Heather Booth, Americans for Financial Reform

James Carr, National Community Reinvestment Coalition

Rob Johnson, The Roosevelt Institute\*

Gary Kalman, U.S. PIRG

Dan Pedrotty, AFL-CIO

Nancy Zirkin, The Leadership Conference on Civil and Human Rights

\*For identification purposes only

## **Following are the partners of Americans for Financial Reform.**

*All the organizations support the overall principles of AFR and are working for an accountable, fair and secure financial system. Not all of these organizations work on all of the issues covered by the coalition or have signed on to every statement.*

### **National Organizations**

- A New Way Forward
- AARP
- Accountable America
- ACORN
- Adler and Colvin
- AFL-CIO
- AFSCME
- Alliance For Justice
- American Family Voices
- American Income Life Insurance
- Americans for Democratic Action, Inc.
- Americans for Fairness in Lending
- American Sustainable Business Council
- Americans United for Change
- Business for Shared Prosperity
- Calvert Asset Management Company, Inc.
- Campaign for America's Future
- Campaign Money
- Center for Digital Democracy
- Center for Economic and Policy Research
- Center for Economic Progress
- Center for Responsible Lending
- Center for Justice and Democracy
- Center of Concern
- Change to Win
- Clean Yield Asset Management
- Coastal Enterprises Inc.
- Color of Change
- Common Cause
- Communications Workers of America
- Community Development Transportation Lending Services
- Community Law Center
- Consumer Action
- Consumer Association Council
- Consumers for Auto Safety and Reliability
- Consumer Federation of America
- Consumer Watchdog
- Consumers Union
- Corporation for Enterprise Development
- CREDO
- CTW Investment Group

- Demos
- Economic Policy Institute
- Essential Action
- Green America
- Greenlining Institute
- Good Business International
- Help Is On the Way, Inc
- HNMA Funding
- Home Actions
- Housing Counseling Services
- Information Press
- Institute for Global Communications
- Institute for Policy Studies: Global Economy Project
- International Brotherhood of Teamsters
- Institute of Women's Policy Research
- Keystone Research Center
- Krull & Company
- Laborers' International Union of North America
- Lake Research Partners
- Lawyers' Committee for Civil Rights Under Law
- Leadership Conference on Civil Rights
- MoveOn.org Political Action
- NAACP
- NASCAT
- National Association of Consumer Advocates
- National Association of Investment Professionals
- National Association of Neighborhoods
- National Coalition for Asian Pacific American Community Development
- National Community Reinvestment Coalition
- National Consumer Law Center (on behalf of its low-income clients)
- National Consumers League
- National Council of La Raza
- National Fair Housing Alliance
- National Federation of Community Development Credit Unions
- National Housing Institute
- National Housing Trust
- National Housing Trust Community Development Fund
- National NeighborWorks Association
- National Peoples Action
- National Council of Womens Organizations
- National Workright Institute
- Next Step
- OMB Watch
- Opportunity Finance Network
- Partners for the Common Good
- National People's Action (NPA)
- PICO
- Progress Now Action
- Progressive States Network
- Poverty and Race Research Action Council
- Public Citizen

- Responsible Endowments Coalition
- Sargent Shriver Center on Poverty Law
- Scam Victims United
- SEIU
- State Voices
- Taxpayer's for Common Sense
- The Association for Housing and Neighborhood Development
- The Carrots and Sticks Project
- The Fuel Savers Club
- The Seminal
- UNET
- Union Plus
- United for a Fair Economy
- U.S. PIRG
- Unitarian Universalist for a Just Economic Community
- United Food and Commercial Workers
- United States Student Association
- USAction
- Veris Wealth Partners
- Veterans Chamber of Commerce
- We The People Now
- Western States Center
- Woodstock Institute
- Working America
- World Business Academy
- World Privacy Forum

***State Organizations***

- 207 CCAG
- 9 to 5, the National Association of Working Women (CO)
- AARP Rhode Island
- Alaska PIRG
- Arizona PIRG
- Arizona Advocacy Network
- Arizonans for Responsible Lending
- Arkansas Community Organizations
- Arkansas Public Policy Panel
- Association for Neighborhood and Housing Development (NY)
- Audubon Partnership for Economic Development LDC (New York, NY)
- Aurora NAACP
- BAC Funding Consortium Inc. (Miami, FL)
- Beech Capital Venture Corporation (Philadelphia, PA)
- Bell Policy Center (CO)
- California PIRG
- California Reinvestment Coalition
- Center for Media and Democracy
- Center for NYC Neighborhoods
- Century Housing Corporation (Culver City, CA)
- Changer(NY)
- Chautauqua Home Rehabilitation and Improvement Corporation (NY)

- Chicago Community Loan Fund (Chicago, IL)
- Chicago Community Ventures (Chicago, IL)
- Chicago Consumer Coalition
- Citizen Potawatomi CDC (Shawnee, OK)
- Coalition on Homeless Housing in Ohio
- Colorado AFL-CIO
- Colorado Center on Law and Policy
- Colorado Immigrants Rights Coalition
- Colorado PIRG
- Colorado Spring NAACP
- Colorado Center on Law and Policy
- Community Action of Nebraska
- Community Capital Development
- Community Capital Fund (Bridgeport, CT)
- Community Capital of Maryland (Baltimore, MD)
- Community Development Financial Institution of the Tohono O'odham Nation (Sells, AZ)
- Community Redevelopment Loan and Investment Fund, (Atlanta, GA)
- Community Reinvestment Association of North Carolina
- Community Resource Group (Fayetteville, AR)
- Connecticut Association for Human Services
- Connecticut Citizen Action Group
- Connecticut PIRG
- Consumer Assistance Council
- Cooper Square Committee (New York, NY)
- Cooperative Fund of New England (Wilmington, NC)
- Corporacion de Desarrollo Economico de Ceiba (Ceiba, PR)
- CWA 7777 (CO)
- Delta Foundation, Inc. (Greenville, MS)
- Economic Opportunity Fund (EOF) (Philadelphia, PA)
- Empire Justice Center (NY)
- Enterprises, Inc., Berea KY
- Fair Housing Contact Service OH
- Federation of Appalachian Housing Enterprises, Inc. (Berea, KY)
- Fitness and Praise Youth Development, Inc. (Baton Rouge, LA)
- Florida Consumer Action Network
- Florida PIRG
- Forward Community Investments (Madison, WI)
- Funding Partners for Housing Solutions (Ft. Collins, CO)
- Georgia PIRG
- Grow Iowa Foundation (Greenfield, IA)
- Homewise, Inc. (Santa Fe, NM)
- Humanitas Community Development Corporation
- Idaho Chapter, National Association of Social Workers
- Idaho Community Action Network
- Idaho Nevada CDFI (Pocatello, ID)
- Illinois PIRG
- Impact Capital (Seattle, WA)
- Indiana PIRG
- Indiana University PIRG
- Information Press (CA)
- Iowa PIRG

- Iowa Citizens for Community Improvement
- JobStart Chautauqua, Inc. (Mayville, NY)
- Keystone Research Center
- La Casa Federal Credit Union (Newark, NJ)
- Low Income Investment Fund (San Francisco, CA)
- Long Island Housing Services NY
- MaineStream Finance (Bangor, ME)
- Maryland PIRG
- Massachusetts Consumers' Coalition
- Massachusetts Fair Housing Center
- MASSPIRG
- Michigan PIRG
- Midland Community Development Corporation (Midland, TX)
- Midwest Minnesota Community Development Corporation (Detroit Lakes, MN)
- Mile High Community Loan Fund (Denver, CO)
- Missouri PIRG
- Montana Community Development Corporation (Missoula, MT)
- Montana PIRG
- Mortgage Recovery Service Center of L.A.
- Neighborhood Economic Development Advocacy Project
- New Hampshire PIRG
- New Jersey Community Capital (Trenton, NJ)
- New Jersey Citizen Action
- New Jersey PIRG
- New Mexico PIRG
- New York PIRG
- New York City AIDS Housing Network
- Next Step (MN)
- NOAH Community Development Fund, Inc. (Boston, MA)
- Nonprofit Finance Fund (New York, NY)
- Nonprofits Assistance Fund (Minneapolis, MN)
- North Carolina Association of Community Development Corporations
- North Carolina PIRG
- Northern Community Investment Corporation (St. Johnsbury, VT)
- Northside Community Development Fund (Pittsburgh, PA)
- Ohio Capital Corporation for Housing (Columbus, OH)
- Ohio PIRG
- Oregon State PIRG
- Our Oregon
- PennPIRG
- Piedmont Housing Alliance (Charlottesville, VA)
- Rhode Island PIRG
- Rights for All People
- The Rocky Mountain Peace and Justice Center
- Rural Community Assistance Corporation (West Sacramento, CA)
- Rural Organizing Project OR
- San Francisco Metropolitan Transportation Authority
- Seattle Economic Development Fund dba Community Capital Development
- SEIU Local 105 (Colorado)
- SEIU Rhode Island
- Siouxland Economic Development Corporation (Sioux City, IA)



- Southern Bancorp (Arkadelphia, AR)
- TexPIRG
- The Association for Housing and Neighborhood Development
- The Fair Housing Council of Central New York
- The Help Network
- The Loan Fund (Albuquerque, NM)
- Third Reconstruction Institute (NC)
- V-Family, Inc.
- Vermont PIRG
- Village Capital Corporation (Cleveland, OH)
- Virginia Citizens Consumer Council
- Virginia Poverty Law Center
- War on Poverty – Florida
- Washington Community Action Network
- WashPIRG
- Westchester Residential Opportunities Inc. NY
- Wigamig Owners Loan Fund, Inc. (Lac du Flambeau, WI)
- WISPIRG

***Businesses***

- Blu
- Bowden-Gill Environmental
- Diversified Env. Planning
- Hayden & Craig, PLLC\
- The Holographic Repatterning Institute at Austin
- Mid City Animal Hospital (Phoenix, AZ)
- UNET