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FINANCIAL SERVICES UPDATE - APRIL 15, 2011

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SHUTDOWN AVERTED, HOUSE PASSES BUDGET, DEBT CEILING VOTE NEXT

Last Friday night, Senator Harry Reid (D-NV), Speaker John Boehner (R-OH), and President Obama came to an agreement to fund the federal government for the remainder of the fiscal year, averting a possible shutdown. On Thursday, the House passed the legislation by a bipartisan vote of 260-167. 59 Republicans voted against the bill, and 81 Democrats voted for it. Hours later, the Senate acted with far less suspense but again on a bipartisan 81-19 roll call. With over six months of the current fiscal year already completed, the funding bill reduces the spending level by nearly \$38 billion below what it was when the new Congress began in January, making it the largest one-year cut from the President's budget request in the nation's history.

This Friday, the House approved a fiscal year 2012 budget resolution drafted by Budget Committee Chairman Paul Ryan (R-WI), which imposes \$5.8 trillion in spending cuts over the next decade. The final tally was 235-193, with four Republicans and every Democrat opposing it. The GOP resolution will not be approved by the Senate, and budget resolutions do not go to the president or hold the force of law. However, Ryan has said that the GOP will deem his budget as the ceiling for spending for 2012. For this reason, the most important aspect of the resolution is the allocation it gives to the Appropriations Committee for next year: \$1.019 trillion in non-emergency spending. This number will play a big role in a looming spending fight in the fall. If Republicans and Democrats cannot agree on appropriations spending by September 30, the end of the current fiscal year, the government will shutdown.

Congress will now turn to the issue of raising the so-called "debt ceiling," or the statutory limit on federal debt. The U.S. government had \$14.216 trillion in total debt outstanding as of Monday, and the cap is \$14.294 trillion. The U.S. Treasury Department released a statement saying the ceiling is projected to be breached in the next 30 days, although it could make adjustments to postpone default until early July. On Thursday, Majority Leader Harry Reid (D-NV) said he wants a clean vote to raise the debt ceiling, but Republicans have insisted they want the vote paired with other budget reform measures.

SENATE REPORT CRITICIZES GOLDMAN AND DEUTSCHE BANK FOR ROLES IN HOUSING CRISIS

On Wednesday, the Senate Permanent Subcommittee on Investigations released its report on the housing crisis. The report blamed high risk lending, regulatory failures, inflated credit ratings, and Wall Street firms engaging in massive conflicts of interest. The report criticizes Goldman Sachs

and Deutsche Bank for actively betting against its own clients by taking short positions on mortgage backed securities it sold to them. The report also criticizes mortgage lender Washington Mutual and its regulator, The Office of Thrift Supervision, for failing to correct unsafe and unsound lending practices and obstructing attempts by the Federal Deposit Insurance Corporation to promote tougher oversight.

DOJ ANNOUNCES FORECLOSURE CONSENT DECREE WITH BANKS

On Wednesday, the Department of Justice announced that a consent decree was agreed to between the fourteen largest U.S. mortgage servicers and the Office of the Comptroller of the Currency, the Fed, the Office of Thrift Supervision, and the Federal Deposit Insurance Corp. Associate U.S. Attorney General Tom Perrelli said that the consent decrees addresses a “subset” of issues with mortgage servicers. Banking regulators said the consent decrees will not prevent them from issuing fines later. Comptroller of the Currency John Walsh said there will be civil money penalties. The Federal Reserve also issued a statement saying it plans to announce fines. The banks agreed in the consent decree to conduct a review of all loans that went into foreclosure in 2009 and 2010. They also agreed to improve their foreclosure, loan modification and refinancing procedures by hiring staff, upgrading document-tracking systems, assigning a single point of contact for each borrower, and policing lawyers and vendors. The companies also agreed to end the practice of dual-track foreclosures, in which servicers seize the homes of delinquent borrowers even while negotiating lower mortgage payments.

More Information

If you have any questions regarding any of these issues, please contact:

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