TESTIMONY TO HOUSE APPROPRIATIONS COMMITTEE
Subcommittee on Financial Services & General Government
March 27, 2019

Chairman Quigley, Ranking Member Graves, and members of the subcommittee, thank you for the opportunity to testify before you today on behalf of Americans for Financial Reform. AFR is a coalition of more than 200 national, state and local organizations who have come together to advocate for stronger and more effective oversight of the financial industry. Members of our coalition include consumer, civil rights, investor, retiree, community, labor, and faith based groups[1].

I would like to echo much of what my colleagues who have spoken before me have said about the importance of keeping poison pill policy riders out of appropriations bills. Unfortunately, I wanted to draw your attention to two such policy riders that were inserted into spending deals during conference committees or closed door negotiations. Like much of AFR's systemic risk portfolio, these two such provision, which for those who do not deal with the intricacies of financial regulation, may seem like small changes but add significant incentives for financial firms to gamble in similar ways to pre-Dodd-Frank era and could seriously disadvantage investors or lead to another financial meltdown.

One such provision in last year's omnibus allows Business Development Companies (BDCs), a type of private equity fund sold directly to retail customers, to double their permitted fund leverage from the current 1-1 level (one dollar of borrowed money for each dollar of investor equity) to 2-1. BDCs are already the beneficiary of regulatory exemptions since conventional closed-end mutual funds can only leverage 1-2, or borrow one dollar per two dollars of investor equity.

This increase in permitted leverage will boost returns to the managers of the fund but represents a massive and unjustified expansion in risk to ordinary BDC retail investors, particularly since this fund-level leverage is in addition to the leverage that already exists in risky BDC portfolio holdings. BDCs already charge much greater fees to investors than comparable investment products. This change simply serves to increase profits for private equity managers while harming ordinary investors.

Another such provision which was included in the 2014 Budget deal, allows banks to once again use insured deposits and other taxpayer subsidies and guarantees to gamble in the derivatives markets – a form of activity that was one of the drivers of the 2008 financial crisis and of the economic devastation that followed.

Under the Dodd-Frank financial reform law, bank holding companies must segregate, and independently fund, their riskiest and most exotic derivatives trading so that taxpayers no longer

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[1] http://ourfinancialsecurity.org/about/our-coalition/

need fear being left on the hook for the bets that go wrong. So buried deep in a stopgap government-funding measure, Wall Street got its way by including this measure and undoing a significant piece of Dodd-Frank.

AFR considers these poison pills riders because their only path to passage is through the appropriations process where members have many more concerns than seemingly minor changes to banking regulations. If these bills had been debated through regular order, members would recognize the danger such hastily passed reforms can pose. For these reasons, AFR urges you to resist adding poison pill financial services policy riders to any appropriations bills or omnibus packages passed through this committee that are giveaways to the biggest Wall Street banks that puts the country's financial and economic stability at risk. Thank you.