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Compromise Bill Could Block States on Bank Rules

By STEPHEN LABATON and DAVID STOUT

WASHINGTON — Reaching a compromise on an issue that threatened to derail financial regulatory legislation, the House Financial Services Committee voted on Wednesday to give the federal government the power to block the states from regulating large national banks in some circumstances.

The Obama administration had opposed any efforts by the federal government to pre-empt state officials from imposing more rigorous banking standards. A group of Democrats with close ties to the banking industry had sought a complete federal pre-emption, which would have the effect of sharply limiting any state regulation of banks.

Under the compromise offered by two Democrats, Representative Melvin Watt of North Carolina and Dennis Moore of Kansas, and approved by voice vote, the Office of the Comptroller of the Currency, which regulates national banks, would be able to override the states, but only if it found that the state law “significantly” interfered with federal regulatory policies.

The compromise cleared the way for the House Financial Services Committee to move ahead with plans to approve the creation of a new federal agency to protect consumers from abusive or deceptive credit cards, mortgages and other loans. That vote was expected to take place on Thursday.

On another issue that has been hotly debated for months, the House Agriculture Committee on Wednesday approved a measure to regulate derivatives, the arcane financial instruments that have been linked to the current financial crisis. The Financial Services Committee approved a similar measure last week. (The agriculture panel has jurisdiction because many derivatives involve trading in farm commodities.)

It will be weeks before both houses of Congress act on a final bill to regulate the financial services industry, said

Representative Barney Frank, the Massachusetts Democrat who heads the Financial Services Committee.

Adoption of the compromise proposal on bank regulation was a partial setback for the banking industry, which would like to avoid having to comply with state laws that are sometimes stricter than federal rules.

Still, President Obama and Mr. Frank would have gone further and subjected banks to state laws with no chance for appeal.

While its authors said they were reasonably happy with their compromise, some Democrats on the committee have their doubts. Representative Melissa Bean, an Illinois Democrat, issued a statement saying she would have pushed for even greater federal authority in rule-making, but that flu in her family prevented her from attending Wednesday's session.

"Rolling back this 140-year-old precedent of federal rules to a system of 50 different state regimes increases costs for training and compliance, which gets passed to consumers, as in the insurance industry, where such costs are estimated at $13 billion annually," she said.

Ms. Bean, described by the Almanac of American Politics as a "centrist," issued a statement declaring her support for the creation of a strong consumer financial protection agency that would "put cops on the beat where enforcement has lacked in the past."

Representative Collin Peterson, the Minnesota Democrat who heads the agriculture panel, said derivative regulation was a big step toward passage of broader financial regulation.