WASHINGTON -- After more than four years of blanket opposition to Wall Street reform, House Republicans are finally offering Democrats a deal. But there's a hefty price attached to the GOP's newfound interest in financial regulation. In return for a new policy that would force the Fed to shut down big banks when they run into trouble, Democrats would have to repeal the signature systemic risk reform they passed in 2010, known as the Volcker Rule.

The Volcker Rule bans proprietary trading, risky securities bets that banks place for their own accounts, rather than for their clients. It's designed to ensure that the government perks that banks enjoy -- borrowing money at low rates from the Federal Reserve, guaranteeing their depositors against losses -- do not subsidize risky speculation. Wall Street has been fighting the rule aggressively at the regulatory level with success, delaying its implementation and pillorying the rule with literally hundreds of pages in loopholes and exemptions.

In an interview with HuffPost, the author of the new bill, **Rep. John Campbell (R-Calif.)** presented the GOP's new regulatory trade as an effort to rein in the power of oversized banks.

"There is a broad understanding that 'too big to fail' hasn't been fixed," Campbell told HuffPost.
"The largest banks today have a greater share of the banking sector than they did in 2007. That's bad."

But simply repealing the Volcker Rule outright is not likely to gather much support from either congressional Democrats or financial reform advocates, who have been pressing regulators to clean up the Volcker Rule and implement a straightforward policy preventing banks from gambling with taxpayer guarantees.

"The Volcker Rule has its problems to be sure," former International Monetary Fund economist Simon Johnson told HuffPost. "But the fact that the banks are still fighting against it so hard suggests that it still has some bite."

"One of the big reasons this rule is so complex is to accommodate all the lobbying for exceptions," former FDIC Chairman Sheila Bair told HuffPost a year ago. "Now the lobbyists are arguing against the rule because it is too complex!"

Only three GOP senators and no House Republicans voted for the Dodd-Frank Wall Street Reform and Consumer Protection Act. Since the financial reform bill passed in July 2010, the House GOP has pushed a barrage of legislation to undermine it, seeking to sharply curb funding for the Securities and Exchange Commission, the Commodities Futures Trading Commission and the new Consumer Financial Protection Bureau, which was established by the 2010 bill. In the Senate, Republicans have refused to confirm any director for the CFPB unless Congress changes the new agency's structure.

Campbell's new bill would require the Fed to liquidate any big bank once a specific market measurement of its credit risk gets out of hand. While most of Dodd-Frank focused on giving regulators new authorities to exercise at their discretion, **Campbell's** includes a hard requirement. The Fed would have no choice but to shut down any big bank once the cost of insuring its debt against default reaches one percent of the debt. Banks would also be barred from paying dividends to shareholders once debt insurance costs reach 0.75 percent.

Dodd-Frank includes a provision requiring faltering banking giants to be shut down, but liquidation under **Campbell's** bill would be triggered by a more concrete market-based requirement. Big banks continue to be able to issue new debt at lower prices than their smaller competitors, an indication that investors believe the government will bail out big banks in a crisis.

Banks would also have to raise a substantial amount of new capital in order to protect themselves against heavy losses. **Campbell's** proposal would force banks to raise new debt equal to 15 percent of a bank's total assets. Investors who buy the debt would be last in line among creditors to be repaid if the bank failed, and would have to take a loss of at least 20 percent on their investment. The idea, **Campbell** told HuffPost, is to impose greater market discipline on banks, while giving banks a stronger capital cushion.

"The idea is to put a lot of private capital in front of the taxpayer and make sure that capital is very focused on what the bank is doing and is the canary in the coal mine for the bank taking on too much risk," Campbell said. **"I understand regulators are supposed to do this, but there's nothing like having somebody with skin in the game monitoring that. Markets in general should be monitoring this risk."**

But relying on financial markets to price risk appropriately could simply exacerbate the system's difficulties, Johnson said.

"The market often misprices risk in good times," Johnson said, citing low prices for debt issued by Citigroup in the run-up to the financial crash. Citi ultimately needed hundreds of billions of dollars in taxpayer cash and guarantees to survive the crisis. "In bad times, the market panics, and this mechanism would create the potential for runs through the [credit default swap] market."

Insurance against bank debt, known on Wall Street as a credit default swap, became very expensive during the financial crisis, but never eclipsed the 1 percent threshold for any of the faltering financial titans -- including Lehman Brothers, which filed for bankruptcy in September 2008.

The bill also defines big banks as any bank with at least $50 billion in assets -- a list which currently includes more than 30 banks, according to SNL Financial data. The "too big to fail" problem is concentrated among the six biggest banks, the largest of which, JPMorgan Chase, is more than 45 times the size of a $50 billion bank.

Debt markets and credit default swap markets for banks closer to $50 billion are relatively thin, notes Dean Baker, co-Director of the Center for Economic Policy and Research, which could make some of those firms vulnerable to manipulation under the **Campbell** bill. Sacrificing the Volcker Rule for this kind of reform doesn't make sense to Baker.

"The Volcker Rule is proactive -- don't let banks put themselves at risk. This is reactive, what do you do when a bank is in trouble?" Baker said. "We just saw the Justice Department say they wouldn't pursue a drug money laundering case against HSBC because they were worried about the fallout. Why would we be confident that the Fed would take required steps if HSBC saw its CDS spreads rise?"

Campbell was one of 90 members of Congress -- 81 Republicans and 9 Democrats -- to vote in favor of the 2008 Wall Street bailout and against Dodd-Frank. A former car dealer, he authored an amendment to Dodd-Frank that exempted car dealerships from oversight by the new Consumer Financial Protection Bureau.