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Memorandum

To: Interested Parties

From: Celinda Lake, David Mermin, Rick Johnson, and Zach Young
Lake Research Partners

Subject: Response to Frank Luntz memo on Financial Reform

Date: February 10, 2010

Our Frame – Fairness and Accountability

- **The fight over financial reform is one that progressives absolutely want to have.**
- **We will win by establishing our frame and sticking to it.**
    - The key words are Fairness and Accountability.
    - Financial reform needs to be fair for consumers and small business owners. Americans feel that the system is rigged in favor of powerful special interests with millions of dollars to hire lobbyists and cut special deals. Opponents will look to exploit this fear to sow uncertainty and doubt about reform.
    - Financial reform has to hold big banks, credit card companies, and CEOs accountable. Americans believe these bad actors got off scot-free after wrecking the economy. Now they see CEOs being bailed out, getting obscene bonuses, and fighting against real change.
- **Our enemies are the big banks, credit card companies, Wall Street, and CEOs. Our opponents in Congress are *working for* our enemies in this fight.** Many voters, especially independents, are feeling more inclined to vote for Republicans in recent polling, because they are angry and dissatisfied with Washington. Financial reform is a great issue for crystallizing a fight over the economy and establishing

who is on the side of working families and Main Street, not Wall Street and CEOs. However, right now voters tend to believe both parties in Washington are helping Wall Street while taxpayers are picking up the tab. Americans rank the president and the Republicans within five points on who is better on the economy (47% Obama, 42% Republicans)—the closes that measure has ever been—and give President Obama solidly negative ratings on the economy (45% approve, 53% disapprove).[1]

- **Our opponents are defending the rigged, unfair system we have now. Never forget this. Emphasize early and often that the status quo is unacceptable and the other side wants to keep us going in the wrong direction—the same direction that got us into this economic crisis. Force the other side to defend the status quo, and we win.**

  - ***The status quo is bailouts and huge CEO bonuses.***
  - ***The status quo is what caused the economic crisis that cost millions of Americans their jobs, their homes, and their retirement savings.***
  - ***The status quo is big banks being bailed out, CEOs getting bonuses, and small businesses getting no help.***
  - ***In the status quo, nobody is held accountable and taxpayers pick up the tab.***
  - ***Financial reform is about fairness and accountability.***

- **Good policy is good politics.** While we should not clutter our message with policy details, it is important that financial reform legislation really do what we say it will. If we let the policy suffer by giving in to lobbyists or bargaining away our principles, we will suffer politically. <u>This is the time and place to stand up and be counted and make a stand on behalf of working Americans everywhere</u>. Financial reform and a jobs program will help re-establish progressives' credibility on the economy. Without that, we can't win. Fifty-four percent of voters believe Wall Street and 78% believe large banks have benefited from the government's economic policies. Only 10% and 13% believe they themselves or average working people have benefited.[2]

What Luntz Gets Right—And Why We Still Win

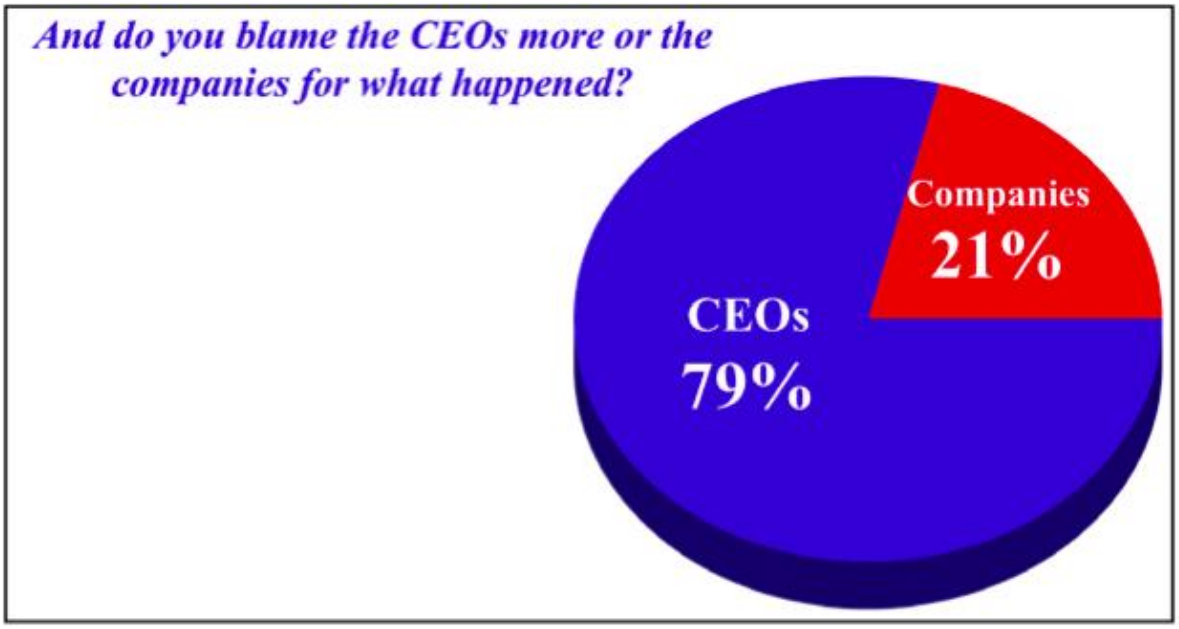
Almost nothing in Frank Luntz's memo is new information. Luntz's findings illustrate that very little has changed. The opposition and the media are treating his memo as if it is some grand new strategy that will sink financial reform. It is not. Instead, it merely reconfirms what we already know and helpfully provides us a blueprint for how to win this fight. Moreover, his messages work only because they build on elements that are actually key to our narrative.

[1] Washington Post/ABC News 2/2010, 1004 adults.

[2] EPI/Hart Research 9/2009, 802 Registered Voters.

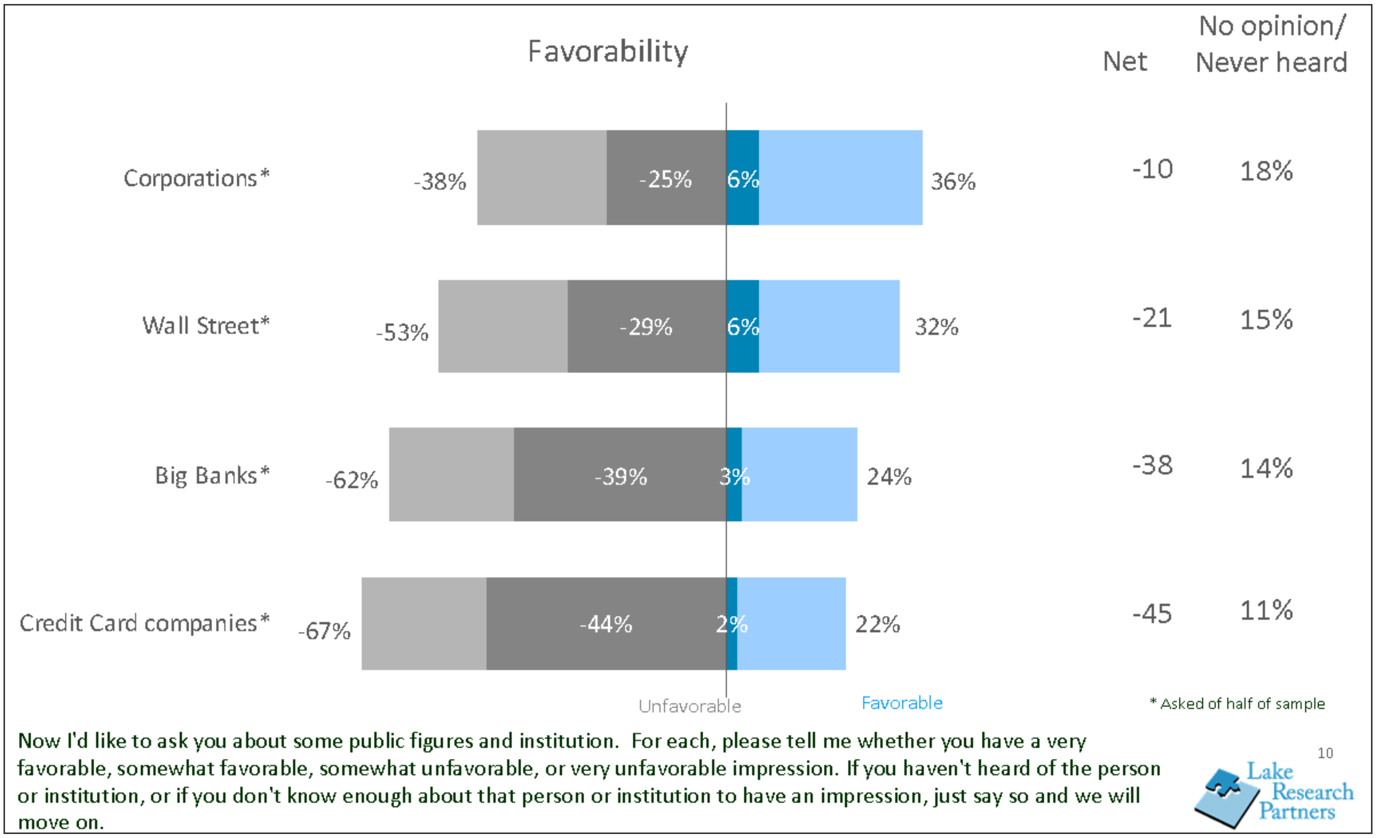
- **Americans blame CEOs, more so even than the companies for the crisis.**
  - In his poll, Luntz asks "And do you blame the CEOs more or the companies for what happened?" Seventy-nine percent said CEOs were more to blame. This finding is consistent with our own research and should be used to sharpen our own messaging. Adding CEOs and CEO bonuses to any message increases the power of the message.

Figure 1
Luntz Shows Voters Blame CEOs



  - **LESSON:** *The financial crisis was caused by the greedy, reckless behavior of big banks, Wall Street, and their CEOs. We bailed them out, and now they're paying themselves huge bonuses*.

Figure 2
Corporations, Wall Street, Big Banks, and Credit Card Companies Are Unpopular[3]



- We are not talking generally about "companies." Our opponents are big banks, credit card companies, Wall Street, and big corporations—all of whom have solidly negative ratings.

- **Americans want reform that ensures the financial crisis never happens again. The status quo is not an acceptable option.**
  - Luntz actually writes that "You must acknowledge the need for reform that ensures this NEVER happens again." However, throughout his entire memo Luntz offers no solutions. In reality, the opposition will be advocating the status quo. Do not allow opponents to get away with claiming that they are for reform while they obstruct and oppose real reform by any means available to them.
  - **LESSON:** *Financial reform is about fairness and accountability. Critics who offer no solutions and want to continue the same failed policies are doing the bidding of the big banks, Wall Street, and CEOs who want more of the same—taxpayer funded bailouts, obscene bonuses, and policies that take advantage of families and small businesses.*

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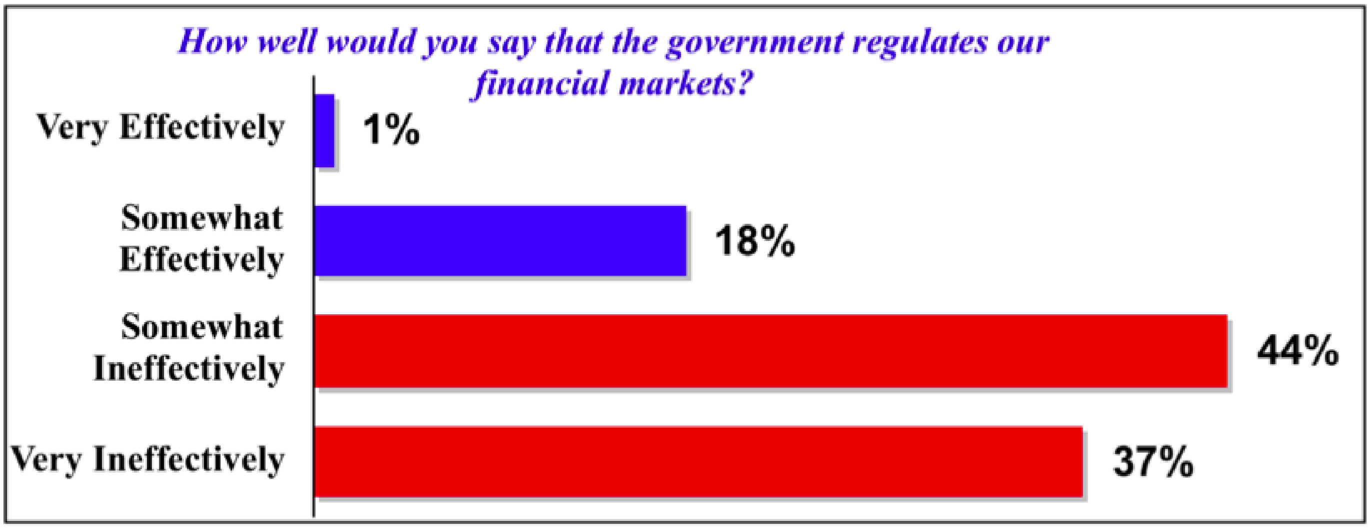
[3] LRP/AFR Poll 10/2009, 900 likely 2010 voters in 77 Blue Dog and Frontline Districts.

- **Americans are questioning the ability of the government to solve problems.**
    - This is absolutely true, and it illustrates the stakes of this debate. All the way back to late 2008, we have been hearing from voters that they want the big banks and credit card companies held accountable. The lack of action on real financial reform has led to an intense frustration and anger that Washington has not been responsive. We saw the results in Massachusetts, and without real financial reform, that race will be a preview of coming attractions.
    - We've found it is helpful to extend the narrative to include the very successful financial reforms that prevented a second Great Depression for over 60 years. Providing this narrative puts the current effort in context. Common sense financial regulation worked before, and we can make it work again.
    - **LESSON:** *After the Great Depression, for sixty years we had rules that held big banks accountable and prevented a financial crisis. But in the last decade, big banks and credit card companies have created loopholes and gotten laws passed to rig the system, allowing them to gamble recklessly with our money while paying themselves huge bonuses. We need real financial reform that brings back fairness and accountability.*
    - We have also found that it is very effective to talk about how financial reforms help average people and how the current situation hurts them. This message, from a January poll by Accountable America, beat a conservative message by 9 points.
    - **LESSON:** *The big Wall St. banks made billions in profits by tricking consumers and families with predatory loans, hidden credit card fees, and exploding interest rates. They got rewarded with taxpayer-funded bailouts for gambling away our retirement funds, college savings, and homes—and destroying over 7 million jobs. Now it's time for real protections for consumers and families. Wall Street criminals need to pay a fine or go to jail for their wrongdoing. And just like we have rules to keep companies from selling us toasters that burn down our homes, we need a competent, independent Consumer Financial Protection Agency to enforce common-sense rules to protect consumers and families from banks and mortgage companies that sell us financial products like loans, credit cards, and mortgages that will destroy our homes, our credit, and our savings.*

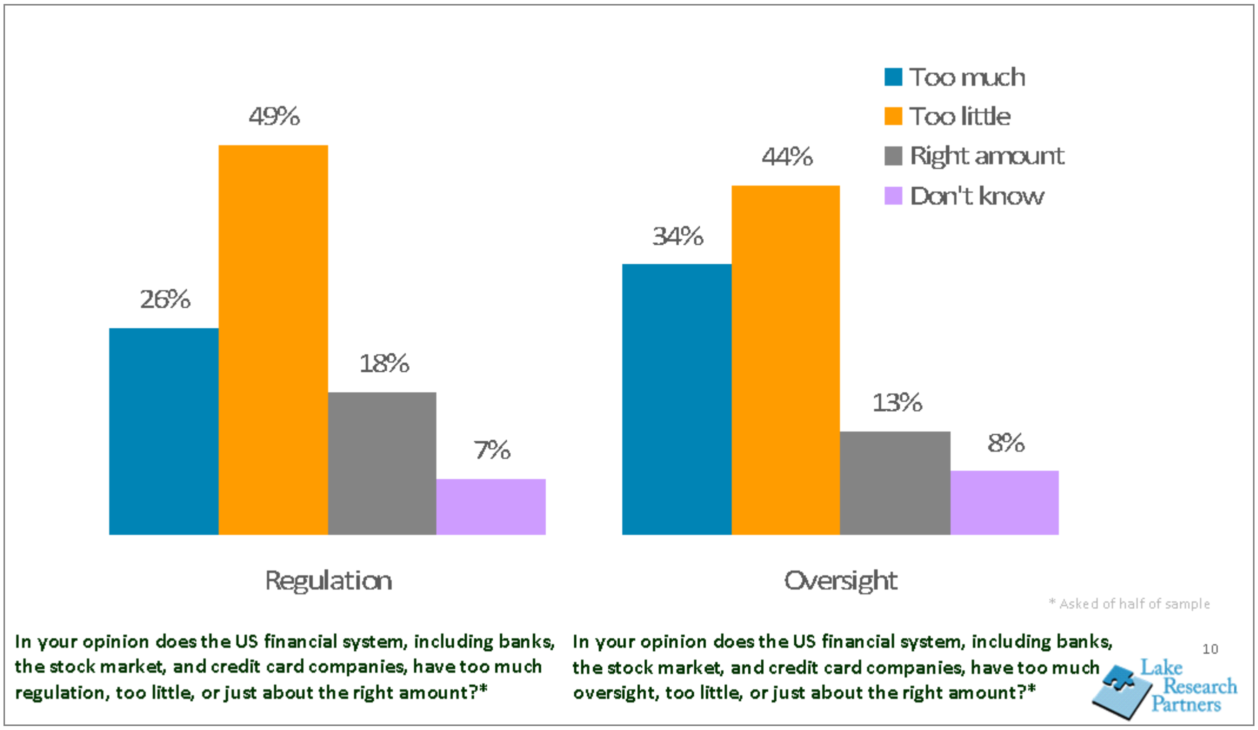
- **People believe the current financial regulations are completely ineffective. We agree.**

Figure 3
Luntz Finds Voters Think Current Regulations Are Ineffective



  - Luntz's result is absolutely consistent with our polling and with common sense. The public does not believe the government is effectively regulating the financial markets because the government is not effectively regulating the financial markets. However, contrary to Luntz's implied conclusion, Americans want <u>more</u> regulation of the financial system, not less.

Figure 4
We Find Voters Believe There Is Too Little Regulation[4]



- **LESSON:** *Our current system of financial regulation is broken. We need real reform and common sense rules that hold big banks and credit card companies accountable and give consumers and small business owners a fair chance at the American Dream.*

Actions To Date Are Unpopular

- **Bailouts are massively unpopular.**
  - Again, Luntz is absolutely right when he says that voters "HATE" taxpayer bailouts of private companies.
  - Luntz finds that voters are less likely to vote for a representative that votes for more bailouts, while we find that that they are less likely to vote for a representative that votes with the financial industry against reform. These findings are completely consistent.

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[4] LRP/AFR 10/2009.

Figure 5
Luntz Finds Bailouts Are Unpopular and A Voting Issue

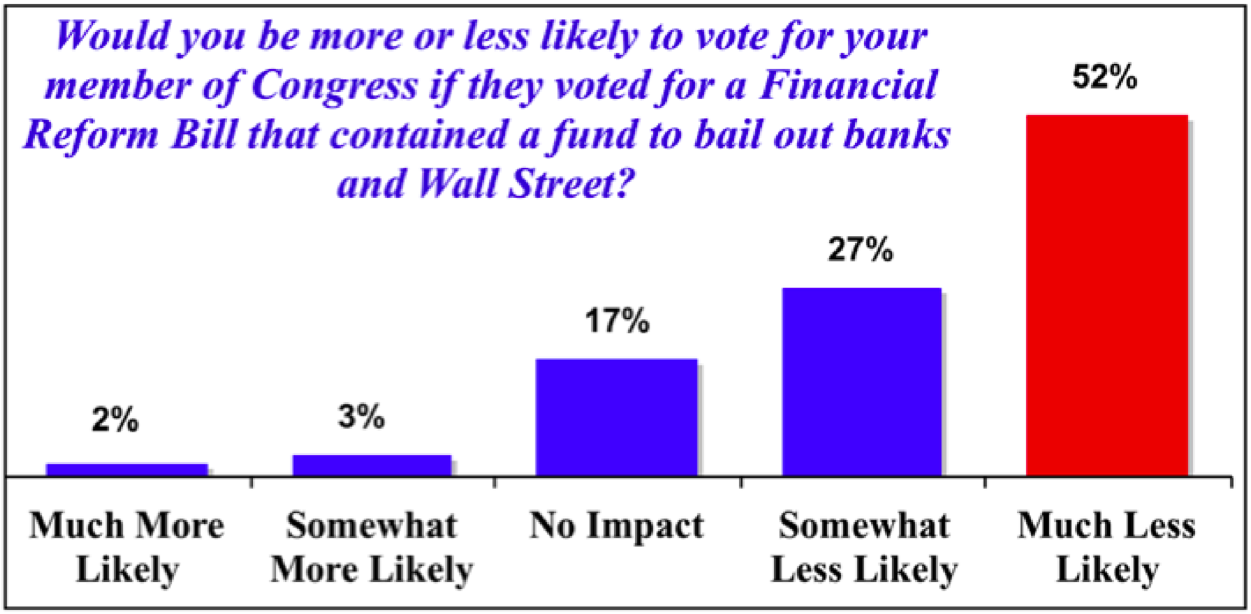
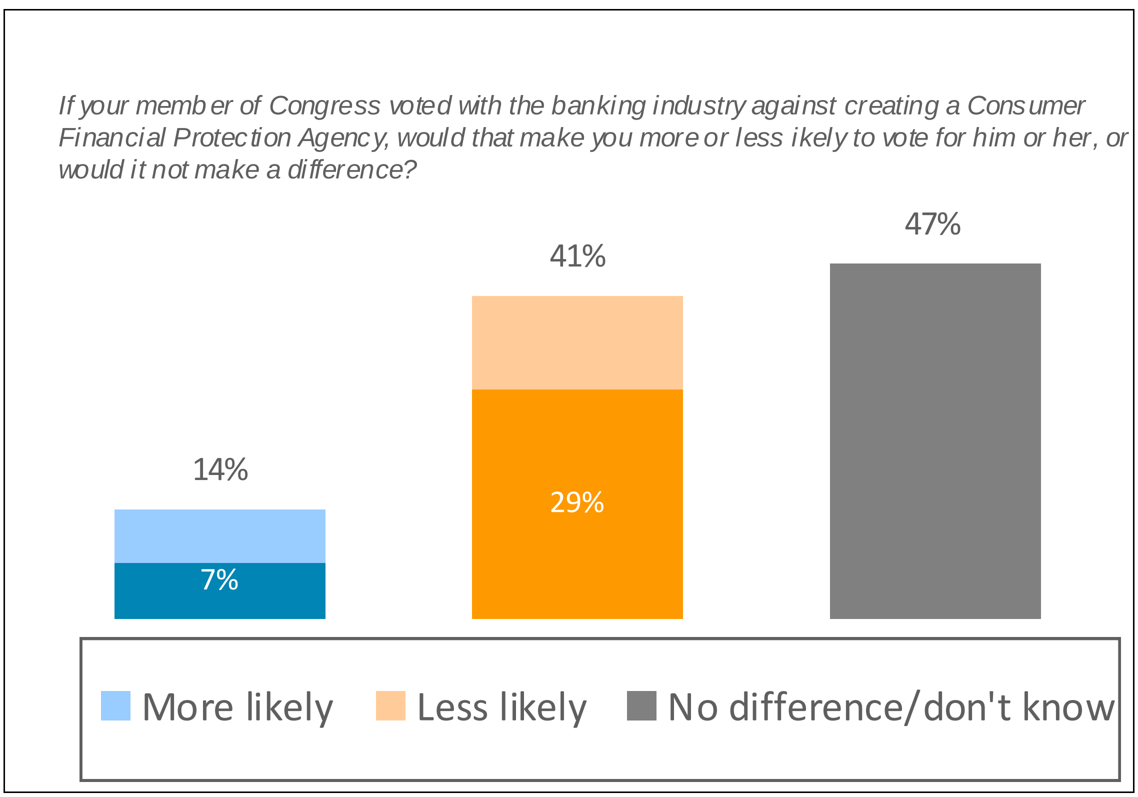


Figure 6
We Find Voting With the Finance Industry Against the CFPA Is Unpopular[5]



[5] LRP/AFR 10/2009

- Opponents will try to label financial reform as “The Big Bank Bailout Bill.” This is a Big Lie tactic that must be confronted and defeated. The most important thing to remember is that bailouts are a feature of the status quo and that the reform bills explicitly require banks to repay bailout funds and protect taxpayers from paying for future bailouts. A vote against reform is a vote for more taxpayer-funded bailouts.
- **LESSON:** *Real, common sense reform will bring fairness and accountability and end the casino culture that let CEOs gamble with our money and then hold us hostage when they lost. Reform will require banks to pay back every cent of our money and protect taxpayers from future bailouts. Those standing in the way of real reform are just defending a system that led to massive bailouts. They want to continue the same failed policies that got us here and favor the big banks and Wall Street.*
- Adding contributions helps reinforce the message. Voters are furious when they hear about contributions that members have gotten from Wall Street and financial institutions. In a poll of “Frontline” and open districts, voters said they were less likely to support a member of Congress who “took hundreds of thousands of dollars in campaign contributions from Wall Street, banks and mortgage companies” by a margin of 55 points. [6]
- The next step is to point to the extreme influence of financial lobbyists and the vulgar amounts of money the financial industry is pouring into the Capitol to try to stop reform.
- **LESSON:** *Financial reform will bring fairness by ending deceptive practices like teaser rates and “small print” that allow big banks and credit card companies to lure us in and jack up interest rates, and it will hold CEOs and big banks accountable by ending the casino and bailout culture. The financial industry is spending hundreds of millions of dollars to buy politicians and muddy the waters because they don’t want financial reform to stop the gravy train.*

- **The public does not want lobbyist loopholes and backroom deals.**
  - As we saw from the backlash to the “Cornhusker Kickback” Ben Nelson engineered in the final days of Senate health care negotiations, voters are very suspicious of the process in Washington. They rightly believe that our representatives should be working in all Americans’ best interest and negotiating in good faith. Backroom deals and the appearance of special interest influence raise fears and incite anger.
  - Opponents, as per Luntz’s advice, will seek to exploit these fears by making the debate about the ugliness of legislative sausage-making. Advocates must not be

[6] LRP/Accountable America 1/2010, 500 likely voters in Frontline Districts and 500 Likely voters in districts with open seats.

sucked into the process mire and must continue to emphasize the goals and tangible benefits of financial reform.

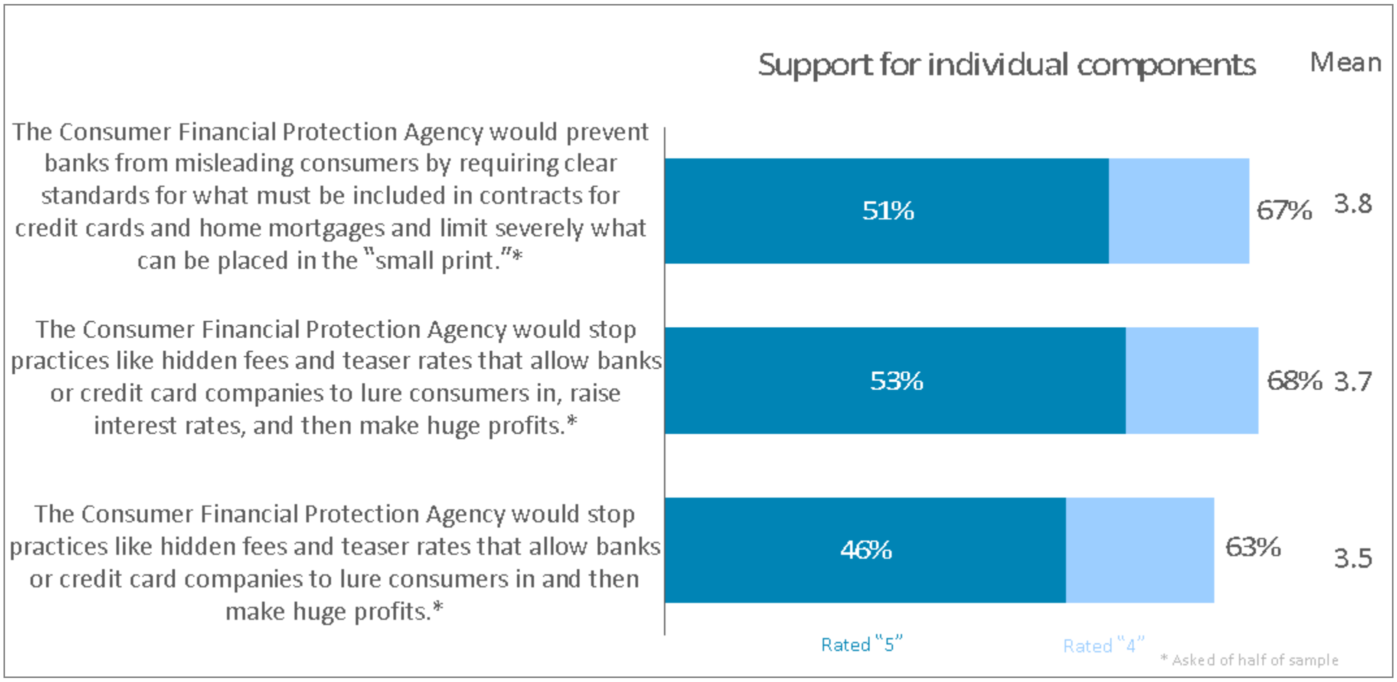
Emphasize Action and Concrete Benefits of Reform—NOT Government and Process

As we have seen in the health care debate, it is much stronger to talk about benefits and actions than to talk about government agencies and process. Voters respond strongly to transparency, the end of fine print and hidden contracts, ending deceptive practices, and capping interest rates.

The key is to talk about the practices that are going to be stopped. Voters don't care as much about the process of having one agency or many. They care about what the CFPA will do, not just about having an agency. It also helps to draw attention to analogies like EPA, FDA, and the Consumer Product Safety Commission to make this reform seem real.

Figure 7

Emphasizing Concrete Benefits of Reform Increases Support[7]



Attacks and Responses

- **The biggest concern about financial reform and the CFPA is that it will be costly and lead to higher taxes.**
    - We found this same fear in our polling. The fear that the CFPA and other financial reforms will cost money and lead to higher taxes is not a conclusion voters automatically reach on their own, but it is highly suggestible, especially among Republicans and independents. As is true with many of the arguments against reform, rebutting this argument means remembering that opponents are defending the status quo and that the status quo is a world of bailouts and $100 million dollar bonuses for CEOs which cost taxpayers a ton.

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[7] LRP/AFR 10/2009

- **LESSON:** *Opponents of financial reform are fighting tooth and nail against common sense rules that will mean no more of the bailouts and huge bonuses that have cost taxpayers trillions of dollars.*

- **Americans want to end the legalese and confusion in contracts.**

  - Luntz takes one of the principal arguments in favor of financial reform and a Consumer Financial Protection Agency and repeats it basically verbatim. In his "words that work," he writes "We must require greater transparency and more easily understood contract language so that consumers have all the information they need." We must own this argument and highlight it. Opponents will try to claim that financial reform is complicated or confusing. We defeat that claim by highlighting that reform is the way to achieve transparency and stop deceptive small print, which is one of the most popular aspects of reform.

  - **LESSON 1:** *We must require greater transparency and more easily understood contract language so that consumers and small business owners have all the information they need. That's why we need a Consumer Financial Protection Agency to end the small print, teaser rates, and deceptive practices of the big banks and credit card companies.*

  - The next step is to push back on the idea that "government makes everything worse and more complicated." Some of the best arguments in favor of the Consumer Financial Protection Agency compare it to other well-regarded government agencies that legitimately make people's lives safer and easier, like the EPA, FDA or the Consumer Product Safety Commission. All of these agencies have solidly positive favorability ratings. Conservatives never attack these agencies or laws like the Clean Air Act and Clean Water Act because they lost those arguments decades ago. Instead, they continue to attack government as bloated and inefficient and simply pretend the counterexamples do not exist. Put opponents on the defensive by comparing the CFPA to the agencies that keep our food safe, drugs effective, water clean, and keep toys from killing our children.

  - **LESSON 2:** *Just like we have rules that keep companies from selling us toasters that burn down our houses, we need common sense rules to keep banks from selling mortgages and loans that will destroy our homes and credit ratings as well. The Consumer Financial Protection Agency will do for financial products the same thing the FDA does for medical safety and the Consumer Product Safety Commission does for consumer products.*

- **Personalize the impact.**

  - Luntz writes that it is "small business **owners**, and not small businesses, that will be harmed by this legislation." While he is dead wrong about the effects of the legislation, he is undoubtedly right that small business owners resonate more strongly than small businesses, just as CEOs are a better enemy than "corporations." We have found over and over that America loves small business and the success or failure of legislation can turn on the public perception of its impact on small business. Advocates should emphasize the benefits to small businesses from real reform and the harm that the financial crisis did to small business in this country.

- **LESSON:** *Small business owners deserve a fair system that works for them. Financial reform will ensure that big banks can no longer swindle small business owners and consumers with deceptive loans and contracts full of confusing "small print" and other abusive practices. Even after the taxpayer-funded bailout, many banks refuse to lend money to small business owners. That needs to end. Many small businesses start out using their credit cards for financing. Reform will end deceptive practices and cap interest rates that hurt small businesses and our families.*

- **Financial reform is needed to restore the American Dream.**

  - Not only is small business ownership about the American Dream, but the entire narrative of financial reform is about the American Dream. For years we have been tracking Americans' conception of what the American Dream means to them. Consistently, we have found that it is about a job that pays well enough to support a family, access to quality, affordable health care, a secure and dignified retirement, and opportunities for children to succeed. The reckless, greedy casino culture of Wall Street has undermined all four pillars of the American Dream and we need financial reform to restore the Dream.

  - **LESSON:** *Financial reform is about restoring the American Dream for working families and small business owners. Real reform will ensure that Americans are rewarded for hard work and good ideas, not reckless financial gambles, and that the economy treats working Americans fairly.*

Playing Offense

Just like in any fight, we can't win this one only by playing defense. We couldn't ask for better enemies in this fight both inside and outside the legislative process. However, we must also remember that we are dealing with opponents who feel completely unencumbered by the truth. Anybody who would call real financial reform "The Big Bank Bailout Bill," as Luntz has recommended, must be directly called out on their dishonesty. We should remind voters early and often that opponents of reform are on the payroll of big Wall Street banks and credit card companies and that they are fervently hoping that nothing ever changes.

Words To Use

- Accountability and Fairness
- Transparency and Openness
- Crack down on fine print, deceptive practices, and high interest rates
- Help hard working taxpayers and small business owners
- Taking on big banks, Wall Street, and credit card companies
- Taking on big bank and Wall Street CEOs
- Ending the status quo and failed policies that got us into this mess
- Protecting people's jobs, savings, and homes
- Taking on the lobbyists

For more information on this Lake Research Partners survey, contact Celinda Lake in our Washington DC office at 202-776-9066 or David Mermin in our California office at 510-286-2097.