

# OBAMA'S PLAN TO OVERHAUL THE FINANCIAL SYSTEM

*The President calls for more regulation – and a more powerful Federal Reserve.*

Provided by Timothy C. Hucks, CEP, President, Rising Tide, Inc.

Since September 2008, the federal government has committed \$10.5 trillion to fixing the economy – bailing out Citigroup, Bank of America, AIG, Freddie Mac, Fannie Mae, Chrysler and General Motors in the process.<sup>1</sup> To try to prevent further economic nightmares, President Obama is proposing a “sweeping overhaul” of the U.S. financial system on a level unseen since the 1930s.

**An answer to “an absence of oversight.”** If enacted, Obama’s plan would hand more power to the Federal Reserve, the Treasury and the Federal Deposit Insurance Corporation, fuse two federal agencies into a single regulator of the nation’s largest banks, create a new agency to regulate consumer financial products, police hedge funds and private equity funds, and rein in the use of mortgage-backed securities.

**The Fed’s role.** Under the plan, the Federal Reserve would become the top watchdog of the U.S. financial system. It would regulate the banks, brokerages, insurers and hedge funds deemed too big to fail, see that they are keeping enough capital in reserve, and respond quickly in a crisis. The goal is to avoid another Bear Stearns or Lehman Bros. debacle, and the system-wide shock that could follow.<sup>2</sup>

**The Treasury could get veto power.** Treasury Secretary Timothy Geithner would chair a regulatory council to work side-by-side with the Fed as it monitors the biggest financial firms. This council could potentially veto emergency loans made by the Fed to financial companies.<sup>3</sup>

**The FDIC could expand its reach.** It would gain the ability to seize and unwind not only banks, but other kinds of financial firms.<sup>3</sup>

**The OTS dies.** If Obama has his way, the much-criticized Office of Thrift Supervision would merge with the Office of the Comptroller of the Currency. This revamp would create a new entity, a National Bank Supervisor to monitor all deposit-taking thrifts. Under current rules, some banks may essentially select their regulator.<sup>2,3</sup>

**The CFPA would be born.** That’s the Consumer Financial Protection Agency. This new office would regulate credit cards, mortgages and other consumer-marketed financial products. It would set guidelines for banks and bank holding companies, and if they got out of line, it would punish them with penalties and fines.<sup>2</sup>

**More scrutiny over hedge funds & private equity funds.** Under the plan, all private equity and hedge funds would have to register with the Securities and Exchange Commission, and throw open their books when regulators demand.<sup>4</sup>

**A tighter rein on securities and derivatives.** Banks that package and sell mortgage-linked securities (and other debt-linked securities) would have to keep at least 5% of those securities on their books. In fact, all financial firms that originate a security would have to retain 5% of the “securitized exposure” and maintain an investment interest in that security even if it is resold. The idea here is to discourage the promotion of exotic home loans and other complex financial products that were half-understood by investors and borrowers.<sup>3,4</sup>

**Will all this change really take place?** It will likely take several months for any version of the Obama proposal to become law. The plan notes that the Fed has “the most experience to regulate systemically significant institutions.” But some Capitol Hill opinion leaders are especially concerned about expanding the Fed’s powers. Even Sen. Chris Dodd (D-CT) is unconvinced. “Giving the Fed more responsibility at this point ... is like a parent giving his son a bigger ... faster car right after he crashed the family station wagon,” he noted, referencing the testimony of former Federal Reserve examiner Mark Williams.<sup>5</sup>

“You cannot convene a committee to put out a fire,” Treasury Secretary Tim Geithner noted June 18, defending the idea of the Fed as the “first responder” to any future financial crisis. But Sen. Richard Shelby (R-AL) pointed out that the Fed could end up regulating “insurance companies, hedge funds, asset managers, mutual funds, and a variety of other financial institutions that it has never supervised before.” Rep. Jeb Hensarling (R-TX), a vocal critic of last fall’s Wall Street bailout, says the plan “disappointed” him: “They essentially leave all the old regulatory infrastructure in place, and then they simply add on to it.” When it comes to regulation of the financial industry, however, many consumers and individual investors may feel the same as Sen. Dodd, who called for “focused and empowered, aggressive watchdogs rather than passive enablers of reckless practices.”<sup>5</sup>

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## Citations

<sup>1</sup> [money.cnn.com/news/storysupplement/economy/bailouttracker/](http://money.cnn.com/news/storysupplement/economy/bailouttracker/) [6/15/09]

<sup>2</sup> [bloomberg.com/apps/news?pid=20601103&sid=aJTI\\_GEOpf8Y](http://bloomberg.com/apps/news?pid=20601103&sid=aJTI_GEOpf8Y) [6/17/09]

<sup>3</sup> [money.cnn.com/2009/06/17/news/economy/regulatory\\_reform/index.htm?postversion=2009061712&eref=rss\\_topstories](http://money.cnn.com/2009/06/17/news/economy/regulatory_reform/index.htm?postversion=2009061712&eref=rss_topstories) [6/17/09]

<sup>4</sup> [topics.nytimes.com/topics/reference/timestopics/subjects/c/credit\\_crisis/financial\\_regulatory\\_reform/index.html](http://topics.nytimes.com/topics/reference/timestopics/subjects/c/credit_crisis/financial_regulatory_reform/index.html) [6/17/09]

<sup>5</sup> [features.csmonitor.com/politics/2009/06/19/congress-%E2%80%93-including-democrats-%E2%80%93-in-no-hurry-to-approve-obamas-regulatory-reform/](http://features.csmonitor.com/politics/2009/06/19/congress-%E2%80%93-including-democrats-%E2%80%93-in-no-hurry-to-approve-obamas-regulatory-reform/) [6/19/09]