Proposed Financial & Insurance Regulations

The Treasury's Office of Comptroller of the Currency and Office of Thrift Supervision would be melded into one National Bank Supervisor tasked with doing just what its name suggests. A new Consumer Financial Protection Agency would be formed to monitor things like credit cards and mortgages. It would have authority to ban any terms or practices it deemed unfair and to punish violators with fines. The Federal Reserve would oversee systemic risk, not only for the nation's banks but for large financial companies like insurers and hedge funds. It would impose higher capital requirements and more regulations supposedly to prevent failures that would threaten the entire financial industry. The secretary of the Treasury would have to approve in writing any emergency funding from the Fed.

The website for Insurance & Financial Advisor on June 17 also mentioned the Obama administration's proposed Office of National Insurance, which would be under the umbrella of the U.S. Treasury. The new office would monitor the entire insurance industry and report to the Federal Reserve any company whose failure would pose a wider threat to the nation's financial system. This proposal is similar to two pieces of legislation currently being debated in Congress, one introduced by Representative Paul Kanjorski (D-Pa.) and the other by Representatives Melissa Bean (D-Ill.) and Ed Royce (R-Calif.).

A Cato Institute blog entry for June 17 pointed to some of the problems with these proposals, saying that while the Obama plan is "focusing on convenient targets," it "ignores the real flaws in our current structure." Fannie Mae and Freddie Mac are nowhere mentioned in the Obama plan, even though "these two entities were the single largest source of liquidity for the subprime market during its height." This glaring omission prompted the declaration: "Any reform plan that leaves out Fannie and Freddie does not merit being taken seriously."

While the Obama plan is keen on suggesting bigger and more intrusive government as the answer to protect consumers, it does nothing to address harmful federal practices that encourage people to own homes that are beyond their means. This would of course require admitting that "the government's own programs, such as the Federal Housing Administration, have been at the forefront of pushing unsustainable mortgage lending." The Cato entry concluded: "The Administration's inability to admit the failures of government regulation will only guarantee that the next failures will be even bigger than the current ones."

This failure to even consider that government regulation could be part of the problem seems to be a weak point of the Obama administration. Despite the president's protestations that he didn't run for office to run banks, car makers, and insurance companies, the only proposals being put forth by his administration are ones that get government more involved in running the private sector.

Bloomberg quoted an apt summary from David Hirschmann, the president of the U.S. Chamber of Commerce’s capital markets center: “We’re concerned that overall, the proposal simply adds to the layering of the system without addressing the underlying and fundamental problems.” Speaking as the head of America’s largest business lobby group, he concluded, “We can’t simply insert new regulatory agencies and hope that we’ve covered our bases.”