Financial Regulatory Reform:
Protecting the American Economy, Increasing Stability and Restoring Confidence

Responsible American families and businesses are paying the price for careless behavior in the financial system and for an outdated regulatory regime that is unable to monitor or safeguard our financial system. The Administration's plan for comprehensive reform of financial regulation will work to make sure that future mistakes by a few will not cause so much harm to so many. It will increase financial stability for the system and for individual families and businesses, and it will protect the American economy and taxpayer.

Increase Stability in the Financial Markets and Help Prevent the Next Crisis

The Financial Crisis Demands Action to Restore Confidence:

- In the three months from October to December 2008, American families lost $5.1 trillion in wealth. Home values and stock prices dropped, putting savings for college and retirement at risk and threatening their economic security. Families are already paying the price everyday for weak regulation and financial instability at the heart of the current crisis. (Federal Reserve 2009)

Stronger Regulation and Capital Requirements for Financial Firms:

- Banks entered the financial crisis with insufficient capital to absorb loss and keep lending to creditworthy U.S. businesses and individuals. Loopholes in financial regulation allowed many of our largest financial firms to operate without effective federal oversight.
- A critical element of our reforms will be to close loopholes in regulation, provide stronger federal supervision of all major financial firms and require financial institutions to hold enough capital to be less vulnerable to financial crises.

Regulate Derivatives Markets, Asset-Backed Securities Markets and Financial Infrastructure:

- The Administration's proposal will bring this previously unregulated market for over-the-counter derivatives under a comprehensive system of regulation. The Administration's proposal would also regulate asset-backed securities markets to help ensure that lenders have strong incentives to make responsible loans.
- While regulators were focused on each institution individually, there was not strong oversight of the connections and interdependencies between firms. The Administration's proposal strengthens regulation of financial infrastructure to help ensure that one firm's weakness does not become a system-wide crisis.

Protect American Families from Abuses in Credit Cards, Mortgages and Investment Accounts

A Dedicated Voice for Consumers in the Consumer Financial Protection Agency:

- With 78 percent of American families using credit cards and 44 percent carrying a balance, deceptive terms and abusive practices affect nearly every American family. More than half of the high cost loans at the center of the mortgage crisis were made to middle class families and in middle class communities. And yet there was no federal regulator dedicated to consumer protection. (Federal Reserve 2008, Nilson 2008)
- The Consumer Financial Protection Agency will be a dedicated voice for consumers – enforcing the strong credit card protections right away and preventing abuses in the mortgage market.

Protect Families' Investments and Retirement Savings:

- The $65 billion dollar fraud by Bernard Madoff hurt thousands of individual families and non-profits across the country. We propose to strengthen and aggressively pursue the enforcement of fraud and manipulation across the system.

- The Administration will require registration and investor protection for all advisers of hedge funds, private equity and private pools of capital.
- Today, broker-dealers are not required to act solely in the interests of their clients when offering advice, despite the fact 42% of investors believe that they are required to do so. The legal distinction between investment advisors and broker-dealers offering investment advice no longer makes sense. The Administration would give the SEC authority to require that ALL investment professionals act solely in the best interest of their clients when providing investment advice. (Rand 2008)

Protect the Economy and the Taxpayer from Future Crises in the Financial Markets

New Resolution Authority so that We Never Again Face the Choice between Bailouts and Financial Catastrophe:

- The government has the tools to handle the failure of a bank but no effective means to resolve a non-bank financial firm in extraordinary circumstances, when their failure could pose a threat to the financial system. While most institutions that get in trouble would and should go into bankruptcy, the Administration's proposal gives the government the tools to wind down critically large non-bank financial institutions whose failure would pose a threat to the system in a way that protects taxpayers and the broader economy.

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