Republican Financial Regulatory Reform Plan: Empowering Consumers, Ending the Bailouts and Restoring Market Discipline

- The worst financial market meltdown in U.S. history has shown that our regulatory system is not up to the task of monitoring the safety and soundness of complex financial firms. Comprehensive regulatory reform is needed to restore market discipline; reduce incentives to take excessive, imprudent and systemically significant risks; and help consumers to make informed decisions about the financial products and services they want.

- Republican leaders introduced legislation (H.R. 3310) to bring responsibility to Wall Street and transparency and accountability to our regulatory system. It is premised on three key principles: ending the bailouts once and for all; getting the government out of picking winners and losers in the market; and restoring market discipline so that financial firms will no longer expect the government to rescue them from the consequences of imprudent business decisions.

- The Obama administration and House Democrats want to take us in a different direction that is becoming all too familiar. Like their "cap and tax" and health care legislation, their solution for financial regulation reform is to increase government intervention in the financial markets, ration resources, limit consumer choice, and dictate prices. And they propose to do so at the worst possible time when the economy is struggling to recover and jobs continue to be lost.

- The Democrats would make the Federal Reserve responsible for regulating any financial firm it deems "systemically significant" and for preventing systemic shocks. Historically, the Fed has done a poor job of identifying and addressing systemic risks before they become crises. A prime example of this is the troubled lender CIT which was allowed to convert into a bank holding company and was placed under the Fed's supervision – only after the Fed declared it was "adequately capitalized." This inability to assess risk once again threatens to undermine a fragile economy and erase the $2.5 billion in taxpayer funds provided to the institution by the TARP.

- The Democrats would expand the "too big to fail" approach to respond to problems at large, complex banking organizations by including non-bank financial firms in this category. Their proposal calls for the creation of a resolution authority that promotes continued bailouts and reorganizations of failed institutions, rather than actually unwinding and shutting down their operations. The result will be a permanent bailout agency that will place politics over sound regulation and give firms the incentive to grow even bigger.

- The Democrats plan would establish a massive new government bureaucracy known as the Consumer Financial Protection Agency, which consumers will ultimately pay for, on top of the regulatory patchwork that currently exists. This agency's job is to define which financial products are suitable for consumers, and to determine who qualifies for them. Banks and other providers will be ordered to keep all but the most basic financial products out of the hands of Americans under the assumption that they are not smart enough to understand them. Washington bureaucrats will decide what mortgage you can get, and the type of credit card you can have. The result will be fewer loans for people to buy a car, purchase a home, go to college and start or maintain a small business. The burden of this credit rationing will fall heavily on lower- and middle- class families, the very people we should be trying help, as well as small businesses that create 80 percent of all new jobs.

- Republicans are offering a clear alternative to this “more of the same” approach to reform. To promote effective consumer protection, H.R. 3310 streamlines and consolidates the functions of four bank regulatory agencies, including consumer protection, into a single agency. This removes the largest obstacle currently faced by consumers seeking redress for unfair or deceptive practices but unsure of where to turn, and it creates clear lines of accountability and prevents regulatory authorities from passing the buck. The bill also provides regulators with more investigative and enforcement tools, increase civil penalties, and maximize restitution to victims of fraud.

- To end the bailouts, all failed non-banks would be directed to an enhanced bankruptcy process under the Republican plan. Utilizing the bankruptcy system is essential to getting the government out of picking winners and losers.

- H.R. 3310 would relieve the Fed of its current supervisory duties so that it can refocus on conducting monetary policy. In addition, the Fed would be prohibited from using its authority to respond to “unusual and exigent” circumstances to bail out any specific financial institution, and all transactions carried out under this section would be brought onto Treasury’s balance sheet.

- Republicans are working to ensure that our new regulatory structure provides robust investor, consumer, and taxpayer protection. This means creating smarter, not more, regulation and bureaucracy. It also means ending the misguided government policies that seek to allocate and ration credit, and intervene to prop up failed financial institutions that helped precipitate, and later exacerbate, the crisis. Financial institutions should never again rely on taxpayer handouts.

- Please cosponsor H.R. 3310 by contacting Dave Oxner on the Republican staff of the House Financial Services Committee at x5-1284 or dave.oxner@mail.house.gov.