

From Paulson, a start

by The Milwaukee Journal Sentinel

The Bush administration's blueprint for revamping the nation's financial system is a tacit admission that the system is broken, but the plan rolled out Monday by Treasury Secretary Henry Paulson fails to make all the needed repairs. Still, it's a good place to start, and some of the recommendations deserve immediate attention from Congress.

The plan would consolidate the hodgepodge of regulatory agencies that date as far back as the Civil War while adding new duties for the Fed and creating important new licensing standards for mortgage origination.

It has been clear for months, as Paulson acknowledged over the weekend to *The Wall Street Journal*, that complex financial instruments had outstripped the ability of regulators to respond. The financial system is facing its most severe credit crisis in at least a generation, triggered by the collapse of the mortgage-backed securities market. As Paulson put it: "Everywhere I look, I see the plumbing hasn't changed to meet the realities."

His plan would give the Federal Reserve more power to preserve the integrity of the financial system as a whole, create a super agency to oversee business conduct and consumer protection and eliminate the Office of Thrift Supervision and the Commodity Futures Trading Commission.

But the plan is flawed in some fundamental ways. While it gives new limited authority to the Fed to regulate investment banks, it strips the Fed of some of its authority over depository institutions. While hedge funds and private equity firms would fall under federal oversight, that oversight would be minimal at best. And even though improved mortgage broker oversight should be welcomed, regulation of the industry would remain a patchwork affair.

Furthermore, the plan doesn't address current realities. We remain convinced that a change in bankruptcy law to allow judges to modify home mortgages remains the most efficient, least costly fix for individuals.

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