

Obama Sought a Range of Views on Finance Rules

di Stephen Labaton

WASHINGTON — President Obama's plan to reshape financial regulation, which he will unveil on Wednesday, is the product of weeks of meetings among government officials, financial experts, lawmakers, industry executives and lobbyists, many of whom were invited to help the White House draft the proposal.

Mr. Obama told reporters on Tuesday that a "lack of oversight" allowed what he called "wild risk-taking." He said it led to "very dangerous" conditions that imperiled the global economy.

But executives from an array of industries caught up in the financial crisis came to Washington over the last several weeks to make their case for how the new regulatory landscape should look. They came from big banks and small ones, insurance companies and stock exchanges, hedge funds and mutual funds, and were joined by officials from consumer groups and big labor — often with conflicting views.

Now, lobbyists who lost the initial skirmish inside the administration will head to Congress to try to influence the final product.

The plan the president will formally announce on Wednesday would give the Federal Reserve greater supervisory authority over large financial institutions whose problems pose potential risks to the economic system. It would separately expand the reach of the Federal Deposit Insurance Corporation to seize and break up troubled financial institutions. And it would create a council of regulators, led by the Treasury secretary, to fill in regulatory gaps.

In doing so, the plan seeks to give Washington the tools to police the shadow system of finance that has grown up outside the government's purview, and to make it easier for regulators to head off problems at large, troubled institutions or take control of them if they fail.

"Unfortunately the growth of the nonbank sector as well as all the complexities and financial instruments outstripped those old regulatory regimes," Mr. Obama said in an interview on Tuesday with The New York Times and CNBC.

Although it would strikingly reorganize the regulatory architecture, the president's plan results from many compromises with industry executives and lawmakers, and is not as bold as some had hoped.

Mr. Obama seemed to acknowledge as much when he posed the question: "Did, you know, any considerations of sort of politics play into it? We want to get this thing passed, and, you know, we think that speed is important. We want to do it right. We want to do it carefully. But we don't want to tilt at windmills."

At the White House and the Treasury Department in recent weeks, some insurance companies sought a law that would enable them to get a single federal charter instead of multiple state charters. The insurers lost. Consumer groups argued against the banks in favor of a consumer financial protection agency with broad new authority to protect homeowners from unsuitable loans. The consumer groups prevailed.

The mutual fund industry successfully argued against a proposal by some banks — which are competitors to mutual funds — to give the Securities and Exchange Commission's authority over mutual funds to the new consumer agency.

Hedge funds and dealers in derivatives sought to minimize the extent to which the government will intrude into their businesses. They partly won; the administration will leave many of the details of that authority to lawmakers and regulators. Savings and loan associations argued unsuccessfully against a proposal by the administration to eliminate federal savings and loan charters, which have been subject to less regulation than bank charters.

The administration, which has sought to reduce the corrosive influence of lobbying on policy making, actually encouraged the tussle by inviting executives, academics, former officials and others to the series of meetings overseen by the Treasury secretary, Timothy F. Geithner, and Lawrence H. Summers, the president's top economic adviser. The meetings were often attended by their top aides: the deputy Treasury secretary, Neal S. Wolin, and Diana Farrell, a deputy director of the National Economic Council at the White House.

In the last two weeks alone, the administration has heard from top executives from Goldman Sachs, MetLife, Allstate, JPMorgan Chase, Credit Suisse, Citigroup, Barclays, UBS, Deutsche Bank, Morgan Stanley, Travelers, Prudential and Wells Fargo, among others. Administration officials also discussed the president's plan with the top lobbyists at major financial trade associations in Washington.

The raucous process of overhauling a system that oversees the nation's most influential and affluent corporate interests is not without precedent. In 1913, the year he signed the law creating the Federal Reserve in response to an earlier market panic, President Woodrow Wilson lamented to a friend about banking reform.

"There are almost as many judgments as there are men," Mr. Wilson said. "To form a single plan and a single intention about it at times seems a task so various and so elusive that it is hard to keep one's heart from failing."

President Obama's plan would not consolidate all the banking agencies into one, but it would take some of the existing agencies' powers to oversee mortgages, credit cards and other kinds of consumer debt and give them to a new regulator, tentatively called the Consumer Financial Protection Agency.

The president, however, will ask Congress to merge the Office of Thrift Supervision, the beleaguered agency that missed problems at IndyMac, Washington Mutual and the American International Group, into the Office of the Comptroller of the Currency, a Treasury unit that supervises the largest banks.

The plan would impose tighter rules on banks that package and sell securities that are backed by mortgages and other debt. It would require that companies that issue mortgages retain at least 5 percent of them on their books to discourage companies from marketing unsuitable loans.

It would also require all advisers of hedge funds and private equity funds to register with the Securities and Exchange Commission and open their books to regulators. And it would impose new conflict of interest rules on the credit rating agencies.

The plan is largely the product of extensive conversations between senior administration officials and top Democratic lawmakers — primarily Representative Barney Frank of Massachusetts and Senator Christopher J. Dodd of Connecticut. The two lawmakers head the Congressional committees that will take the first crack at drafting the legislation necessary to make the plan work.

John Harwood contributed reporting.