Obama to Propose Financial Regulatory Overhaul, Create New Oversight Council

White House Says Plan Will Help Prevent Future Crises, Critics Say Administration Is on a Power Grab

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In a move already spurring controversy and criticism, President Barack Obama today will propose the biggest financial regulatory overhaul since the Great Depression, recommending new executive powers and a new government regulatory agency.

"The key thing to say is the status quo is not an option," Christina Romer, chairwoman of Obama's Council of Economic Advisers, said on "Good Morning America" today. "One of the things we've seen from the crisis ... is that there were gaps, there were failures in our regulatory system, and we need to make it better."

Obama said in an interview with Bloomberg Tuesday that there would be consolidation of government agencies, and that some would be eliminated.

"The goal is to integrate the system, make sure that there are not any gaps, and to make sure that we have an updating of the regulatory system that worked back in the 1930s, but doesn't work with the kinds of financial instruments and the kinds of global capital markets that exist today," Obama said. "And we're confident that we've struck the right balance."

White House Details Overhaul of Financial Oversight

There are five key parts to the proposed overhaul, which the administration hopes Congress will pass this year.

First, the administration is calling for the creation of a new Financial Services Oversight Council. Headed by Treasury Secretary Tim Geithner, it would help fill gaps in supervision and identify emerging risks, and also implement stricter capital requirements across the board.

As part of this, the already-powerful Federal Reserve would gain additional authority to serve as the consolidated supervisor at the holding company level of all large, inter-connected financial firms that could pose a systemic risk to the overall system, institutions that would be subject to stricter capital requirements. A new national bank supervisor would conduct prudential supervision and regulation of all federally chartered depository institutions, and the Office of Thrift Supervision would be shuttered.

Second, the government would have expanded powers that would allow it to take over financial firms before they collapse. The administration wants regulation of over-the-counter derivatives such as credit-default swaps, the registration of hedge funds and other private pools of capital, as well as improvements in the regulation of money-market mutual funds.

The administration would impose stricter reporting requirements on issuers' mortgage securities, insist that the originators maintain a long-term financial interest in them and demand new rules for credit-rating agencies evaluating the securities. The Securities and Exchange Commission would take on a larger role in requiring disclosures.

Third, a brand new regulatory commission called the Consumer Financial Protection Agency would be created to help protect consumers dealing with home mortgages, credit cards, student loans and home loans. It would also have the power to crack down on securities markets.

"When you buy a toaster, if it explodes in your face, there's a law that says, 'Your toasters need to be safe,'" Obama said in March on "The Tonight Show With Jay Leno."

"When you get a credit card or you get a mortgage, there's no law on the books that says, 'If that explodes in your face, financially, somehow you're going to be protected.'"

Fourth, the Obama administration wants more power and tools to effectively manage financial crises in the future, a la AIG. The key part of this is giving the government the resolution authority -- similar to the Federal Deposit Insurance Corp.'s handling of failing banks -- to wind down large, failing companies so that they never again are faced with the "bad choices" of either providing emergency bailout money or allowing a potentially devastating financial collapse.

Lastly, the administration will seek similar regulations globally. "We need to level up the playing field globally so there is fair competition based on high standards, not a race to the bottom," a government official said.

Romer of the Council of Economic Advisers, said, "It will be good for the stability of the economy."

Regulatory Proposals Draw Praise, Criticism

Consumer groups hailed the president's proposal.

"It's about time we had a government agency whose only job was to protect consumers in the financial market place," said Travis Plunkett, legislative director for the Consumer Federation of America, a Washington, D.C.-based advocacy group. "If such an agency existed five years ago, we might not be in the economic crisis we are in right now."

But others are wary of the expanded powers of the government. Republicans on Capitol Hill say that with the president and lawmakers already bogged down with health care matters and the auto industry, there is too much being done, too quickly.

They point to the president's spending proposals, government ownership of private companies such as AIG and General Motors, the administration's push for a government-run health care plan to compete with private insurers, and ask if today's remedies are really the solution.

"These kinds of policies are going to work to slow down job growth and prevent private sector from growing," House Minority Leader Rep. John Boehner, R-Ohio, said on "Good Morning America" today.

Boehner and other critics say the expansion of executive powers would mean that the government is deciding interest rates on credit cards and what kind of financial proposals would be available, which is not beneficial for the industry or consumers.

"There certainly are gaps in the current system ... and we need to fill those gaps," Boehner said. "The question is, how big of a foot does the government have to play in the private sector and in our economy?"

Some experts charge that the administration is on a power grab. "It does begin to look like you are getting into a situation where there is no area of American life that isn't going to have an executive office bureaucrat dedicated to it," said Gene Healy, vice president of the Cato Institute, a libertarian think-tank in Washington, D.C.

Romer argued against criticism that these consumer protection measures mean that the government would essentially decide how people manage their pocketbooks.

"We have a lot of those regulations today spread around to a lot of agencies. ... What we're saying is that consumers deserve one agency whose only job is to watch out for them," Romer said, adding that, "This is getting people information, not making choices for them."

The president says these measures would prevent another economic crises.

"The broad principle is that a lack of oversight, a series of regulatory gaps, allowed financial institutions -- not just banks, but non-bank institutions -- to engage in wild risk-taking that didn't simply imperil those institutions, but imperiled the United States' economy and had a profound recessionary effect on the world economy," the president said Tuesday.

Obama is expected to make his announcement today at 12:50 p.m. He will be joined by Geithner, representatives from the regulatory community, consumer groups, the financial industry and members of Congress.

White House officials know that getting these proposals passed through Congress will not be an easy task. But despite the expected resistance, they want to see it get done as soon as possible.

"We don't think the country can afford to wait, and the leadership in the Senate and the House has made it clear that we are going to be acting now on this. We're going to push forward with legislation, we'll be sending legislation up to the Hill shortly," a senior administration official said Tuesday, noting that "there are elements of this that can be done through regulation and international cooperation, and we're pushing forward on those fronts at the same time.

"Our goal is to get it done this year," the official added.

On whether the White House has done a cost analysis for the proposals, the official said, "We have not done a detailed cost estimate, [but] certainly the costs of inaction are rather apparent."

'When Elephants Dance, Grass Gets Trampled'

Even before the president formally introduced his plans for regulatory reform, Congress was fiercely debating them.

"If the administration gets the wrong diagnosis, they're going to get the wrong remedy," said Rep. Jeb Hensarling, R-Texas, a member of the Congressional Oversight Panel. "The administration got the wrong diagnosis. They blame everything on de-regulation. It's not a matter of de-regulation. It's a matter of dumb regulation.

"And so, what the administration has essentially done is left the regulatory infrastructure and most of the regulation in place and then they add on to it. It's kind of like taking rotted wood and putting a fresh coat of paint on it -- to some extent, it doesn't solve the problem and it can make it worse by hiding flaws that lie underneath."

Rep. Scott Garrett, R-N.J., a member of the House Financial Services committee, said the administration's rush to financial regulatory reform was "too much, too soon" and lacked a "coherent overall strategy.

"When the administration continues to meddle and continues to have new proposals and new solutions even before they have a consensus on what the problem was, there is a lack of confidence and trust on Wall Street and Main Street that the administration knows what the heck it's doing," Garrett said. "And in the meantime, both Wall Street and Main Street is going to sit on the sidelines and not invest, you're going to see unemployment go up just because they don't have confidence in the administration that they have the right plan."

Even Democrats expressed doubts about the Fed council.

"This additional responsibility on the Federal Reserve, I believe, is a step too far," said Sen. Mark Warner, D-Va. "My other concern is rooted in the philosophy of this country, which I think has quite honestly served us well. That philosophy is that too much economic power placed in one place puts our system of government at risk."

Sen. Mark Warner, D-Va., used an old African proverb to argue that more power for the Fed was not the solution to systemic risk problems.

"When elephants dance, the grass gets trampled," he said Tuesday. "Well ... we've got a trampled grass problem at this point. And I don't think we can solve it with bigger elephants, whether those bigger elephants are regulators or institutions."

On Thursday, Treasury Secretary Tim Geithner will make his case to lawmakers when he goes to Capitol Hill to testify before the Senate Banking Committee and the House Financial Services Committee.

"Like all financial crises, the current crisis is a crisis of confidence and trust," Geithner and National Economic Council director Larry Summers wrote in the Washington Post Monday. "Reassuring the American people that our financial system will be better controlled is critical to our economic recovery."

"Our goal is to get it done this year," a senior administration official said Tuesday.

But it will be a tough task for the administration to get these plans through Congress, with dissent coming not only from Capitol Hill, but also from vocal industry opposition.

The U.S. Chamber of Commerce acknowledged the need for reforms, but expressed concern about whether the administration and Congress would come up with plans that would strike the right balance.

Chamber Weighs In

"We need to overhaul the system," said David Hirschmann, CEO for capital markets competitiveness at the chamber. "We hope the administration has not listened to those who only want to tinker at the edges. We believe it is the best for our long-term recovery to emerge from this crisis with a comprehensive overhaul and modernization of the regulatory system. If not now, then when Congress should take the necessary time to get it right rather than to move quickly in a piecemeal fashion that will only magnify the weaknesses of the current structure, add band-aids and new layers of regulation to a broken system."

Gerard Cassidy of RBC Capital cautioned that investors and bankers should brace themselves for "very harsh and strict regulations" from Washington. He worries that "an overactive and over-interventionist government could really stifle economic growth."

ABC News' Huma Khan, Sunlen Miller and Susan Rucci contributed to this report.