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Chris Dodd's carve-outs for cronies

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The financial-regulatory bill now before the Senate is so filled with special-interest loopholes and exclusions that it makes the health-care "reform" bill, with its "Cornhusker Kickback" and "Louisiana Purchase," look like a model of rectitude.

The Senate bill, sponsored by Democrat Chris Dodd, claims to subject all "too big to fail" institutions to greater federal supervision, but in fact it only mandates such regulation for bank-holding companies. Regulators would have to make a case-by-case decision on whether to apply it to other financial companies.

That's no minor oversight, because insurance companies, like AIG, tend to have thrift charters rather than bank charters. So, as the bill stands now, AIG and other insurers that accepted massive bailout funds, such as The Hartford, would not be *automatically* covered. That's a head-scratcher only if you forget that most insurance companies reside in Dodd's home state, Connecticut.

But the section of the bill most littered with exemptions is probably the proposed consumer-protection bureau. In some instances, these exclusions actually *roll back* existing consumer protections.

Remember the mortgage crisis? Well, the primary consumer-protection law for homebuyers is the 1974 Real Estate Settlement Procedures Act. The law requires the timely, accurate disclosure of relevant closing costs and prohibits "kickbacks" for the steering of settlement services.

For example, your real-estate agent cannot, under RESPA, be paid a fee for steering you toward a certain home inspector, title company or other closing service. Yet, under the Dodd bill, real-estate agents would be exempted from RESPA. If that weren't bad enough, the Dodd bill exempts insurers and attorneys -- both now subject to RESPA -- from its consumer protections, too.

Having spent some time running the RESPA office at US Department of Housing and Urban Development, I can tell you its biggest lawbreakers are title-company and real-estate agents. It's hard not to conclude that having the largest political-action committee in Washington has turned out to be a smart move for the National Association of Realtors.

Attorneys, insurers and real-estate agents aren't the only ones exempted from the bill's consumer-protection provisions. The Farm Credit System, a government-sponsored lender that directly competes with banks, is excluded, too. Perhaps this should come as no surprise, because Fannie Mae and Freddie Mac, those crackerjack institutions at the heart of the mortgage meltdown, are also exempt. Worse yet is that Wall Street is exempted from the reach of the proposed consumer-protection agency -- its regulation will remain with the Securities and Exchange Commission, which proved itself asleep at the switch during this last period of financial shenanigans.

President Obama proclaimed in his finger-wagging at Cooper Union last week that "unless your business model depends on bilking people, there is little to fear from these rules." If that's true, then I ask the president: Why not apply these rules to everyone?

It would be bad enough if the special-interest carve-outs ended there.

Deep in Sen. Blanche Lincoln's (D-Ark.) bill, passed by the Agriculture Committee last week (it will be merged with the Dodd bill), are exemptions to rules mandating transparency in the trading of complex financial derivatives, such as the credit-default swaps that figured so prominently in the Wall Street meltdown. One of the most troubling is Sen. Debbie Stabenow's (D-Mich.) amendment that would exclude the captive finance arms of certain manufacturers from the bill's requirements that derivatives only be traded over exchanges and through a clearinghouse. Only a handful of firms would be excluded -- chief among them, of course, the automakers.

The Senate financial-regulation bill offers a stark choice: Do we aspire to be a country where everyone is subject to the same rules? Or do we accept a system where power, influence and money can buy exclusions and exemptions?

The public needs to understand that, far from protecting the little guy and sticking it to the fat cats, this bill keeps good, old-fashioned political patronage alive and well.

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