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Obama team pushes Wall Street reforms

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As Congress labors to overhaul the government's financial regulatory system, the Obama administration has taken an active role in helping draft legislation -- a sharp contrast to the White House's more hands-off approach in the health care battle now consuming Capitol Hill.

But the administration's zeal to put its stamp on the most sweeping reform of financial regulation since the New Deal has met with resistance from pro-business Democrats and powerful industry forces worried about possible government overreach.

"We've seen more legislative language on this than on any of the other big proposals from the administration," said Mark A. Calabria, director of financial-regulation studies at the Cato Institute, a libertarian Washington think thank.

"With health care at least, you can argue that it looks like more has been done than there has with, say, financial reform," he added, "so I think there is a real feeling with part of the administration that financial reform has not made much progress" and needs active White House intervention.

House Financial Services Committee Chairman Barney Frank, Massachusetts Democrat, has tentatively announced plans for a markup of an overhaul bill next week. And House Majority Leader Steny H. Hoyer, Maryland Democrat, on Tuesday told reporters that he expects to bring the measure to the chamber floor for a full vote in November.

The prospect of action in the Senate is less certain.

"This has been a heavy lift," Mr. Hoyer insisted Tuesday. "We're moving swiftly."

No domestic issue other than health care has consumed the administration more than shoring up the nation's economy and preventing a repeat of the market near-meltdown of 2008.

President Obama moved quickly to propose a major overhaul of the complex web of government financial regulators, which many blame for failing to predict and prevent last year's crises.

"We cannot ignore the urgent need for action - our regulatory system is outdated and ineffective," said Treasury Assistant Secretary Michael S. Barr last week during a speech to the National Economists Club. "We are working closely with Congress to enact legislation by the end of this year."

The Treasury Department in June delivered to Congress an 88-page outline for a proposed Consumer Financial Protection Agency to protect consumers against abuses such as unscrupulous mortgage deals and excessive credit card rates.

Since then, the administration has sent Capitol Hill hundreds of pages of draft legislation on proposed regulatory reforms, which include beefing up the Federal Reserve's authority to police investment firms and creating an oversight board to monitor the nation's largest financial companies.

Treasury Secretary Timothy F. Geithner has testified before Congress almost 20 times this year in pushing for the administration's plan. He also has regularly held meetings in private with lawmakers on Capitol Hill, including yet another trip Wednesday afternoon for briefings with Mr. Hoyer and other House Democrats.

The president even appealed to corporate executives directly when he traveled to Wall Street last month, arguing they had an "obligation" to support his proposals for greater oversight and restrictions on certain business practices.

But despite the White House push, Democratic leaders have not been reluctant to tinker with the administration's blueprint.

Mr. Frank has rejected a key administration proposal that banks be required to offer customers "plain vanilla" financial products, such as 30-year, fixed-rate mortgages.

The administration had pushed for the mandate to counter the proliferation of "exotic" financial products - particularly subprime mortgages that led to soaring default rates and were considered a major contributing factor in last year's financial crisis.

But Mr. Frank said his changes were necessary so as not to disrupt merchants, retailers and other "nonfinancial" businesses, and to protect banks and other depository institutions from "needless additional regulatory burdens and costs."

The Obama administration says it won't challenge Mr. Frank's changes.

Senate Banking, Housing and Urban Affairs Committee Chairman Christopher J. Dodd, Connecticut Democrat, also has differed with the White House by proposing to merge several bank regulatory agencies into a "super-regulator."

The White House and Mr. Frank initially considered similar proposals but scrapped the idea amid heavy opposition from the regulators themselves and from Wall Street industry groups. But Mr. Dodd's proposal is winning support from lawmakers of both parties who blame the Federal Reserve for not doing enough to stop the economic crisis.

"At least a good chunk of the Democrats are not happy with the bailouts and do not want to associate themselves with being the ones who endorse that viewpoint by having the Fed become the systemic risk regulator," Mr. Calabria said. "I think that's one reason why you're seeing Geithner trying to lobby a lot harder than some of the other Cabinet secretaries have done."

There has been significant speculation on Capitol Hill that the sluggish pace of the health care reform debate may push Wall Street reforms off the table until 2010 at the earliest. But publicly, Democratic leaders say they are committed to passing financial reform legislation this year.

Sen. Mark Warner, Virginia Democrat and a former venture capitalist, dismissed talk that the drive to pass meaningful financial reforms this year is in jeopardy.

"If that happened, I think it'd be a travesty," Mr. Warner said Sunday on Bloomberg Television. "If we didn't learn the lessons of one of the worst financial meltdowns in all of our [lifetimes], and didn't put new rules of the road in place, I think it'd be a disaster. It would be irresponsible."