

U.S. PIRG's Main Street Financial Reform Platform

Fixing the Emergency Bailout

Reforms that must be included in any emergency bailout legislation that may be considered before Congress adjourns.

If money to stabilize the markets is necessary, then we need the following mandatory safeguards for taxpayers that are lacking in the hastily drafted Paulson proposal as modified by Congress:

- (1) **Most importantly, protect taxpayers by protecting Main Street homeowners.** Allow bankruptcy court-supervised loan modifications to prevent foreclosure, maintain neighborhood property values and lower the cost of the bailout.
- (2) **Protect taxpayer investments:** Strengthen oversight of any money spent and give taxpayers a better chance to make their money back through equity stakes in **both firms** and their assets.
- (3) **Other reforms to the bailout proposal that are necessary include the following:** It lacks adequate controls over executive compensation; it fails include enough mandatory provisions to prevent gaming of the bailout system; it fails to adequately penalize participants for bad behavior.

Summary of First 100 Days Comprehensive Main Street Reforms:

Congress must adopt a detailed financial reform platform to protect taxpayers and consumers into the future. We anticipate that the Treasury Department's previous Paulson consolidation blueprint will be considered. That proposal includes some good ideas, but is laden with proposals on the industry wish list. Additional modifications to adequately protect depositors, taxpayers, small investors, homeowners and tenants are critical to long term stability in the financial marketplace. To start:

- 1) **Prudential reforms:** Congress should enact broad prudential regulatory reforms that hold both regulated companies as well as their regulators more accountable. Among the key elements of these reforms are the following:
 - a) It must subject all regulator budgets, including funds derived from user fees and lender services, to full Congressional oversight and budget review. It must increase oversight of regulatory decision-making, competence and enforcement activities.
 - b) It must eliminate off the books transactions designed to avoid regulation and it must place limits on leverage of all firms and their affiliated entities under the new regulatory structure to reduce potential shocks from failures and defaults.
 - c) It must ensure that any firm – healthy or not -- with access to Federal Reserve and other government benefits is accountable and its actions are transparent and controllable. The recent expansion of the too-big-to-fail doctrine to apparently include any financial firm exacerbates the systemic moral hazard that has magnified the current economic crisis.

2) **Coverage of all players:** Reforms must require greater oversight of activities of all the players. Today, largely unregulated hedge funds, private equity firms, buyout firms and other investment funds whose activities may pose systemic risks to the financial marketplace have no accountability even as they take bigger risks that affect others under the government safety net. Greater prudential regulation of these players as well as limits on the leverage that they are allowed –coupled with transparency in the market positions of all financial marketplace players will enable regulators to better analyze the risks that their bets pose to deposit accountholders, taxpayers, small investors and the economy. The recent catastrophic events have shown that counter-swaps and hedging fail to diffuse risk; they magnify it, especially because regulators and investors have little information to develop adequate risk models.

3) **Improved Consumer Protection:** Any regulatory consolidation or restructuring must be accompanied by greater power and greater disclosure to and for accountholders, shareholders and taxpayers.

(a) Give consumers their own watchdog-- a government-chartered, consumer controlled non-profit **Consumer and Shareholder Protection Association** (as introduced by Senator Paul Wellstone in 2002) to protect consumers and investors.

(b) Establish a federal **Consumer Credit Safety Commission** as introduced by Senator Durbin in 2008 with authority to rank and regulate the safety and the suitability of financial products and to “recall” or even “ban” unsafe or predatory products.

4) **Pass broad reforms of the credit card industry.** Start with the Credit Cardholders Bill of Rights banning unfair and deceptive practices, add protections for college students and youth against unfair marketing. Ban changes in terms for any reason including no reason and restore a consumer’s or group of consumers’ rights to court without mandatory arbitration.

5) **Restore the authority of state attorneys general and preserve the power of state securities and insurance administrators.** Attorneys general are critical cops on the consumer beat who can police the financial marketplace Attorney general enforcement power was eliminated by decisions of federal banking regulators who then ignored the problems leading to unfair and predatory credit card and mortgage lending. State securities and insurance officials face deregulatory threats largely based on industry rhetoric, but the record shows that they play an important consumer protection role.