

# Financial Reform Package Wrapped Up

BY JIM PUZZANGHERA  
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WASHINGTON — Almost two years after the worst financial crisis since the Great Depression, congressional negotiators completed work Friday on landmark legislation designed to prevent a recurrence by dramatically expanding the government's oversight of the financial industry.

The regulatory overhaul, expected to get final approval by the House and the Senate next week, would affect all aspects of the financial system, from the pennies banks charge merchants each time they swipe a customer's debit card to the multitrillion-dollar market for complex derivatives.

The final details, hashed out in a marathon 20-hour session, ended a yearlong process that saw Wall Street companies and major business groups lobby aggressively against new regulations.

The sweeping legislation — about 2,000 pages long — would create a new agency to protect consumers in the financial marketplace, empanel a council of regulators to monitor the financial system for major risks, impose tough regulations on complex financial derivatives, and grant the government power to seize and dismantle teetering companies whose failure would pose a danger to the economy.

The bill also outlaws some of the riskiest mortgage lending practices that led to the housing bubble, including loans written with no documentation of the borrowers' income.

Lawmakers on a joint conference committee labored until dawn to reconcile House and Senate versions of the legislation in time for President Barack Obama to brief foreign leaders on the completed deal at the Group of 20 economic summit in Canada.

"Our economic growth and prosperity depend on a strong, robust financial sector, and I will continue to do what I can to foster and support a dynamic private sector," Obama said Friday before leaving the White House. "But we've all seen what happens when there's inadequate oversight and insufficient transparency on Wall Street."

Wall Street stands to take a major hit under new rules that would limit the risks they take, force them to spin off parts of their lucrative derivatives operations and give shareholders more say in executive compensation.

The bill also threatens to overwhelm small banks with costly new regulations, said Edward Yingling, president of the American Bankers Association. "This bill will, in the end, add well over a thousand pages of new regulations for even the smallest bank," Yingling said. "As a result of this volume and the new restrictions, many small banks are telling us they will simply have to sell out to larger institutions that have the staff to deal with the massive volume of new reports and rules."

Business groups and most congressional Republicans also opposed the new Consumer Financial Protection Bureau, the centerpiece of the overhaul package. Opponents said the agency was likely to put new restrictions

## How consumers fared

Where consumers will win and lose with the new financial overhaul bill:

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|---|--|
| <p><b>Wins</b></p> <ul style="list-style-type: none"> <li>• New Bureau of Consumer Financial Protection (BCFP) to police and write rules for consumer credit products such as mortgage, credit cards, student loans, payday loans</li> <li>• New rules on what small business pay to banks for use of debit cards should help smaller firms and their customers</li> <li>• New rules on how much risks banks, other lenders retain should discipline lenders by requiring them to have skin in the game</li> <li>• Restrictions on commercial banks engaging in proprietary trading minimizes the chance that they'll jeopardize consumer deposits by making risky bets of their own</li> <li>• New powers for Commodity Futures Trading Commission; more control over so-called dark markets believed to have driven up the price of oil, other commodities through excessive speculation</li> <li>• Measures against predatory lending should help prevent return to tricks and traps that got many borrowers into trouble</li> </ul> | <p><b>Losses</b></p> <ul style="list-style-type: none"> <li>• Politically connected auto dealers granted an exemption so their lending activities not regulated by BCFP</li> <li>• Politically connected community banks granted exemption for examination by BCFP</li> <li>• These same banks also won't be hit with fees on financial institutions to help pay for the new spending in the bill</li> <li>• Brokers and insurance agents who sell financial products escaped the same fiduciary duty to Main Street investors that financial planners now have</li> </ul> |
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on credit cards and other consumer loans, which would result in higher costs and fewer choices for consumers.

In a defeat for the administration, however, auto dealers and their business allies managed to win an important exemption: Dealers who arrange consumer auto loans (but don't lend their own money) will not come under the agency's oversight.

Key Democrats and the administration pushed hard to include dealer-arranged financing in the bureau's purview. But auto dealers and their allies argued aggressively that the additional oversight wasn't needed and would raise the prices of cars while hurting the struggling auto industry.

Despite that setback, consumer advocates said the bill's establishment of a powerful watchdog agency was a major step forward.

The depths of the financial crisis and the deep recession it triggered helped supporters overcome the army of lobbyists deployed by the industry, said Ed Mierzwinski, consumer program director of U.S. Public Interest Research Group, a consumer advocacy federation.

"It's not just some complicated thing in Washington. You see it when your neighbor's house is boarded up or you're laid off and you open up your 401(k) and ... it reads like a Stephen King novel," he said. "The public was affected deeply by this crisis."

Lawmakers are racing to meet Obama's July 4 deadline for passing his top legislative priority heading into November's midterm elections. Lawmakers christened the bill the Dodd-Frank Act after the two main architects, Senate Banking Committee Chairman Christopher J. Dodd, D-Conn., and House Financial Services Committee Chairman Barney Frank, D-Mass.

"We've done something that's been badly needed, sorely needed for a long time, and we hope will protect our country, create the kinds of jobs and wealth and optimism and trust once again in our

financial systems that's been so missing," Dodd said after the final vote shortly before 6 a.m. EDT. "It's a great moment."

Treasury Secretary Timothy F. Geithner said the final bill was strong and "provides crucial momentum for global financial reform."

To pay for the increased oversight of Wall Street and the rest of the financial industry, lawmakers in their last move on the bill Friday agreed to impose a \$19-billion tax on the largest financial institutions. The money would cover the costs of the legislation for the next 10 years.

"It was the collective errors of the financial industry that led to

## Key Points Of The Reform Bill's Effort To Prevent Another Financial Meltdown

BY KEVIN G. HALL  
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WASHINGTON — The revamp of financial regulation that was agreed to Friday and is going to a vote in both houses of Congress next week addresses head-on much of what brought about the financial crisis:

- Mortgage and predatory lending. Numerous federal regulators lose consumer protection powers to a new Bureau of Consumer Financial Protection, which has the consumer as its sole focus. The bill contains numerous measures to halt predatory lending, bans mortgages without proof of income documentation, brings mortgage brokers under regulation and reins in subprime lending. It doesn't address mortgage finance titans Fannie Mae and Freddie Mac, now in government conservatorship.
- Risk retention. After lenders made bad loans, the loans were sold into a secondary market where they were pooled with others and sold to investors as complex mortgage bonds. The risk associated with a bad loan were passed along to unsuspecting investors. The bill requires lenders to retain 5 percent of the risk, effectively giving them skin in the game. Banks sought an exemption for safer products such as 30-year fixed mortgages, but were rebuffed.
- Credit rating agencies. Before the mortgage bonds could be sold to unsuspecting investors, they needed investment-grade ratings. A McClatchy Newspapers investigation last year revealed that Moody's Investors Service and other ratings agencies were in bed with Wall Street. The legislation directs regulators to establish a process by which issuers of complex bonds no longer can choose who rates their products. It also directs government agencies and pension funds to rely less on ratings as a measure of risk.

Derivatives and credit-default swaps. These insurance-like products amplified the financial crisis because it was unclear who owed what to whom. Most of these complex bets weren't settled on any exchange or clearinghouse, and most will be now. Banks will have to spin off their trading desks for operations that involve betting on the future prices of oil, most metals and agricultural commodities. Banks may bet only on the performance of investment-grade debt; other such bets must be made through affiliates. The legislation doesn't address the so-called "naked swaps," in which Wall Street firms bet on default for debt they don't own, raising volatility and borrowing costs.

Resolution authority and "too big to fail." When sinking home prices sparked rising defaults on mortgage bonds, concerns about credit-default swaps written on these bonds spread panic on Wall Street. Regulators lacked the power to step in and dissolve sagging investment giants such as Bear Stearns and Lehman Brothers. The legislation gives new breakup authority, so the Federal Reserve will be able to step in and order a large financial firm such as an American International Group to shed some of its assets if it's considered so large that its failure would threaten the broader financial system. AIG was considered too big and interconnected to fail, and it received \$182 billion in taxpayer and government life support.

Heads I win, tails you lose. The legislation prohibits commercial banks from engaging in trading on their own behalf if they also trade on behalf of clients. Banks will have up to seven years to spin off these so-called proprietary trading arms. A McClatchy Newspapers investigation of Goldman Sachs last year, which was confirmed by legal action the Securities and Exchange Commission took in April, revealed how Goldman had sold clients mortgage bonds at the same time it was betting against the mortgage market.

this set of problems," Frank said.

"We think to go to the Goldman Sachs and the JPMorgan Chases and the Blackstones and other large hedge funds and ask them to collectively make a fairly small contribution is reasonable."

The levy would be assessed on financial institutions with more

than \$50 billion in assets and hedge funds with more than \$10 billion in assets under management. The precise formula would be determined by regulators.

The conference committee's final vote split along party lines. House members voted 20-11 to approve the revised legislation,

and senators voted 7-5.

Republicans, who sharply criticized the legislation as an unwarranted government intrusion into the private sector, all voted against the final bill, which will be sent to the House and Senate for approval.

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