

Las Vegas Sun

In Business LAS VEGAS

EDITORIAL:

Financial reform smart

Reid, Congress on right track in overhauling regulatory system

Fri, May 28, 2010 (3 a.m.)

Congress is on the right track in moving quickly to overhaul regulation of the nation's financial industry and end the abuses that contributed to the current recession.

The Senate on May 20 approved its version of the sweeping legislation, and now negotiators will meet to iron out differences between the Senate and House versions of the bill.

The need for financial reform goes all the way back to the early 2000s. After the demise of Enron and WorldCom, Congress passed the Sarbanes-Oxley Act in 2002 in hopes of ending fraudulent accounting techniques and to force companies to disclose more financial information.

That law, while well-meaning, obviously didn't prevent the rapid-fire deterioration of the U.S. economy beginning in 2008 with the failures of investment banks Bear Stearns and Lehman Bros., the distressed sale of Merrill Lynch, the failures of lending giants Fannie Mae, Freddie Mac and Washington Mutual and the need to bail out major corporations such as General Motors and insurer AIG.

The recession is generally traced to the overheated housing market in the mid-2000s, which was fed by adjustable-rate and subprime mortgages and Wall Street's decision to pump trillions of dollars into housing by selling mortgage-backed securities — often involving little-understood derivative and hedge-fund trading.

The problem then — and what Congress is addressing today — was that despite Sarbanes-Oxley, commercial and investment banks packaged and marketed these housing investments in ways that failed to properly disclose the underlying risks.

Another factor contributing to the Great Recession was that in the 2000s, consumers were bombarded with offers for easy-to-obtain credit cards, payday loans and auto loans — many offered under predatory terms.

We face a situation of soaring layoffs caused by the recession and many Americans unable to make mortgage and personal debt payments — with Las Vegas and Nevada generally leading the nation in these areas with our record unemployment, foreclosure and bankruptcy rates.

Having put the nation on a course of economic stabilization, President Barack Obama and Congress are focusing on measures to prevent this from happening again.

The legislation coming out of both bodies of Congress would create a new consumer protection agency to stop abusive lending in areas ranging from home mortgages to auto loans.

It would also beef up regulation of complex collateralized debt obligations and derivatives so that these products wouldn't again threaten the U.S. economy; and it would require banks to increase capital levels and hold less debt.

The idea is to give consumers a fair shake while ensuring no bank, insurance company or investment firm again becomes too big to fail.

Senate Majority Leader Harry Reid last week was instrumental in the passage of the Senate bill, which was achieved despite strong opposition from Wall Street-backed Republicans.

"You can draw a straight line from the unchecked greed on Wall Street to the layoffs and foreclosures throughout Nevada and the rest of the country. The bill that we are passing is a strong statement to Wall Street that business as usual is over," Reid said.

Important for Nevada, Sen. John Ensign pushed through an amendment, co-sponsored by Reid, to clarify that casinos granting markers to gamblers won't be regulated as lending institutions. That makes sense to us — no one is going to mistake a casino for a bank.

Ensign, however, was on the wrong side of the vote on the main bill, siding with Wall Street in voting "no."

Parts of the financial industry, not surprisingly, are fighting the overhaul bill.

We urge Nevadans — who have suffered more than most Americans in this recession — to stand with Reid and other members of Congress of both parties who favor the reform bill.

© [Las Vegas Sun](#), 2010, All Rights Reserved. [Job openings](#). Published since 1950. [Contact us](#) to report news, errors or for advertising opportunities.