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BARACK OBAMA: RESTORING CONFIDENCE IN OUR MARKETS AND CHANGING OUR ECONOMIC COURSE

On September 17, 2007, Barack Obama went to Wall Street and said that our capital markets could not function without the confidence and trust of the public. Nearly one year later, a wave of economic crises has sapped the public's trust and led us into the worst financial crisis since the Great Depression. The turmoil in our financial markets threatens our economy's ability to create good-paying jobs, help working Americans pay their bills and mortgage payments, and achieve the American Dream. Barack Obama believes that America's workers and our free market system have always been the engine of America's economic progress. Yet that progress has come only because we have made choices to invest in our people and guide the market's invisible hand with rules of the road that help both Main Street and Wall Street. Over the past several years, we have abandoned these rules in favor of a governing philosophy intent on shredding consumer protections, loosening oversight and regulation, and encouraging outsized bonuses to CEOs while ignoring middle-class Americans. President Bush and John McCain share this reflexive anti-regulatory approach and have been asleep at the switch as our economy has spiraled downward.

For more than two years, Barack Obama has been raising warning signs about growing problems in our housing and financial markets, and urging action to move us away from the dangerous Bush-McCain head-in-the-sand approach. As President he will move quickly to address our immediate economic challenges while reshaping our regulatory framework to ensure that we avoid these mistakes in the future. Below are:

- 1. Barack Obama's plan to restore confidence in our markets and turn our economy around**
- 2. Barack Obama's consistent record of calling for solutions to economic problems *before* they became crises**
- 3. John McCain's record as a self-professed "deregulator," asleep at the switch as our economic crises have unfolded**

1. Obama Plan to Restore Confidence in Our Markets and Turn our Economy Around

Enact an Emergency Economic Plan to Jumpstart an Economic Recovery. Barack Obama's Emergency Economic Plan would provide immediate rebates to struggling families and \$50 billion in immediate stimulus to help prevent state and local cuts in health, education and housing assistance and to invest in fast-tracked infrastructure plans like school repair – all to save more than 1 million American jobs.

Keep Families In Their Homes and Ensure a More Stable Housing Market Going Forwards. Barack Obama was an early champion of housing legislation (originally introduced by Senator Chris Dodd and Congressman Barney Frank) that was recently passed into law and will create a new FHA program to help homeowners refinance rather than lose their homes to foreclosure. That legislation also included a major

investment toward Obama's \$10 billion Foreclosure Prevention Fund to provide local counseling and foreclosure mitigation services. As President, Obama will continue to help struggling homeowners and strengthen our housing market:

- ***Stop Mortgage Fraud.*** Barack Obama will crack down on unscrupulous mortgage-lending practices and help prevent future housing crises by passing the STOP FRAUD Act. And he will create a Homeowner Obligation Made Explicit (HOME) score, which will provide potential borrowers with a simplified, standardized borrower metric (similar to APR) for home mortgages.
- ***Bankruptcy Reform.*** Obama would close the mortgage company loophole that prevents families from re-negotiating mortgages in bankruptcy court to help them refinance or adjust the terms of their loans, especially when the loan was predatory or unfair.
- ***Mortgage Interest Tax Credit.*** Barack Obama would expand responsible homeownership to avoid crises that our current one - he would provide 10 million middle-class homeowners 10 percent off their interest rate through a universal mortgage tax credit, which would help make homeownership more affordable.

Putting in Place a New System of Financial Markets Regulation. Barack Obama believes that it is time to reconsider how we oversee financial markets in this country. Much of our regulatory apparatus was invented in the 1930s and our existing patchwork of federal and state regulation is not sufficient to provide the rules of the road in a 21st century economy. Obama believes that six key steps are necessary for reform:

- ***Provide the Federal Reserve with supervisory authority over any financial institution to which it may make credit available as a lender of last resort.*** The Federal Reserve does not exist to bail out financial institutions, but rather to ensure stability in our financial markets. As the Fed has opened its lending facilities to a broader array of financial institutions since Bear Stearns in March 2008 – and with this weekend's announcement that the Fed will accept a broader array of collateral from firms for the facility – the importance of matching this new openness with additional prudential oversight has only increased. The nature of such oversight should be commensurate with the degree and extent of contingent exposure for the Federal Reserve to specific institutions. At a minimum, it should include liquidity and capital requirements.
- ***Capital, liquidity and disclosure requirements should be developed and strengthened for all financial institutions.*** In light of the now widespread valuation problems of complex financial instruments such as many of the mortgage-backed securities, Senator Obama believes it is crucial that capital requirements are reexamined and strengthened. He supports the development and rigorous application of new standards for managing liquidity risk. And Obama supports an immediate investigation into the ratings agencies and their relationships to securities' issuers, similar to the investigation the EU has recently announced.
- ***End our balkanized framework of overlapping and competing regulatory agencies.*** Prior to the 1999 repeal of Glass-Steagall, financial institutions fell into easily delineated categories (commercial banks, insurance companies, investment banks, etc.) and were therefore regulated by specific entities (SEC, FDIC, CFTC, etc.). The large, complex institutions that dominate the financial landscape today no longer fit into discrete categories. We need a streamlined system of oversight – one that reflects 21st century markets and that is capable of identifying where risks actually reside.
- ***Regulate financial institutions for what they do, rather than who they are.*** Our current oversight structure is rooted in the legal status of financial firms – even if they are in the same business as

other companies. Banks are regulated by the Federal Reserve, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation; thrifts by the Office of Thrift Supervision; investment banks by the Securities and Exchange Commission; and so on. This is true even when firms operate in the same business. This fragmented structure is incapable of providing the oversight necessary to prevent bubbles and to curb abuses. Obama believes that regulation should identify, disclose, and oversee risky behaviors – regardless of what kind of financial institution engages in them.

- ***Crack down on trading activity that crosses the line to market manipulation.*** Barack Obama believes that the Securities and Exchange Commission (SEC) should aggressively investigate reports of market manipulation. Under the Bush Administration, the SEC has been sapped of the funding, manpower and technology to provide effective oversight. The SEC’s budget was left flat or declining for three years and is currently less than it was in 2005.ⁱ A Government Accountability Report in 2007 found that the SEC lacked the computer systems to effectively make use of internal audits conducted by stock exchanges, “which may limit SEC’s ability to monitor unusual market activity, make decisions about opening investigations, and allow management to assess case activities, among other things.”ⁱⁱ As a result, during a period of increasing market uncertainty and opacity, the SEC enforcement division has not effectively policed potentially manipulative behavior. The SEC’s FY2009 Budget Request itself shows that the percentage of first enforcement actions filed within two years of opening an investigation or inquiry fell from 69% in 2004 to 54% last year.ⁱⁱⁱ Barack Obama believes we must have an effective, functioning cop on the beat to identify market manipulation, protect investors and avoid excessive speculation in financial markets.
- ***Identify and address systemic risks to the financial system.*** Barack Obama believes we must move quickly to establish a mechanism that can identify systemic threats to our financial system. He has called for the creation of a financial market oversight commission which would meet regularly and report to the president, the president’s Financial Working Group and Congress on the state of our financial markets and the systemic risks that face them. He also believes we must consider establishing a standardized process to resolve such systemic risk in an orderly manner without putting taxpayer dollars at risk.

2. Obama Record of Proactive Solutions to Address Economic Problems Before They Become Crises

Barack Obama has been out in front in calling for aggressive actions to address problems in our housing and financial markets before they spiraled into crises. Time and time again, Obama called on the Bush Administration to act – to tighten consumer protections, restore confidence in our markets, and jumpstart our faltering economy. Time and time again, their response was far too little, and far too late. Obama’s record of action includes:

- **Introducing Legislation in February 2006 to Address Deteriorating Mortgage Lending Practices:** After early reports of deteriorating mortgage lending practices and rising foreclosures, Barack Obama introduced the STOP FRAUD Act^{iv}, aimed at stopping mortgage transactions that promoted fraud, risk and abuse. Obama’s legislation provides the first federal definition of mortgage fraud, authorizes stiff criminal penalties against fraudsters, and empowers consumers make informed decisions through increased funding for housing counseling.
- **Calling on the Administration to Convene a Homeownership Summit Before the Crisis Hit.** On March 22, 2007, Barack Obama sent a letter to Federal Reserve Chairman Bernanke and Treasury Secretary Paulson urging them to immediately convene a *homeownership preservation summit* with key stakeholders

to address problems in the subprime market. Recognizing that “we cannot sit on the sidelines while increasing numbers of American families face the risk of losing their homes,” Obama petitioned for a summit to “assess options for private sector responses to the challenge.”^v

- **Called for Efforts to Restore Public Trust in Capital Markets More than a Year Ago.** On September 17, 2008, Barack Obama gave a speech at the NASDAQ in which he rightly foresaw that capital markets cannot succeed without public trust. Obama explained: “there is no dividing line between Main Street and Wall Street” —the struggles of ordinary Americans are at the root of our current financial turmoil, and that we all “have a stake in each other’s success.”^{vi} Following this speech, in January 2008, former Federal Reserve Chairman Paul Volcker endorsed Obama, saying that the depth of the challenges facing America “demand a new leadership and a fresh approach.”^{vii}
- **Outlined Principles for Revamping Our Financial Market Regulatory Framework Six Months Ago.** On March 27, 2008, Barack Obama outlined six detailed principles for how government should correct failures in financial market oversight and move forwards to restore accountability, transparency, and trust. Going well beyond what the Treasury or other candidates would propose, Obama foresaw current challenges in calling for broad sweeping regulatory changes, including permanent oversight for any firm with access to the Fed’s discount window.^{viii}
- **Twice a Leader in Advocating for Economic Stimulus.** In January, 2008, Obama outlined an aggressive fiscal stimulus plan with rebate checks for workers that was praised by independent analysts and provided a blueprint for the bipartisan stimulus package that was enacted in February 2008.^{ix} After job losses and home foreclosures continued to mount, Obama outlined a second Emergency Economic Plan on August 1, 2008. Obama’s Emergency Plan would boost the economy by providing funding for vital state programs and for fast-tracked infrastructure projects.

3. *John McCain: A Self Professed “Deregulator” With His Head in The Sand as Our Economic Challenges Have Grown*

As our economic crises have deepened – from the subprime crisis, to the financial markets crisis, to the downturn in our labor market which is affecting millions of middle class Americans – John McCain has been asleep at the wheel. Time and again, he has failed to recognize problems, failed to propose proactive solutions, and continued to advocate the same failed deregulatory policies that helped precipitate these crises:

- **John McCain “Has Never Departed In Any Major Way From His Party’s Embrace of Deregulation and Relying More on Market Forces Than on the Government to Exert Discipline.”** The New York Times reports today that while John McCain embraced more regulatory oversight on Monday, “his record on the issue, and the views of those he has always cited as his most influential advisers, suggest that he has never departed in any major way from his party’s embrace of deregulation and relying more on market forces than on the government to exert discipline. While Mr. McCain has cited the need for additional oversight when it comes to specific situations, like the mortgage problems behind the current shocks on Wall Street, he has consistently characterized himself as fundamentally a deregulator and he has no history prior to the presidential campaign of advocating steps to tighten standards on investment firms...Mr. McCain has always been in his party’s mainstream on the issue.” [[New York Times, 9/16/08](#)]
- **Only Weeks Before the Bear Stearns Collapse, McCain Proclaimed Himself a “Deregulator” and Said “I’m Always for Less Regulation.”** McCain told the *Wall Street Journal* “As far as a need for additional regulations are concerned, I think that depends on the legislative agenda and what the Congress does to some degree, but I am a fundamentally a deregulator. I’d like to see a lot of the unnecessary government regulations eliminated, not just a moratorium.” [[Wall Street Journal, 3/3/08](#)]

- **In the Immediate Wake of Bear Stearns, McCain’s Response Was to Call for *Less* Regulation.** In a major economic speech, after offering a diagnosis of the troubles facing the housing and financial markets, John McCain’s proposed solution was *less* overall regulation. “In financial institutions, there is no substitute for adequate capital to serve as a buffer against losses. Our financial market approach should include encouraging increased capital and financial institutions *by removing regulatory, accounting and tax impediments to raising capital.*” [[McCain speech, 3/25/08](#); emphasis added]
- **It Took McCain Three Attempts to Recognize that Our Housing Crisis Demanded Action.** In December 2007, nearly two years after Obama introduced the STOP FRAUD act, John McCain was asked for a solution to the growing housing crisis and would not provide one, explaining “I don’t claim to be smart enough.” In March 2008 he again failed to offer a solution and instead blamed homeowners. Only in April did McCain come around to supporting a plan that would have helped only a fraction of the homeowners helped under the approach that Obama had championed. [[American Banker, 3/11/2008](#); [video](#); [Editorial, NYT, 6/15/08](#); [New York Times, 3/26/08](#)]
- **Even With Mounting Job Loss, McCain Continued to Reject Calls for Increased Regulation.** In May and again in July, on news that our economy continued to lose jobs, McCain responded with calls for rejecting increased regulation. In July – a month where our foreclosures hit new record highs and when the Bureau of Labor Statistics announced that more than 60,000 jobs were lost in the previous month – McCain’s response was that “we cannot...increase regulation.” [McCain Statement, 7/3/08; McCain Statement, 5/2/08; [New York Times, 7/4/08](#); [Business Wire, 8/11/08](#)]
- **McCain Has Failed to Put Forward a Second Economic Stimulus Plan.** In February, John McCain was the only Senator to skip a key economic stimulus vote “on whether to make 20 million seniors and 250,000 disabled veterans eligible for rebate checks as part of a proposed economic stimulus package.” But this summer, even with job losses mounting and foreclosures spiking, John McCain repeatedly refused to put forth – or even endorse outstanding -- proposals for a second round of stimulus. In July, when directly asked by reporters if he would support a second stimulus package, McCain failed to say “yes.” Instead, his response was to characterize stimulus as wasteful spending: “I am for anything that can be proven to help our economy. . . . But first let’s stop the spending. Let’s stop the out of control, wasteful spending...” [[Associated Press, 2/7/08](#); [San Francisco Chronicle, 7/7/08](#); [Pool Report, “The Page,” Time.com, 7/9/08, thepage.time.com](#)]

McCain’s ideological commitment to a reflexive anti-regulatory approach to our current financial and housing market crises is consistent with his 26 year career in the Senate.

- **In 1992, McCain Opposed Establishing An Independent Regulatory Agency To Regulate Freddie Mac and Fannie Mae.** McCain voted against the Federal Housing Regulatory Reform Act which would created an independent regulatory agency within the Department of Housing and Urban Development to oversee the activities of Federal National Mortgage Association and Federal Home Loan Mortgage Corporation. [1992 Senate Vote #137, 7/1/92]
- **In 1995, McCain Was a Leader in the Republican Efforts to Undermine Federal Regulation.** “In early 1995, after Republicans had taken control of Congress, Mr. McCain promoted a moratorium on federal regulations of all kinds. He was quoted as saying that excessive regulations were “destroying the American family, the American dream” and voters “want these regulations stopped.” The moratorium measure was unsuccessful.” [[New York Times, 9/16/08](#)]

- **On the Campaign Trail in 2000, McCain Touted his 17-year Record of Voting for Less Regulation.** “Campaigning in Camden, SC, McCain said ‘I am a proud Republican conservative with a 17-year record of voting, not rhetoric, but voting against higher taxes, for smaller government, for less regulation.’” [Greenville News, 1/10/00]
- **Phil Gramm – One of the Architects of McCain’s Current Economic Plan – Has Been An Outspoken Advocate and Lobbyist for Undermining Financial Market Regulations for Decades.** Phil Gramm, an architect of McCain’s economic plan “led the charge” in 1999 to repeal the Glass-Steagall Act. The Gramm bill, called the Financial Services Modernization Act of 1999 (S. 900), allowed banks and securities firms and insurance companies to affiliate and expanded the bank holding company structure to allow a broad range of financial services to be affiliated. According to federal lobbying disclosure records, Gramm lobbied Congress, the Federal Reserve and Treasury Department about banking and mortgage issues in 2005 and 2006.” [Politico, 3/28/08; Congressional Record, 12/14/00; 1999 Senate Vote #105, 5/6/99]
 - ***Phil Gramm “Slipped In Provision At Last Minute” Into An Omnibus Bill in 2000 Known As the Commodities Futures Modernization Act of 2000 Which Gramm Said “Protects Financial Institutions From Over-Regulation” and Allowed For the “Explosion of Complex Financial Instruments” That McCain Partially Blamed For the Current Credit Crisis.*** An editorial by the Philadelphia Inquirer observed that “a loophole had been tucked into” the 262-page Commodities Futures Modernization Act of 2000 at the last minute by then-Sen. Phil Gramm. Phil Gramm said at the time of the passage of the Commodities Modernization Act that “It will allow new and important financial products – single stock futures – to be sold in America. It protects financial institutions from over-regulation,” according to a press release. The bill “provides legal certainty for the \$60 billion market in swaps,” Gramm said, “this legislation is important to every American investor.” The Commodity Futures Modernization Act deregulated the derivatives market despite concerns from the White House and then-futures trading commission chairman Brooksley Born. McCain has blamed “the explosion of complex financial instruments that weren’t particularly understood by even the most sophisticated banks, lenders and hedge funds” as part of “what happened” to financial markets that has resulted in the current credit crisis. [Editorial, Philadelphia Inquirer, 6/11/08; Congressional Press Release, 12/14/00; Houston Press, 2/7/02; McCain Speech, 3/25/08]
 - ***Gramm Was Described As McCain’s “Top Economic Advisor” And McCain’s Approach To The Mortgage Crisis “Had Gramm’s Input.”*** In July, Phil Gramm gave an interview to the Washington Times in which he was described as a “co-chairman” of McCain’s campaign and as McCain’s “top economic advisor.” According to Politico, McCain’s approach to the subprime mortgage crisis “had Gramm’s input” [Washington Times, 7/9/08; Politico, 3/28/08]

ⁱ Christopher Cox, Testimony Before the House Committee on Appropriations, 4/16/08, <http://www.sec.gov/news/testimony/2008/ts041608cc.htm>; SEC Budget History, available at <http://www.sec.gov/foia/docs/budgetact.htm>.

ⁱⁱ GAO Report 08-33, “Opportunities Exist to Improve Oversight of Self Regulatory Organizations,” November 2007.

ⁱⁱⁱ U.S. Securities and Exchange FY2009 Congressional Justification, February 2008, at 13; available at <http://www.sec.gov/about/secfy09congbudjust.pdf>.

^{iv} See <http://www.govtrack.us/congress/billtext.xpd?bill=s109-2280>; http://obama.senate.gov/press/070425-obama_durbin_in/.

^v http://obama.senate.gov/press/070322-obama_urges_ber/

^{vi} <http://www.nytimes.com/2007/09/17/us/politics/16text-obama.html>

^{vii} <http://blogs.wsj.com/washwire/2008/01/31/volcker-joins-list-of-obama-backers/>

^{viii} http://www.barackobama.com/2008/03/27/remarks_of_senator_barack_obam_54.php

^{ix} See “Whose Stimulus Makes the Grade” *Washington Post*, 1/23/08