Congress wants to act, but how?

Contributed by Texas Dave

WASHINGTON - Faced with rising economic anxiety and the high-profile rescue of a major investment bank, lawmakers are considering sweeping changes to the financial system and a massive effort to buy up troubled home loans.

While they debate the best thing to do, frustrations are building that Congress, which is halfway through a two-week recess, and the Bush administration haven't done enough to combat the economic impact of falling home prices, banks' unwillingness to lend freely and a seized-up market for mortgage-linked investments."These people have to get past stepping on each other's toes and kicking each other in the shins and get out and start providing some leadership," said James Cox, a Duke University law professor and securities law expert.

Housing industry groups are preparing to lobby hard for help when Congress returns from recess March 31. Arguing that the stimulus package signed by President Bush last month didn't do enough to aid the housing sector, builders want a second boost — including a new tax credit for people who buy homes."The housing economy has been the root cause of this recession," said Jerry Howard, chief executive of the National Association of Home Builders. "Unless you do something to shore up the housing markets, we're not going to be able to get out of this situation."Rep. Barney Frank, D-Mass., chairman of the House Financial Services Committee, and Sen. Christopher Dodd, D-Conn., who heads the Senate Banking Committee, are crafting a plan in which the Federal Housing Administration would guarantee up to $300 billion in refinanced mortgages in exchange for agreements from investors to take a loss on those loans.That proposal is getting a warm reception from the mortgage industry, which desperately seeks a way to set a value for mortgage securities that have become nearly impossible to sell. Fixing that problem is crucial, said Francis Creighton, vice president for legislative affairs at the Mortgage Bankers Association."When you don't know where the bottom (of the market) is, you just hold off and you invest in something else," he said.Regulators are taking urgent steps to shore up the market for mortgage investments. The Federal Reserve earlier this month allowed investment firms to borrow up to $200 billion in safe Treasury securities and put up mortgage-backed securities as collateral. On Monday, regulators authorized the 12 regional banks in the Federal Home Loan Bank system to increase purchases of Fannie Mae and Freddie Mac mortgage securities by $100 billion.Democrats and Republicans did compromise last month on an economic stimulus package that sends checks of up to $1,200 to 130 million households later this year. However, replicating that cooperation on thornier issues, such as whether the government should do more to aid homeowners or tighten investment bank regulation will be tough, especially in a politically charged presidential election year.Democrats are trying mightily to cast the Bush administration as more sensitive to the concerns of Wall Street bankers than Main Street homeowners, hoping to build momentum for their own proposals. Already under the microscope on Capitol Hill: the near-collapse of Bear Stearns Cos., whose market cap of some $14 billion nearly evaporated over a weekend and the questions it raises about the Fed's role in an 11th-hour rescue by JP Morgan.In a Sunday scramble earlier this month, the central bank provided $30 billion in backing for a deal, raising concerns that the Fed, and ultimately U.S. taxpayers, could wind up on the hook.

dap('&PG=NBCSM4&AP=1089','300','250'); <A TARGET="_blank" href="http://ad.doubleclick.net/click%3Bh=v8/368d/3/0/%2a/p%3B167305773%3B3-0%3B0%3B23222186%3B4307-300/250%3B24358853/24376706/1%3B%3B%7Esscs%3D%3fhttps://us.etrade.com/e/t/investingandtrading/globaltrading?SC=NPNMMW4&WT.mc_id=NPNMMW4"><IMG src="http://m1.2mdn.net/1666017/PET_BuiltPricedPO_100Free_300x250_08refresh.jpg" alt="" BORDER=0></A> Rep. Henry Waxman, D-Calif., who heads the House Oversight and Government Reform Committee, is collecting information for an inquiry, a committee aide said. A key question is whether the Fed set an inappropriate precedent with Bear. In the Senate, Max Baucus, D-Mont., has trained his finance committee's oversight on the transaction's impact on taxpayers.JPMorgan on Monday boosted its offer for Bear Stearns to $10 per share from $2, aiming to soothe angry Bear Stearns shareholders who are convinced the company is being undersold.The Bear Stearns meltdown has led for calls for tighter controls over investment banks — including stricter cushions against losses — and brings up issues not tackled since Congress and the Clinton administration tore down the walls separating banks, securities firms and insurers in 1999.An ineffective and unwieldy patchwork is how critics see the current regulatory system, in which the Fed, divisions of the Treasury Department and the Securities and Exchange Commission each have jurisdiction, often overlapping, over different types of financial institutions.Frank last week unveiled a proposal to give the Fed or a new regulator the power to supervise the operations of major financial players, whether they be banks, investment firms or hedge funds.The Bush administration has its own ideas and is expected to put its "blueprint" for financial regulation reform into legislative form soon. It too, is expected to propose a broader role for the Fed as an "umbrella" regulator, but its thrust is toward easing what are considered onerous regulatory burdens.Rep. Vito Fossella, R-N.Y., hopes the collapse of Bear Stearns provides an opportunity to examine the sometimes-overlapping powers of bank regulators, but cautions against overreaction. "We have to renovate the house and not just slap a coat of paint on it and say we've solved the problem," he said.