

F.D.I.C. Chief Urges Changes in Financial Oversight

by AP-News

WASHINGTON (AP) The head of the Federal Deposit Insurance Corporation said Thursday that the government's strategy in the financial crisis of bailing out huge institutions deemed "too big to fail" must be replaced by a new model.

The official, Sheila C. Bair, told Congress that a new system of supervision was needed to prevent institutions from taking on excessive risk and becoming so large that their failure would threaten the financial system. Such a mechanism would be similar to what the F.D.I.C. does with federally insured banks and thrifts, she added.

Testifying at a packed Senate Banking Committee hearing, Ms. Bair said that simply creating a so-called systemic risk regulator a central idea in the discussion of overhauling the government financial rules "is not a panacea."

Ms. Bair appeared with other top regulators to discuss the high-stakes issue of modernizing oversight of the nation's financial institutions amid the crisis gripping the United States and the global economies.

The government's rescue of the insurance giant American International Group, its pumping of tens of billions of dollars into Citigroup and Bank of America in more than one instance, and other actions in the crisis have put a "too big to fail" stamp on federal policy.

The committee's chairman, Senator Christopher J. Dodd, Democrat of Connecticut, said that possibly the most important lesson to take from the crisis is that "no institution should ever be too big to fail."

"Replacing Citibank-sized financial institutions with Citibank-sized regulators would be a grave mistake," he said.

Mr. Dodd suggested it could make more sense to give the F.D.I.C., which has the expertise in that area, authority over big failing institutions.

But Representative Barney Frank, Democrat of Massachusetts, chairman of the House Financial Services Committee, and other lawmakers have proposed that the Federal Reserve assume the role of systemic regulator to monitor against the kinds of risks that plunged markets worldwide into distress last year.

Both Congress and the Obama administration are starting to devise their strategies for revamping a patchwork regulatory system that dates to the Civil War as they strive to prevent a repeat of the global crisis.

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