The subprime crisis has been active now for almost 2 years. The government has used taxpayer resources to bail out extremely large financial firms and now an entire asset class (subprime mortgages). If the resulting moral hazard is left unchecked, even greater crises are likely. Nevertheless, the U.S. Treasury and Federal Reserve have offered no proposals to reform the regulation of the investment banks and the government-sponsored enterprises. In this presentation, Professor Jaffee will offer a proposal that he argues will (i) minimize the need for a Fed bailout in a future crisis, (ii) effectively maximize the role of market discipline in controlling risky activities, and (iii) maintain the overall efficiency of the US capital markets.