

Obama Financial Regulatory Reform Plan Fights for Rural America: Enforcing Common-Sense Rules of the Road for Consumers, Investors

Too many responsible Americans in rural communities have paid the price for an outdated regulatory system that left our financial system vulnerable to collapse and left consumers without adequate protections. The Obama Administration's plan will promote financial stability and protect rural families from the unfair practices that contributed to this crisis. The plan will establish a new Consumer Financial Protection Agency, which will set clear rules of the road and ensure that financial providers are held to high standards.

Rural Families and the Subprime Crisis

During 2005 and 2006, the height of the subprime lending boom, at least 9 percent of mortgages sold to rural borrowers (those living outside a Metropolitan Statistical Area¹) were subprime loans. Even in 2007, as subprime lending declined, 6.5% of loans made to rural borrowers were subprime loans. Rural borrowers were about 5% more likely to receive subprime loans than borrowers in general in both 2005 and 2006. [McDash Online Core Database data (September 2009); Treasury analysis.]

Rural subprime borrowers have come under severe stress. 40% of outstanding subprime loans sold to rural borrowers in 2005 and 46% of such loans sold in 2006 are in foreclosure or no payment has been received for 60 days or more. [McDash Online Core Database data (September 2009); Treasury analysis.]

The rural homeownership rate declined from 74% in 2004 to 71% in 2007. [Federal Reserve, "[Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances](#)," ("SCF")]

Rural Families Deserve Clear Rules and Strong Enforcement

The debt ratio (the ratio of total debt to total assets) for rural households increased from 13% to 17% from 2001 to 2007. [SCF]

45% of rural households carry a credit card balance, with a median balance of approximately \$2,000. [SCF]

44% of rural households have mortgages and other debt secured by residential property, such as home equity lines of credit. The median amount owed is approximately \$61,000. [SCF]

51% of rural households have installment loans, such as student loans and auto loans. The median total balance on such loans is approximately \$12,000. [SCF]

Rural households invest in the financial markets, including for retirement. 42% of rural households have retirement accounts with a median value of approximately \$31,000. [SCF]

11% of rural households do not have bank accounts. Families without bank accounts are often forced to turn to costly alternative financial services, such as check cashing, where there has been no federal supervisor to enforce fair rules of the road for consumers. [SCF]

¹ All statistics presented on rural Americans are for those not residing in a Metropolitan Statistical Area (MSA). For the Office of Management and Budget's definition of MSAs, see www.whitehouse.gov/omb/bulletins/fy2008/b08-01.pdf.

Reform Will Benefit Rural Americans

Mortgages

For Rural Americans Who Want to Buy a Home: The piles of forms needed for a regular mortgage can be overwhelming and many brokers have taken advantage of that confusion to give borrowers loans they didn't need or couldn't afford. The Consumer Financial Protection Agency will have the ability to consolidate and simplify—into plain language—two overlapping and sometimes inconsistent federal mortgage forms. The Agency will be able to adopt rules requiring brokers to take steps to offer borrowers loans they can afford.

Credit Cards

For Rural Americans with Credit Cards: The Consumer Financial Protection Agency will enforce a new law signed by President Obama to ban rate hikes on existing balances. For rural Americans who have used credit cards to get by when times are tight, the law will give them clarity on the interest rates they are charged.

Overdraft

For Rural Americans Caught by Unexpected Overdraft Fees: Many households are automatically enrolled in overdraft programs. These programs can hit consumers with costly overdraft fees for even the smallest purchases. For example, the FDIC found that the average overdraft charge for a single purchased item—like a \$2 cup of coffee—is \$30 at banks with assets over \$1 billion. The Consumer Financial Protection Agency would be able to give consumers a real choice as to whether to join expensive overdraft programs so that they are not unknowingly charged unnecessary fees. [FDIC, "[FDIC Study of Bank Overdraft Programs](#)" (November 2008) at Table IV-3]

Student Loans

For Rural Americans Who Must Take out Loans to Go to School: For students who need to take out loans to cover the costs of higher education, the Consumer Financial Protection Agency will be able to fight unfair practices and require lenders to follow fair rules of the road and to give students the information they need to make smart choices.

Saving and Investments

During the height of the financial crisis, over the last three months of 2008, Americans lost five trillion dollars in household wealth. [Federal Reserve, "[Flow of Funds Accounts of the United States: Flows and Outstandings Second Quarter 2009](#)" (9/17/09), Table B.100]

Protecting Rural Americans' Retirement Security, Savings, and Investments: In the wake of the Madoff scandal, it is clear that all investors need better protection from fraud and unscrupulous actors. The Administration's proposed legislation strengthens investor protection through the Securities and Exchange Commission (SEC) by:

- Raising the standards for brokers and investment professionals so that they have a fiduciary duty and are required to act in the interests of investors when giving advice
- Requiring mutual funds to disclose costs and risk factors to investors prior to selling a product, instead of after it is purchased
- Creating a permanent Investor Advisory Council to the SEC—so the government will hear about the needs and interests of real investors
- Increasing protections for those who uncover financial frauds

Financial literacy

Empowering Rural Americans to Make Smart Financial Choices by Promoting Financial Education and Financial Literacy: The Consumer Financial Protection Agency will promote consumer financial education and financial literacy, with a dedicated office focused on ensuring that the Agency's expertise and research are used to help raise awareness, educate, and empower consumers to avoid unfair practices and make smart financial choices.

Bank Accounts

For Rural Americans without Bank Accounts: In a survey conducted by the Federal Reserve, a significant fraction of households without bank accounts said that they did not have a checking account because they did not like dealing with banks (25%) or because the service charges were too high (12%). The Consumer Financial Protection Agency will be able to rein in practices that may drive some rural Americans away from banks—including by stopping banks from enrolling customers in expensive overdraft programs without their consent. [\[SCF\]](#)

Check Cashing, Payday Lending, and Other Alternative Financial Services

For Rural Americans Forced to Turn to Alternative Financial Services Such as Check Cashing and Payday Lending: The Consumer Financial Protection Agency will establish for the first time robust federal supervision and oversight over alternative financial service companies such as check cashers and payday lenders. The Agency will be able to combat abusive and predatory practices that harm consumers, helping families avoid hidden fees and keep more money in their pocketbooks.

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