Why Consumer Financial Protection Matters

As anyone knows who has ever had to get through the jungle of mortgage disclosure forms when buying a house, or discovered that the interest rates on their credit card balance went up retroactively, or tried to finance a car only to have the terms changed after purchase, our current approach to consumer financial protection is entirely inadequate.

This flawed system contributed significantly to the financial crisis and has cost families billions of dollars in deceptively sold subprime loans, credit card penalty fees, overdraft fees, and expensive payday loans. And even though seven different regulators are supposed to look out for consumers of financial products, nobody is really accountable for doing the job.

In place of the fragmented, ineffective system we have today, America needs one independent consumer financial protection agency with a clear mission: to prevent abusive and deceptive practices and to promote transparency and consumer choice.

The New Consumer Financial Protection Agency Will Benefit Individuals, Families and Businesses Alike

1. The agency will promote transparency and choice. The new agency will increase innovation and consumer choice by increasing transparency to give borrowers the information they need to make their own decisions.

- Common-sense objectives. The new agency will help all Americans by increasing transparency about the costs and risks of consumer credit – empowering customers to make their own choices about what products are right for them. And it will help to ensure that all financial services firms play by the rules.
- Common-sense authorities. The agency's job will be simple: to implement existing federal consumer laws; to prohibit unfair, deceptive, and abusive practices; and to make sure that disclosures are straightforward and clear. The agency will *not* have any authority to require businesses to sell – or customers to buy – particular products.
- Common-sense results. When there are clear, consistent rules of the road, the market for consumer financial services will be more transparent, more competitive, and more innovative. Why? Because providers of financial services will have to compete by giving their customers what they want – not by taking advantage of tricks and traps.

2. The agency will NOT limit access to credit for small businesses. The agency will focus on financial products or services that are provided for use by consumers. To the extent that the agency affects small businesses, the effect will be positive.

- The agency will have no authority over commercial loans. Other than protecting individuals who own small businesses under the existing Equal Credit Opportunity Act, the agency would have no authority to regulate business loans. Period.

- The agency will help prevent unfair denials of credit. Conservative estimates suggest that six million Americans have errors on their credit reports that are serious enough to result in a denial of credit.[1] These errors can unfairly keep responsible individuals from getting the credit they need for household *or* business purposes. The new agency will serve as a watchdog over large credit bureaus.

3. The agency will only regulate financial services businesses. Regulation of Sam the Butcher and Joe the Orthodontist won't change. The agency will concentrate on significant financial services businesses—banks, mortgage brokers, debt collectors, etc.

- Sam the Butcher is not covered. If Sam the Butcher accepts a credit card, he is not covered. If he lets customers run a tab, he is not covered. If he charges a late fee, he is not covered. If he refers late customers to debt collectors, he is not covered.

- No changes for Joe the Orthodontist. If Joe the Orthodontist regularly extends credit with interest or that is payable in more than four installments to his patients, he is already subject to the federal Truth in Lending Act. That won't change.

- Targeted focus. Under the Senate bill, the new agency will examine financial service providers that pose the biggest risks to consumers and markets—big banks, mortgage companies, and larger nonbank firms. Smaller nonbank financial service providers would remain subject to state and Federal Trade Commission enforcement, as they are today.

4. The agency represents good government – not more government. The agency will streamline the current fragmented, wasteful, and ineffective system.

- More accountability and efficiency. Today, responsibility for protecting financial consumers is fragmented among *seven* federal agencies, which means that no one is really accountable. Consolidating authorities of seven agencies into one will make government more accountable, more efficient, and more effective.

- The agency will be lean. The agency's maximum budget under the Senate bill is just *one-quarter* of the combined budgets for the Securities and Exchange Commission and the Financial Industry Regulatory Authority, which are responsible for investor protection.[2] Another way to think of it? The agency's maximum budget will equal just *2% of the credit card penalty fees charged by credit card companies last year.*[3]

- Consumer protection is a good investment. Deceptively marketed mortgages and abusive credit card practices have cost Americans dearly. Indeed, irresponsible mortgage lending helped produce the worst financial crisis since the Great Depression. At a small cost, the agency will pay big dividends in fairness, transparency, and stability.

[1] National Consumer Law Center, “Automated Injustice: How a Mechanized Dispute System Frustrates Consumers Seeking to Fix Errors in Their Credit Reports,” January 2009.

[2] This statement compares the projected Bureau budget cap for 2013 to the 2009 budget for the SEC and the 2008 budget for FINRA, which are the most recent available.

[3] Ron Lieber and Andrew Martin, “Overspending on Debit Cards is a Boon for Banks”, New York Times, September 8, 2009, citing R. K. Hammer, a consultant to the credit card industry