An Essential Part of Financial Reform: A New Consumer Watchdog

"American families deserve a strong, independent consumer financial protection agency that is accountable for setting and enforcing clear rules across the financial marketplace. I will not accept attempts to undermine the independence of the consumer protection agency, or to exclude from its purview banks, credit card companies or nonbank firms such as debt collectors, credit bureaus, payday lenders or auto dealers." – President Obama, March 15, 2010

It has now been two years since the collapse of Bear Stearns and over a year since the financial crisis peaked. Trillions of dollars in families' wealth were erased and millions of jobs were lost, in large part because of failures in our regulatory system. And yet today that same failed system remains in place.

Lax consumer protection contributed significantly to the current financial crisis. The existing regulators failed to check widespread abuses in mortgage lending, credit cards, auto lending, and other markets. Financial products are complex, and it is often difficult for American families to recognize the risks financial products can present.

American Families Deserve a Strong, Independent Agency With Full Authority to Protect Consumers

Create a consumer financial protection agency that is accountable to Congress and the public:

- For the first time, one Federal agency will be responsible for setting clear rules of the road for the entire market and for enforcing compliance by the big financial services providers, making the agency accountable for preventing abusive practices by credit card companies, big banks, and others. Today, seven Federal agencies split responsibility for writing and enforcing the rules, making it difficult to hold the regulators accountable.
- The new agency will also serve as a central point for collecting and responding to consumer complaints and inquiries, and it will monitor the marketplace to keep an eye out for new problems that need to be addressed.

Close loopholes in the financial laws:

- The Federal government currently spends 15 times more money monitoring consumer compliance for banks and credit unions than for nonbanks like payday lenders, car finance companies, debt collectors, and credit bureaus. Consumers need better protection across the entire marketplace, not just in the banking sector.
- The new agency will regularly review larger nonbanks for compliance—the same way banks are reviewed now—rather than relying only on rare, after-the-fact lawsuits, as the Federal government does today.

America's families need an agency that will look out for abuses and better police the marketplace:

- Mortgages: 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 new consumer financial protection agency will take steps to combine and simplify two overlapping Federal mortgage forms. The agency will, for the first time, provide Federal oversight of both nonbank companies and banks in the mortgage market and protect borrowers from unfair, deceptive or other illegal mortgage lending practices.
- Credit Cards: Where it takes a PhD to read a credit card agreement, we need someone to make sure that there are plain English disclosures and common sense boundaries for what's acceptable. The new agency will enforce the credit card law signed by the President that bans rate hikes on existing balances and other unfair practices.
- Auto Loans: Auto dealers arrange the vast majority of auto loans, and these loans can upend families' finances if they are unfair. Like mortgage brokers, dealers are paid more to sell more expensive loans, a fact of which many Americans are unaware. Some dealers take advantage of their customers, including many members of the military, by packing loans with expensive and unnecessary add-ons. The new agency would be able to limit unfair side payments and require clearer disclosures, so families can choose affordable car loans.
- Overdraft Fees: Many households have been automatically enrolled in expensive overdraft programs. These programs can hit consumers with costly overdraft fees of up to $39 for buying a $2 cup of coffee. The new agency will enforce new rules that give consumers a real choice as to whether to join overdraft programs.

- Financial Literacy: The new 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 smarter financial choices.
- Alternative Financial Services: The new agency will be able to establish robust Federal supervision and oversight over larger 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

The Critics Have it Wrong

The status quo failed. Those who attack the new consumer agency or push to weaken it are promoting the failed system of the status quo. The balkanized regulatory system that dropped the ball for consumers contributed significantly to the recent financial crisis, which has strained the limits of both banks and millions of American families.

Independence is critical for the new agency. We already tried putting the bank regulators in charge of preventing unfair bank practices. That system failed, allowing the big banks, credit card companies, and auto lenders to take advantage of millions of consumers. We need an agency that is independent, with the sole job of protecting consumers.

The new agency will help Americans find lower priced credit and reduce what they pay to borrow. Consistent rules will increase competition and innovations that *benefit* consumers, not take advantage of them through hidden costs and traps. With prices being clear and transparent, consumers will have the tools they need to find the best price.

We can't just fix yesterday's financial crisis. Restricting the consumer financial protection agency to mortgage lending would allow the same problems to fester in other consumer financial services markets. Short-term credit is a good example, as credit card, payday loan, and overdraft abuses have become pervasive. Responsible families and companies will continue to suffer until we create a regulatory structure that can keep up with the evolving market.

How A New Consumer Watchdog Will Work for Americans

Susan Chapman (age 52) is an administrative assistant at the College of Staten Island in New York. She had an excellent payment history until she was contacted by a mortgage broker who promised to lower her monthly payments by $400 by refinancing. Though she explicitly told the broker that she did not want an interest-only loan, she nonetheless received one—a pay-option adjustable rate loan that raised her principal and monthly payments to unaffordable levels. The new agency could require mortgage brokers and lenders to make sure a borrower can afford the higher interest payments when the rate adjusts up and the loan starts paying down the increased principal balance.

Andrew Giordano (age 61) is a retired police officer who manages a fitness center for seniors in Maryland. He receives a monthly veterans benefits check of $123, which he keeps in a separate account—not his primary checking account. His bank automatically enrolled this account in an expensive overdraft program that he did not request, and then it made a mistake that cost him $800 in overdraft fees. When he caught the mistake, the bank only refunded part of the fees. The new agency would be able to set clear rules on disclosure of overdraft fees and enforce new rules that give consumers a real choice as to whether to join expensive overdraft programs.

Karen Cappuccio (age 31) is an airport security supervisor in Pennsylvania. When she refinanced in 2006, the broker promised her a low fixed rate loan but instead gave her two expensive loans, including a large adjustable rate loan. The broker altered her financial information, subjected her to a late-night closing, and failed to give her closing documents. The new agency would design clear and simple mortgage disclosures so that borrowers can know exactly what loans they are getting. The agency could also restrict unfair or deceptive sales tactics.

Patricia Nelson (age 64) is a retired nursing home aid and lives on a $783 monthly disability check in Wisconsin. In December 2007, because she had developed health problems, she borrowed $550 from payday lenders to move closer to her daughters. She could barely afford the monthly interest payments and rolled the loans over 22 times. She had paid over $2,700 in interest and not one penny towards the principal when a "good Samaritan" paid off the loans. The new agency would be able to design clear disclosures of the costs of payday loans and stop abusive payday practices.