Obama Financial Reform Plan Fights for Young Americans: Enforcing Common-Sense Rules of the Road for Consumers, Investors

Too many responsible young people have paid the price for an outdated regulatory system that left our financial system vulnerable to collapse and left families without adequate protections. The Obama Administration's plan will promote financial stability and protect young people from the unfair practices that contributed to this crisis. The plan will establish a new consumer financial protection agency, which will have the power to set clear rules of the road and ensure that financial firms are held to high standards.

America's Young People Deserve Clear Rules and Strong Enforcement

The 2009 annual average unemployment rate for individuals under 25 years old was higher than for all other reported age groups. Unemployment and job loss make it more difficult to manage finances and debt. The unemployment rate[1] was 24.3% for individuals from 16 to 19 years old and 14.7% for individuals 20 to 24 years old, compared with 8.3% for those 25 to 54 years old. [Bureau of Labor Statistics, "Employment status of the civilian noninstitutional population by age, sex, and race" (2009)]

Debt impacts important decisions that young people make: According to a 2006 USA Today / National Endowment for Financial Education poll of young people aged 22 to 29 years old, survey respondents with debt indicated that having debt had influenced important decisions, including causing them to delay or not pursue education (29%), to take a job they would not otherwise have taken (22%), or to move in with parents or other relatives (19%). [USA Today / National Endowment for Financial Education, Young Adults' Finances Poll (2006).

Student Loans

Growth in tuition and fees outpaced both inflation and median family income from the early 1990s to the mid-2000s. [Department of Education, National Center for Education Statistics, "Total and Net Access Price of Attending a Postsecondary Institution," *Contexts of Postsecondary Education* (2007), citing The College Board (2004)]

53% of younger households have education loans, up from 43% in 2004. [Federal Reserve, "Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances" (February 2009) ("SCF")]

An analysis by the College Board found that the median debt of students graduating with loans rose from $16,990 in 2003 to 2004 to $17,700 in 2007 to 2008 (2008 dollars), an increase of about 5% above inflation. [Patricia Steele and Sandy Baum, "How Much Are College Students Borrowing?" *College Board Policy Brief*, (August 2009)]

Credit Cards

Roughly half (49%) of younger households (households with heads 34 years old or younger) carry a credit card balance, with a median balance of approximately $1,800. [SCF]

Bank Accounts

13% of younger households do not have bank accounts. Individuals 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] Unemployed as a percentage of the civilian labor force.

Auto Loans

41% of younger households have auto loans. [SCF]

Mortgages

37% of younger households have mortgages and other debt secured by their homes, such as home equity lines of credit. The median amount owed is approximately $135,000. [SCF]

Saving and Investments

Younger households invest in the financial markets, including beginning to build up retirement assets. 42% of younger households have retirement accounts such as IRAs or 401(k)s. [SCF]

Reform Will Benefit Young People

Student Loans

For young people who must take out loans to go to school: For students who need to take out private loans to cover the costs of higher education, the new consumer financial protection agency will be able to fight unfair practices, require lenders to follow fair rules of the road and give students the information they need to make smart choices.

Credit Cards

For young people with credit cards: The new consumer financial protection agency will enforce the new credit card law signed by President Obama that bans rate hikes on existing balances and other unfair practices and cleans up credit card practices for young people at universities. For young people who have used credit cards to get by when times are tight—including to cover the costs of education—the law will give them clarity on the interest rates they are charged. The agency will also enforce new protections for college students and young adults, including a requirement that card issuers and universities disclose agreements with respect to the marketing or distribution of credit cards to students.

Bank Accounts

For young people 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 new consumer financial protection agency will be able to rein in practices that may drive some young people away from banks—including by stopping banks from enrolling customers in expensive overdraft programs without their consent. [SCF]

Overdraft

For young people caught by unexpected overdraft fees: Many individuals have been automatically enrolled in expensive 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 new consumer financial protection agency will enforce new rules that 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]

Check Cashing, Payday Lending, and Other Alternative Financial Services

For young people using alternative financial services: The new consumer agency will be able to establish, for the first time, 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 young people avoid hidden fees and keep more money in their wallets.

Mortgages

For young people 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 new consumer financial protection agency will take steps to consolidate and simplify with plain language two overlapping and sometimes inconsistent federal mortgage forms. The agency will, for the first time, provide ongoing federal oversight of both nonbank companies and banks in the mortgage market and protect borrowers from unfair, deceptive or other illegal mortgage lending practices.

Financial Literacy

Empowering young people to sake smart financial choices by promoting financial education and financial literacy: The new 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.

Saving and Investment

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" (September 17, 2009), Table B.100]

Protecting young people's retirement security, savings and investments: In the wake of the Madoff scandal, it is clear that all investors, including young people just starting to build their retirement savings, 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 when giving advice so that they have a fiduciary duty and are required to act in the interests of investors, rather than their own;
- 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; and
- Increasing protections for those who uncover financial frauds.

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