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TESTIMONY OF MR. HILARY O. SHELTON

DIRECTOR, NAACP WASHINGTON BUREAU &

SENIOR VICE PRESIDENT

FOR ADVOCACY AND POLICY

before the

HOUSE OF REPRESENTATIVES'

FINANCIAL SERVICES COMMITTEE

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS

CONGRESSWOMAN SHELLY MOORE CAPITO, CHAIR

on

"LEGISLATIVE PROPOSALS TO IMPROVE THE STRUCTURE OF THE CONSUMER FINANCIAL PROTECTION BUREAU"

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Good morning, Chairwoman Capito, Ranking Member Maloney, and so many of my good friends here on the Subcommittee. It is a pleasure and an honor to be here to share in your discussion about improving and strengthening the Consumer Financial Protection Bureau, or the CFPB. We at the NAACP feel very strongly that the nascent agency needs as much support as possible so that it can reach its greatest potential to protect the American public in ways that it has never been protected before.

Founded more than 102 years ago, in 1909, the National Association for the Advancement of Colored People, the NAACP, is our nation's oldest, largest, and most widely-recognized grassroots based civil rights organization. We currently have more than 2,200 membership units across the nation, with members in every one of the 50 states. For almost 15 years now, I have been the Director of the NAACP Washington Bureau, our Association's federal legislative and political advocacy arm.

As I stated earlier, the NAACP feels strongly that a robust CFPB is not only necessary in our Nation today, it is crucial. For too long, too many consumers, particularly racial and ethnic minority Americans, have been disproportionately underserved and even targeted by unfair or down-right unscrupulous financial servicers. The result has been dramatically diminished opportunities and an inability to build wealth or, in too many cases, to own a home or even buy a car.

More than four years ago, I testified before the Senate Banking Committee about predatory lending in the home mortgage and refinancing market and the racial disparities that existed[1]. At that time, I stated that

> …predatory lending is unequivocally a major civil rights issue. As study after study has conclusively shown, predatory lenders target African Americans, Latinos, Asians and Pacific Islanders, Native Americans the elderly and women at such a disproportionate rate that the effect is devastating to not only individuals and families, but whole communities as well. Predatory lending stymies families' attempts at wealth building, ruins people's lives and, given the disproportionate number of minority homeowners who are targeted by predatory lenders, decimates whole communities[2].

Sadly, since that time, my words have been reinforced by more studies and more importantly, and more tragically, have had catastrophic consequences for families, neighborhoods, and whole communities as the foreclosure rate among racial and ethnic minorities has disproportionately skyrocketed.

And we all know that home mortgages are not the only way in which racial and ethnic minorities are consistently treated worse by the financial services industry. As the former Chairman of our National Board of Directors, Julian Bond, observed, "payday lending stores open their doors in low-income neighborhoods at a rate equal to Starbucks openings in affluent ones."

In fact, a 2009 study of payday lenders in California by the Center for Responsible Lending, found that "Payday lenders are nearly eight times as concentrated in neighborhoods with the largest shares of African Americans and Latinos as compared to white neighborhoods, draining nearly $247 million in fees per year from these communities. Even after controlling for income and a variety of other factors, payday lenders are 2.4 times more concentrated in African American and Latino communities[3]."

Another area in which racial and ethnic minorities have consistently reported disparate treatment is in the matter of credit scores. In the Spring 2000 edition of the Federal Reserve of Boston's newsletter, Peter McCorkell, the Executive Vice President and General Counsel of Fair, Isaac and Company was asked if credit scoring resulted in

[1] Testimony of Hilary Shelton before the Senate Banking Committee, February 7, 2007
[2] Ibid
[3] Wei Li, Leslie Parrish, Keith Ernst and Delvin Davis, Center for Responsible Lending "Predatory Profiling: The Role of Race and Ethnicity in the Location of Payday Lenders in California", March 26, 2009

higher reject rates for certain racial and ethnic minorities than for whites. His response was simply "yes[4]".

Madame Chair, distinguished Members of the Subcommittee, I could go on and on with examples and studies which demonstrate the undeniable: more than 40 years after enactment of the Fair Housing Act and the Truth in Lending Act and more than 35 years since enactment of the Equal Credit Opportunity Act, and regardless of the mountains of data that we have had access to since 1975 through the Home Mortgage Disclosure Act, and despite all of the progress which has been made since the 1977 enactment of the Community Reinvestment Act, racial and ethnic minorities are still treated disparately in the world of financial services. As a result, as I said earlier, racial and ethnic minority Americans are faced with dramatically diminished opportunities to fulfill the American dream and build any sort of wealth.

It is because of this continuing disparity in treatment, and the blatant targeting of racial and ethnic minority communities by exploitative financial servicers that the NAACP joined many other national civil rights organizations in applauding the creation of the Consumer Financial Protection Bureau under last year's Dodd-Frank Act. As a matter of fact, many civil rights organizations including the NAACP testified before this very committee on the need for a single, robust, independent agency charged with protecting consumers and ensuring that racial and ethnic minority Americans have the same access to credit as all other Americans.

In the past, most institutions were either regulated based on how they were "chartered" or were not covered by federal regulators at all. Under the old system, five federal agencies played a role in watching how financial institutions complied with consumer and civil rights laws while three federal agencies provided additional enforcement authority. There was not a single entity charged with investigating if or ensuring that all consumers were treated equally and fairly.

Under the Dodd-Frank system, for many financial institutions, consumer financial protection will now be the sole focus of a single agency, the CFPB. The CFPB will have broad authority to write rules, supervise a wide variety of financial institutions, and enforce federal fair lending and consumer protection laws.

Fair lending is explicitly built into the CFPB's mission, structure, and research mandates. The CFPB is tasked with the responsibility to "seek to implement and, where applicable, enforce federal consumer financial protection law consistently for the purpose of ensuring that all consumers have access to markets for consumer financial products and services and that markets for consumer financial products and services are ***fair***, transparent, and competitive."[5]

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[4] Statement of Peter L. McCorkell, Executive Vice President & General Counsel, Fair, Isaac and Company, Inc., "*Communities and Banking*", Spring, 2000, pp.15-17, published by the Federal Reserve Bank of Boston

[5] Public Law 111 – 203, Sec. 1021

In short, a robust, functioning CFPB will work through rule making, enforcement, and research to ensure a more fair and equitable financial playing field. The NAACP is particularly pleased to note that the CFPB will be looking at almost every aspect of financial services, including mortgage lending, credit cards, overdraft fees and payday loans.

Madam Chair, I recognize that the subject of this hearing is four particular pieces of legislation intended, the committee contends, to strengthen the nascent CFPB. I will be interested in hearing the analysis of all those present of these four bills, because I would like to state unequivocally for the record, that the NAACP staunchly opposes any moves which may weaken or undermine the CFPB or otherwise impede it from reaching its full potential.

Any proposals which would result in a weakening of the mission of the CFPB would result in fewer protections for American consumers in general, and racial and ethnic minorities in particular, as they attempt to manage the often confusing world of finances, mortgages and credit.

Emasculating the CFPB, before it even gets off the ground, would result in a return to the system of inadequate financial supervision that failed taxpayers, depositors, investors, homeowners and other consumers. Allowing continued predatory lending to consumers will inject greater risk into the financial system. That will raise the threat of a repeat of the Wall Street-caused financial crisis that cost Americans millions of lost jobs, billions of dollars in taxpayer funded bailouts and trillions of dollars in lost home values and retirement savings. It will also perpetuate the targeting of racial and ethnic minority communities by unscrupulous wealth-stripping predatory lenders. Even if we learned nothing else over the past 5 years, we should now know better than to allow this to continue.

And so, in closing, let me say to you again that I look forward to working with you and all the Members of the Subcommittee to ensure that the CFPB is as strong as possible and that it offers the maximum protections to ensure there is a fair and balanced field for all Americans to pursue their hopes and dreams.

Thank you again for allowing me to participate in your discussion; I welcome any questions you may have.