



Myths vs. Facts about the Consumer Financial Protection Bureau (CFPB)

CRL Issue Brief

April 2010

What the CFPB *Really* Means for Washington and Americans

1. Myth: The proposed agency would duplicate the work of existing agencies and increase regulatory burden on businesses.

FACT: The CFPB would consolidate and streamline existing functions to *reduce* regulatory burden.

The new Agency would consolidate consumer protection rulemaking and enforcement that is now scattered across several agencies, creating unnecessary conflicts and duplication of effort. Since entities in the current system would be streamlined into a single agency, the bureau would actually reduce regulatory burden and expense.

2. Myth: The consumer bureau's mandate to protect borrowers could conflict with banking safety, soundness or profitability.

FACT: The CFPB would help bank regulators increase their focus on safety and soundness.

According to a recent American Banker article, "current and former regulators, industry observers and academics said in interviews that such conflicts have rarely arisen in the past; few expect major problems in the future even if consumer issues are handled by a separate agency." A stand-alone bureau focused solely on consumer safety will allow banking regulators to strengthen their focus on banking safety and soundness. The Banking Committee-passed proposal specifically requires the bureau to consult and coordinate with the bank safety and soundness regulators. This process for ongoing consultation will help ensure that safety and soundness is continuously considered as part of the CFPB's work.

3. Myth: The CFPB will stifle innovation and limit consumer choice.

FACT: The CFPB would have no limits on lending innovation, and it would actually create more responsible product choices.

Reckless lending in recent years crowded out responsible products as lenders responded to Wall Street demand for more dangerous loans. Consumers were pushed into riskier products not because traditional products were unavailable, but rather because riskier products were more profitable for the broker or investors. Consumer protection is not about eliminating products; it is about ensuring that the products offered are fair, affordable, and sustainable, in other words, not abusive. CFPB's goal would be to eliminate abusive products so that a wide range of responsible financial products would thrive in the marketplace and meet borrowers' varying needs.

4. Myth: A new bureau would result in more expensive loans.

FACT: Abusive credit costs more.

An examination of state anti-predatory lending laws shows that strong protections have not increased interest rates, but instead have actually reduced the cost of credit. By reducing excessive fees that bring no added value to consumers and by reducing the prevalence of abusive loan terms, it appears that state laws may have produced a more competitive lending environment that allowed more responsible loans to be offered. Similarly, state regulation of consumer finance products has increased the availability of credit on more affordable, sustainable terms.

5. Myth: Rules made by the CFPB should overturn stronger state laws.

FACT: Strong state lending laws are more important than ever.

States have been and remain at the forefront of efforts to protect consumers from abusive financial practices. States have enacted strong substantive protections through legislation and regulation, while leveraging enforcement tools to protect victims of predatory lending. For example, Attorney General Coakley in Massachusetts recently settled an investigation of Countrywide's abusive mortgage lending practices, reaching an agreement with Bank of America to reduce loan balances for a segment of distressed homeowners. A strong CFPB will complement and build upon these ongoing state efforts.

6. Myth: Existing regulators just need to perform better.

FACT: The existing regulatory structure isn't working.

The existing agencies failed for a reason. The existing structure has built in incentives for regulators to discount the significance of consumer protection problems, and to err on the side of too little protection. The CFPB will consolidate the existing functions now scattered across several agencies, bringing them into a single Agency that will be freed from the constraints that led the existing agencies to fail in their missions.

7. Myth: This new bureau could cause unintended consequences.

FACT: The unintended consequences have come from a *lack* of adequate regulation. The threat posed by inaction is well established.

The current foreclosure crisis demonstrates that inaction by regulators and the absence of bright line rules contributed to an environment that allowed lenders to make risky loans and resulted in millions of foreclosures and trillions in losses throughout the economy. Our highest priority should be ensuring that consumer protection does not again fall through the cracks, resulting in widespread harm to all Americans.