Essentials of the Consumer Financial Protection Bureau (Senate version)

CRL Policy Brief April 2010

Here's what the CFPB would do:

Streamline leadership on consumer protections and help make all types of lenders more accountable for basic risk management and fair lending.

Basics:

- Consolidates consumer protection responsibilities under one bureau, replacing a system that is now scattered among at least six different regulators.
- Has authority over all lending entities—banks and non-banks—that offer financial services or products.
- Makes rules governing consumer protections for all financial products, such as bank loans, mortgages, credit cards, and payday loans.
- Examines and enforces rules for:
    - Banks and credit unions with assets greater than $10 billion
    - All mortgage-related businesses
    - Large non-banks (such as large payday lenders, debt collectors and consumer reporting agencies)

Structure:

- Houses the bureau within the Federal Reserve.
- Has an autonomous dedicated budget paid by the FRB.
- Led by an independent director who is appointed by the President and confirmed by the Senate.

Additional Benefits for Consumers

- Preserves existing state lending laws, and allows states to continue to address problems in their own markets.
- Creates a national hotline, providing consumers a single toll-free number to report problems with financial products and services.
- Creates a new Office of Financial Literacy
- Creates a single hub for consumer protections and greater accountability.

Here's what the CFPB would NOT do:

- Won't have unbridled rulemaking power. Writes rules, but rules can be vetoed by a 2/3 vote of the newly created council of bank regulators. [1]
- Won't examine or enforce rules for banks with assets of $10 billion or less. (Those banks will be examined by their current regulator.)
- Will not issue proposals without consulting with other regulators.
- Will not issue proposals that can't be challenged. Regulators can appeal rules if they believe such rules would be harmful for bank safety and soundness or the stability of the financial system.
- Will not preempt state laws.

[1] A nine-member council of federal financial regulators and an independent member, chaired by the Treasury Secretary and made up of regulators including: Federal Reserve Board, SEC, CFTC, OCC, FDIC, FHFA, the new CFPB

Essential Elements for CFPB success

There are many important pieces to the bill, but most critically we want to make sure that these areas are not weakened:

- Ability to make rules independently. The CFPB must have the authority to make rules that truly protect the marketplace. Interference by the OCC and banks or disproportionate veto power for the regulatory council would compromise the bureau's efficacy. If the legislation authorizes any veto power, it should not allow unlimited discretion, but require any veto to be directly tied to concerns about systemic risk.

- Respect for state authority. Any encroachment on the states' critical role in fighting lending problems will harm consumers and lead to future waves of abuses. Given their strong track record on consumer issues and their ability to act more quickly to respond to changes in local markets, states also have a key role to play in making rules and enforcing them. State Attorneys General should have express authority to enforce CFPB rules and prosecute as necessary.

- Strong leadership. For the CFPB to be effective, it must be led by a Presidentially-appointed Director. A Commission would only diffuse the bureau's focus, credibility, and impact.

- Strong examination and enforcement authority. If amendments weaken the ability to investigate, oversee and hold lenders responsible, the CFPB will be nothing more than a toothless watchdog. Standards are meaningless if the CFPB doesn't have sufficient authority to examine lender activity and then hold them accountable for their actions.

- Application to all types of consumer loans. There have been repeated attempts to carve out special interests, allowing them to by-pass rules that will apply to other lenders. The CFPB will be charged with guarding against damaging practices in all types of consumer lending. To avoid another financial fiasco in the future, there should be no exceptions; the rules, oversight and enforcement should apply to all loan products and the financial providers that offer such credit.