Why a Federal Consumer Protection Watchdog Matters to the States

CRL Issue Brief April 2010

In recent years, the states have been, by far, the most efficient and effective leaders in fighting lending practices that are bad for consumers and the economy. By contrast, the federal government's track record on reining in bad lending has been remarkably weak. By creating a strong and independent Consumer Financial Protection Bureau (CFPB), we have a chance to establish minimum standards and bring greater support and focus to state lending protections—without hindering the states from doing their work on the front lines.

A strong CFPB will preserve states' ability to fight bad lending practices.
A key point of contention in the debate around CFPB is whether a federal consumer protection agency could override strong state laws. This must not happen. Members of Congress need to hear from state advocates and leaders on this issue in the clearest terms: any acceptable financial reform on the federal level must <u>not</u> roll back all of the great work done in states or prevent states from taking action in the future.

States need stronger support from a federal entity that doesn't give undue influence to lenders—who are working hard to preempt state laws.
Financial service companies are spending $1.5 million a day in lobbying dollars as they try to persuade Congress to oppose financial reform. These institutions argue that we should limit states' rights to impose sensible lending restrictions, despite numerous examples of industries — for example, insurance companies—that operate exclusively under state regulation. We need a fair and focused federal cop on the beat to supplement the efforts of AGs and state regulators.

With stronger minimum federal standards for all types of lending, states will have a stronger foundation for protecting families from abusive lending.
All too often, lending rules on the federal level have been weak, non-existent or full of loopholes. For example, although many states took actions to rein in abusive practices on subprime mortgages, most of the practices that made subprime loans destructive were perfectly legal under federal law. A strong and independent CFPB would raise minimum standards, while providing a focused federal actor, dedicated to these issues.

We need to ensure the financial crisis never happens again.
Neglect and inaction in Washington was a key contributor to the financial crisis.[*] Even though federal agencies had authority for nearly decades to address abusive practices they did nothing. As a result of federal neglect and inaction, States are now confronted with a myriad of challenges. Vacant homes, depressed property values, shrinking budgets, and uprooted families serve as reminders that the crisis is real, and that we cannot afford to oppose any efforts to repair our financial system.

[*] For more information and examples, see www.responsiblelending.org/mortgage-lending/policy-legislation/regulators/regulators-failure-to-enforce-consumer-protections.html.