Community Banks will Benefit from the Consumer Protection Financial Agency

The thousands of small, community banks across the country are critical to our nation's economy. In recent years, such banks have been forced to compete with non-bank financial institutions that are not subject to federal consumer protection regulation. The Administration's proposal to create a Consumer Financial Protection Agency (CFPA) would level the playing field, making community banks more competitive.

Community Banks Are Vital to the American Economy

The thousands of community banks in the United States form the financial backbone of our communities. These banks know their customers well, use common sense underwriting standards, and consistently perform responsibly and effectively. Community banks were not the cause of the financial crisis.

CFPA Will Create a Level Playing Field between the Bank and Non-bank Sectors

Today, community banks have to compete against non-banks like mortgage brokers and mortgage finance companies, which, unlike banks, are not subject to federal oversight. In recent years, non-bank firms won market share by lowering lending standards and offering irresponsible – and often deceptive – loans. Community banks were forced either to lower their own standards or to become uncompetitive.

The new CFPA will provide a level playing field, extending the reach of federal oversight to all financial firms, banks and non-banks alike. The CFPA will put an end to community banks' competitive disadvantage.

CFPA Will Not Increase Fees on Community Banks

The Administration proposes that community banks will pay no more for federal consumer protection supervision after the establishment of the CFPA than they do today.

CFPA Will Be Balanced in Its Rule-Writing and Supervision

The CFPA will be statutorily required to consider the costs of regulations on institutions and to promote innovation, consumer access and choice. The CFPA will be required to consult with safety and soundness regulators before issuing rules. As a result, the CFPA's rules and supervisory approach will be balanced and effective.

The CFPA's jurisdiction over both banks and non-banks and its consolidated authority for rule writing, supervision, and enforcement will enable it to choose the least-cost, most-effective tools. For example, it will be able to use "supervisory guidance" in place of new regulations. Supervisory guidance is less burdensome and less costly for financial institutions. Guidance is not an effective consumer protection tool today because it requires coordinating among numerous federal and state agencies – no one is in charge.

CFPA Will Allocate Its Oversight Resources Based on Risk to Consumers

The CFPA will have a mandate to allocate more of its resources to institutions that pose more risks to consumers. Community banks are close to their customers and have often provided simpler, easier-to-understand products with greater care and transparency than other segments of the market. Such banks will receive proportionally less oversight from the CFPA.

CFPA Will Consolidate and Streamline Regulations, Increasing Regulatory Efficiency

The CFPA will consolidate consumer protection rulemaking from seven different agencies, which will allow it to streamline regulations. For example, the agency could create one simplified mortgage disclosure instead of the two separate TILA and RESPA disclosures currently required. This innovation—and others like it—would simplify compliance for community banks and other mortgage lenders, while improving protections for consumers.

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