

Q and A: Why We Need a Consumer Financial Protection Agency

Doesn't someone already regulate this stuff?

The system for regulating financial products is very fragmented and – as we have seen all too clearly – ineffective. Under current law, banks like Citigroup can go “regulator” shopping, meaning that if the agency they are being regulated by actually does its jobs and stops them from doing something, the company can just change its charter – essentially it’s name – and move to another, weaker agency. Another problem in the current system is that regulators are usually funded by fees paid by the businesses they are supposed to regulate. Under current law, the regulators compete with each other to demand the least consumer protection so that more lenders will choose them, and they can collect more fees.) Also, consumer protection has been just one – relatively minor – part of the job of the regulators, and it has been drowned out by lender focused functions, with disastrous results.

Our state already has strong consumer protection laws on products like these.

Would they be overridden by this agency?

No, the agency will provide a floor, not a ceiling for State laws. In fact, it will strengthen the ability of States to protect their residents.

Will this get in the way of companies creating innovative financial products?

No, it will help make sure that innovation benefits consumers and the market, rather than rewarding tricks and traps. It will only get in the way of companies creating deceptive financial products that the purchaser of those products doesn't understand. For example, let's talk about the innovative ARM mortgages we have heard so much about recently. If this agency were in place when those were being handed out like candy, the people getting mortgages would have been told, plainly and simply, that these were not only risky but likely not the best rates they could qualify for.

Will regulation make loans and other financial products more expensive?

No. In fact, with new rules, products like loans and credit cards would come with far better explanations so consumers would be able to better understand and evaluate how expensive these products are, make better choices and save money. The lack of regulation has made many loans extraordinarily expensive for consumers and homeowners compared to more basic loan products.

Will regulation make loans and other financial products harder to get?

Regulation will make loans and other financial products easier to get. Terms will be simpler and easier to understand, there won't be traps in the fine print, and it will be easier to compare loans from two different companies. No one is arguing that companies should not be allowed to make a profit and providing credit is how they make money. As we recover from the financial crisis, credit will be available and banks will make loans. The question is when these big companies see consumers are they looking to make a living or a killing. Reasonable rules will allow for both adequate profits and fairness in the marketplace.

How much will creating this agency cost?

Far, far, far less than bailing the banks out. We need to make sure we don't face this kind of crisis again. This is the best insurance against future catastrophes we could "buy."

How will it be paid for?

Congressional appropriations, but the agency will recover the money appropriated by assessing fees on regulated entities.

Aren't some of the practices such an agency could guard against already illegal – why not just add more enforcement power to whomever is responsible for fighting those kinds of crimes? Some harmful lending practices are illegal, but many have not been. Over the last few decades, the banks have gotten Congress to reduce and/or eliminate oversight and accountability measures. The scales were heavily tipped in favor of letting the banks do absolutely whatever they wanted, even if it was destructive for consumers and for the market as a whole. Banks and other lenders are clever and constantly develop new products that exploit gaps in consumer protections. We need a watchdog tasked with monitoring them closely and staying ahead of new developments. We need to restore a reasonable balance so that consumers can expect basic fairness when dealing with financial institutions.

Will the agency ban subprime loans with ARMS?

We can't say what products are so bad they should be banned, and what need more limits and regulation. All loans need simple, clear disclosure; some may need additional regulation. The point is to get someone looking out for the consumer and ensuring proper information and fairness. We expect it when we walk into a store, we should also expect it when we walk into a bank.