



CRC Policy Brief: Consumer Financial Protection Agency Act

The California Reinvestment Coalition supports the concepts at the foundation of the Consumer Financial Protection Agency. The protection of consumers from financial products or practices is an idea that will finally begin to level the playing field for consumers as well as all financial institutions. The concept of the CFPA is good for all consumers, and it is especially important for California since we have been battling such a variety of predatory financial products that have systematically been stripping hard-won wealth and assets gained by low-income communities and communities of color.

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The purpose of the CFPA, as stated in HR 3126, is as follows:

To be responsible for rulemaking, examination and enforcement of the financial institutions that provide consumers with financial products and services; To address unfair, deceptive and abusive acts and practices; And to consolidate the rulemaking authority of existing consumer banking products, and enforcement of consumer banking laws and CFPA regulations for banking and non-bank institutions.

There are several key issues that the CFPA could promote:

1. Simplicity. The CFPA would simplify the world of the financial services industry so that a translator isn't required. A majority of the significant transactions of an individual's life use consumer financial products. It makes sense that the system be reformed so that a majority of individuals understand what the products are and the rules that govern the players.

2. Uniformity. The CFPA should provide a level playing field for all who use consumer financial products, especially for low income communities and communities of color. Also, all of the providers of consumer financial products could be subject to the same rules, which would greatly benefit consumers.

3. More Enforcement Power for the States. The CFPA could provide more opportunities for California to give greater protection to our state's consumers. California should have the ability to create a higher standard with greater penalties that district attorneys, city attorneys and the California Attorney General would be able to enforce.

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While the potential for the CFPA is great, the bill has been stripped of several key provisions that are very important. Without these provisions, the CFPA is significantly weakened and fails to address some of the most serious problems with the financial services industry that have led to so much harm for communities.

These provisions, if restored to the CFPA, would provide the most effective protection for Californians:

CRA Enforcement. The Community Reinvestment Act of 1977 (“CRA”) has not been able to keep pace with the changes of the marketplace. The CFPA would be the appropriate agency to enforce CRA. Further, CRA modernization and expansion is necessary to ensure that financial institutions, bank and non-bank, engage in lending, investments and service that benefit LMI communities and communities of color. HR 1479, the CRA Modernization Act of 2009, which is currently stalled in the House Financial Services Committee, provides effective solutions to these concerns.

No Exemptions for banks and credits unions with less than \$10 billion in assets. More financial institutions, not fewer, should be subject to oversight by the CFPA. Since financial institutions, both large and small, engaged in activities that undermined the economic stability of our neighborhoods, it is essential that every financial institution be subject to identical, rigorous oversight. As the current bill stands, approximately 98 percent of the country’s banks are exempt from CFPA regulation.

Very Limited Exemptions for Non-Bank Financial Institutions. Since numerous business enterprises engage in financial activities or provide products or services that have a significant impact on consumers, it is important that a majority of these businesses are subject to CFPA. Real estate professionals, auto dealers, lawyers, accountants and nonfinancial businesses, such as merchants and retailers, are important players in consumer financial products. As a result, regulation by the CFPA is appropriate and necessary.

“Plain Vanilla” Requirement. One of the problems at the heart of the current financial crisis was the complexity of the consumer financial products and services. Consumers often did not understand the terms and conditions of the credit or capital, which did not give them the opportunity to compare all of their options. Without this requirement, consumers will not have the chance to make an informed choice between exotic financial products with tricks and traps and simple, short, understandable products. This requirement would give the consumer the information to understand the difference between a “pick-a-payment” mortgage and a 30-year fixed mortgage.

CFPA Oversight Council Comprised of Independent Consumers. In the existing regulatory framework, there is a supposed role for consumers, which is usually held by an individual designated by the Financial Services Industry. The CFPA could present a unique opportunity for consumers to participate in the regulation of the products they use via the CFPA Oversight Council.