

Consumer Protection in Financial Services: The US Approach

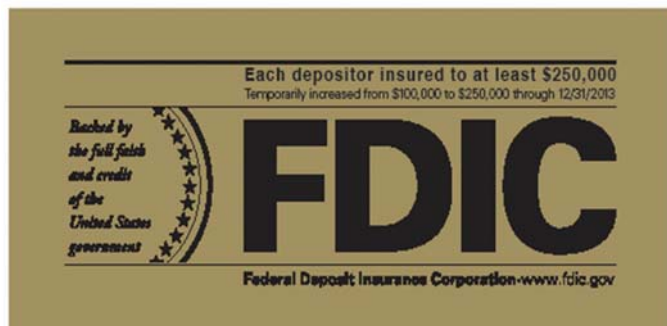
Luke W. Reynolds, JD

Division of Depositor and Consumer Protection
Federal Deposit Insurance Corporation



FDIC – Symbol of Confidence

- The FDIC official sign -- posted at every insured bank and savings association across the country -- is a **symbol of confidence** for Americans.



- Customers know, when they see the FDIC official sign, that they will get back all of their insured deposits in the unlikely event their insured bank or savings association should fail.

Providers of Financial Services

- Insured Financial Institutions
 - About 7,500 banks & savings associations
 - About 7,800 credit unions
- Non-Bank Providers
 - Short-term credit (e.g. payday lenders)
 - Transactional services (e.g. check cashers or bill-payment services)
 - Insurance Companies
 - Mortgage Companies
 - Finance Companies

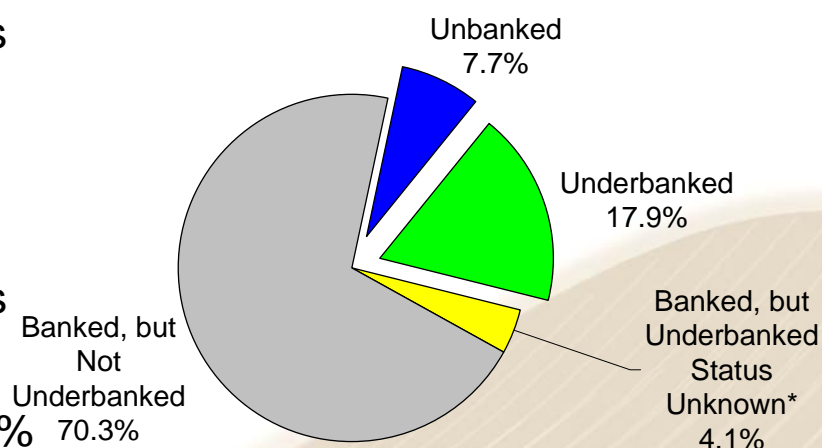
Use of Financial Services: Deposit/Transactional

70.3% of households are fully banked

7.7 % of households are unbanked.

17.9% of households are underbanked.

Taken together, 25.6% of households are unbanked or underbanked.



Notes: Percentages are based on 118.6 million U.S. households. Percentages do not always sum to 100 because of the rounding of household weights to represent the population totals.
* These households are banked, but there is not enough information to determine if they are underbanked.

Use of Financial Services: Credit

- Major holders of outstanding consumer credit:
 - Banks: 48%
 - Finance Companies: 21%
 - Federal government: 15%
 - Credit Unions: 9%
- Type of credit:
 - Non-Revolving: 68%
 - Revolving: 32%

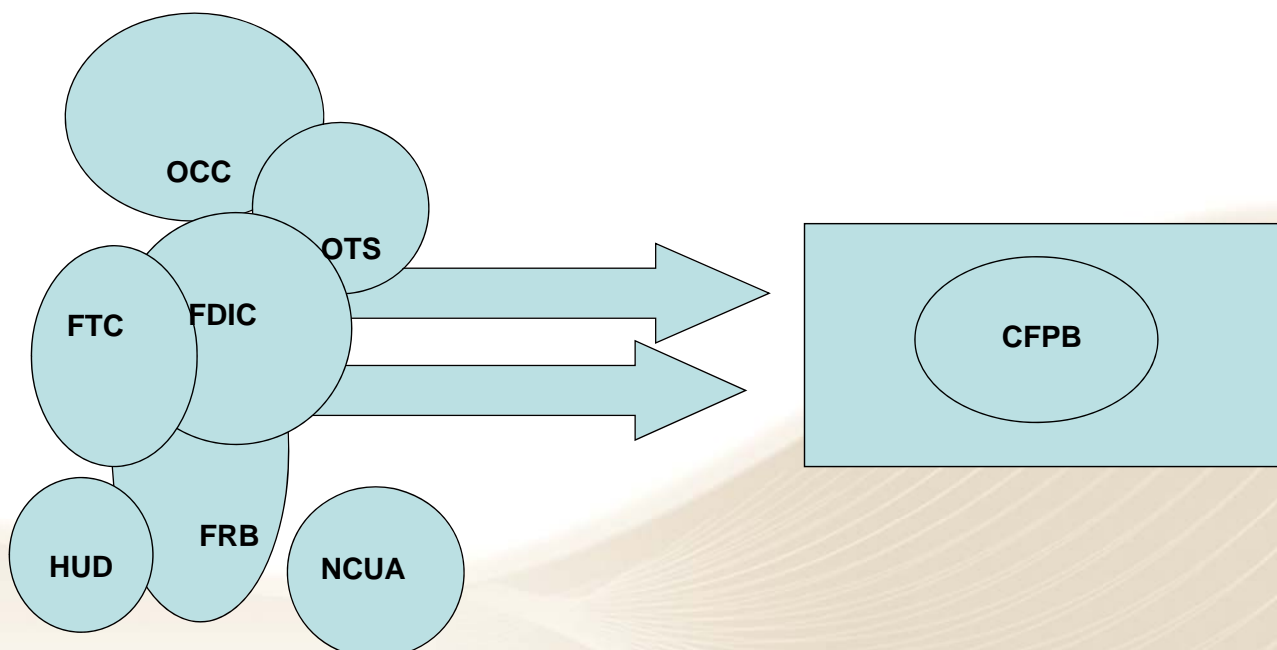
Major Regulatory Agencies Pre-Dodd-Frank Act

- Banks
 - Federal Deposit Insurance Corporation
 - Federal Reserve
 - Office of the Comptroller of the Currency
 - Office of Thrift Supervision
 - State Government
- Non-Banks
 - Federal Trade Commission
 - US Dept. of Housing & Urban Development
 - State Government

Dodd-Frank Wall Street Reform & Consumer Protection Act

- Signed into law by President Obama on July 21, 2010
- “To ensure American consumers get the clear, accurate information they need to shop for mortgages, credit cards, and other financial products, and protect them from hidden fees, abusive terms, and deceptive practices.”

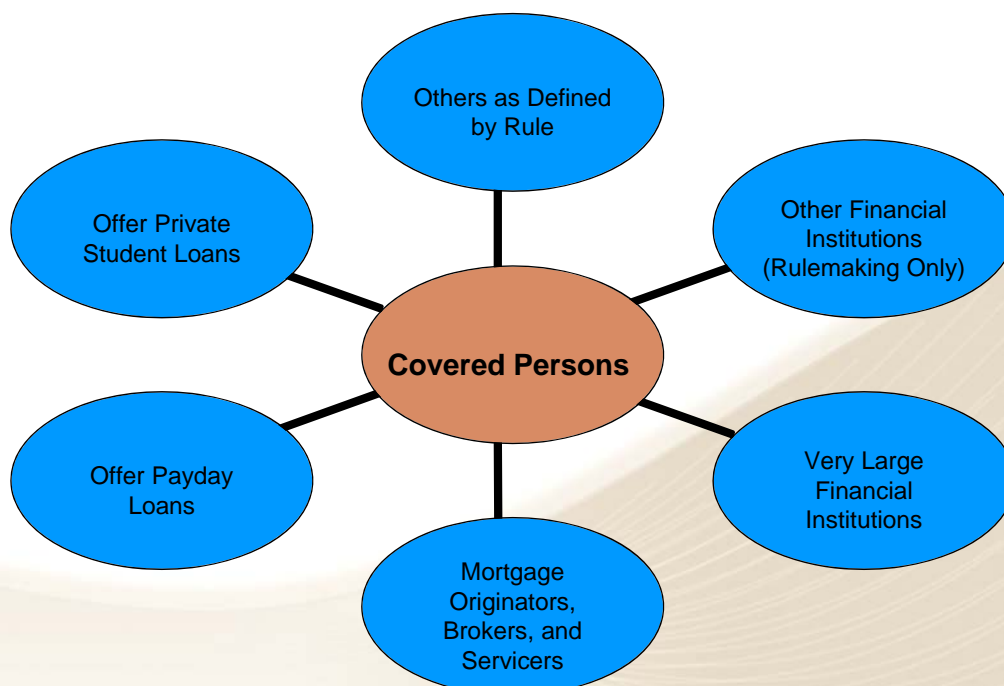
Consumer Protection Functions Centralized



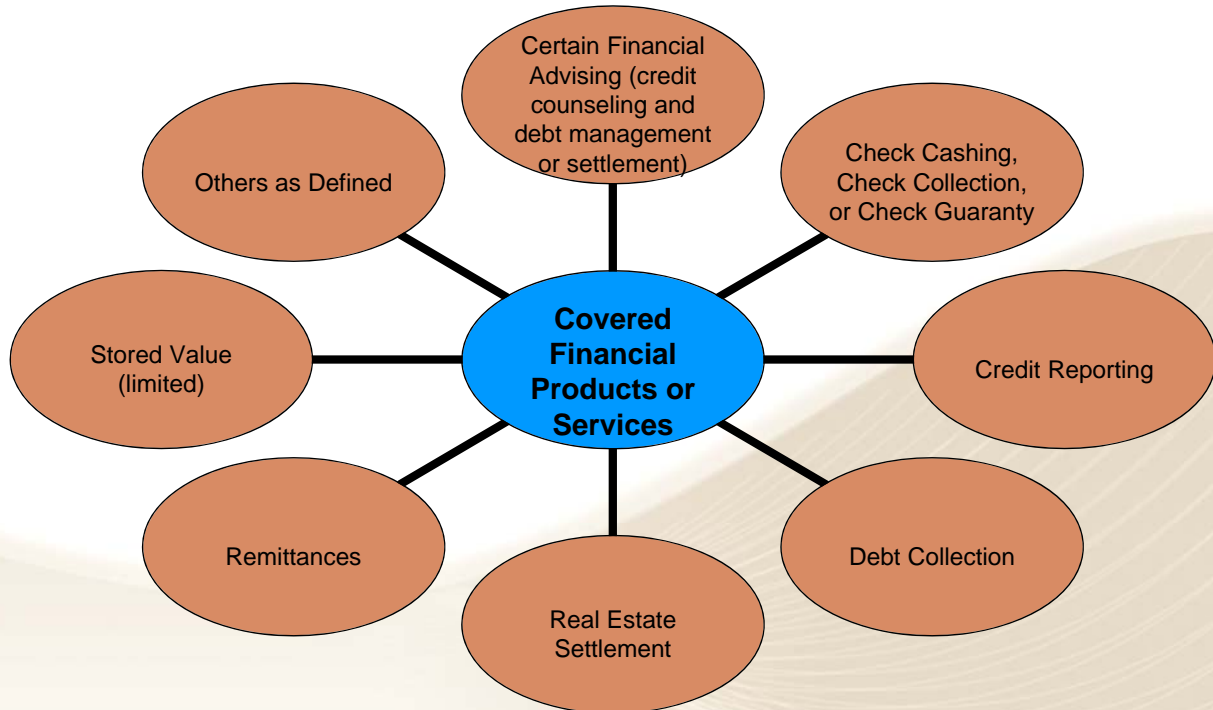
Bureau Jurisdiction

- Authority to promulgate, interpret and enforce consumer financial protection statute regulations
 - **Exam and enforcement** authority only over very large banks and non-bank financial institutions
 - Excluded: retailers, accountants, real estate brokers, lawyers and auto dealers
- Consumer complaints

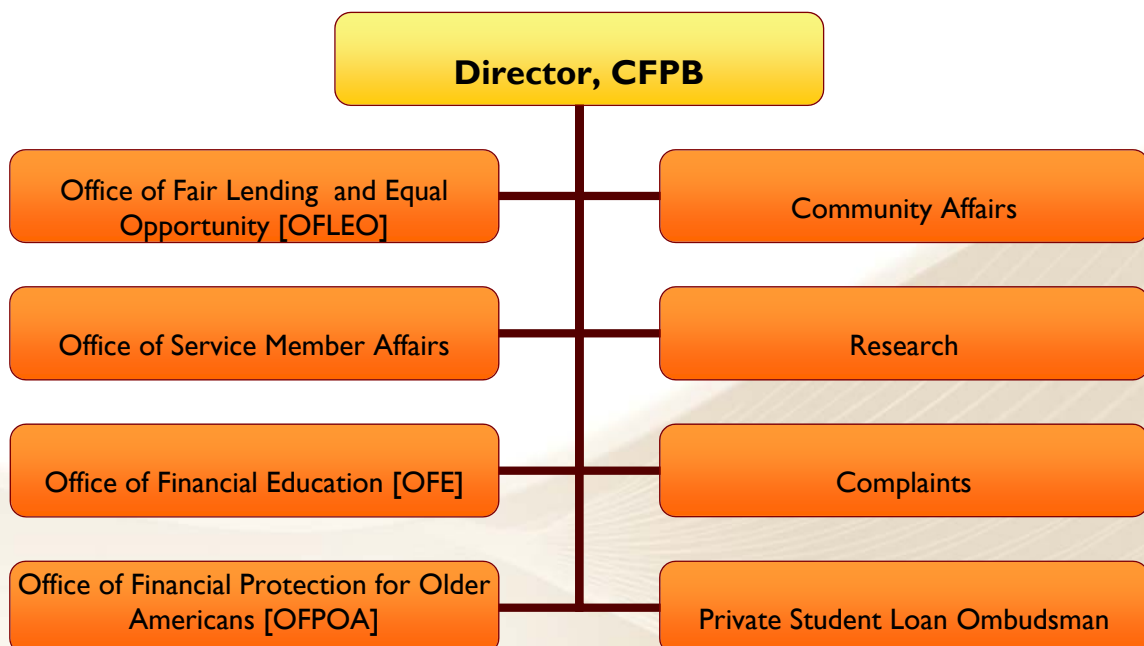
CFPB: Who Is Covered?



CFPB: What Is Covered?



CFPB Structure



Bureau - State Law Interaction

- Coordinate efforts with states to help unify and strengthen standards
- States will have the ability to enact and enforce stricter, nondiscriminatory laws

Major Consumer Protection Laws

CFPB:

- Consumer Leasing Act of 1976
- Electronic Fund Transfer Act (except sec. 920)
- Equal Credit Opportunity Act
- Fair Credit Reporting Act (except sec. 615(e) and 628)
- Home Owners Protection Act of 1998
- Fair Debt Collection Practices Act
- Federal Deposit Insurance Act (sec. 43, subsections b-f)
- Home Mortgage Disclosure Act of 1975
- Home Ownership and Equity Protection Act of 1994
- Real Estate Settlement Procedures Act of 1974
- S.A.F.E. Mortgage Licensing Act of 2008
- Truth in Lending Act
- Truth in Savings Act

Others:

- Expedited Funds Availability (FRB)
- Fair Housing Act (HUD)
- Flood Insurance (FEMA)

Protection for a changing marketplace

- Prohibition against acts or practices that are:
 - Unfair
 - Deceptive
 - Abusive

15

CFPB Must:

- ✓ Identify as unlawful unfair, deceptive, or **abusive** acts and practices by covered persons, and set up requirements to prevent these practices
- ✓ Add to the list of financial products and services covered under certain conditions
- ✓ Determine what other non-depository persons should be under the CFPB's examination authority
- ✓ Prescribe how non-depository covered persons should be registered
- ✓ Decide what information covered persons must disclose to consumers about financial products or services
- ✓ Determine procedures for timely response to consumer complaints against or inquiries about covered persons

Other Bureau Responsibilities

- Research and collect data regarding compliance by providers and education of consumers
- Monitor risks to consumers of various financial products
- Restrict or ban mandatory arbitration clauses;

Mortgage Reform & Anti-Predatory Lending Act

- Establishes the “Qualified Mortgage”
- Requires Documentation for Ability to Repay
- Resets HOEPA (high cost loan) threshold
- Prohibits prepayment penalties for “nonqualified” mortgages
- Bans “Steering” Incentives
- Prohibits Current Yield Spread Premiums
- Gives CFPB authority to prohibit mandatory arbitration, pending study

Also important...

- Third-party relationship risk management
- Reputation risk

- Insurance Industry
- Securities Industry

Key Academic Principles Include:

- Information Asymmetry
- Fairness

- Theory of regulatory dialectic
- “Regulatory capture” hypothesis

Questions?

Luke W. Reynolds
LuReynolds@fdic.gov

