Financial Services full committee hearing: Regulatory Restructuring: Enhancing Consumer Financial Products Regulation

Wednesday June 24, 2009
10:00

Opening statement

Chairman Frank, Ranking member Bachus, thank you for holding this important hearing today.

When the Consumer Product Safety Commission was proposed in 1972, toaster manufacturers, toy companies and car makers all screamed foul, much like the financial services industry is screaming about the Consumer Financial Protection Agency that we are discussing today.

But thank god for the CPSC. It has resulted in safer and more consumer friendly products and boosted American confidence that the products they bring into their homes will not kill them. And innovation and new product development is still alive and well.

The proposal for a consumer financial protection agency that we are talking about today is, I believe, the most important reform to come out of this economic meltdown.

A landscaper in my district who works for the City of San Francisco earns $60,000 a year, yet he got a $600,000 mortgage. He now has an $800,000 balance because his "pick a payment" loan allowed him to short his monthly payment and feed the balance back onto the principal. At this point, his mortgage is more than his take-home pay. How did he get a loan like that? A bank gave it to him.

It is far too generous to say that financial institutions were simply opportunistic for selling exotic mortgages to working people and pushing credit cards on students that they were unlikely to be able to repay.

Millions of Americans are losing their homes and jobs, and millions more have seen their retirement nest eggs evaporate. Sorry if I don't fall for the old canard that "the market will take care of itself".

Amazingly, many in the financial services industry argue that a consumer protection agency is unnecessary. Not only should consumers just trust their bankers, they also argue that the financial services industry is too complex for a consumer protection agency to understand.

Really??

Does anyone really want to make the argument that the status quo works? Let's be clear –existing regulators could have stopped the liar loans, sub-prime steering, pre-payment penalties, option ARMs and other mortgage products that nearly brought our economy down. The status quo could have jumped in at any time. But it didn't.

If a financial product is marketed with total disregard for a consumer's ability to repay, if it is purposely written so you need to hire an attorney to understand the terms, if it manipulates a customer into a more costly product than they are entitled to, you can't blame that on "the complexity of the system".

Regulators stood by while credit card companies used clever tricks to draw customers into ever deeper debt with teaser rates, balance transfers and so-called "convenience checks", all while burying the real credit terms in 30 pages of fine print. They watched while banks used ever larger over-limit and late fees to increase their bottom line at the expense of the most vulnerable consumers. Now more than 50 million American families can't pay off their credit cards each month.

It is essential that this new agency has real power and the resources necessary to carry out a difficult mandate:

- It must have real and flexible rulemaking authority to ensure that it can respond to innovations in the marketplace as institutions inevitably seek to find the loopholes that lead to higher profits.
- Financial institution profitability should have no impact in its deliberations. If a financial institution can't make money without using deceptive practices, it shouldn't be in business.
- It must establish a floor of regulation—not a ceiling. Currently, states often have to intercede to protect their consumers because federal regulators

won't. If this new agency does its job, the states won't have to enact tougher measures.

- It should leave insurance product regulation to the states who have the expertise and an existing strong consumer mandate.
- It must be adequately funded—separate from the institutions being regulated and not subject to starvation by Congress or the administration.
- It must have real enforcement authority, aided by states and a private right of action.

Financial institutions will say that they cannot possibly function under the kinds of restrictions proposed here. To which I ask them: Why are you afraid of letting consumers understand the terms of their mortgages and credit cards?

The industry has cried wolf too many times when reasonable regulatory changes have been proposed. Now we've spent hundreds of billions of dollars taking care of some of the biggest banks in this country. It is time to do something for the 117 million American families who don't have anyone to bail them out.

If we make it safer to take out a mortgage or use a credit card, then we will have accomplished something truly significant.