WALL STREET REFORM & CONSUMER PROTECTION

THE MELTDOWN

For eight years, President Bush and his Republican allies ignored growing risks in the financial markets as Wall Street and big banks exploited loopholes and harmed America's families and small businesses. Their failure to regulate financial markets and control these risks left Wall Street and the big banks to gamble with our money, which compromised our future, our savings, and the American Dream. We know what happened: the worst financial crisis since the Great Depression.

TOUGH CHOICES

Over the past year, this Congress and President Obama have made the tough choices and taken effective steps to bring our economy back from the brink of disaster.

RECOVERY BEGINS

Wall Street reform is the next critical step to create jobs and grow the economy. As we rebuild our economy, we must put in place common-sense rules to ensure big banks and Wall Street can't jeopardize our recovery and hurt hard-working families and small businesses once again. Wall Street may be bouncing back, but we know from experience that left to their own devices they're not going to police themselves.

THE SOLUTION

Common sense reforms that hold Wall Street and the big banks accountable will:

- End bailouts by helping ensure taxpayers are never again on the hook for Wall Street's risky behavior and bad bets
- Protect families' retirement funds, college savings, homes and businesses' financial futures from unnecessary risk by Wall Street lenders and speculators and high-paid corporate executives
- Protect consumers from predatory lending abuses, fine print, and industry gimmicks
- Finally bring transparency and accountability to a financial system that has run amok out

THE FINANCIAL CRISIS: FACTS AT A GLANCE

The worst financial crisis since the Great Depression had its roots in a decade of failure to properly regulate our financial system, acknowledge and address obvious and growing problems and to invest in growing our economy. Irresponsible lending and complex derivatives transactions led to a mortgage meltdown that sent the nation into recession in December 2007. The financial collapse happened in the fall of 2008 with the bankruptcy of Lehman Brothers, the implosion of AIG and the subprime mortgage crisis. By early November 2008, a broad U.S. stock index—the S&P 500—was down 45% from its 2007 high.

$14,000,000,000,000 LOSS IN NET WORTH SINCE 2007

American families have paid a huge price. American households' net worth fell more than $14 trillion (20%) from 2007 to the middle of this year, with the vast majority (78%) of that drop in 2008—due to declining home values and plunging values of stock held by Americans.

22% DECLINE IN RETIREMENT ASSETS

Total retirement assets, Americans' second-largest household asset behind their homes, dropped by 22%, from $10.3 trillion in 2006 to $8 trillion in mid-2008.

2,200,000 HOMES IN FORECLOSURE JUST THIS YEAR

Subprime and predatory home loans, in which mortgage brokers lured families with low, teaser interest rates that later skyrocketed to unaffordable levels, hidden fees and charges, and incomprehensible terms and conditions that brought on the housing crisis and undermined the financial system.

- By September 2008, average housing prices had declined by over 20% from 2006.
- During 2007, lenders began foreclosure proceedings on nearly 1.3 million properties, increasing to 2.3 million in 2008, and 2.2 million homes have gone into foreclosure already in 2009.
- More than 60% of subprime loans went to people who could have qualified for lower costs loans.
- Total home equity in the United States, valued at $13 trillion in 2006 dropped to $8.8 trillion by mid-2008.
- Nearly one in four U.S. borrowers currently owes more on their mortgage than their home is worth.

12 MILLION AMERICANS RELYING ON PAYDAY LOANS

High-cost Payday Loans are preying on nearly 12 million Americans. They pay a chunk of interest each pay day, costing them nearly $5 billion per year along with other predatory lending. These loans can ultimately carry annual interest rates of 400% or more, with the typical borrower paying about $500 in interest for a $300 loan, and still owing the principal.

$65,000,000,000 PONZI SCHEME MISSED BY THE SEC

Financier Bernie Madoff was allowed to defraud investors out of as much as $65 billion in the largest Ponzi scheme in history. The Securities and Exchange Commission (SEC) missed red flags that could have put a stop to his asset management business.

$33,000,000,000 IN BONUSES FOR EXECUTIVES IN 9 BANKS

Nearly $33 billion in executive bonuses were handed out by the nation's nine largest banks last year—even as they ran up more than $81 billion in losses and accepted tens of billions of dollars in emergency federal aid. Nearly 4,800 executives and other employees at these firms were each awarded at least $1 million.

WHAT IS IN THE REFORM BILL?

A NEW CONSUMER FINANCIAL PROTECTION AGENCY TO PROTECT FAMILIES AND SMALL BUSINESSES

Ensure that bank loans, mortgages, credit cards are fair, affordable, understandable, and transparent. We have tough rules that keep companies from selling us faulty toasters that burn down our houses, but there is currently no agency that has as its sole mission oversight of potentially harmful financial products sold to consumers. This critical enforcement is necessary to:

- ensure that consumers get information that is clear and concise from banks, mortgage servicers, and credit card companies;
- prevent the financial industry from offering predatory mortgage loans to people who can't afford repayment that marked the subprime lending era; and
- put in place common sense regulations to stop abuses by the financial industry, such as payday lending and exorbitant overdraft fees.

END "TOO BIG TO FAIL" FINANCIAL FIRMS

- **Put an end to "too big to fail" financial firms,** providing the government with the tools – funded by big banks and financial firms and NOT taxpayers— it needs to manage financial crises so we are not forced to choose between bailouts and financial collapse. This includes the ability to preemptively dismantle big banks whose risky and irresponsible behavior could bring down the entire economy, as well as an orderly process to wind down failing firms**.**

END TAXPAYER-FUNDED BAILOUTS

- Help **ensure American taxpayers are never again on the hook for bailing them out** by requiring big banks and other financial institutions (with $50 billion in assets) to foot the bill for any bailouts in the future. These institutions would pay assessments based on a company's potential risk to the whole financial system if they were to fail.
- Require that all financial firms that pose risk to the financial system—not just banks—are subject to strong - supervision and regulation, including stronger capital standards and leverage rules
- Increase transparency at the Federal Reserve, which has played an enormous role in shoring up big banks and other financial institutions in this crisis, subjecting it to scrutiny by Congress' Government Accountability Office with audits of the Fed's lending programs.

MORTGAGE REFORM AND ANTI-PREDATORY LENDING

- Stop predatory and irresponsible mortgage loan practices including prepayment penalties, deceptive mortgage documentation, and making extra profits for steering borrowers to higher cost loans that played a major role in the current financial meltdown. Help ensure that the mortgage industry follows basic principles of sound lending and consumer protection.

TOUGH NEW RULES ON RISKIEST FINANCIAL PRACTICES

- Strengthen enforcement by the Securities and Exchange Commission to better protect investors and prevent future Bernie Madoff Ponzi schemes;
- Rules to curtail excess speculation in derivatives and growing use of unregulated credit default swaps that devastated AIG and Bear Stearns;
- More transparency and tougher regulation of hedge funds, private equity firms and credit rating agencies, whose seal of approval gave way to excessively risky practices that led to a financial collapse; and
- Require investment advisors to act for the sole benefit of their client under the law, exercising the highest standard of care.

'SAY ON PAY'/ADDRESSING EGREGIOUS EXECUTIVE COMPENSATION

Puts an end to compensation practices that encourage executives to take excessive risk at the expense of their companies, shareholders, employees, and ultimately the American taxpayer. It provides shareholders of public companies with an annual, non-binding vote on executive compensation and golden parachutes for the top five executives:

- require independent directors on the compensation committees of public companies; and
- authorize the SEC to restrict or prohibit "inappropriate or imprudently risky compensation practices" at large financial firms (with at least $1 billion in assets).

EARLIER ACTION IN THIS CONGRESS

The New Direction Congress has been working to protect the rights of America's consumers:

CREDIT CARDHOLDERS' BILL OF RIGHTS, providing tough new protections for consumers—including banning unfair rate increases, abusive fees, and penalties—and strengthening enforcement. *(Signed into Law)*

BIPARTISAN FINANCIAL CRISIS INQUIRY COMMISSION, investigating the causes of the worst financial crisis since the Great Depression and produce detailed and clear-eyed analysis of what went wrong. The Commission will report by the end of 2010on those in the financial industry who took irresponsible risks, and help inform Congress as we move forward with further common sense reforms to prevent a future crisis. *(Signed into Law)*

FRAUD ENFORCEMENT AND RECOVERY ACT, providing more tools to prosecute mortgage scams and corporate fraud that contributed to the financial crisis, and protecting taxpayer funds by giving the Justice Department more tools to fight fraud in the use of Troubled Asset Relief Program and Recovery Act funds. *(Signed into Law)*

EXECUTIVE COMPENSATION LIMITS (in the American Recovery and Reinvestment Act), imposing new limits on compensation for top executives at financial institutions and other corporations that receive funds through the TARP, including limiting bonuses for executives to one-third of their annual pay and prohibiting cash bonuses, for example. *(Signed into Law; no Republican supported this measure)*

BIG BANKS & THEIR ALLIES FIGHT TO STOP REFORMS

Big banks and Wall Street firms, and their special interest Washington lobbyists, are fighting tooth and nail to stop these financial regulation reforms, including our efforts to protect individuals by creating the Consumer Financial Protection Agency. They are making false claims and using scare tactics to keep making billions of dollars and raking in huge bonuses from the sale of deceptive financial products that drive million of working people into financial trouble or bankruptcy. After taking billions of our tax dollars to stabilize their finances, the big banks are now spending millions to lobby against reforms that would protect us from abuse in the future.

CONGRESSIONAL REPUBLICANS ARE SIDING WITH THE BIG BANKS AND FINANCIAL INDUSTRY AGAINST THESE REFORMS, AFTER:

- **Opposing investments for Cracking Down on Runaway Financial Excesses and Rebuilding Regulatory Protections** for homeowners, investors and consumers by federal agencies such as the Securities and Exchange Commission, the Federal Trade Commission, and Consumer Product Safety Commission. *(H.R. 3170; Passed by House 219-208, with 98 percent of Republicans voting no)*
- **Voting to Delay Credit Card Reforms,** calling instead for the Federal Reserve merely to submit a study to Congress on speeding up consumer-friendly credit card reforms to (from February to now). *(H.R. 3639, Bill passed House 331-92; 96 percent of Republicans voting to delay)*
- **Opposing Limits on Executive Compensation** for top executives at financial institutions and other corporations that receive funds through the TARP. *(H.R. 1; no Republicans supported the bill)*