

# Obama Administration Fights for American Families: Protecting Consumers, Investors, and Taxpayers

*“Consumers will be provided information that is simple, transparent, and accurate. You'll be able to compare products and see what's best for you. The most unfair practices will be banned. Those ridiculous contracts with pages of fine print that no one can figure out – those things will be a thing of the past. And enforcement will be the rule, not the exception.”*

- President Obama 6/17/2009

*“This agency will have only one mission – to protect consumers – and have the authority and accountability to make sure that consumer-protection regulations are written fairly and enforced vigorously. Consumer protection will have an independent seat at the table in our financial regulatory system.”*

- Secretary Geithner 6/29/2009

## **Creating an Agency with One Mission – to Protect Consumers of Financial Products**

**Standing Up for Financial Protection of Middle Class Families:** The decision to buy a home is one of the most important decisions in a family's life – yet our current system of regulation fails to protect consumers in this critical decision. This system contributed to abusive mortgage lending practices at the heart of the current crisis and failed to prevent abusive credit card terms, unfair overdraft fees on bank accounts, or unclear disclosures for investors. The Obama Administration is standing up for middle class families – for fundamental reform of the financial system that will give consumers and investors a strong voice for their interests.

**One Agency for One Market with One Mission -- To Protect Consumers:** The system of consumer protection fundamentally failed to protect American families. It allowed a range of institutions to escape effective supervision because responsibility for consumer protection was fragmented across numerous regulators and many finance companies weren't regulated at all at the Federal level. Regulators have consistently asked, “What's the effect on the financial firm?” instead of “What's the effect on consumers?” Competition from unregulated players led regulators to permit inappropriate mortgages and abusive credit cards because they produced high revenues – for a time. The Consumer Financial Protection Agency (CFPA) consolidates authority in one place with the sole mission of looking out for consumers across the whole market.

## **New Authority to Protect All Households in the Mortgage Market**

**Authority to Ensure Fair Treatment of Families for the Whole Mortgage Market:** Problems in mortgage markets affected millions of American families in cities and towns across the country. Too many mortgage brokers pushed families into loans that were not suitable for them and with terms that they did not understand. The CFPA would have the authority to require that mortgage brokers look out for the interests of families when they give advice about mortgages – this simple principle is not in force today.

**Simple and Unified Mortgage Disclosures:** Current Federal regulations require two separate and overlapping mortgage disclosure forms from two separate agencies when families purchase a house. The Obama Administration's proposal would create a single agency with the authority and mission to streamline and simplify mortgage disclosures so that regular families can understand them.

## **Building on the Protections in the Credit Card Law Enacted in May**

**Strong Credit Card Law to End Abusive Practices:** Seventy-eight percent of U.S. families have a credit card, and 2008 data show 44 percent of families carried a balance on their credit card. In May, Congress passed and the President signed a strong new credit card law that will protect American families from unfair credit card rate hikes and prevent late fee traps. Building on this new law, the CFPA will implement and enforce these new protections for families and keep those protections up to date.

**Simple, Concise Disclosures to Help Families Avoid Penalty Fees:** The credit card industry collects \$15 billion in fees each year, nearly 10% of credit card industry revenue. The Administration believes that responsible consumers should have the benefit of simple, concise disclosures to help avoid penalties. The credit card law enacted this spring requires clear disclosures at account opening and with each monthly statement, including a clear display of any fees and an explanation of how much it would cost the consumer to pay off the balance if they paid only the minimum amount.

### **Protecting Retirement Security, Savings and Investment**

**Protecting Retirement Security, Savings, and Investment:** In the wake of the Madoff scandal, it is clear that all investors need better protection from fraud and unscrupulous actors. The Administration's proposed legislation strengthens investor protection through the Securities Exchange Commission (SEC) by:

- Raising the standards for brokers and investment professionals so that they have a fiduciary duty and are required to act in the interests of investors when giving advice
- Requiring mutual funds to disclose costs and risk factors to investors prior to selling a product, instead of after it is purchased
- Creating a permanent Investor Advisory Council to the SEC – so the government can always hear from the needs and interests of real investors
- Increasing protections for those who uncover financial frauds

### **Protecting Taxpayers and Investors through Reforms to Make the System More Stable**

**Closing Regulatory Gaps to make the System More Stable:** In the recent crisis, millions of American families saw their retirement savings or their children's college funds fall dramatically. Unregulated markets for securitizations and derivatives and an over-reliance on the flawed judgments of credit rating agencies increased the instability of the financial system, which in turn exposed individual investors to tremendous risk. The Administration's proposals help to make financial markets safer for investors by closing regulatory gaps, requiring registration of hedge funds, regulating securitization and derivatives, and strengthening standards for credit rating agencies.

**Create a More Stable Financial System that serves the Needs of American Families:** The President's plan is focused on the core reforms that will address the causes of the current crisis, make the system more stable and resilient and give the government tools to better address a potential future crisis. It will create robust consolidated supervision of the largest, most interconnected financial firms. It will create an oversight council charged with monitoring emerging risks. And it will create new tools for the government to respond to crises when they do occur.

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