## Financial Reform Fact Sheet

The landmark federal financial reform legislation (the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010) was passed to strengthen consumer protection of financial products and services, limit taxpayer liability for financially risky banks, and prevent or stop the spread of unfair and deceptive practices. Here are some of the key elements of the legislation:

### Consumer Financial Protection Bureau

- The federal Consumer Financial Protection Bureau (CFPB) will oversee financial products and services, including credit cards, mortgages, payday loans, private student loans, credit bureaus and debt collection.
- The CFPB will write rules for financial products/services and will enforce the rules on the biggest banks and credit unions ($10 billion or more in assets). Other federal regulators (U.S. Office of the Comptroller of the Currency-OCC and the Federal Deposit Insurance Corporation-FDIC), and state attorneys general, will enforce CFPB rules for smaller institutions.
- At the FDIC, the Division of Depositor and Consumer Protection (DCP) will enforce the CFPB's rules for banks with under $10 billion in assets.
- The Bureau will be an independent entity housed in the Federal Reserve with a substantial budget and independent director. It will have the authority to take action to prevent or correct financial abuses.
- The CFPB will write rules to require that consumers be provided with complete and understandable information related to the costs, benefits, and risks of the financial products under the Bureau's jurisdiction.
- New consumer protection rules will be created by the CFPB to prohibit specific practices in the industry that the Bureau considers to be unfair, deceptive or abusive.
- A consumer complaint system will be established by the Bureau with a toll-free phone number, website, and complaint database. The CFPB will collect, investigate and respond to complaints, set up procedures for a timely response to consumers, and monitor companies' complaint resolution efforts.
- The passage of this law marks the first time that one federal agency will be responsible for financial consumer protection. The Bureau will enforce existing law, including the Truth In Lending Act (TILA), Real Estate Settlement Procedures Act (RESPA), Home Ownership & Equity Protection Act (HOEPA) and the Home Mortgage Data Act (HMDA).
- The new Bureau will include the following new offices and units:
    - Office of Financial Education
    - Office of Fair Lending & Equal Opportunity
    - Office of Financial Protection for Older Americans
    - Office of Service Member Affairs
    - Private Student Loan Ombudsman

- A Community Affairs unit will provide information and guidance to traditionally underserved communities.
- A Research unit will study consumer access to financial products/services.

- The CFPB has authority to write rules affecting mortgage down payments and disclosures, loan modifications, credit card rates and fees, bank overdraft programs, credit score usage, and eligibility for student loans, credit cards, pre-paid cards and more.
- The CFPB will oversee car dealers who do their own financing (direct loans to consumers) and auto financing companies like Ally Financial (formerly General Motors Acceptance Corporation-GMAC).
- The Bureau will have the authority to impose fines on companies, require restitution (repayment) to aggrieved consumers, rescind consumer contracts and/or file lawsuits against firms that violate its rules.
- When a majority of states enact consumer protection rules for a specific financial product or service, the CFPB will adopt a federal rule mirroring the states' action.
- The new law allows states to impose stricter consumer financial protection rules/laws than those created by the CFPB.

**Mortgage Reform**

- Lenders are required to verify that borrowers have the financial ability to repay the loan, including payment increases.
- The CFPB will have authority over the practices of large bank and non-bank mortgage lenders, including loan originators, mortgage brokers, and servicers.
- Lenders are banned from steering consumers into high cost, unaffordable loans. The law eliminates yield spread premiums (YSPs), the bonuses paid to brokers for charging borrowers a higher interest rate than their credit histories warrant.
- Lenders who resell mortgages to investors must hold onto at least 5% of the riskier home loans they make.
- Penalties for pre-paying a mortgage are prohibited on adjustable rate loans, and limited to the first three years on fixed rate loans.
- Mortgage origination fees are limited to 3% of the loan (however, some fees and points are not included in this limit.)
- New mortgage disclosure forms will be created in an attempt to make sure consumers understand the terms of every home loan before entering into a contract.
- Borrowers who refinance a mortgage must receive a tangible benefit from the loan, meaning that consumers who refinance a loan must be better off after doing so.
- Consumers with high-cost mortgages will receive improved protections (limits on fees and penalties) under HOEPA, the Home Ownership and Equity Protection Act.
- Regulations will be written to specify which elements of Home Mortgage Disclosure Act (HMDA) loan data must be collected from mortgage companies. The rules also will address how the data will be disclosed publicly, while still protecting applicants' privacy.

**Foreclosure Prevention**

- Emergency Homeowner Loan Program funds will be made available for unemployed homeowners to apply for bridge loans to help them prevent foreclosure. Up to $50,000 in interest-free loans will be available for up to two years to cover mortgage payments. The loans will be repaid when the home is refinanced or sold. Homeowners who are underemployed or have serious medical conditions will also be eligible.
- Relief funds will also be available for neighborhoods to redevelop abandoned, foreclosed properties.
- The CFPB will create standards for mortgage modifications for troubled homeowners and monitor mortgage servicers' loan modification efforts.
- The Bureau will write rules to protect consumers from unfair and deceptive mortgage lending and foreclosure rescue schemes.

**Credit Scores**

- Consumers who are denied credit, a loan—or who have received a higher interest rate based on their credit record—are entitled to a free copy of their credit score, in addition to a free credit report.
- The CFPB will analyze and report to Congress on the differences between credit scores sold to creditors and those sold to consumers.

**Private Student Loans**

- A private student loan Ombudsman position will be created to resolve borrower complaints.
- The CFPB will conduct a study and report to Congress on costly private student lending, who uses these loans and why, and if students have borrowed the maximum allowed under safer, cheaper federal loans first.

**Information Sharing**

- The CFPB can write rules restricting the use of medical information for inappropriate purposes.
- The CFPB will establish accuracy guidelines for companies ("furnishers") that provide information to credit bureaus.

**Arbitration**

- The CFPB will study the use of mandatory arbitration in disputes between consumers and companies that sell or service financial products.
- The CFPB has the authority to ban or limit the use of binding, mandatory arbitration.

**Remittances**

- Remittances are the funds that immigrant consumers and others send to people back home, usually by wire. The CFPB has the authority to write rules to resolve errors, create strong refund policies, and price disclosures, etc.
- The CFPB will study what opportunities consumers have for price comparison of remittances.

- Model remittance forms will be developed.

### Role of the Federal Trade Commission (FTC)

The FTC, a federal agency with authority to protect consumers from misrepresentation, fraud and deception, is expected to work closely with the new Bureau, particularly on its oversight of auto dealers. Auto dealers are largely exempt from CFPB oversight, however the FTC has been given new authority to write rules related to auto dealer financing.

While the CFPB is the primary regulator of financial consumer protection, the FTC is still responsible for fraud detection and prevention in the areas of:

- Debt settlement/debt relief
- Telemarketing fraud
- Credit repair
- Foreclosure relief scams
- Employment scams
- Fake grants
- Pre-paid calling cards
- Other frauds

## Other areas of financial reform

### 'Too big to fail'

- A Financial Stability Oversight Council is established to detect risks that could damage the entire economy.
- An Office of Financial Research (within the U.S. Treasury Department) will collect and analyze risk data for the Oversight Council.
- Financial firms are required to retain more capital (money) in reserve to withstand financial crises.
- An Office of Complex Financial Institutions (CFI), under FDIC authority, will be responsible for winding down (liquidating) the most risky financial institutions that fail, to avoid the necessity of taxpayer bailouts.

### Reverse mortgages

- The Bureau will identify unfair and deceptive practices in the reverse mortgage industry, and is expected to write rules to prevent such practices.

### Swipe fees and debit cards

- Standards will be established to assess if the processing fees ("swipe" or interchange fees) that card companies charge merchants when consumers use debit cards are "reasonable and proportional."
- The law permits merchants to offer discounts to customers who use cash instead of credit cards.
- Merchants are now allowed (but not required) to establish minimum purchase requirements of $10 for customers paying with credit cards.

**Pre-paid cards**

- A study will be conducted on card fees and the use of pre-paid cards in federal and state programs (ex. Social Security, disability payments etc.)

**Office of Women and Minority Inclusion**

- This new office will reside within each regulator (FDIC, OCC, CFPB) to establish standards for equal employment opportunities and assess diversity policies, practices, and minority business lending.

**Investor protection**

- Office of Investor Advocate will be established at the Securities and Exchange Commission (SEC) to analyze rules and regulations and recommend future regulations.
- An SEC Ombudsman will assist investors in resolving complaints.
- The SEC will conduct a study to decide whether to require brokers to operate in a client's best interest (fiduciary duty). Financial advisors currently have a fiduciary duty.

**Insured deposits**

- Deposits at FDIC insured institutions are insured up to $250,000. (This makes permanent the temporary increase enacted during the financial crisis.)

**Federal Insurance Office**

While insurance remains mainly state regulated, a new Federal Insurance Office (FIO) at the U.S. Treasury Department will:

- Identify gaps in regulation
- Recommend stricter standards where needed
- Study underserved communities' access to affordable insurance products
- Recommend ways to modernize insurance regulations
- However, the FIO will not monitor health, long-term care or crop insurance

Revised Aug. 13, 2010

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