

New Consumer Protection Agency Faces Opposition

by TAMARA KEITH



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President Obama shakes hands with former Ohio Attorney General Richard Cordray after announcing his nomination to serve as the first director of the Consumer Financial Protection Bureau. Treasury Secretary Timothy Geithner and Elizabeth Warren, who helped build the agency, look on.

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There's a new cop on the money beat: the Consumer Financial Protection Bureau, which opens its doors Thursday. It was created by the Dodd-Frank financial overhaul, signed by President Obama one year ago.

The bureau will look out for the financial best interests of American consumers. And while it's popular with the public, it remains controversial.

The idea behind the consumer bureau was simple: If there's an agency to protect consumers from buying an exploding toaster, there should be one that protects them from signing up for an exploding mortgage.

"I think what we saw in the financial crisis is we didn't have anybody looking out for American families," says Michael Barr, a law professor at the University of Michigan. He previously worked in the Treasury Department and was involved in drafting the legislation that created the consumer bureau.

"We had a whole set of practices that were wrong, that hurt American families and that in the end blew up our financial system and devastated our economy," he says. "And that's why we need a consumer bureau to set a level playing field with clear standards — fair rules of the road."

Political Challenges

But this brand new bureau faces many challenges. For starters, it doesn't have a director. Earlier this week, President Obama nominated Richard Cordray for the job. That same day, Senate Minority Leader Mitch McConnell (R-KY) took to the Senate floor with a message for the president.

"I would remind him that Senate Republicans still aren't interested in approving anyone to the position until the president agrees to make this massive new government bureaucracy more accountable and transparent to the American people," McConnell said.

The House is scheduled to vote Thursday on a GOP-backed bill that would restructure the consumer bureau to a form favored by the financial services industry. Among the changes, it would replace the director with a board of directors.

In short, the political fight over this bureau is far from over, even if most people now agree that a consumer protection agency should exist in some form.

"Do I worry? You bet I worry," says Elizabeth Warren, a special adviser to the Treasury secretary who is credited with

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coming up with the idea of a consumer bureau.

"There are clearly people who want to rip the arms and legs off of this agency before it has a chance to help one single family in America," she says. "I know that. I get it. They've made it pretty clear."

Warren has been building the bureau from the ground up for the past year. In that time, it has grown from five employees to more than 400.

Today, the bureau receives authority under 16 different consumer laws. It gains oversight over more than 100 of the nation's largest banks when it comes to the consumer products they offer.

What Happens Next?

But until it has a director, the bureau won't be able to start writing rules for nonbank financial institutions like payday lenders. Warren says the bureau is operating under one central vision.

"We want prices to be clear. We want risks to be clear. We want to make it easy to compare two or three mortgages to each other, two or three credit cards to each other," she says.

For months now, the consumer bureau has been hard at work on the mortgage disclosure forms. Earlier this year, it posted two simplified mortgage forms in draft form on its website and asked the public to weigh in on which one was easier to understand. Warren says the agency received more than 13,000 responses.

The financial services industry says it backs the changes.

"How can you be against simplified disclosures?" asks Scott Talbott, chief lobbyist for the Financial Services Roundtable. "I mean, it benefits the consumer, it benefits the industry, it benefits the entire transaction. It's all good, and the industry supports what the CFPB is doing."

In fact, so far, Talbott says the industry has been pleased with the direction the bureau is heading.

"We may not always agree with them," he says. "Where we don't, we feel so far we have been able to have good dialogue with them. But at the same time, we haven't really hit the road yet. We're about to turn the keys and start it up today. And it will be out on the road for a test drive."

And that's what the industry is worried about — what comes next. "This is an entire new entity to come to grips with," says Jaret Seiberg, a policy analyst at MF Global's Washington Research Group. "And there's a tremendous amount of fear out there because this is a very powerful agency."

The fear is that the bureau will someday write rules that make it harder for banks to do business and make money. And that could actually limit the credit available to consumers.

"There's no foregone conclusion. The agency doesn't have to fulfill the nightmares that the banks have, but until we start to see concrete actions, those nightmares are still going to keep bankers up at night," he

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As for consumers, they probably won't notice a change immediately. But if in the future they go to get a mortgage and the forms are easier to understand, they can probably thank the Consumer Financial Protection Bureau.

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