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CFA Applauds Senator Dodd for Moving Forward on Financial Reforms

Calls for Improvements to Protect Consumers and Investors

Washington, DC -- The Consumer Federation of America today commended Senate Banking Committee Chairman Chris Dodd for moving forward with a comprehensive financial reform package. CFA released the following statements on specific components of the proposal.

On Consumer Protection, Travis Plunkett, Legislative Director at CFA, stated:

"CFA supports creating a Consumer Financial Protection Agency to protect Americans from deceptive and abusive financial practices. The CFPA would be truly independent in its decision-making, have the ability to oversee <u>all</u> lenders in the marketplace, and have broad enforcement and supervision powers. However, if the pressure from large banks means that the Senate will not create such an agency, Senator Dodd's proposal to establish an autonomous consumer regulatory body within the Federal Reserve could provide effective protection if it is well-crafted. Importantly, the bill proposes that the consumer body be independently funded and have broad rule-making authority over both banks and non-banks. It grants the regulator strong enforcement and supervision authority over large banks. State Attorneys General will be able to enforce rules issued by the regulator."

"However, it is absolutely essential that existing bank regulators, including the Federal Reserve, which failed so badly to protect consumers, do not have the power to control rules proposed by the consumer regulator. The 'veto power' granted to a council of agencies could lead to this kind of control. We strongly recommend that the Dodd bill be improved to give the consumer regulator the ability to examine and enforce rules regarding all non-banks (such as payday lenders) immediately, instead of having to propose rules to use this authority. The regulator should also have the power to enforce and supervise its rules as they affect small banks. As written, the proposal does not even allow the regulator to use enforcement and supervision authority in a back-up capacity if banking agencies do not do their job checking for compliance on consumer rules."

(more)

On Credit Rating Agencies and Investor Protections, Barbara Roper, Director of Investor Protection at CFA stated:

"By slapping AAA ratings on mortgage-backed securities whose risks they did not understand and could not calculate, credit rating agencies were central enablers of the unsound mortgage lending at the root of the financial crisis. CFA supports reforms to simultaneously strengthen SEC regulatory oversight of rating agencies, increase accountability for ratings by making them liable for conducting adequate investigations to support a reliable rating, enhance transparency of ratings, and, perhaps most important of all, reduce regulatory reliance on ratings. While we have yet to delve into the details, we are pleased to see that is the general approach taken in the revised bill introduced today by Chairman Dodd. Indeed, with regard to reducing regulatory reliance on ratings, the bill has been significantly strengthened during the bipartisan negotiations."

"Unfortunately, the original bill's most important provision to protect average investors has been stripped from the bill. That provision, which would have required that brokers and insurance agents act in the best interests of their customers when recommending securities, has been replaced with new language, drafted by Sen. Tim Johnson, which requires the SEC to study the issue but gives it no new authority to address regulatory gaps identified by that study. Without new authority, the provision is a waste of agency time and taxpayer money."

The Consumer Federation of American is a non-profit association of more than 280 groups that, since 1968, has sought to advance the consumer interest through advocacy and education.

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