CFA Consumer Federation of America

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A recent *American Banker* article entitled "Small Banks Find Vanilla a Bitter Flavor" [Aug. 3] neatly summarizes the illogical lengths to which the lending industry will go to try and stop President Obama's proposed Consumer Financial Protection Agency.

Industry sources cited in the article warn that giving the CFPA authority to issue rules to require lenders to offer so-called "vanilla products" would put community banks at a disadvantage by robbing them of the ability to offer customized products tailored to customers they can know better than large banks. This "commoditization" of credit will, these sources argue in the article, benefit large banks and squeeze out community bankers.

The argument just doesn't hold up. Just about everything in the lending business, particularly for mortgages, has been commoditized for a long, long time. The basic bread-and-butter lending that community bankers say is a priority would not suffer from the proposed regulatory discretion to require lenders to offer "plain-vanilla products."

Indeed, by giving consumers a genuinely clear idea of the difference between the safe, stable products community banks claim they offer and the exotic, high-priced, unstable products that flooded the market through brokers and Wall Street securitizers in recent years, the proposal should level the playing field for all lenders committed to genuine customer service, careful underwriting and consumer value.

The proposal would not restrict lenders to only so-called vanilla products. But it would give the CFPA discretion to require lenders (after rulemaking) to offer them to consumers and clearly disclose the differences in features and costs of other alternatives they would like to offer.

In the lead up to the current crisis, the most egregious lending abuses occurred in the mortgage lending space. Research has shown that, in too many cases, borrowers who could have qualified for low-cost, no-frills fixed-rate mortgages available from community banks instead were steered into more expensive alternatives like adjustable-rate loans with teaser rates, prepayment penalties and higher-than-necessary interest rates. Brokers were incented to offer these through higher payments from national and Wall Street lenders and securitizers, who prized the higher yields these features generated. Consumers paid for these fees through the higher charges with which they were saddled.

Meanwhile, the standard mortgage products that would have benefited many of these consumers were commoditized long ago through the deep secondary market dominated by Fannie Mae and Freddie Mac. This did not keep community banks from offering standard 30-year fixed-rate mortgages. In fact, it was Wall Street securitizers, not community banks that flooded the market with irresponsible capital to fund these risky loan products, in many cases crowding out good loans that conventional lenders were offering.

The result of this underregulated approach has been an unprecedented wave of foreclosures and the collapse of the American housing market. This nationwide loss of home values is something that was never seen since the introduction of "commoditized" mortgages in 1934, first through the FHA and later conventional lenders relying on their portfolios and conventional secondary market outlets.

Bankers who are ready to offer consumers good value at a fair price have nothing to fear from the CFPA. Predators that thrive when consumers are not offered the full range of products for which they qualify, on the other hand, do. Community bankers need to decide with which group they want to be identified.