

# CFE Cities for Financial Empowerment

Co-chairs

New York City

October 7, 2009

San Francisco

Honorable Christopher J. Dodd, Chairman  
Committee on Banking, Housing and Urban Affairs  
United States Senate

Honorable Barney Frank, Chairman  
Financial Services Committee  
United States House of Representatives

Member Cities

Chicago

Honorable Richard C. Shelby, Ranking Member  
Committee on Banking, Housing and Urban Affairs  
United States Senate

Honorable Spencer Bachus, Ranking Member  
Financial Services Committee  
United States House of Representatives

Los Angeles

**Re: Consumer Financial Protection Agency**

Miami

Dear Senators Dodd and Shelby and Representatives Frank and Bachus:

Newark

Providence

San Antonio

Savannah

Seattle

We write to you on behalf of the Cities for Financial Empowerment (CFE), a national coalition of city governments working to improve the financial health and security of residents with low and moderate incomes. The CFE Coalition brings together ten pioneering administrations from across the country that use their positions as municipal governments to advance innovative financial empowerment initiatives. CFE's member cities—Chicago, Los Angeles, Miami, Newark, New York, Providence, San Antonio, San Francisco, Savannah, and Seattle—represent geographic and demographic diversity, yet they advance their commitment to CFE's mission by dedicating resources and high-level city officials to the development of municipal programs and initiatives that promote financial empowerment and asset building among residents with low incomes.

**The CFE Coalition strongly supports the creation of an independent Consumer Financial Protection Agency (CFPA), with regulatory and enforcement authority.** A strong and independent CFPA would finally make consumer protection the primary focus of a federal regulator with authority over the consumer financial services marketplace – rather than at best a secondary consideration of one of the eight federal agencies that currently have authority in the financial services sector. We write to highlight three critical features in this area of regulatory reform.

- ❖ **The CFPA must have authority over both bank and non-bank financial service providers.** Our cities see first hand the effect on American families of the collective damage caused by fringe financial service providers, such as check cashers, debt collectors and payday lenders. States and localities have led the charge in ensuring that these businesses are fair and transparent, while the diffuse federal regulators have largely been absent. Regulations should be tailored to products and services, rather than institution type. While it is important that the CFPA does not place an unnecessary regulatory burden on small, non-financial service businesses that extend minor credit to purchase goods, the CFPA's authority over non-banks must include businesses that routinely offer financing to consumers directly or for the purchase of consumer goods and services.

At the same time, complex and misleading practices by even regulated institutions have a devastating impact on families in our cities. From the foreclosure crisis to deceptive credit card tricks, opaque lending practices undermine our residents' ability to repay their revolving debt. Even simple transactional bank products such as checking accounts are often paired with fee-based overdraft programs which can drain what little savings families have tucked away and undermine our efforts to connect those with low to moderate incomes with mainstream financial institutions. The results are that our residents become buried underneath a mountain of debt and reliant on payday lenders, check cashers or other fringe financial service providers.

This complexity and lack of transparency also destabilizes the economy. Consider, for example, the recent spike in credit card charge-offs. In July 2009, charge-offs were at 10.55%, 45% above the level in February and 63% higher than the level one year earlier. And bank overdraft programs may cost consumers more than \$38 billion this year alone, driving a general distrust of banks.

Vesting responsibility for federal consumer protection in the financial services marketplace to a single agency will help to rein in these and the many other practices that erode limited household incomes, confidence in financial institutions and the soundness of our economy overall.

- ❖ **Federal rules should set a floor, not a ceiling, for state and local protections; in no event should preemption language roll back current local protections.** The legislation introduced in the House of Representatives includes important provisions to ensure that stronger state consumer protection laws will not be undermined by the new federal agency. It is critical that CFPB regulations act as a floor, not a ceiling, so that states retain their long-held authority to regulate the terms and conditions under which credit is extended in the state and protect citizens of the state. We also support the provisions granting state Attorneys General concurrent enforcement authority over the consumer protection laws falling within the responsibility of the new agency.

The final version of the legislation also should ensure that existing state and local laws are not undermined by the new agency. Many local law enforcement agencies around the country, including in many of our cities, make or enforce consumer protection laws and regulations. Local authorities know the local businesses they regulate and have on-the-ground experience protecting consumers in areas most relevant to their jurisdiction. Moreover, the local businesses already have relationships with these authorities and would benefit from the maintenance of local rule-making and enforcement responsibilities where they exist.

- ❖ **A strong agency mandate will help to produce a safe and sound financial services marketplace.** The CFPB should have broad rule-making and enforcement authority so it can empower consumers to make informed choices about financial products and services. Regulators with consumer protection as a secondary or tertiary concern have failed to prevent the proliferation of risky products, charter shopping and the creation of non-bank businesses just to avoid regulatory scrutiny.

The CFPB would encourage the development of safe products, as financial service providers compete for customers on a playing field requiring transparency and honesty. The result would be the successful, long-term engagement of customers with financial products and services. Financial institutions would command greater consumer confidence as a result, and they would be able to tap new markets. As cities that partner with financial institutions on behalf of our residents, we see the potential benefits of these long-term customer relationships: consumers benefit, financial institutions achieve sustained profitability and our economy prospers.

The financial empowerment efforts of CFE Coalition cities have had significant impacts on the populations of some of America's largest metropolitan areas, helping residents with low to moderate incomes access mainstream banking services, obtain high-quality financial education and counseling, and designing innovative asset building efforts. However, much more could be accomplished by coupling these municipal initiatives with a coordinated federal effort to protect and empower users of financial services. As those with low incomes and banks alike are facing increasing economic instability, the creation of a vibrant Consumer Financial Protection Agency will have a significant impact on fairness and transparency in the marketplace, the recovery and the future strength of the financial system.

Respectfully,



Jonathan Mintz  
Commissioner  
NYC Department of Consumer Affairs  
Co-Chair, CFE Coalition



José Cisneros  
Treasurer  
City and County of San Francisco  
Co-Chair, CFE Coalition

cc: Members, Senate Committee on Banking, Housing and Urban Affairs  
Members, House Financial Services Committee