

CFE Cities for Financial Empowerment

Co-chairs

New York City

June 11, 2010

San Francisco

The Honorable Barney Frank
Chairman, Financial Reform Conference Committee
Washington, DC 20515

Member Cities

Cc: Senate and House Conferees, Financial Reform Conference Committee

Chicago

Re: Cities across the nation weigh in on consumer provisions of financial overhaul bill

Los Angeles

Miami

Dear Senate and House Conferees,

Newark

The Cities for Financial Empowerment (CFE) Coalition¹ writes to inform the conference committee regarding key decisions now before it in the House and Senate financial overhaul bills. As city governments working across multiple industries to empower our residents in the financial marketplace, we draw your attention to the reform provisions most important to these efforts.

Providence

San Antonio

Savannah

Three themes should guide your decisions, as follows.

Seattle

- 1. Authority and Independence.** As cities, we know well that the effectiveness of an agency at any level of government depends upon its credibility in the marketplace to take regulatory and enforcement actions. Credibility requires sufficient independence and authority to convene the relevant stakeholders and act quickly and decisively, setting forth or enforcing fair and appropriate rules. This is true in particular about the proposed consumer protection agency, which would consolidate the scattered authorities of seven agencies into one, with the primary focus of consumer financial protection. As an agency designed to empower and protect consumers in the financial services marketplace, its greatest value will come from actions it takes to *prevent* crises from occurring—for example, by stopping misinformation campaigns and predatory marketing practices that can fuel asset bubbles, like the recent housing bubble. Thus, regardless of where the agency is created and housed, it must be able to act proactively to require that financial products offered are safe and transparent and easily understood by consumers in the market.

Two differences between the House and Senate bills should be reconciled in favor of greater authority and independence.

The CFE Coalition strongly recommends the conference committee avoid unnecessary restrictions on the authority of the agency to adopt rules. The House version of the bill strikes the right balance of agency authority to respond to emerging protection needs with necessary and appropriate consultation with prudential regulators. The Senate's bill, by contrast, would place undue

¹ The Cities for Financial Empowerment (CFE) Coalition is a network of cities committed to advancing innovative financial empowerment initiatives locally and nationally. Expanding the vision of how municipal government can serve its citizens and create pathways for financial stability, CFE leverages opportunities and resources in the service of at-risk communities, and provides a platform for cities to work and learn collectively, forging partnerships with public, private, and non-profit sectors. CFE members include co-chairs New York and San Francisco, and member cities Chicago, Los Angeles, Miami, Newark, Providence, San Antonio, Savannah, and Seattle.

restrictions on the agency's authority to adopt rules by (a) giving the Financial Security Oversight Council a veto right over consumer protection rules and (b) requiring the agency to justify its rules to prudential and small-business regulators, on top of the usual notice and comment period. These are unnecessary burdens that will delay effective, proactive rules and enforcement by the agency. Indeed, it is not clear that an agency operating with a looming veto threat would have been able to respond quickly enough to the explosion of exotic mortgages that contributed to this recession.

CFE strongly recommends the conference committee adopt the Senate's independent director model. The House bill would replace the independent director of the new agency after two years with a five-member commission. It necessarily is more difficult to act when five commissioners must find consensus. The agency's credibility would be diminished as a result. The House essentially acknowledges as much by requiring that an independent director be in place for the set-up period of the new agency. In addition, it would be more difficult for the consumer agency to speak with one voice, thereby diluting its membership on the Financial Security Oversight Council as compared with other regulators. The Senate bill would take a better approach by keeping the independent director at the helm of the new agency.

2. **Broad Scope of Regulatory and Enforcement Authority.** In the absence of strong consumer financial protections at the federal level, states and localities have led the charge against abusive financial practices. Cities in particular see first hand where American families are harmed by bad practices. The surprising observation is that the harm can be caused by any seller of a financial product or service—from mainstream financial institutions to check cashers to payday lenders to auto dealers. The key is to regulate the bad products and practices, not to decide which are good and bad sellers of financial products. The new consumer agency must have the authority to regulate bad products and practices regardless of the type of business peddling them.

CFE cities urge the conference committee to reconcile the House and Senate bills in favor of the broadest possible scope of regulatory and enforcement authority. The Senate bill has fewer interest-group carve-outs. For example, pawnbrokers and auto dealers are covered in the Senate bill, but they are not covered in the House bill. The House bill, however, would not limit the agency's authority to "large" nondepository institutions, as would the Senate bill. Choosing fewer industry carve-outs and broader authority over nondepository institutions would maximize the ability of this agency to protect consumers across America without loopholes and inconsistencies.

3. **Promoting Financial Empowerment.** "Financial empowerment" is a set of approaches designed to help families with low incomes stabilize their financial lives by teaching them to manage their money and avoid bad debt and by ensuring that everyone can access appropriate financial products and services. Financial empowerment seeks to increase incomes by decreasing expenses, reducing debt and encouraging savings. CFE cities have reduced millions of dollars of debt for their residents, connected more than 60,000 residents to safe banking accounts and provided tens of thousands of individuals with financial education, including direct, one-on-one financial counseling, the gold standard of financial empowerment.

CFE urges the conference committee to adopt provisions promoting financial empowerment. Conferees should adopt Title XII of the Senate bill, which would establish a Treasury grant program to expand access to mainstream banking, to

provide low-cost alternatives to payday loans and to establish loan-loss reserve funds. Not only would this program reinforce the work CFE cities are doing, but other municipalities, tribal governments and nonprofit organizations would be encouraged to do similar work. In addition, the conference committee should adopt the provision of the Senate bill that would provide individuals with expanded access to their credit scores. Many CFE cities run programs to increase financial awareness and financial literacy. The credit score provision would enable us to do our work more effectively on behalf of our residents.

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: Senate Majority Leader Harry Reid

House Speaker Nancy Pelosi

Members of the Financial Reform Conference Committee:

The Honorable Christopher J. Dodd
The Honorable Richard C. Shelby
The Honorable Saxby Chambliss
The Honorable Bob Corker
The Honorable Michael D. Crapo
The Honorable Judd Gregg
The Honorable Tom Harkin
The Honorable Tim Johnson
The Honorable Patrick J. Leahy
The Honorable Blanche Lincoln
The Honorable Jack Reed
The Honorable Charles E. Schumer

The Honorable Spencer Bachus
The Honorable Joe L. Barton
The Honorable Howard L. Berman
The Honorable Judy Biggert
The Honorable Leonard L. Boswell
The Honorable Shelley Moore Capito
The Honorable John Conyers Jr.
The Honorable Elijah E. Cummings
The Honorable Scott Garrett
The Honorable Sam Graves
The Honorable Luis V. Gutierrez
The Honorable Jeb Hensarling
The Honorable Darrell Issa
The Honorable Paul E. Kanjorski
The Honorable Mary Jo Kilroy
The Honorable Frank D. Lucas
The Honorable Carolyn B. Maloney
The Honorable Gregory W. Meeks
The Honorable Dennis Moore
The Honorable Gary Peters
The Honorable Collin C. Peterson
The Honorable Ed Royce
The Honorable Bobby L. Rush
The Honorable Heath Shuler
The Honorable Lamar Smith
The Honorable Edolphus Towns
The Honorable Nydia M. Velázquez
The Honorable Maxine Waters
The Honorable Melvin Watt
The Honorable Henry A. Waxman