WALL STREET REFORM & CONSUMER PROTECTION

MYTHS vs. FACTS

MYTH: The bill will put in place permanent bailouts -- encouraging risky behavior by financial institutions that expect the taxpayers to come to their rescue.

FACT: Completely untrue. Under this bill, the Bush-era days of taxpayer-funded bailouts are over. The bill establishes a process to dissolve failing large financial institutions in a way that does not wreak havoc on the whole economy; there are no bailouts. These financial institutions will be allowed to fail in an orderly way to protect the economy. Under this authority, federal regulators will shut down any failing institutions that pose a risk to the financial system and our economy. Executives and management will be fired, shareholders will be the first to see the value of their stock wiped out, the company's assets will be sold, and taxpayers and the financial system will not suffer from collateral damage. For markets to function, those who invest and lend in those markets must know that their money is actually at risk if it is not managed prudently. Financial institutions and investors must be responsible for the risks they take.

Any costs incurred in unwinding these financial institutions will be borne by Wall Street firms and the big banks—not taxpayers. The dissolution of a failing firm will be paid for first by shareholders and creditors, followed by the sale of any remaining assets of the failed company. Any shortfall that results is paid for by the financial industry. The bill requires big banks and other financial institutions (with $50 billion in assets) to foot the bill for the failure of any large, interconnected financial institution posing a risk to the entire financial system, as AIG did in the run-up to the 2008 financial crisis. Financial institutions will pay assessments based on a company's potential risk to the whole financial system if they were to fail. Before regulators can dissolve a failing company, a repayment plan to charge Wall Street firms and big banks must be in place to recoup any cost associated with the shutdown.

This bill institutes preventive medicine by making the financial marketplace more accountable and transparent, long before we get to the point of liquidation. We strengthen supervision of large and risky financial institutions with stronger capital standards and rules against excessive and overly risky leverage.

MYTH: The bill increases the deficit and raises taxes.

FACT: The cost of the bill is fully paid for, largely by speeding up the end of TARP from October 3 to July 1. Any unused TARP authority will be counted toward offsetting the cost of the bill. This is a win – win for the American taxpayer: we have not only ended taxpayer-funded bailouts, but we have also eliminated the TARP.

MYTH: This bill adds unnecessary government bureaucracy with a new Consumer Financial Protection Bureau (CFPB) that duplicates the work of existing agencies and increases regulatory burdens on businesses.

FACT: The new agency will consolidate and streamline enforcement of roughly 20 laws currently overseen by seven different agencies. The functions would not be duplicated; rather, they would be streamlined into a single agency, thereby reducing regulatory burden and expense, not increasing it – with the added benefit of more effective consumer protection.

This new agency is necessary as existing regulators failed to stop abusive lending practices before these practices harmed millions of consumers and ultimately the entire economy. Right now, consumer protection is a minor and sometimes ignored responsibility for a number of agencies, but not a top priority for any one of them. Former Federal Reserve Chairman Alan Greenspan never implemented a law passed in 1994 to regulate subprime lending. American consumers deserve much better than this.

MYTH: This bill will assert more government control over financial markets.

FACT: To prevent risky financial dealings by Wall Street and the big banks from decimating the savings and homes of American families and from freezing access to credit for American's small businesses, this bill reins in Wall Street and strengthens accountability. Putting in place these kinds of common sense rules of the road will improve transparency, foster competition, and strengthen the health of the marketplace. The central objective of reform is to establish a safer, more stable financial system that can deliver the benefits of financial innovation even as it guards against the dangers of excessive risk. We must ensure that our financial system creates opportunity and long-term wealth while reducing risks to the economy and the taxpayers.

MYTH: We should just let these large institutions go through bankruptcy, instead of getting the government involved.

FACT: Bankruptcy will not stop the type of financial panic that we saw in the fall of September 2008. Even President Bush, Vice President Cheney, their Republican Treasury Secretary and the Chairman of the Federal Reserve rejected using bankruptcy for dissolving large, interconnected financial institutions. Only in the case of Lehman Brothers did they allow bankruptcy to proceed. The aftermath, with a 500-point drop in the stock market, was such a disaster that two days later the Bush Administration bailed out insurance giant AIG because the markets could not sustain another major bankruptcy filing by a large financial firm.

Under the bill's dissolution authority, the FDIC will be able to unwind a failing firm expeditiously and in an orderly manner so that existing contracts can be dealt with and secured creditors' claims can be addressed—much like is done today when commercial banks become insolvent. This prevents job losses of the kind that resulted from the 2008 financial crisis, when the disorderly failure of several large financial institutions brought so much uncertainty and chaos to our financial system that the flow of credit stopped and small businesses were unable to secure the needed financing to continue operating, investing, and creating jobs.

MYTH: The CFPB limits consumer choices of financial products and stifles innovation.

FACT: There will be no limits on innovation; this is America, after all. When we create choices for consumers, we create competition in the industry that benefits everyone. All that will be limited are abusive practices of the sort that led to the current crisis. The CFPB will ensure that consumers are offered the best loans for which they qualify, and not just the riskiest loans that are most lucrative for originators and for Wall Street firms that packaged them into risky financial instruments.

MYTH: The new CFPB will raise costs for consumers as firms have to comply with new rules and standards and will pass on these costs on. Consumers will have to pay more just to fund the agency.

FACT: An agency that could have helped prevent the risky lending practices that resulted in trillions of dollars of losses in Americans' retirement savings and home values, and in eight million jobs lost, is well worth the modest costs involved. Moreover, as the CFPB will streamline enforcement of laws and rules that currently fall under several different government agencies, the nominal costs to the companies and prices for consumers may well decline.

MYTH: This legislation will hurt community and small banks and merchants—those that didn't cause the financial meltdown but were hurt by it.

FACT: The bill ensures that small banks and credit unions, which play a key role in their communities, are not subject to undue regulatory burdens.

- Banks and thrifts and credit unions under $10 billion in assets will continue to have their consumer protection examinations done by their existing regulators.
- CFPA will play a backup role unless the primary regulators fail in their oversight, and these institutions will not see their assessments for consumer protection exams change under this bill.

Merchants, retailers and other non-financial businesses will be excluded from the regulation and oversight of CFPA when they extend credit directly to consumers for the purchase of goods or services. Merchants and retailers can continue to provide credit and layaway plans without becoming subject to new regulation as long as they do not choose to resell the credit. Merchants and others are still subject to federal law through the Truth in Lending Act, which was passed almost 30 years ago. Also, doctors and other businesses that bill their customers after a service is provided will be excluded.

In fact, retailers stand to save billions of dollars as a result of reform, which requires the Federal Reserve to issue rules to ensure that swipe fees charged to merchants for credit or debit card transactions are reasonable and proportional to the cost of processing those transactions.

MYTH: Fannie Mae and Freddie Mac are the real cause of the financial crisis – and this bill does nothing to rein them in.

FACT: This new-found interest by the critics of this bill in the role of Fannie Mae and Freddie Mac in the financial crisis defies the historical record. From 1995 to 2006, when the Republicans were in charge of Congress, no bill to reform these Government Sponsored Enterprises, like Fannie and Freddie, ever passed Congress. In fact, Republicans only held one House vote on the matter and that bill was opposed by President Bush. Republicans stood by and did nothing when President Bush pushed Fannie and Freddie's affordable housing goals to unsustainable levels, while President Bush was flying Fannie Mae's CEO around on Air Force One. Also, while in the majority, Republicans never passed legislation to restrict subprime lending, which goes to the heart of the financial crisis.

By contrast, House Democrats moved quickly to spearhead efforts to reform Fannie and Freddie after taking over the majority in 2007. Democrats produced a tough GSE reform bill supported by President Bush that passed the House within the first five months. House Democrats also pushed to include Fannie and Freddie reform in the 2008 Recovery Act, but the Bush Administration opposed that. A GSE reform bill ultimately passed in July, 2008, but clearly more must be done. The Administration and Congress are committed to working on a fundamental overhaul of Fannie Mae and Freddie Mac next year.

MYTH: The bill is a job killer and will drive up interest rates.

FACT: This is more scare tactics and fear mongering from the same crowd that said health care reform was going to kill grandma. Defenders of risky business on Wall Street are ignoring the destruction that lax oversight caused in the financial lives of Americans and American businesses—and also ignore the increased investment and entrepreneurship that a stable and growing economy will generate. Instituting strong consumer protections, improving market transparency, and rewarding responsible investing are some of the best ways to foster competitiveness, confidence in our financial sector, and robust growth in our economy.

QUESTIONS & ANSWERS

Q: How does the bill regulate auto dealers who offer car loans?

A: The large auto finance companies, such as the giant auto lender GMAC, would be overseen by the Consumer Financial Protection Bureau. And in a compromise, oversight of lending by auto dealers would continue under the Federal Trade Commission, but the FTC could expedite rulemaking to stop unfair or deceptive lending and sales practices by auto dealers. In addition, an Office of Service Member Affairs is established at the Fed to ensure military service members' complaints are responded to quickly.

Q: Will this legislation help consumers with rising credit card interest rates?

A: Yes. The new CFPB will have ongoing authority to rein in the credit card industry. The agency is also given the authority to take on predatory lending, payday loans, check cashers, and overdraft fees. This bill builds on the consumer protections built into the Credit Cardholders Bill of Rights signed into law last year. The CFPB is given broad authority to move quickly as Wall Street, the big banks, and the credit card industry continue to invent new hidden fees and abusive practices.