Consumer Financial Protection Bureau

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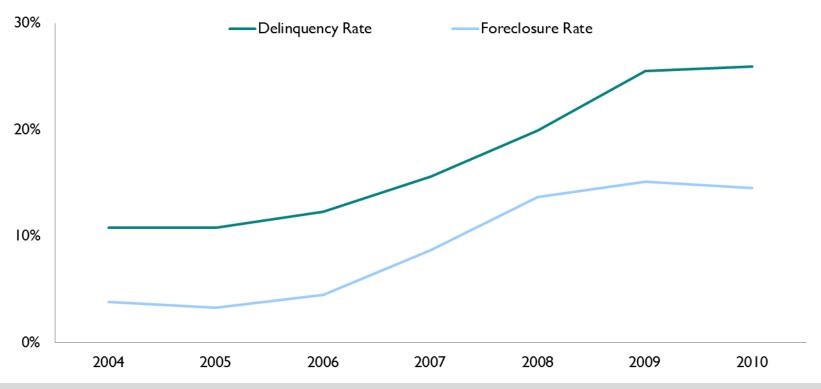
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Key Terms

Federal agency charged with oversight and regulation of Consumer Financial Protection federal consumer financial protection laws. The bureau may Bureau (CFPB) also write rules to enforce consumer financial legislation. Law passed in 2010 (full title: Dodd-Frank Wall Street Reform and Consumer Protection Act) creating the Consumer Dodd-Frank Act. Financial Protection Bureau and implementing sweeping financial regulatory reforms. Action taken on the part of a lender to lead borrowers into taking out high-risk loans. A Federal Deposit Insurance **Predatory Lending** Corporation audit report defines predatory lending as "imposing unfair and abusive loan terms on borrowers." High-risk loans made to individuals with bad credit or no credit history. Subprime loans carry a higher interest rate than Subprime Loans prime loans due to the high probability that the borrower may default on the loan.

Predatory Lending Pushed Homeowners into Foreclosure During U.S. Financial Crisis

Delinquency and Foreclosure Rates for U.S. Subprime Mortgage Loan Holders



Analysis

- Leading up to the U.S. financial crisis, home ownership increased, largely because homes were financed through subprime loans offered by predatory lenders
- When interest rates rose from 1% to 5.35% between 2004 and 2006, homeowners began to default on their mortgages and subprime mortgage foreclosures spiked

CFPB Created to Educate Consumers, Enforce Regulations, and Study Consumer Financial Markets

Three Main Roles of the Consumer Financial Protection Bureau

Role Description Case Study



Education

The CFPB educates Americans about financial regulatory reform and works to increase transparency so individuals understand how financial laws affect them

In April 2013, CFPB moderated a discussion called "Money Talk" on Twitter in partnership with Kids.gov, bringing together financial advisors and other experts to discuss how parents can educate children on spending and saving habits



The CFPB regulates banks, credit unions and other financial entities; enforces consumer protection laws; and creates rules needed to carry out financial regulatory reform

In December 2012, the CFPB sued Payday Loan Debt Solution, Inc., alleging that the company had violated the Dodd-Frank Act and the Federal Trade Commission's Telemarketing Sales Rule

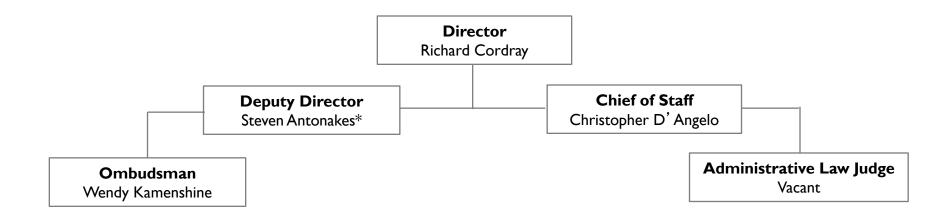


The CFPB conducts research and data analysis to uncover financial and economic trends and better understand consumer behavior

In July 2012, the CFPB concluded a study on private student loan markets and submitted findings to Congress to help inform future policy decisions regarding student loan regulation

Former Ohio Attorney General Rich Cordray Heads Bureau

Organizational Structure of CFPB Upper Management



Analysis

- •Pres. Barack Obama appointed former Ohio Attorney General Richard Cordray Director of CFPB in January 2012
- •Senate Republicans agreed in July 2013 to vote on Cordray's reappointment
- •While many federal agencies have a board of directors, CFPB's organizational structure provides for a single director to oversee all activity within the agency

^{*}Position currently filled on an Acting basis

CFPB Controversial Since Inception

Obama appoints Cordray during recess

While the President has the authority to appoint the CFPB director with Senate's consent, Obama appoints Cordray while Congress is not in session to avoid GOP opposition.

Second legal challenge to appointment

CFPB files a complaint against a California law firm for violating consumer protection laws; defendant responds by challenging legality of Cordray's appointment.

Senate GOP threatens to block Cordray's reappointment

A group of GOP Senators threaten to block Cordray's re-appointment absent changes to the Bureau's organizational structure and funding.

2010-2011

January 2012

June 2012

August 2012

January 2013

February 2013

July 2013

Obama passes on Warren for director

Despite her work implementing the CFPB, Obama didn't nominate Elizabeth Warren to lead the bureau, reportedly convinced the Senate would not confirm her.

First legal challenge to appointment

State National Bank of Big Spring, Texas, with backing from conservative groups, challenges legality of Cordray's appointment by bringing a lawsuit against the CFPB.

Court decision casts doubt on appointments

A federal appeals court ruling against Obama's recess appointments to the National Labor Relations Board raises questions as to legality of Cordray's appointment.

Senate Deal Leads to Vote on Cordray

Republicans agree to Richard Cordray's appointment as part of deal to prevent filibuster rule change

Source: National Journal Research, 2013.

Critics Hope to Force Changes to CFPB Structure

Critics of the CFPB argue that having only a sole director of the bureau could lead to an abuse of power

CFPB's broad, sweeping powers, some of which have not been clearly defined, have led critics to comment that the bureau could be used as a tool to serve special interests

List of Changes to CFPB Proposed by Group of GOP Senators

- 1. Creation of bipartisan board of directors
- 2. Implementation of appropriations process for allocation of funds used by the Bureau
- 3. Establishment of greater checks on the power of the Bureau

The CFPB is not subject to the Congressional appropriations process for budget allocations; critics have raised concerns about this lack of Congressional oversight

Analysis

- On February 1, 2013, a group of 43 GOP senators sent a letter to President Obama outlining their chief criticisms of the CFPB and proposing three major changes to the structure of the organization
- Sen. Mike Carpo (R-Idaho), who spearheaded CFPB reform, has said that any leverage the Republicans had to force changes to the CFPB has been undercut by the filibuster deal
- Republicans are now waiting for electoral gains in 2014 and 2016 before further pursuing any major reforms; in the meantime, Republicans may pursue minor reforms that have bipartisan support