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The Dodd-Frank Wall Street Reform and Consumer Protection Act Benefits Children and Families

Too many responsible families have paid the price for an outdated regulatory system that left our financial system vulnerable to collapse and left them without adequate protections. In the summer of 2009, the Obama Administration put forward a legislative proposal crafted to rein in excessive risk on Wall Street and preserve economic opportunity on Main Street. A year later, the President signed into law a bill aligned to a remarkable degree with that original proposal. This comprehensive financial reform, which put in place the strongest consumer financial protections in history, included the creation of a new, dedicated Consumer Financial Protection Bureau (CFPB).

The CFPB, an independent entity within the Federal Reserve, will have one mission: to protect consumers by promoting transparency and consumer choice and preventing abusive and deceptive practices. It will have broad authority to write and enforce new consumer financial protection rules. The CFPB will use these authorities to promote financial stability and protect families from the unfair practices that contributed to the financial crisis.

Families and the Financial Crisis

- **During 2005 and 2006, the height of the subprime lending boom, approximately one in four borrowers, including many families with children, received subprime loans.** [Federal Reserve, "Higher Priced Lending and the 2005 HMDA Data" (September 2006); Federal Reserve, "The 2006 HMDA Data" (December 2007)]
- **Borrowers who have subprime loans have come under severe stress during the recent financial crisis and are at high risk of foreclosure.** 48.5% of outstanding subprime loans made in 2005 and 57.2% of such loans made in 2006 are in foreclosure or no payment has been received for 60 days or more. [McDash Online Core Database data (February 2010); Treasury analysis.]

Families Deserve Clear Rules and Strong Enforcement

Retirement Investments

- **Families invest in the financial markets, including for retirement and to pay for their children's college education.** 63% of couples with children have retirement accounts with a median value of approximately $52,000. Such households also hold other financial products, including stocks (20%) and mutual funds and other pooled investment funds (14%). [Federal Reserve, "Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances," (February 2009) ("SCF")]

Mortgages

- **67% of couples with children have mortgages and other debt secured by residential property, such as home equity lines of credit.** The median amount owed is approximately $119,000. [SCF]

Credit Cards

- **56% of couples with children carry a credit card balance, with a median balance of approximately $4,000.** [SCF]

Installment Loans

- **64% of couples with children have installment loans, such as student loans.** The median total balance on such loans is approximately $13,000. [SCF]

Bank Accounts

- **Some families do not have bank accounts.** In a survey conducted by the Federal Reserve, a significant fraction of households without bank accounts said that they did not have a checking account because they did not like dealing with banks (25%) or because the service charges were too high (12%). [Federal Reserve, "Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances," (February 2009)]

- **Many households have been automatically enrolled in expensive overdraft programs** that can hit consumers with costly overdraft fees for even the smallest purchases. For example, the FDIC found that the average overdraft charge for a single purchased item—like a $2 cup of coffee—is $30 at banks with assets over $1 billion. [FDIC, "FDIC Study of Bank Overdraft Programs" (November 2008) at Table IV-3]

The Wall Street Reform and Consumer Protection Act of 2010 is Beneficial for Children and Families

- **For families who want to buy a home:** The CFPB will take steps to consolidate and simplify with plain language two overlapping and sometimes inconsistent federal mortgage forms. The CFPB will, for the first time, provide ongoing federal oversight of both nonbank companies and banks in the mortgage market and protect borrowers from unfair, deceptive or other illegal mortgage lending practices.
- **For families using alternative financial services:** The CFPB will be able to establish, for the first time, robust federal supervision and oversight over larger alternative financial service companies such as check cashers and payday lenders. The CFPB will be able to combat abusive practices that harm consumers, helping families avoid hidden fees and keep more money in their wallets.
- **For families without bank accounts:** The CFPB will be able to rein in practices that may drive some households away from banks—including stopping banks from enrolling customers in expensive overdraft programs without their consent.
- **For families with credit cards:** The CFPB will prevent evasion of the Credit CARD Act of 2009, which bans arbitrary rate hikes on existing balances and other unfair practices. For families who have used credit cards to get by when times are tight, the law will give them clarity on the interest rates they are charged.
- **For families caught by unexpected overdraft fees:** The CFPB will prevent evasion of new rules that give consumers a real choice as to whether to join expensive overdraft programs so that they are not unknowingly charged unnecessary fees.
- **For families who must take out private loans to cover the costs of higher education:** The CFPB will be able to supervise private student lenders, fight unfair lending practices, and require lenders to follow fair rules of the road and give students the information they need to make smart choices.
- **Empowering families to make smart financial choices by promoting financial education and financial literacy:** The CFPB will promote consumer financial education and financial literacy, with a dedicated office focused on ensuring that the CFPB's expertise and research are used to help raise awareness, and educate and empower consumers to avoid unfair practices and make smart financial choices.
- **Safeguarding families' retirement security, savings and investments:** The Wall Street Reform and Consumer Protection Act strengthens investor protection by empowering the Securities and Exchange Commission (SEC) to:
  - Raise the standards for brokers and investment professionals when giving advice so that brokers and investment professionals have a fiduciary duty and are required to act in the interests of investors, rather than their own; and
  - Require brokers to disclose costs and risk factors to investors prior to selling a product, instead of after it is purchased.

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