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The Dodd-Frank Wall Street Reform and Consumer Protection Act Benefits Young Americans

Too many responsible young people have paid the price for an outdated regulatory system that left our financial system vulnerable to collapse and left families without adequate protections.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 consumers – including young people – from the unfair practices that contributed to the financial crisis.

Young Americans Deserve Clear Rules and Strong Enforcement

Debt impacts important decisions that young people make. According to a 2006 USA Today/National Endowment for Financial Education poll of young people aged 22 to 29 years old, survey respondents with debt indicated that having debt had influenced important decisions, including causing them to delay or not pursue education (29%), to take a job they would not otherwise have taken (22%), or to move in with parents or other relatives (19%). [USA Today/National Endowment for Financial Education, Young Adults' Finances Poll (2006)]

Student Loans

- **Growth in tuition and fees outpaced both inflation and median family income from the early 1990s to the mid-2000s.** [Department of Education, National Center for Education Statistics, "Total and Net Access Price of Attending a Postsecondary Institution," *Contexts of Postsecondary Education* (2007), citing The College Board (2004)]
- **53% of younger households have education loans,** up from 43% in 2004. [Federal Reserve, "Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances" (February 2009) ("SCF")]
- **The median debt of students graduating with loans rose from $16,990 in 2003 to 2004 to $17,700 in 2007 to 2008 (2008 dollars)**, an increase of about 5% above inflation. [Patricia Steele and Sandy Baum, "How Much Are College Students Borrowing?" *College Board Policy Brief*, (August 2009)]

Credit Cards

- **Roughly half (49%) of younger households (households with heads 34 years old or younger) carry a credit card balance,** with a median balance of approximately $1,800. [SCF]

Bank Accounts

- **13% of younger households do not have bank accounts.** [SCF]
    - Individuals without bank accounts are often forced to turn to costly alternative financial services, such as check cashing, which, until now, have lacked a federal supervisor to enforce fair rules of the road for consumers.
    - 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%). [SCF]
- **Many consumers have been automatically enrolled in expensive overdraft programs by their bank** that can hit consumers with costly 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 of more than $1 billion. [FDIC, "FDIC Study of Bank Overdraft Programs" (November 2008) at Table IV-3]

Mortgages

- **37% of younger households have mortgages and other debt secured by their homes**, such as home equity lines of credit. The median amount owed is approximately $135,000. [SCF]
- **The piles of forms needed for a regular mortgage can be overwhelming**, and many brokers have taken advantage of that confusion to give borrowers loans they didn't need or couldn't afford.

Saving and Investments

- **Younger households invest in the financial markets, including beginning to build up retirement assets.** 42% of younger households have retirement accounts such as IRAs or 401(k)s. [SCF]

The Wall Street Reform and Consumer Protection Act of 2010 is Beneficial for Young Americans

- **For young people who need to 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.
- **For young people 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, cleans up credit card practices for young people at universities, and provides young people clarity on the interest rates they are charged. The CFPB will also enforce new protections for college students and young adults, including a requirement that card issuers and universities disclose agreements with respect to the marketing or distribution of credit cards to students.
- **For young people 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 young people without bank accounts:** The CFPB will be able to rein in practices that may drive some young people away from banks—including by stopping banks from enrolling customers in expensive overdraft programs without their consent.
- **For young people using alternative financial services:** The Wall Street Reform and Consumer Protection Act establishes, 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 combat abusive practices that harm consumers, helping young people avoid hidden fees and keep more money in their wallets.
- **For young people 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.
- **Empowering young people 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 young people's 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 they 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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