**Statement for the Record**
**Hearing of the Senate Committee on Banking, Housing, and Urban Affairs on**
**"Assessing the Effects of Consumer Finance Regulations"**

Chairman Richard Shelby
Ranking Member Sherrod Brown
U.S. Senate Committee on Banking, Housing, and Urban Affairs
534 Dirksen Senate Office Building
Washington, DC 20510

April 4, 2016

Dear Chairman Shelby and Ranking Member Brown:

As the Consumer Financial Protection Bureau reaches the five-year mark, it has achieved a remarkable track record for American families. It has handled over 830,000 public complaints[1], its enforcement actions have provided more than $11 billion in relief to more than 25 million wronged consumers,[2] and, it has uncovered consumer financial challenges in segments of the market—such as credit reporting—that had previously not been addressed.[3] In short, consumer finance regulations post-crisis are working.

All too often, debates over consumer financial regulation are perceived as a tug of war between greater protection and greater access. This is a false choice. Enabling faulty products to thrive by failing to regulate or enforce consumer protection laws does not ultimately expand access—it only expands consumer harm, leaving other actors to pick up the tab whether they are family and friends, community nonprofits and houses of worship, social service agencies, or the public at large. For example, in a healthy economy, a homeowner may not be concerned about the state of his or her neighbor's mortgage. But if that neighbor is ultimately unable to pay and the home falls into foreclosure—as we witnessed on a massive scale—that community, and ultimately the taxpayers, end up paying the price.

As millions of Americans painfully learned during the financial crisis, conflicting incentives are at the heart of financial products that fail consumers and the broader economy. As the Center for American Progress noted in a 2015 report, "Lending for Success," historically, an economically rational lender would be unlikely to make a loan that would not be paid back.[4] The interests of the lender and borrower would naturally be aligned. Yet, in a number of credit markets—most dramatically, the pre-crisis mortgage market—this rational outcome became less and less prevalent. Instead of assessing the borrower's ability to repay, lenders increasingly focused on loans that were either immediately unaffordable or that were likely to fail in the future.

Consumer finance regulations exist to foster a lending market in which these incentives are realigned. Ultimately, they should incorporate safeguards to ensure not just that loans are originated with the customer in mind, but that the customer is not harmed throughout the life of a loan. For example, prior

---

[1] Consumer Financial Protection Bureau, "Monthly Complaint Report, Volume 9: March 2016," available at http://files.consumerfinance.gov/f/201603_cfpb_monthly-complaint-report-vol-9.pdf.
[2] Consumer Financial Protection Bureau, "Financial report of the Consumer Financial Protection Bureau: Fiscal year 2015," available at http://files.consumerfinance.gov/f/201511_cfpb_report_fiscal-year-2015.pdf.
[3] For example, the three main credit bureaus have been among the most complained-about firms to the CFPB. Credit reporting oversight was limited prior to the CFPB's inception.
[4] Joe Valenti, Sarah Edelman, and Julia Gordon, "Lending for Success" (Washington: Center for American Progress, 2015), available at https://www.americanprogress.org/issues/economy/report/2015/07/13/117020/lending-for-success/.

to the 2009 CARD Act, credit card users faced sudden interest rate changes through no fault of their own.[5] Ending these and other practices has saved consumers $16 billion in fees.[6]

Present and future rulemaking is intended to address segments of the market where loopholes or uneven regulations present confusion and potential harm to consumers. One key example is the harm posed by unaffordable small-dollar lending. When four out of five loans cannot be paid back on time as intended, the lending model is clearly inappropriate and unsustainable.[7] Many states' efforts, while well-intentioned, have been inadequate to deal with loans at triple-digit interest rates that trap vulnerable consumers in a cycle of debt. Faith groups have joined low-income advocates, civil rights groups, and others in recognizing the harm caused by these loans[AP1].[8]

Attempts to take away the CFPB's independent funding or turn it into a commission are short-sighted and would harm both the agency's effectiveness and broader public trust.[9] The single-director structure of the CFPB makes it a more effective agency than commissions that may be mired in partisan gridlock. And the financial independence of the CFPB—a key component of financial regulation—ensures that it acts in favor of the consumer's interest. In an environment where only about one in four Americans expresses "a great deal" or "quite a lot" of confidence in banks,[10] the Consumer Financial Protection Bureau plays a critical role in improving both trust in government and trust in the financial system.

Thank you for providing me with the opportunity to discuss this matter. Please do not hesitate to contact me if you have any questions or would like any additional information.

Sincerely,

Joe Valenti
Director of Consumer Finance
Center for American Progress

---

[5] Joe Valenti, "Protecting Consumers Five Years After Credit Card Reform" (Washington: Center for American Progress, 2014), available at https://www.americanprogress.org/issues/economy/report/2014/05/22/90198/protecting-consumers-five-years-after-credit-card-reform/.

[6] Consumer Financial Protection Bureau, "The Consumer Credit Card Market," December 2015, available at http://files.consumerfinance.gov/f/201512_cfpb_report-the-consumer-credit-card-market.pdf.

[7] Joe Valenti, "Ensuring Responsible Credit for Financially Vulnerable Consumers" (Washington: Center for American Progress, 2014), available at https://www.americanprogress.org/issues/economy/report/2014/07/10/93459/encouraging-responsible-credit-for-financially-vulnerable-consumers/.

[8] Joe Valenti and Claire Markham, "Responsible Credit Is an Economic and Moral Issue" (Washington: Center for American Progress, 2015), available at https://www.americanprogress.org/issues/economy/report/2015/06/09/114562/responsible-credit-is-an-economic-and-moral-issue/.

[9] Joe Valenti and David Sanchez, "The Consumer Financial Protection Bureau is working. So why is Congress trying to cripple it?" *Morning Consult*, July 20, 2015, available at https://morningconsult.com/opinions/the-consumer-financial-protection-bureau-is-working-so-why-is-congress-trying-to-cripple-it/.

[10] Rebecca Rifkin, "In U.S., Confidence in Banks Remains Low," Gallup, June 26, 2014, available at http://www.gallup.com/poll/171995/confidence-banks-remains-low.aspx.