Consumer Financial Protection Bureau

CONSUMER FINANCIAL PROTECTION BUREAU: ESTABLISHING STRONG CONSUMER PROTECTIONS

The Consumer Financial Protection Bureau (CFPB) was created in the wake of the financial meltdown to stand up for consumers and make sure they are treated fairly in the consumer financial marketplace. Establishing strong consumer protections is core to the Bureau carrying out its mission.

Since opening its doors in July 2011, the Bureau has put in place new, common-sense mortgage rules to protect consumers against the problems that led to and prolonged the housing crisis. The CFPB has also crafted new protections for money transfers and credit cards, and new rules to supervise larger nonbank debt collectors, credit reporting agencies, and student loan servicers for the first time at the federal level.

In the years ahead, the CFPB is shifting to focus on rules that root out deception, debt traps, and dead ends across markets. The goal is a marketplace where the costs and risks are clear, and no consumer is harmed by unfair, deceptive, or abusive acts or practices.

NEW CONSUMER PROTECTIONS

Back-to-Basics Mortgage Rules

The mortgage market is the largest consumer financial services market by dollar volume, worth about $10 trillion. Risky mortgage lending contributed to the crash of the American economy and shoddy mortgage servicing practices compounded the misery by pushing many consumers into foreclosure when there were available alternatives. The CFPB addressed these problems by putting in place a series of new mortgage rules to protect consumers at every stage of the process – from shopping for a loan, to closing on a mortgage, to paying it back. These rules represent a back-to-basics approach to the mortgage market.

- **New "Know Before You Owe" Mortgage Disclosures: T**he Bureau issued rules that require easier-to-use mortgage disclosure documents that consumers receive when they are applying for a loan and closing on a home. The mortgage Loan Estimate is a single, shorter, more useful disclosure that consumers receive no more than three days after they apply for a mortgage. The new form will help to make the mortgage costs and risks clearer so that consumers can choose the loan that best meets their needs. The new Closing Disclosure is provided to consumers at least three business days before closing on a loan so they have time to review their loan terms and costs in an unpressured environment rather than at the closing table. The Know Before You Owe rule was finalized in November 2013 and goes into effect August 2015.

- **Protections Against Mortgage Debt Traps**: The Bureau's new Ability-to-Repay rule protects consumers from getting trapped in mortgages they cannot afford by requiring lenders to ensure prospective buyers have a reasonable ability to repay their loan. The rule also protects borrowers from risky lending practices such as "no doc" loans and underwriting on the basis of low initial "teaser" rates that may have contributed to some homeowners ending up in delinquency and foreclosure. The rule went into effect in January 2014.

- **Protections Against Mortgage Servicing Surprises and Runarounds:** The Bureau's new mortgage servicing rules establish strong protections for struggling homeowners by ensuring that borrowers in trouble get a fair process to avoid foreclosure when possible. The rules also protect mortgage borrowers from costly surprises by their servicers by bringing greater transparency to the market with clear and timely information about mortgages. The rules require common-sense policies for fixing errors, keeping track of documents, processing payments, and preventing runarounds. The rules went into effect in January 2014.

- **Ban Against Steering Consumers Into Risky Mortgages**: The Bureau's new loan origination rules are designed to prevent mortgage loan originators from profiting by steering borrowers into risky and more costly loans. The rules ban certain incentives that encouraged loan originators to sell unsafe loans to consumers in the run-up to the financial crisis. The rule went into effect in January 2014.

- **Protections For High-Cost Mortgages:** The Bureau's new rule for high-cost mortgages strengthens consumer protections by banning certain risky features and requiring that consumers receive housing counseling before taking out such loans. For all other loans, the rules requires that mortgage applicants receive information about homeownership counseling so consumers know where to get help when deciding what loan is best for them. The rule went into effect in January 2014.

- **New Timeframe For Escrow Accounts:** The Bureau's new rule for escrow accounts generally extends the amount of time required for escrow accounts for high cost mortgages from one to five years. Through an escrow account, consumers can better see the true cost of owning a home with insurance and tax costs collected with each mortgage payment. The rule went into effect in June 2013.

- **Improved Access To Appraisal Reports:** The Bureau's new rule for appraisals generally requires that mortgage lenders provide applicants with free copies of all appraisals and other home-value estimates prior to closing so that consumers know how the property's value was determined. The CFPB also issued a joint rule with five other federal financial regulatory agencies that established new appraisal requirements and consumer disclosures for certain "higher-priced mortgage loans." The rules went into effect in January 2014.

Protections for Consumers Sending Money Abroad

Consumers transfer tens of billions of dollars from the United States to foreign countries each year. These international money transfers were generally not covered by federal consumer protections prior to the CFPB. The CFPB's new rule, which took effect in October 2013, generally requires remittance providers to disclose the exchange rate and all fees associated with a transfer so that consumers know exactly how much money will be received on the other end. The rule also holds transfer providers accountable for fixing errors in the process.

Credit Card Access for Stay-at-Home Spouses and Partners

In October 2013, the CFPB's new rule went into effect making it easier for spouses and partners who don't work outside of the home to qualify for credit cards. The rule allows those who are 21 or older to rely on accessible income of their spouse or partner for credit card applications or credit limit increases. Previously card issuers could generally only consider an individual applicant's independent income or assets. Census data indicates that over 16 million married people do not work outside the home. That equates to approximately one out of every three married couples who now may have easier access to credit cards as a result of the Bureau's rule.

First-Ever Nonbank Supervision

The CFPB supervises certain businesses that offer financial products and services—meaning the Bureau can examine these companies for legal violations and monitor for risks to consumers. The Bureau supervises depository institutions and credit unions with total assets of more than $10 billion, and their affiliates. The Bureau also has authority in certain markets to supervise all nonbanks, regardless of size. Additionally, the CFPB can supervise the larger participants of other nonbank markets that the Bureau defines by rule.

- **Debt Collectors:** In January 2013, the CFPB became the first federal agency to supervise nonbank debt collectors. This authority extends to about 175 debt collectors, which account for over 60 percent of the industry's annual receipts. The CFPB also supervises large banks and certain nonbank lenders as they collect their own debts.

- **Consumer Reporting Agencies:** In September 2012, the CFPB became the first federal agency to supervise larger participants in the consumer reporting market. This authority extends to about 30 consumer reporting agencies, which account for over 90 percent of the consumer reporting market. CFPB also supervises large banks and certain nonbank institutions that supply information to credit reporting agencies.

- **Nonbank Student Loan Servicers**: In March 2014, the CFPB became the first federal agency to supervise certain nonbank student loan servicers. This authority brings new oversight to the nation's second largest consumer debt market – student loans – which have seen a rise in borrower delinquency in recent years. More than 40 million Americans with student debt depend on student loan servicers to serve as their primary point of contact about their loans. The Bureau also supervises student loan servicing at large banks.

ON THE HORIZON

Proposing New Consumer Protections for Prepaid Cards

Many consumers use prepaid cards as an alternative to a traditional checking account. Currently, prepaid cards are largely unregulated at the federal level and do not enjoy the same consumer protections as checking account debit cards. In May 2012, the CFPB took the first step toward adopting the first-ever federal consumer protections for prepaid cards. The issues under consideration include disclosure of fees and terms, unauthorized transactions, and certain product features. The CFPB plans to issue a proposed rule in the coming months.

Weighing New Consumer Protections for Payday Loans

Millions of American households borrow money with payday loans. For too many consumers, however, these products can leave them caught in a revolving door of debt. In March 2014, the CFPB released a report that analyzed payday lending and found that the majority of all payday loans are made to borrowers who renew their loans so many times that they end up paying more in fees than the amount of money they originally borrowed. The Bureau is currently researching and weighing what consumer protections are necessary in the payday lending market.

Weighing New Consumer Protections for Checking Account Overdraft Practices

In February 2012, the CFPB launched a public inquiry on how checking account overdraft practices are impacting consumers, focused on areas such as overdraft frequency, fees, and transparency to consumers. In June 2013, the CFPB issued a report that found that overdraft is a costly service which can also lead to involuntary account closures. It also noted that bank policies, procedures and practices governing overdraft are so complex that it is difficult for consumers to anticipate and manage these costs. The Bureau is currently weighing what consumer protections are necessary for overdraft and related services.

Weighing New Consumer Protections in the Debt Collection Market

Nearly one out of every ten American consumers came out of the financial crisis with one or more debts in collection. This market is also the single biggest source of complaints to the federal government. In November 2013, the CFPB took the first step toward considering consumer protections for the debt collection market. The issues under consideration include the accuracy of information used by debt collectors, how to ensure consumers know their rights, and the communication tactics collectors use. The Bureau is currently reviewing more than 23,000 comments that it received in response to the notice and plans to propose debt collection rules in 2015.

Proposing Rules to Improve Information about Access to Credit in the Mortgage Market

Mortgage lenders are required to disclose information about the home mortgage loans they sell to consumers as part of the Home Mortgage Disclosure Act (HMDA). The CFPB has launched a rulemaking process aimed at improving information reported about the residential mortgage market to help better understand borrowers' access to credit. Additional mortgage information could help federal and state regulators, lenders, consumer groups, and researchers better monitor the market and help spot troublesome trends. The Bureau expects to propose new rules this summer.

Proposing Rules to Supervise Nonbank Auto Lenders and Remittance Providers

In January 2014, the CFPB proposed a rule that would allow it to supervise certain nonbank international money transfer providers for the first time. This rule would help the Bureau monitor for compliance with its new protections for consumers sending money abroad. The CFPB is also currently working on a rule to allow it to supervise larger nonbank auto lenders to provide more complete oversight over the auto lending marketplace.

Conducting a Study on Mandatory Arbitration Clauses

Many contracts for consumer financial products and services contain arbitration clauses, which are a way to resolve disputes outside the court system. The Bureau launched a public inquiry on arbitration clauses in April 2012 and in December 2013 released the preliminary results of a study of the use of arbitration contract provisions in the consumer finance market. The CFPB expects to release the final report by the end of 2014. This research will help to determine whether additional consumer protections are needed.

RESOURCES ON CFPB RULES

eRegulations

The Bureau's eRegulations tool makes regulations easier to read and navigate. The tool currently includes Regulation E, which includes the Bureau's new remittances rule, as well as the rules implementing the Truth in Lending Act, which will make it easier to understand the CFPB's recently adopted mortgage rules, as well as many other consumer protection requirements.

Regulatory Implementation

The CFPB provides resources to help stakeholders understand federal consumer financial protection rules and their implications, as well as to support timely and efficient regulatory implementation of new rules to protect consumers.

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The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit www.consumerfinance.gov.