Consumer Federation of America

1620 I Street, N.W., Suite 200 * Washington, DC 20006

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CONTACT:
Travis Plunkett: 202-387-6121
Barbara Roper: 719-543-9468

CONSUMER FEDERATION HAILS SENATE PASSAGE OF HISTORIC FINANCIAL REFORM LEGISLATION

Bill Includes New Consumer Financial Protection Bureau and Closes Regulatory Gaps, Leaves Out Key Investor Protection Priority

Washington, DC -- The Consumer Federation of America tonight praised the United States Senate for passing landmark legislation to strengthen and reform regulation of the nation's financial system. Among its many important provisions, the bill would create a new federal Consumer Financial Protection Bureau and reduce the vulnerability of the financial system to failure, including by regulating the multi-trillion-dollar over-the-counter derivatives market and by making credit rating agencies more accountable for their actions.

The Restoring American Financial Stability Act (S. 3217) passed the Senate by a vote of 59-39. The Senate will now begin negotiations on enactment of a final bill with the House of Representatives, which passed companion legislation in December.

"This is a crucial step toward delivering on the promise Congress made when it called on taxpayers to bail out the big banks, that it would adopt comprehensive financial reform," said Travis B. Plunkett, Legislative Director of the Consumer Federation of America. "If the best reforms from the Senate and House bills are melded together, the result will be a bold new law that will protect consumers and investors from abusive practices and the economy from financial shocks for generations."

"The financial crisis revealed gaping holes in our financial regulatory structure," said CFA Director of Investor Protection Barbara Roper. "This bill, while not perfect, takes significant steps to close those regulatory gaps and make our financial system both safer and more stable."

Consumer Protection

The bill establishes an independent Consumer Financial Protection Bureau within the Federal Reserve. Importantly, the consumer bureau will have authority over virtually all lenders, including automobile dealers. "This is a big win for consumers," continued Plunkett. "The consumer bureau will ensure that credit and payment products do not have predatory or deceptive features that can harm consumers or lock them into unaffordable loans. It will be able to curb dangerous or unsuitable financial products or practices and conduct ongoing research and investigation into credit industry products and services. The consumer bureau will rein in deceptive marketing practices and require improved disclosure of terms. It will also allow consumers to shop or take out a loan knowing that there is an agency looking out for their best interests.

Derivatives

Few issues have been more hotly contested than the provisions to regulate the multi-trillion-dollar over-the-counter derivatives industry. Despite intense opposition, the Senate passed a bill that requires the majority of standardized swaps to go through central clearing and trade on a transparent exchange, and it imposes significant new requirements on swaps dealers and major swaps participants to prevent abusive practices and ensure that they are financially sound. "We can no longer tolerate the existence of a shadow banking system operating outside of regulators' oversight and engaging in risky practices that threaten the safety and stability of the global economy," Roper said. "The derivatives provisions in the Senate bill offer significant new regulatory protections and set the stage for final passage of an effective package of reforms in this vitally important area."

Credit Rating Agencies

The bill includes a fairly strong set of provisions to improve regulatory oversight of ratings agencies, make them legally liable when they fail to follow appropriate procedures, reduce conflicts of interest, and reduce reliance on credit rating agencies. "We do have concerns," Roper said, "particularly that the legislation fails to give the SEC any regulatory authority over rating agency methodologies and procedures and rushes to reduce reliance on ratings without first determining how they are used and whether adequate alternatives exist. Despite these gaps, we believe the bill takes important steps to both improve the reliability of ratings and to reduce the financial system's vulnerability to ratings failures," she said.

Investor Protection

"We are deeply disappointed that the bill does nothing to ensure that brokers have to put their customers' interests ahead of their own when they give investment advice," said Roper. "However, the bill contains other important provisions to improve investor protections, including a provision to create an office of investor advocate at the SEC, to improve the disclosures that investors receive regarding investment products and services, and to limit the use of pre-dispute binding arbitration clauses. Average investors have suffered devastating losses as the result of a crisis they did nothing to cause," Roper said. "The least Congress can do is adopt a measure to ensure that those the financial professions investor rely on for advice cannot take advantage of their misplaced trust. Because the Senate failed to provide that protection, we will need to rely on House Financial Services Chairman Barney Frank to ensure that the House legislation's provision on this matter is included in the final bill.

The Consumer Federation of America (CFA) is a non-profit association of over 280 consumer groups that was founded in 1968 to advance the consumer's interest through advocacy, research, and education.

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