



Consumer Federation of America

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AS WARREN TESTIFIES ON CONSUMER FINANCIAL PROTECTION BUREAU, NEED FOR NEW AGENCY HAS NEVER BEEN GREATER

Washington, DC – As Professor Elizabeth Warren testifies before Congress today on the new Consumer Financial Protection Bureau, the Consumer Federation of America identified a number of questionable and abusive financial practices that harm American families that the CFPB will need to address when it opens its doors in July. Warren has been charged by President Obama and Treasury Secretary Geithner with standing up the agency.

“The financial traps and tricks that consumers have been dealing with since Congress passed financial reform vividly demonstrates the great need for the Consumer Financial Protection Bureau, with its ability to bring transparency to the marketplace and to write and enforce rules,” said Travis Plunkett, CFA’s Legislative Director. “The CFPB will rein in these practices and ensure that the marketplace provides products and services that are fair and sustainable.”

Below is the list of egregious practices and products that have been reported recently that the CFPB will oversee:

- **Unfair Bank Overdraft Loans:** Despite a new Federal Reserve requirement that banks get consumers to consent to paying for debit card overdrafts, only the FDIC has issued comprehensive guidelines for bank overdraft programs at the banks it supervises. Banks continue to charge steep and multiple fees for overdraft loans, require immediate repayment, and take payment first out of the account holder’s next pay deposit before other debits are paid. Some banks also continue to manipulate the order in which they pay debits so that they can increase overdrafts and the fees that consumers must pay. **The CFPB can enact comprehensive reforms, prohibit payment order manipulation and ensure that banks provide information that allows consumers to make the most appropriate choices when considering overdraft options.**
- **Plentiful Fees and Few Protections for Pre-paid Cards:** Prepaid debit cards are becoming substitutes for bank accounts, but come with a dizzying array of fees and with fewer protections than consumers get with other forms of plastic. As the federal government goes “paperless” on payments to Social Security and other recipients, it is increasingly important that prepaid cards come with first-class protections, redress rights, and easy-to-compare terms and fees. **The CFPB can ensure that fees are simple and transparent and that prepaid cards are covered by the same consumer protections that apply to bank account debit cards.**

- **Robo-signing Foreclosure Scandal:** To speed up foreclosures, mortgage servicing companies hired “robo-signers” to sign off on thousands of foreclosure documents every day, without ever checking on the legitimacy of the foreclosure, as they are required by law to do. **The CFPB can write and enforce rules to ensure that mortgage servicing companies follow legal procedures when foreclosing on a home.**
- **Subprime Credit Cards with High Fees and Interest Rates:** According to the credit-card comparison site, CardHub.com, the number of credit card solicitations sent to subprime borrowers (those with FICO credit scores between 620 and 660) has increased by up to 300 percent since June. The average interest rate on these cards is about 20 percent. Nearly all of these cards come with an average annual fee of \$39 according to CardHub.com. **The CFPB can ensure that issuers do not exceed allowable federal limits on subprime card fees and provide transparency in the marketplace so that consumers know what they are getting into when they get a card offer like this.**
- **Wrongful Foreclosures on Our Troops:** J.P. Morgan Chase disclosed that they have foreclosed on 14 active-duty military families and overcharged 4,000 others in wrongful fees or improper interest rates. Yet under the Service Members Civil Relief Act, the interest rate for many active-duty military families cannot exceed 6 percent, and active duty service members are not subject to home foreclosure. **The CFPB’s oversight of bank lending practices can stop these practices in their tracks.**
- **Internet Payday Lending:** Internet payday lenders are marketing loans online at rates and terms that mire cash-strapped consumers in repeat borrowing at extremely high rates. Finance charges to borrow \$100 range from \$15 (390% APR) to \$30 (780% APR). Many of these loans are repeatedly “flipped” because consumers can’t afford to pay them off over the week to two-week period of the loan. Internet payday lenders often attempt to bypass state usury laws, licensing requirements and consumer protections by locating offshore, by locating in states with weak laws or by claiming affiliation with Native American tribes. Electronic payday loans exploit a loophole in federal law that must be closed to safeguard borrowers’ bank accounts. **The CFPB can provide much-needed federal oversight of these lenders and work with states to ensure that lenders do not skirt state laws.**

The Consumer Federation of America is an association of nearly 300 nonprofit consumer organizations that was established in 1968 to advance the consumer interest through research, advocacy, and education.