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United States Senate Committee on Banking, Housing and Urban Affairs

Creating a Consumer Financial Protection Agency:

A Cornerstone of America's New Economic Foundation

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Thank you, Chairman Dodd and Ranking Member Shelby, for providing me with this opportunity to testify about the Administration's proposal to establish a new, strong financial regulatory agency charged with just one job: looking out for consumers across the financial services landscape.

The need could not be clearer. Today's consumer protection regime just experienced massive failure. It could not stem a plague of abusive and unaffordable mortgages and exploitative credit cards despite clear warning signs. It cost millions of responsible consumers their homes, their savings, and their dignity. And it contributed to the near-collapse of our financial system. We did not have just a financial crisis; we had a consumer crisis. Americans are still paying the price, and those forced into foreclosure or bankruptcy or put through other wrenching dislocations will pay for years.

There are voices saying that the status quo is fine or good enough. That we should keep the bank regulators in charge of protecting consumers. That we just need some patches. They even claim consumers are better off with the current approach.

It is not surprising we are hearing these voices. As Secretary Geithner observed last week, the President's proposals would reduce the ability of financial institutions to choose their regulator, to shape the content of future regulation, and to continue financial practices that were lucrative for a time, but that ultimately proved so damaging. Entrenched interests always resist change. Major reform always brings out fear mongering. But responsible financial institutions and providers have nothing to fear.

We all aspire to the same objectives for consumer protection regulation: independence, accountability, effectiveness, and balance. The question is how to achieve them. A successful regulatory structure for consumer protection requires mission focus, market-wide coverage, and consolidated authority.

Today's system has none of these qualities. It fragments jurisdiction and authority for consumer protection over many federal regulators, most of which have higher priorities than protecting consumers. Non-banks avoid federal supervision; no federal consumer compliance examiner lands at their doorsteps. Banks can choose the least restrictive supervisor among several different banking agencies. Fragmentation of rule writing, supervision, and enforcement leads to finger-pointing in place of action and makes actions taken less effective.

The President's proposal for one agency for one marketplace with one mission – protecting consumers – will resolve these problems. The Consumer Financial Protection Agency will

create a level playing field for all providers, regardless of their charter or corporate form. It will ensure high and uniform standards across the market. It will end profits based on misleading sales pitches and hidden traps, but there will be profits made on a level playing field where banks and nonbanks can compete on the basis of price and quality.

If we create one federal regulator with consolidated authority, we will be able to leave behind regulatory arbitrage and inter-agency finger-pointing. And we will be assured of accountability.

Our proposal ensures, not limits, consumer choice; preserves, not stifles, innovation; strengthens, not weakens, depository institutions; reduces, not increases, regulatory costs; and increases, not reduces, national regulatory uniformity.

### **Successful consumer protection regulation requires mission focus, market-wide coverage, and consolidated authority**

Consumer protection regulation should be effective and balanced, independent and accountable. It can be none of these without three essential qualities: mission focus, market-wide coverage, and consolidated authority.

First, consumer protection regulation requires mission focus. A clear mission is the handmaiden of accountability. It is also the basis for the expertise and effectiveness that are essential to maintaining independence.

Second, the regulator must have market-wide jurisdiction. This ensures consistent and high standards for everyone. And it prevents providers from choosing a less restrictive regulator. Carving up markets in artificial, non-economic ways is a recipe for weak and inconsistent consumer protection standards and captured regulators.

Third, authorities for regulation, supervision, and enforcement must be consolidated. A regulator without the full kit of tools is frequently forced to choose between acting without the right tool and not acting at all. Moreover, if different regulators have different authorities, each can point the finger at the other instead of acting, and the sum of their actions will be less than the parts. The rule writer that does not supervise providers lacks information it needs to determine when to write or revise rules, and how best to do so. The supervisor that does not write rules lacks a market-wide perspective or adequate incentives to act. Splitting authorities is a recipe for inertia, inefficiency, and unaccountability.

### **The present system of consumer protection regulation is designed for failure**

The present system of consumer protection regulation is not designed to be independent or accountable, effective or balanced. It is designed to fail. It is simply incapable of earning and keeping the trust of responsible consumers and providers.

Today's system does not meet a single one of the requirements I just laid out: mission focus, market-wide coverage, or consolidated authority. It does not even come close. The system fragments jurisdiction and authority for consumer protection over many federal regulators, most of which have higher priorities than protecting consumers. Non-banks avoid federal supervision and banks can choose the least restrictive supervisor among several different banking agencies.

Fragmentation of rule writing, supervision, and enforcement among several agencies lead to finger-pointing in place of action and make actions taken less effective.

This structure is a welcome mat for bad actors and irresponsible practices. Responsible providers are forced to choose between keeping market share and treating consumers fairly. The least common denominator sets the standard, standards inevitably erode, and consumers pay the price. Let me spell out these failures in more detail.

Lack of mission focus: protecting consumers is not the banking agencies' priority. The primary mission of federal banking agencies, in law and in practice, is to ensure that banks act prudently so they remain safe and sound. Ensuring that banks act transparently and fairly with consumers is not their highest priority. Consumer protection regulation and supervision was added to the agencies' responsibilities relatively late in their histories, and it has never fit snugly in their missions, structures, or agency cultures.

In fact, consumer protection supervision is generally conducted through the prism of bank safety and soundness. The goal of such supervision has too often been to protect banks or thrifts from excessive litigation or reputation risk, rather than to protect consumers. It was thought that supervising the banks for their effective management of "reputation risk" and "litigation risk" – aspects of a safe and sound institution – would ensure the banks treated their customers fairly. It didn't. It did not prevent our major banks and thrifts from retroactively raising rates on credit cards as a matter of policy, or from selling exploding mortgages to unwitting consumers as a business expansion plan.

It should not have come as a surprise that the agencies' "check-the-box" approach to consumer compliance supervision missed the forest for the trees. Examiners are well trained to ascertain whether the annual percentage rate on a loan is calculated as prescribed and displayed with a large enough type size. Equally or more important questions – Could this consumer reasonably have understood this complicated loan? Is this risky loan remotely suitable for this consumer? – are not a priority for an agency whose main job is to limit risks to banks, not consumers.

Managing risks to the bank does not and cannot protect consumers effectively. This approach judges a bank's conduct toward consumers by its effect on the bank, not its effect on consumers. Consumer protection regulation must be based first and foremost on a keen awareness of the perspectives and interests of consumers, and a strong motivation to understand how products and practices affect them – for good and for bad. Agencies charged primarily with safeguarding banks will lack this awareness or motivation.

Fragmented jurisdiction: there are two regulatory regimes for one market, and non-banks escape federal supervision. There is one market for residential mortgages, one market for consumer credit, and one market for payment services – but two different and uncoordinated regimes for these and other consumer financial products and services. Banks are subject to an extensive supervisory regime, with lengthy and intensive consumer compliance examinations on-site and off-site as well as a legal obligation to respond to requests for internal information.

This regime, when it works, identifies and resolves weaknesses in banks' consumer protection systems before they harm consumers. The major failures of this regime were not for lack of examination hours or paperwork burdens. Failures occurred for lack of asking the right

questions and taking the right perspective. These failures were rooted in the absence of mission focus. A federal regime of consumer compliance supervision can be very effective in the right hands.

Non-bank providers, however, are not subject to any federal supervision. No federal regulator sends consumer compliance examiners to non-bank providers to review their files or interview their salespeople. Nor does any federal regulator regularly collect information from them, except limited mortgage data.

Non-bank providers are subject only to after-the-fact, targeted investigations and enforcement actions by the Federal Trade Commission or state attorneys general. Supervision by the states of these providers is limited, uneven, and not necessarily coordinated. In general the same federal consumer protection laws apply to this sector as apply to banks, but lack of federal supervision and inherent limitations of the after-the-fact approach of investigations and enforcement resources leave the sector much less closely regulated.

*Lack of federal supervision of non-banks brings down standards across the board.* Capital and financing flow to the unsupervised sector in part because it enjoys the advantages of weak consumer oversight. Less responsible actors face good odds that the FTC and state agencies lack the resources to detect and investigate them. This puts enormous pressure on banks, thrifts, and credit unions to lower their standards to compete – and on their regulators to let them.

This is precisely what happened in the mortgage market. Independent mortgage companies and brokers grew apace with little oversight; capital and financing flowed their way. The independents peddled subprime and exotic mortgages – such as “option ARMs” with exploding payments and rising loan balances – in misleading ways, to consumers demonstrably unable to understand or handle their complex terms and hidden, costly features. The FTC and the states took enforcement actions, but their resources were no match for rapid market growth. And they could not set rules of the road for the whole industry, or examine institutions to uncover bad practices and prevent their spread.

To compete over time, banks and thrifts and their affiliates came to offer the same risky products as their less regulated competitors and relaxed their standards for underwriting and sales. About one half of the subprime originations in 2005 and 2006 – the shoddy originations that set off the wave of foreclosures – were by banks and thrifts and their affiliates. Lenders of all types paid their mortgage brokers and loan officers more to bring in riskier and higher-priced loans, with predictable results. Bank regulators were slow to recognize these problems, and even slower to act. The consequences for homeowners were devastating, and our economy is still paying the price.

Mortgages are the most dramatic example of the harm that regulatory fragmentation causes consumers, but not the only one. Take the case of short-term, small-dollar credit. Payday lenders have grown rapidly outside the banking sector. They are not typically subject to state examinations or information collections. On the other side of the bank-nonbank divide, banks compete in the short-term, small-dollar credit market with cash advances on credit cards and “overdraft protection” programs.

Each one of these three competing products is disclosed to the consumer differently, and each has been associated with abusive or unfair practices. There is a clear need for a consistent approach to regulating short-term, small-dollar credit that protects consumers while ensuring their access to responsible credit – but our fragmented system cannot deliver.

The list goes on. A wide range of credit products are offered—from payday loans to pawn shops, to auto loans and car title loans, many from large national chains—with little supervision or enforcement. Credit unions and community banks with straightforward credit products struggle to compete with less scrupulous providers who appear to offer a good deal and then pull a switch on the consumer.

*Banks and thrifts can – and do – choose the most permissive supervisor, further depressing standards.* Just as capital flows from the bank sector to the non-bank sector in search of less regulation, banks and thrifts can freely choose their federal supervisor on the basis of which one has less restrictive oversight of consumer compliance. We saw this choice in action during the mortgage boom.

But institutions do not actually have to switch supervisors to bring down standards. The mere fact that institutions have a choice exerts a subtle but pernicious drag on standards. It has little to do with who runs the agency. It is simply that government agencies, like all other organizations, respond to incentives. The banking agencies, naturally, seek to retain or even compete to gain “market share.”

*Incomplete and fragmented supervision delays and impedes responses to emerging problems.* When a consumer protection problem emerges, a new regulation is not necessarily the first and best response. It takes many months, even years, to adopt a new rule. And rules are often fairly rigid, detailed, and technical, especially if the underlying statute allows private suits. Supervisory guidance can be a much faster and more flexible, principles-based method to prevent problems.

But guidance is a much weaker tool than it should be because of incomplete and fragmented federal supervisory authority. There is no federal supervision over nonbanks, and supervision of banks is divided among several agencies. This means that any effort to use supervisory guidance requires a massive and prolonged effort to bring many different federal bank regulators, and state regulators of bank and non-bank institutions, to agreement on the precise wording of the document.

It took the federal banking agencies until June 2007 to reach final consensus on supervisory guidance imposing even general standards on the sale and underwriting of subprime mortgages – two years after evidence of declining underwriting standards emerged publicly in a regulator’s survey of loan officers. By that time the subprime explosion was nearly over. It took additional time for states to adopt parallel guidance for independent mortgage companies. And it took a third year for the federal agencies to settle on a model disclosure of subprime mortgages, by which point the subprime market had long ago imploded.

Fragmented authorities: rule writing is divided across agencies and largely divorced from enforcement and supervision. Fragmented rule writing authority produces delays and

inefficiencies. Separation of rule writing from supervision and enforcement invites finger-pointing in place of action and reduces the effectiveness of actions taken.

*Rule writing authority is fragmented, producing delays and inefficiencies.* While authority to write most federal consumer protection regulations is exclusively in the Federal Reserve, other agencies have joint or concurrent authority to implement several statutes. It is a recipe for delay and inefficiency.

For example, HUD and the Federal Reserve each implement a different statute governing mortgage disclosure, the Real Estate Settlement Procedure Act and Truth in Lending Act, respectively. The result is two forms emphasizing different aspects of the same transaction and using different language to describe some of the same aspects. It has been eleven years since the agencies recommended an integrated form. Even if they succeed in adopting an integrated form, their ability to act jointly to keep it up-to-date as the market changes will be limited at best.

As another example, Congress mandated joint or coordinated rulemaking by six federal agencies under the Fair and Accurate Credit Transactions Act of 2003 to improve the accuracy of information reported to credit bureaus and, to establish procedures for consumers to file disputes with information furnishers. Those agencies published final rules less than two weeks ago, on July 1, 2009. Clearly consumers deserve faster action on issues as important in their financial lives as accuracy of credit reports.

*Rule writing is divorced from enforcement and supervision, causing inertia and undermining effectiveness.* The authority to write regulations implementing the federal consumer protection statutes is largely divorced from the authority for supervision and enforcement. This deprives the rule writer of critical information about the marketplace that is essential to effective and balanced regulation.

That is one reason we did not have federal regulations for the subprime market. The Federal Reserve has authority to write regulations under the Truth in Lending Act and Homeownership and Equity Protection Act to ensure proper disclosure and prevent abusive lending. But it cannot examine, obtain information from, or investigate independent mortgage companies or mortgage brokers. So it is not surprising that the agency was slow to recognize the need for new subprime regulations. By the time it proposed rules, the subprime market had evaporated.

The separation of rule writing from supervision and enforcement also leads to finger-pointing and inertia. Take the case of credit cards. Some banks found they could boost fee and interest income with complex and opaque terms and features that most consumers would not notice or understand. These tricks enabled banks to advertise seductively low annual percentage rates and grab market share. Other banks found they could not compete if they offered fair credit cards with more transparent pricing. So consumers got retroactive rate hikes, rate hikes without notice, and low-rate balance transfer offers that trapped them in high-rate purchase balances.

A major culprit, once again, was fragmented regulation: one agency held the pen on regulations, another supervised most of the major card issuers. Each looked to the other to act, and neither acted until public outrage reached a crescendo. By then it was too late for millions of debt-entrapped consumers.

**There is only one solution to these deep structural flaws: one regulator for one market with one mission – protecting consumers – and the authority and resources to achieve it**

These deep structural flaws cannot be solved by tinkering with the consumer protection mandates or authorities of our existing agencies. The structure itself is the problem. There are too many agencies with consumer protection responsibilities, their authorities are too divided, and their primary missions are too distant from consumer protection.

These problems have only one effective solution: a single federal financial consumer protection agency. We need one agency for one marketplace with one mission – to protect consumers of financial products and services – and the authority to achieve that mission.

A new agency with a focused mission, comprehensive jurisdiction, and broad authorities is the only way to ensure consumers and providers high and consistent standards and a level playing field across the whole marketplace without regard to the form of a product – or the type of its provider. It is the only way to ensure independence, accountability, effectiveness, and balance in consumer protection regulation.

The CFPA will have one mission: to protect consumers. Mission focus will not be a problem for this agency. It will have no other mission that competes for attention or resources. And it will have the resources it needs to fulfill this mission and maintain its independence. The agency will have a stable funding stream in the form of appropriations and fee assessments akin to those regulators impose today.

A mission of protecting consumers requires weighing competing considerations. Our proposal explicitly recognizes this complexity. It charges the CFPA with requiring effective disclosures and preventing abusive or unfair practices; and it also charges the CFPA with ensuring markets are efficient and innovative and preserving consumers' access to financial services. A statutory mandate to weigh these potentially competing considerations will help ensure the CFPA's regulations are balanced.

The banking agencies will be able to concentrate their attention on bank safety and soundness. The Federal Reserve will be able to focus on monetary policy, financial stability, and holding company supervision without the major distractions it has experienced because it holds the pen on most major consumer protection regulations.

The CFPA will have jurisdiction over the entire market. Our proposal for comprehensive jurisdiction will ensure accountability. The CFPA will not have the luxury of pointing the finger at someone else. If a problem arises in the non-bank sector, the agency will be as accountable as it will be for problems in the banking sector.

Comprehensive jurisdiction will also make regulatory arbitrage a thing of the past. Providers will not have a choice of regulators. So, by definition, they will not be able to choose a less restrictive regulator. The CFPA will not have to fear losing "market share" because our legislation gives it authority over the whole market. Ending arbitrage will prevent the vicious cycles that weaken standards across the market.

Comprehensive jurisdiction will protect consumers no matter with whom they do business, and level the playing field for all institutions and providers. For the first time, a federal agency

would apply to non-bank providers the tools of supervision that regulators now apply to banks – including setting compliance standards, conducting compliance examinations, reviewing files, obtaining data, issuing supervisory guidance and entering into consent decrees or formal orders. With these tools, the Agency would be able to identify problems before they spread, stop them before they cause serious injury, and relieve pressures on responsible providers to lower their standards.

The CFPA’s market-wide perspective and authority will help it work with the states to target federal and state examination resources to nonbank providers based on risks to consumers. The CFPA can set and enforce national standards and supplement state efforts with its own examiners and analytics. The agency will be able to use efficient supervisory techniques in the non-bank sector such as risk-based examinations. The CFPA will provide leadership to the states, improve information sharing, and leverage state resources. The FTC will continue to have full authority to investigate and stop financial frauds.

The CFPA will have the full range of authorities: rule writing, supervision and enforcement. CFPA’s regulations will be based on a deep understanding of markets, providers, and products gained from the power to examine and collect information from the full range of bank and non-bank financial service providers. Combining rule writing authorities with supervision and enforcement authorities in one agency will ensure faster and more effective rules.

Where speed and flexibility are at a high premium, the CFPA will be able to exploit the full potential of supervisory guidance to address emerging concerns. Years-long delays to issue guidance because of inter-agency wrangling will be a thing of the past.

For example, the CFPA will both implement the new Credit CARD Act of 2009 – to ban retroactive rate hikes and rate hikes without notice – and supervise the credit card banks for compliance. So the agency will have a feedback loop from the examiners of the banks to the staff who write the regulations, allowing staff to determine quickly how well the regulations are working in practice and whether they need to be tightened or adjusted. It will also be able to improve credit card practices with supervisory guidance.

The CFPA’s rule writing authority will be comprehensive and robust. The CFPA will be able to write rules for all consumer financial services and products and anyone who provides these products. (Its authority will not extend to entities registered with the Securities and Exchange Commission when these entities are acting within their registered capacities.) The CFPA will assume existing statutory authorities – such as the Truth in Lending Act and Equal Credit Opportunity Act. New authorities we propose – to require transparent disclosure, make it easier for consumers to choose simple products, and ensure fair terms and conditions and fair dealing – will enable the agency to fill gaps as markets change and to provide strong and consistent regulation across all types of consumer financial service providers.

For example, our proposal gives the CFPA the power to strengthen mortgage regulation by requiring lenders and brokers to clearly disclose major product risks, and offer simple, transparent products if they decide to offer exotic, complex products. The CFPA will also be able to impose duties on salespeople and mortgage brokers to offer appropriate loans, take care with the financial advice they offer, and meet a duty of best execution. And it will be able to prevent lenders from paying higher commissions to brokers or salespeople (“yield spread



premiums”) for delivering loans with higher rates than consumers qualify for. Lenders and consumers would finally have an integrated mortgage disclosure.

Comprehensive standard-setting authority would improve other markets, too. For example, the CFPB could adopt consistent regulations for short-term loans – establishing disclosure requirements – whether these loans come in the form of bank overdraft protection plans or payday loans or car title loans from non-bank providers. The agency also could adopt standards for licensing and monitoring check cashers and pawn brokers.

The new CFPB will bring higher and more consistent standards; stronger, faster responses to problems; the end of regulatory arbitrage; a more level playing field for all providers; and more efficient regulation. A dedicated consumer protection agency will help restore the trust and confidence on which our financial system so critically depends.

**The CFPB will ensure, not limit, consumer choice; preserve, not stifle, innovation; strengthen, not weaken, depository institutions; and reduce, not increase, regulatory burden; and increase, not reduce, uniformity**

The CFPB will ensure, not limit, consumer choice. The agency will have a mandate to promote simplicity. It will also be charged with preserving efficient and innovative markets and consumer access to financial services and products. The point is to make it easier for consumers to choose simpler products while preserving their ability to choose more complex products if they better suit consumers’ needs.

For example, the CFPB will have the authority to require providers that offer exotic, complex, and riskier products to offer at least one standard, simple, less risky product. In the mortgage market, a lender or broker that peddles mortgages with potentially exploding monthly payments, hidden fees and prepayment penalties, and growing loan balances – such as the “pay option ARMs” of recent years – might also be required to offer consumers 30-year, fixed-rate mortgages or conventional ARMs with straightforward terms.

The idea is not new. A division between “traditional” and “nontraditional” products is deeply embedded in our mortgage markets. A similar consensus about standard and alternative products may emerge in other product markets. The CFPB’s rigorous study of consumer understanding and product performance may help produce a consensus in a given market about the appropriate dividing line.

This approach, to be sure, may not work in all contexts. Our draft legislation requires the agency to consider its effect on consumer access to financial services or products. In some cases the costs may outweigh the benefits – that will be for the agency to determine. In other cases, using this approach will obviate the need for costlier restrictions on terms and practices that would limit consumer choices.

The CFPB will preserve, not stifle, innovation. The present regulatory system clearly failed to strike the right balance between financial innovation and efficiency, on the one hand, and stability and protection, on the other. This imbalance was a major cause of the financial crisis. Ensuring that consumers who want simple products can get them, and that consumers who take complex products understand their risks, will re-right the scales.

The benefits of innovation will continue to flow. By helping ensure that significant risks are assumed only by knowing and willing consumers, the CFPA will improve confidence in innovation and make it sustainable rather than tied to quarterly results.

The CFPA will strengthen, not weaken, depository institutions. Protecting consumer is not unsafe or unsound for banks. Protecting consumers is good for banks. If we had protected consumers from banks that sold risky mortgages like option ARMs in misleading ways, then we would have made the banks more sound, not less.

We reject the notion that profits based on unfair practices are sound. The opposite appears true. Massive credit card revenue, for example, was not sustainable. It depended on unfair practices that bore the seeds of their own demise. These practices led this Congress to pass, and President Obama to sign, tough new restrictions on credit cards.

Examiners in the field will resolve the rare conflict that arises just as they do today. For larger banks, CFPA examiners could reside in the bank just as consumer compliance examiners often do today, right next door to safety and soundness examiners. They would regularly share information – our draft legislation mandates the exchange of examination reports – and coordinate approaches. Moreover, the CFPA could work with the banking agencies to ensure bank consumer compliance examiners are trained to understand safety and soundness, as they are today.

For the even rarer conflict that arises and cannot be resolved on the ground, our proposal provides mechanisms for its resolution. A safety and soundness regulator will have one of five board seats, ensuring a strong voice within the agency for prudential concerns. In addition, the agency must consult with safety and soundness regulators before adopting rules. The Financial Services Oversight Council will bring these agencies together on a regular basis.

The CFPA will reduce, not increase, regulatory costs. The CFPA is not a new layer of regulation; it will consolidate existing regulators and authorities. I have already discussed the tremendous benefits this will bring to responsible providers by ensuring consistent standards and a level playing field. And consolidating authority does not just increase accountability for protecting consumers, it also increases accountability for removing unnecessary regulatory burdens.

Consolidation will also bring direct efficiencies. The agency would help to simplify and reduce regulatory burdens in areas where current authorities overlap or conflict. For instance, the agency would ensure we have a single federal mortgage disclosure – eliminating confusing and unnecessary paperwork.

Other efficiencies will flow from the CFPA's ability to choose the best tool for the problem. The agency's authority to restrict terms and conditions of contracts by regulation – as the Congress did in the Credit CARD Act of 2009 – will be just one of many authorities. With comprehensive supervisory authority over the whole market, the agency will also be able to use more flexible, potentially less costly tools such as supervisory guidance.

The breadth and diversity of the authorities we propose will ensure the agency can tailor its solution to the underlying problem with the least cost to consumers and institutions. The agency

will have ample authority to harness the benefits of market discipline by improving the quality of, and access to, information in the marketplace. The CFPA will have authority to ensure that consumers receive relevant and concrete information in a timely manner. These measures, and measures that make it easier for consumers to choose simpler products, should reduce the need for more burdensome regulations.

Imposing federal supervisory authority on non-bank institutions for the first time will increase compliance requirements on that sector. But this is well worth the benefit of higher and more consistent standards.

The CFPA will increase, not reduce, national regulatory uniformity. The CFPA's rules and regulations will set a floor for the states, not a ceiling. The contention that this will somehow increase variations in state laws is a red herring. Our proposal does not alter the law of the status quo: major federal consumer protection statutes such as the Truth in Lending Act and Homeownership and Equity Protection Act explicitly make federal regulations a floor, not a ceiling.

In fact, a strong federal consumer protection regulator should be able to increase regulatory uniformity. States sometimes adopt new financial services laws because they perceive a lack of federal will and leadership. That is exactly what happened in the mortgage context, where states filled a vacuum of predatory mortgage law with state statutes and regulations. If the states believe an expert, independent federal agency is on the job and working with the states to protect their consumers, the states will feel less need to adopt new laws.

## **Conclusion**

We need consumer protection regulation that is independent and accountable, effective and balanced. These goals are achievable, but only if we address fundamental flaws in the structure of consumer protection. The only real solution to these flaws is creating an agency with a focused consumer protection mission; comprehensive jurisdiction over all financial services providers, both banks and non-banks; and the full range of regulatory, enforcement, and supervisory authorities.

It is time for a level playing field for financial services competition based on strong rules, not based on exploiting consumer confusion. And it is time for an agency that consumers – and their elected representatives – can hold fully accountable. The Administration's legislation fulfills these needs. Thank you for this opportunity to discuss our proposal, and I will be happy to answer any questions.