FOR IMMEDIATE RELEASE
September 24, 2009

Contact: Jesse Van Tol (202) 464-2709
jvantol@ncrc.org

Changes to CFPA Weaken an Already Compromised Bill

Communities of color continue to be left behind by financial reform proposal says coalition of community organizations

Washington, DC – The National Community Reinvestment Coalition today criticized changes to H.R. 3126, the House proposal to create a Consumer Financial Protection Agency, released in a memo by Financial Services Committee Chairman Barney Frank. The bill introduced in July left communities of color and other financially vulnerable populations behind from the beginning when it left out enforcement of the Community Reinvestment Act, the law that addresses access to credit and financial services at a community level, from the proposed Consumer Financial Protection Agency. The proposed compromise further undermines provisions that would have protected lower-income populations and communities of color. Failure to address lending at a community level leaves financially vulnerable communities open to the same predatory lending practices that led to the current crisis.

"We understand the Chairman's bill is a compromise to gain the broadest possible support to ensure passage," said John Taylor, president and CEO of NCRC. "But the proposed compromise is a not a minor change, it compromises the rights of low- and moderate-income people, communities of color and other financially vulnerable populations, such as the elderly, to have fair access to the U.S. financial system. The passage of a law that ignores the inherent limitations of the bill's ability to purge financial exploitation within these communities would be a pyrrhic victory, because they are the communities that have been most damaged by the crisis."

The Consumer Financial Protection Agency bill has been changed in five key ways:

1) The changes further weaken the independence of the Consumer Financial Protection Agency and its ability to protect consumers most harmed by unfair and deceptive lending practices. The original bill proposed a five person executive board, four of whom would be selected by the President. The revised bill places major oversight authority back in the hands of the same financial regulators whose failure to protect consumers is the reason for the establishment of the new agency.

2) The removal of the requirement of "plain vanilla" products on grounds that it would undermine innovation is unfounded. Financial innovation should be

benchmarked to a responsible standard. The existence of standard products does not undermine innovation. The 30-year fixed mortgage, for example, was institutionalized as a tool to strengthen the housing market during the Great Depression, and for more than 70 years it has remained the cornerstone of the U.S. mortgage market. Prior to the crisis created by innovative mortgage finance, this product had made homeownership the most secure investment of all, and kept financial institutions safe and sound.

3) The failure to allow for a “reasonableness” standard undermines attempts to ensure a transparent and even-handed financial process for all consumers. If a financial institution has no duty to ensure a consumer understands a financial product, the proposal leaves the door open to another foreclosure crisis caused by intentionally confusing and complex financial products.

   Author and former investment banker Nomi Prins notes, “The reason banks argue away from plain vanilla products is that these are inherently not as profitable to them. We must therefore render complex products less profitable, both upfront, and at every point along a securitization chain. Anything less gives enough wiggle room to create products and packages that will invoke similar devastation to what we've experienced.”

4) Exemption of real estate brokers and agents undermines the goal of ensuring integrity in the housing market at all points of entry. The elimination of coverage of real estate agents and brokers is a significant change since they represent the initial point of entry into the housing market. In the current environment of millions of foreclosures, and the disproportionate impact they are having in communities of color, it is unreasonable to weaken provisions that ensure the most appropriate safe and sound access to mortgage finance to financially vulnerable communities. Homeownership rates for African-Americans, Latinos and Asians are already plummeting.

5) Elimination of car dealers from coverage is a fundamental weakening of the bill. Automobiles are the largest purchase for the typical minority household and the abusive lending practices in the auto industry are well known.

The National Community Reinvestment Coalition is an association of more than 600 community-based organizations that promote access to basic banking services, including credit and savings, to create and sustain affordable housing, job development and vibrant communities for America's working families.

###