

Consumer Issues – Selected Portions of the Dodd-Frank Bill

Mortgage Related (Title IX, Title XIV and Title X)

- Risk retention (Title IX) will cause lenders to rethink smaller balanced loans thereby hurting the most vulnerable home owners and home buyers – low/medium income and people who want or own homes priced at \$200,000 or less. Lenders won't loan in that market. **Consumers lose access.**
- Title XIV, Subtitles A, B, C, F; Prohibitions on Steering Incentives, Ability to Repay and High Cost Mortgage language regardless of how it gets interpreted and implemented by the Regulator will reduce access to the same group of middle class Americans - those in <\$200,000 homes trying to refinance or those trying to buy lower priced homes. **The group everyone is trying to help loses access.**
- Consumers will be hurt because big banks are not required to deal with compensation (Title XIV, Subtitle A) the same as mortgage lenders and brokers. This will reduce competition and motivate big banks (federally exempted institutions) to bury costs in the interest rate and get their profit from the rate or from selling loans or both. This hurts consumers because the consumer then pays the cost over the life of the loan. It's like financing a refrigerator in the purchase of the home. **Consumers face increased cost and reduced choice.**
- Loan types are severely restricted so consumer choice will be limited. Lenders will be unmotivated to design creative products. **Consumers lose choice.**
- Consumers are inherently hurt because instead of being motivated to educate themselves they continue to depend on the government to protect them. **Consumers never feel the satisfaction of knowing and demonstrating they are capable.**
- Mortgage decisions need to be based on consumer understanding of the balance between front end costs and interest costs. Prior actions by legislators and regulators demonstrate a fundamental misunderstanding of this balance. This misunderstanding is the basis for much of what has been offered in Title XIV. The consumer will pay for the ignorance or unwillingness to listen on the part of their representatives. Legislators declare they want transparency. What has been created prior to this bill actually reduces existing transparency, and makes it more difficult for consumers to make choices. Evidence of this every consumer asks for the information available before the RESPA changes so they can understand what the loan costs. Title XIV builds on a foundation of flawed changes driven by the HUD (RESPA) and the FRB (TILA) misunderstandings. The industry needs to recognize that beyond the loan amount itself, all that is necessary to shop for price is the interest rate, the front end costs, the monthly cost to pay for the debt and about how long the consumer plans to have the loan. This bill supports the failure to require that information for any federally chartered financial institution. **Competition will be squelched, consumers will be harmed and won't even realize it.**
- While changes in the appraisal language contained in Title XIV, Subtitle F do provide for the end of the Home Valuation Code of Conduct, the language does not go far enough and without mandating the flexibility for originators to order appraisals, consumers will continue to experience the major value impact seen since May 2009. The wording of this provision of the bill almost guarantees the continuation of increased costs, delayed processing and higher rate of denials all of which will **negatively affect consumers access and ability to successfully pursue the dream of home ownership or the financial benefits produced by equity developed in that asset.**

Most of the attention about consumers has been focused in the Mortgage Title. However, Title X which establishes the Bureau of Consumer Financial Protection requires serious review as it will result in numerous areas for unintended consequences:

- **Title X, Bureau of Consumer Financial Protection** – at best consumers can not possibly gain any value short term, but they will be harmed long term by the title's unavoidable **increased confusion and cost.**
 - Increased cost – the House argues they pay for the bill with TARP funds; the law says that can not be done because this Bureau is a new cost and unused and repaid TARP funds are supposed to go to retire the debt incurred to enable TARP. As the bill is offered, there is a debt increase – **more debt – hurts consumers**
 - Increased, not decreased administrative costs – some consumer protection is moved, not all. The bill adds new agencies and actually staffs them to a large part with existing personnel – result: more consumer confusion when trying to figure out who to contact and no value added to problem solving – **more taxes.**
 - Decision making is often decision by committee and requires review by the heads of the same agencies that are being blamed by the Congress for creating the "problem". The result will be delays, increased costs and resulting **harm to consumers because of confusion and ineffectiveness.**
 - The new agency becomes a "clearing house" for complaints; not necessarily the place where the buck stops. It is required to coordinate with other agencies and the FTC to "route" complaints. **Adds to consumer work and confusion trying to figure out where to go to get problems resolved.** Does not improve it. (Section 1013)
 - Adds complexity by requiring the agencies to share data with each other and with the Bureau. No focal point regardless of what is published. Just **adds another series of 800 #'s for consumers to use to begin the complaint or query process.**
 - **Redundancy** in the departments will cost taxpayers money and increase the complexity faced by consumers trying to get services.
 - Section 1017 provides that the Fed Reserve Board transfers funds to finance operations of the new Bureau. What isn't made clear is that in another title of the bill the FDIC insurance premium rate will be increased on member banks from 1.15% to 1.35% - who do we think will pay for that increase --- consumers using banking activities for any bank that is a member of the FDIC system. Not a tax, but a buried cost that will be recovered by the banks. Additionally, if the Director determines the Bureau needs additional money up to \$200 million can be appropriated every year through 2014. **That's a tax! Result increased consumer cost!**
 - **Overlaps in who supervises banks will add hidden costs** as banks try to deal with the financial impact of having regulators fight among themselves for who is right during supervisory processes.
 - The scope of this bill, designed to provide a single consumer "watchdog" excludes all institutions under \$10B in assets from coverage. **Consumers won't know who covers them** after the law is implemented without knowing their bank's size. Combine this with all the other exemptions related to consumer financial services and the only thing a **consumer knows for sure is this will cost them money and confuse them more** when they have a problem.
 - Additional carve outs for retailers, manufactured homes, CPA's, Tax Preparers, Lawyers, State insurance companies, state securities companies, auto dealers, etc. simply defeats the idea of a centralized "consumer" protection agency. **More confusion, more complication, more taxpayer cost for less results.**
 - This bill requires the Director to redundantly work on disclosures and definitions that the industry has been forced to adopt in the past several months. Constantly changing disclosures, timing and industry business practices will only serve to **increase consumer cost and confusion.**

- Leaves a tremendous amount of function with the Federal Trade Commission which will further confuse, increase cost and make consumer clarity almost impossible to achieve. **Consumers will not know where to go.**
- RESPA is one of the most confusing Acts implemented and the SAFE Act isn't even fully implemented yet, but the bill transfers the consumer protection components of these acts and in so doing will further confuse consumers, lenders and the distribution system (originators) – **result increased consumer cost and confusion.**

Information provided courtesy of IMAAG