



## Fact Sheet

### The Financial Product Safety Commission Act of 2009 (S. 566)

Sponsor: Senator Richard Durbin [D-IL]

Cosponsors: Sen. Edward Kennedy [D-MA], Sen. Charles Schumer [D-NY]

Introduced March 10, 2009

*"It is impossible to buy a toaster that has a one-in-five chance of bursting into flames and burning down your house. But it is possible to refinance an existing home with a mortgage that has the same one-in-five chance of putting the family out on the street -- and the mortgage won't even carry a disclosure of that fact to the homeowner."*

*- Elizabeth Warren*

Regulation of financial services entities is dispersed among different federal agencies, and none of those agencies put consumer protection first. The Financial Product Safety Commission Act will create an agency charged with requiring safety in financial products across all types of financial services providers. The Commission is part of a larger shift necessary to ensure effective consumer protection. The states must also have the full ability to develop and enforce consumer protection standards in financial services.

This bill would actually improve the strength of financial institutions by stopping too-risky practices that harm banks as well as their customers. The Commission would implement across-the-board standards which would eliminate the "race to the bottom," in which financial institutions copy each other's worst practices to maximize profits. This new agency will create a floor beneath which consumer financial product safety cannot go.

#### **The proposed Financial Product Safety Commission (FPSC) would:**

- Receive no funding from the financial industry (unlike existing federal financial regulators)
- Establish federal minimum standards, not maximum standards, and allow states to establish their own higher standards if they choose. The FPSC would work with other federal agencies and states to ensure effective coordination.
- Issue rules for companies that provide consumer financial products, including banning or restricting certain practices.
- Impose criminal and civil penalties on companies who violate its rules.
- Create a best practices guide for providers of consumer financial products, and give technical assistance to help providers comply with rules.
- Create a hotline for consumer complaints about financial services and provide consumers with information.
- Conduct continuing studies and investigations of financial services industry practices.
- Provide public reports on the incidence of complaints, violations, and penalties, creating further incentives for companies to comply.

### **Examples of dangerous financial products that have escaped effective regulation:**

- Mortgages with a low “teaser rate” which skyrocket later and a prepayment penalty that prevents the consumer from refinancing when the rate goes too high.
- An overdraft “protection plan” which automatically loans money to cover a debit card purchase when there is not enough money in the checking account. The cost is \$34 per covered transaction (regardless of the transaction amount) plus a fee of \$5 per day. The plan applies even though the consumer never asked for it, and even though the average fee is much higher than the average amount loaned.
- A prepaid bank card that is loaded with monthly fees, usage fees, reloading fees, overdraft fees, dormancy fees and even fees to talk to customer service.
- A subprime credit card with \$250 in origination fees which uses up the card’s low \$300 credit limit.

#### **Partial list of supporters**

- American Federation of Labor and Congress of Industrial Organizations (AFL-CIO)
- Americans for Fairness in Lending
- Consumer Action
- Center for Responsible Lending
- Consumer Federation of America
- Consumers for Auto Reliability and Safety
- Consumers Union
- Demos
- International Union, United Automobile, Aerospace & Agricultural Implement Workers of America (UAW)
- Leadership Conference on Civil Rights
- NAACP Washington Bureau
- National Association of Neighborhoods
- National Community Reinvestment Coalition
- National Consumer Law Center
- National Consumers League
- National Council of La Raza
- National Fair Housing Alliance
- Public Citizen's Congress Watch
- Service Employees International Union
- U.S. PIRG

**For more information call Pam Banks or Joel Kelsey at 202-462-6262.**