Legislative Summary of Wall Street Reform and Consumer Protection

President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into law July 21, 2010. The legislation is widely viewed as the most sweeping reform of financial regulation since the Great Depression.

The intent of the legislation is to:

- Promote financial stability by improving accountability in the financial system;
- Grow the economy and create jobs;
- Enhance consumer protections including mortgage reform and prohibiting unfair lending practices;
- End "too big to fail" bailouts;
- Rein in Wall Street; and
- Prevent another financial crisis like the most recent.

To protect financial consumers, the legislation also creates the Consumer Financial Protection Bureau (Bureau) within the Board of Governors of the Federal Reserve System. The Bureau will regulate consumer financial products or services under federal consumer financial laws, and it has greater jurisdictional authority over financial institutions with assets in excess of $10,000,000,000.

For a complete legislative summary, visit the United States Senate Committee on Banking, Housing, and Urban Affairs website: http://banking.senate.gov/public/_files/070110_Dodd_Frank_Wall_Street_Reform_comprehensive_summary_Final.pdf.

The following bullets highlight some aspects of the legislation that may be of particular interest to credit unions and their members.

The legislation:

- Creates the Financial Stability Oversight Council, a body consisting of the heads of the eight primary federal financial regulatory agencies, the Director of the Bureau, and an independent Presidential appointee. The Chairman of the NCUA Board is a voting member of the Council, which is charged with monitoring potential systemic risks and maintaining the country's financial stability. The Council is authorized to recommend, or in some instances to mandate, that financial regulatory agencies implement certain rules and policies. As a member of the Financial Stability Oversight Council, the NCUA Board will be able to petition the full Council to stay or set aside Bureau regulations it believes could compromise the safety and soundness of the credit union system.

- Makes $250,000 the permanent standard maximum share insurance amount.

- Temporarily authorizes NCUA to fully insure the net amount maintained in non-interest-bearing transaction accounts through December 31, 2012. Share insurance coverage is provided by the NCUA National Credit Union Share Insurance Fund.

- Requires NCUA and other federal financial regulators to provide guidelines to their institutions regarding low-cost remittance transfers and no-cost or low-cost basic consumer accounts, as well as agency services to remittance transfer providers.

- Requires NCUA and other federal financial regulators, within nine months of enactment of the legislation, to jointly prescribe regulations or guidelines requiring regulated entities with $1 billion or more in assets to disclose the structure of all offered incentive-based compensation arrangements to enable regulators to determine if those arrangements provide excessive compensation or could lead to material financial loss. Also within nine months, regulators must jointly prescribe regulations or guidelines that prohibit or feature incentive-based arrangements or, those that encourage inappropriate risks by regulated entities with assets of $1 billion or more by providing excessive compensation or that could lead to material financial loss.

- Provides financial institutions with an appeals process requiring the Bureau and agency to issue a joint statement of coordinated supervisory action in an effort to avoid supervision conflicts between the Bureau and a federal financial regulator when both have a supervisory interest. Where appropriate, NCUA will have a representative on the governing panel hearing such appeals. The legislation also requires the Bureau and NCUA (and other federal financial regulators) to issue regulations prohibiting retaliation against any financial institution that initiates an appeal.

- Requires NCUA and other agencies, not later than six months after the date of enactment, to establish an Office of Minority and Women Inclusion that will be responsible for all matters relating to diversity in management, employment and business activities.

Additionally, the legislation provides for the following mortgage reforms.

Mortgage reforms:

- **Ensure borrowers' ability to repay**. Establishing a simple federal standard for all home loans, institutions must ensure that borrowers can repay the loans they are sold.
- **Prohibit unfair lending practices**. Reforms prohibit financial incentives that steer subprime borrowers into loans where lenders pay brokers to inflate the costs and prohibit pre-payment penalties that trap borrowers in unaffordable loans.
- **Expand consumer protections for high-cost mortgages**. Reforms lower the interest rate and the points and fee triggers that define "high-cost" loans where consumers are protected by law.
- **Establish penalties for irresponsible lending**. Consumers can avoid foreclosure and recover as much as three years of interest payments and damages if lenders violate standards.
- **Require additional disclosures on adjustable-rate mortgages**. Lenders must disclose the maximum a consumer could pay on an adjustable-rate mortgage.

Consumer Education:

- Creates an Office of Financial Literacy as part of the Bureau to ensure that consumers get the clear, accurate information they need when shopping for mortgages, credit cards, and other financial products, and it protects them from hidden fees, abusive terms, and deceptive practices.

Consumer Complaint Resolution:

- Creates a National Consumer Hotline. Consumers will have a single toll-free number to report problems with financial products and services.

NCUA will provide additional information and details in the future about the legislation as we begin the rulemaking process required by the legislation and, where appropriate, coordinate our efforts with other federal financial regulators.