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Regulatory: A primer on the Consumer Financial Protection Bureau

What the CFPB does and how it does it

BY RANDY JOHNSON
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Aside from creating a lot of controversy, President Obama's recess appointment of Richard Cordray as the first director of the Consumer Financial Protection Bureau (CFPB) left many people asking: What exactly is the CFPB and what does it do? In addition to bringing together under one roof the various rules, regulations and oversight authority that have historically been spread over multiple federal agencies and departments, the CFPB was created to educate consumers regarding financial matters and to extend federal oversight to non-bank entities that provide financial products or services to consumers.

The CFPB was created in July 2010 as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Dodd-Frank Act increases federal oversight of the financial industry. The CFPB, which will ultimately operate as a bureau within the Federal Reserve, was created specifically to adopt rules and regulations to oversee businesses that provide financial products and services to consumers, including credit cards, student loans, mortgages, check cashing services, pay-day loans, online banking and credit reports.

In the words of the U.S. Department of Treasury, the CFPB is tasked with assuring that consumer financial products and services "promote fairness and transparency." One of the CFPB's primary goals is to eliminate the consumer confusion and frustration that comes with poorly disclosed penalty fees and surprise charges common to many consumer financial products.

The regulatory reach of the CFPB extends to banks and credit unions (that have been regulated by the federal government for many years) as well as to non-bank entities providing financial products and services to consumers. Non-bank entities have not historically been subject to federal supervision to the same extent as banks and credit unions.

Under the terms of the Dodd-Frank Act, the CFPB was not allowed to regulate non-bank entities until its director was in place. One of the first items of business of newly appointed Director Cordray was to initiate the CFPB's supervision program of non-bank entities. Pay-day lenders and "buy here pay here" auto dealers are among the first non-bank entities to come under the CFPB's scrutiny. Next on the list will be student loan providers, who will be required to provide students and their families with accurate, complete and understandable information to allow them to make informed decisions in financing a higher education.

According to the CFPB, its core function is to protect consumers in financial matters. It intends to carry out this function by doing the following:

- Conduct rule-making, supervision and enforcement for federal consumer financial protection laws
- Restrict unfair, deceptive or abusive acts or practices
- Take consumer complaints
- Promote financial education
- Research consumer behavior
- Monitor financial markets for new risks to consumers
- Enforce laws that outlaw discrimination and other unfair treatment in consumer finance

Love it or hate it, the CFPB is certain to affect each of us in our personal and business life.

About the Author

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