St. Louis BIZ TALK

Debating the consumer protection agency

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Regardless of your view on the new consumer protection agency that's part of the federal financial regulatory reform, there was something for you at a conference Monday at the Federal Reserve Bank of St. Louis.

Mark Calabria, director of financial regulation studies at the Cato Institute, said it won't prevent future taxpayer bailouts; it will contribute to them. It doesn't address the causes of the financial crisis, which was driven by cheap credit. And it reduces competition and consumer choice.

Even the language is disturbingly vague, he said, such as prohibiting "abusive" activities. "We will know in 10 years what 'abusive' means, after 10 years of litigation."

On the other hand, **Ellen Harnick**, senior policy counsel at the Center for Responsible Lending, which helps poor families, is all in favor of the agency. "If it had been illegal to put people in a loan they won't be able to afford in two years, the world would look a lot different today," she said. "We would be better off."

For example, she said, most subprime borrowers could have had a 30-year fixed mortgage for an additional 60 basis points, which is no small sum but an attractive alternative to foreclosure.

Mike McCoy, president of Wells Fargo Card Services, noted that the Credit Card Act of 2009, which went into effect in February 2010, provided significant consumer benefits, such as reduced overdraft fees, but also led to higher cost of credit, fewer people getting credit and less product innovation.

John Ryan, executive vice president of the Conference of State Bank Supervisors, said, "We are both hopeful and nervous" about the legislation. The system was out of balance, he said, but he fears the cost and complexity, the impact on the free market and the concentration of such broad authority in one agency.

"The consequences are going to be very significant, good and bad," Ryan said. "Complexity doesn't always deliver the best results."

Jim Bullard, president of the St. Louis Fed, said even getting the agency — called the Consumer Financial Protection Bureau — up and running by the mandated date of July 2011 will be difficult. He called it "a substantial undertaking when you look at the scope of responsibilities."

It was the final conference in a series of four about regulatory reform organized by the St. Louis Fed.

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