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Consumer shield on track

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Local banking officials fear the creation of a new federal consumer protection agency will limit products and cost too much money not only for the industry but customers as well.

The Consumer Financial Protection Agency cleared an early hurdle Thursday when the House Financial Services Committee approved legislation to create it on a vote of 39-29.

Part of a larger effort to address financial regulation, the legislation is intended to provide a new independent agency devoted to protecting Americans from unfair and abusive financial products and services.

"This is not consumer protection," said Curtis Hage, president and chief executive of Home Federal Bank in Sioux Falls. "It will raise the cost of banking for all involved."

Proponents, including many Democrats and consumer interest groups, say the entity is vital after the recent financial crisis revealed that deceptive practices such as ballooning mortgages or hidden credit card fees not only undermine users but have the power to destabilize the entire economy.

Opponents, including many Republicans, bankers and leaders of other financial institutions, say the entity will restrict consumer choice and curtail industry innovation, making services more expensive as well as placing an onerous new oversight on businesses.

Hage and others question whether more information is what consumers really want.

"We are already required to disclose so much information, it is an an overload on disclosure," Hage said. "The notion that we have to have more disclosure and have someone else in Washington tell us if you can afford or qualify for a loan is an invasion of personal decision-making."

At the root is a concern that financial services firms - including banks, mortgage originators and payday lenders, among others - will have to answer to multiple, possibly divergent, regulators.

What a bank examination body has to say about when a deposit posts to an account, for example, might be different from what a consumer protection body might request.

"They may say, 'We want you to credit that deposit immediately,' " said Curtis Everson, the president of the South Dakota Bankers Association. "You put the bank at risk of bearing the cost if the item is fraudulent."

"Our fundamental objection from the banking industry's perspective is that it is unwise and ill advised to separate safety and soundness regulation from consumer protection regulation," Everson said. "The two go hand in hand."

For proponents, there is never too much information for an industry that they say is confusing and overwhelming for many.

"Anytime the consumer has more information, that is good," said Tracy Gran, director of the Consumer Credit Counseling Service, which is a program of Lutheran Social Services. "But in the end, it is still up to the consumer."

She emphasized the distinction between financial protection and financial literacy. Even with a consumer protection agency, it would be hard to know whether you're falling victim to deceptive practices, she said, "if you're not watching out for yourself, if you're not taking the extra steps to know what is going on."

Everson said he expected the bill to sit idle while the House Financial Services Committee and its chairman, Barney Frank, turn attention to other concerns such as systemic risk assessment and when institutions are too big to fail.

"I think it will all be a big bill packaged together that will come to the House floor," said Everson, adding that he did not expect the Senate would take it up before it comes before the House.

In a separate action Thursday, the House Financial Services Committee unanimously passed expedited credit card reform. The legislation would move up the effective date for credit card reforms from Feb. 22 to Dec. 1. The legislation was proposed by Rep. Carolyn Murphy, who said credit card companies were inflating their interest rates in advance of new regulations going into effect.

The discussion of moving deadlines has exasperated bankers and credit card issuers.

"We're opposed to changing the rules of the game midstream," Everson said. "Regulators had a bite at the apple, Congress had a bite of the apple, now this bill changes the rules again. It is not helpful to tearing that all apart because someone is unhappy."

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