October 2010

The Dodd-Frank Wall Street Reform and Consumer Protection Act Benefits Rural Americans

Too many responsible rural Americans have paid the price for an outdated regulatory system that left our financial system vulnerable to collapse and left families without adequate protections. In the summer of 2009, the Obama Administration put forward a legislative proposal crafted to rein in excessive risk on Wall Street and preserve economic opportunity on Main Street. A year later, the President signed into law a bill aligned to a remarkable degree with that original proposal. This comprehensive financial reform, which put in place the strongest consumer financial protections in history, included the creation of a new, dedicated Consumer Financial Protection Bureau (CFPB).

The CFPB, an independent entity within the Federal Reserve, will have one mission: to protect consumers by promoting transparency and consumer choice and preventing abusive and deceptive practices. It will have broad authority to write and enforce new consumer financial protection rules. The CFPB will use these authorities to promote financial stability and protect consumers – including rural Americans – from the unfair practices that contributed to the financial crisis.

Rural Families and the Financial Crisis

- **During 2005 and 2006, the height of the subprime lending boom, at least 9% of mortgages made to rural borrowers (those living outside a Metropolitan Statistical Area[1]) were subprime loans.** Even in 2007, as subprime lending declined, 6.5% of loans made to rural borrowers were subprime loans. [McDash Online Core Database data (September 2009); Treasury analysis.]
- **Borrowers who have subprime loans, including rural families, have come under severe stress during the recent financial crisis and are at high risk of foreclosure.** 48.5% of outstanding subprime loans made in 2005 and 57.2% of such loans made in 2006 are in foreclosure or no payment has been received for 60 days or more. [McDash Online Core Database data (February 2010); Treasury analysis.]
- **The rural homeownership rate declined from 74% in 2004 to 71% in 2007.** [Federal Reserve, "Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances," (February 2009) ("SCF")]

Rural Families Deserve Clear Rules and Strong Enforcement

Household Debt

- **The debt ratio (the ratio of total debt to total assets) for rural households increased** from 13% to 17% from 2001 to 2007. [SCF]

Credit Cards

- **45% of rural households carry a credit card balance,** with a median balance of approximately $2,000. [SCF]

Mortgages

- **44% of rural households have mortgages and other debt secured by residential property, such as home equity lines of credit.** The median amount owed is approximately $61,000. [SCF]
- **The piles of forms needed for a regular mortgage can be overwhelming**, and many brokers have taken advantage of that confusion to give borrowers loans they didn't need or couldn't afford.

Installment Loans

- **51% of rural households have installment loans,** such as student loans.

Retirement Investments

- **Rural households invest in the financial markets, including for retirement.** 42% of rural households have retirement accounts with a median value of approximately $31,000. [SCF]

Bank Accounts

- **11% of rural households do not have bank accounts**. Families without bank accounts are often forced to turn to costly alternative financial services, such as check cashing, which, until now, have lacked a federal supervisor to enforce fair rules of the road for consumers. In a survey conducted by the Federal Reserve, a significant fraction of households without bank accounts said that they did not have a checking account because they did not like dealing with banks (25%) or because the service charges were too high (12%). [SCF]
- **Many households have been automatically enrolled in expensive overdraft programs** that can hit consumers with costly overdraft fees for even the smallest purchases. For example, the FDIC found that the average overdraft charge for a single purchased item—like a $2 cup of coffee—is $30 at banks with assets over $1 billion. [FDIC, "FDIC Study of Bank Overdraft Programs" (November 2008) at Table IV-3]

The Wall Street Reform and Consumer Protection Act of 2010 Is Beneficial for Rural Americans

- **For rural Americans who want to buy a home:** The CFPB will take steps to consolidate and simplify with plain language two overlapping and sometimes inconsistent federal mortgage forms. The CFPB will, for the first time, provide ongoing federal oversight of both nonbank companies and banks in the mortgage market and protect borrowers from unfair, deceptive or other illegal mortgage lending practices.
- **For rural Americans using alternative financial services:** The Wall Street Reform and Consumer Protection Act establishes, for the first time, robust federal supervision and oversight over larger alternative financial service companies such as check cashers and payday lenders. The CFPB will be able to combat abusive practices that harm consumers, helping families avoid hidden fees and keep more money in their wallets.
- **For rural Americans without bank accounts:** The CFPB will be able to rein in practices that may drive some rural Americans away from banks—including by stopping banks from enrolling customers in expensive overdraft programs without their consent.
- **For rural Americans with credit cards:** The CFPB will prevent evasion of the Credit CARD Act of 2009, which bans arbitrary rate hikes on existing balances and other unfair practices. For rural Americans who have used credit cards to get by when times are tight, the law will give them clarity on the interest rates they are charged.
- **For rural Americans caught by unexpected overdraft fees:** The CFPB will prevent evasion of new rules that give consumers a real choice as to whether to join expensive overdraft programs so that they are not unknowingly charged unnecessary fees.
- **For rural Americans who must take out loans to cover the costs of higher education:** The CFPB will be able to supervise private student lenders, fight unfair lending practices, and require lenders to follow fair rules of the road and give students the information they need to make smart choices.
- **Empowering rural Americans to make smart financial choices by promoting financial education and financial literacy:** The CFPB will promote consumer financial education and financial literacy, with a dedicated office focused on ensuring that the CFPB's expertise and research are used to help raise awareness, and educate and empower consumers to avoid unfair practices and make smart financial choices.
- **Safeguarding rural Americans' retirement security, savings and investments:** The Wall Street Reform and Consumer Protection Act strengthens investor protection by empowering the Securities and Exchange Commission (SEC) to:
    - Raise the standards for brokers and investment professionals when giving advice so that they have a fiduciary duty and are required to act in the interests of investors, rather than their own; and
    - Require brokers to disclose costs and risk factors to investors prior to selling a product, instead of after it is purchased.

###

---

[1] All statistics presented on rural Americans are for those individuals who do not reside in a Metropolitan Statistical Area (MSA). For the Office of Management and Budget's definition of MSAs, see www.whitehouse.gov/omb/bulletins/fy2008/b08-01.pdf.