

# **FINANCIAL REFORM: THE TABLE IS SET**

## *How will it change the financial landscape?*

Provided by Timothy C. Hucks, CEP, President, Rising Tide, Inc.

Next month, President Obama will likely sign a bill into law ordering changes in the ways banks, credit card issuers and mortgage lenders interface with consumers. Here are the key features of the financial reform agreement that the Senate and House of Representatives came to on June 24, with a vote pending.

**#1: The Bureau of Consumer Financial Protection.** This new consumer agency answering to the Federal Reserve would supervise mortgages, credit cards, student loans and the banks, credit unions and private lenders that issue them. Institutions holding less than \$10 million in assets wouldn't be regulated by the BCFP - but they would have to follow its rules. The BCFP would aim to make these products easier to comprehend for consumers and crack down on any possible deceptive practices.<sup>1,2</sup>

**#2: See your credit score for free.** If you are turned down for a mortgage or a loan, the new reforms would give you the power to see the credit score supplied to your lender. Right now, you can request three free credit reports each year but you can't see your actual score.<sup>1,2</sup>

**#3: Tougher rules for mortgage lenders.** These rules should have come into play years ago, of course, but better late than never. Mortgage lenders would need to verify the assets and income of borrowers, thwarting any surreptitious comeback for "liar loans". Loan officers and mortgage brokers would not be able to receive bonuses for guiding you into this or that loan. Borrowers with ARMs and other types of complex home loans could not be hit with prepayment penalties should they want or need to pay off a mortgage before the end of its term.<sup>1,2</sup>

**#4: Retail minimums for the use of credit cards.** Score one for retailers, who don't want to see people make \$2 credit card purchases when the swipe fee alone cancels out the revenue. Under the new legislation, stores could set minimums for credit card use. The minimum transaction level could be as high as \$10 if a store chooses; the Federal Reserve could raise that \$10 limit on the minimum with time.<sup>1,2</sup>

Alternately, stores could offer consumers discounts if they pay for items with cash or debit cards. (They wouldn't be able to vary the discounts for different debit cards.)<sup>2</sup>

Additionally, the proposed reforms could allow colleges and universities and the U.S. government to set maximums for credit card transactions.<sup>2</sup>

**#5: Brokers could be held to a fiduciary standard.** Under the new reforms, the Securities and Exchange Commission now has the chance to hold brokers to the same fiduciary standard common to financial advisers – that is, investment brokers would have to put a client’s best interest first and not simply recommend a “suitable” investment to a client. That new standard may or may not come into play, however; the SEC is undertaking a six-month study to see if such a rule would amount to regulatory overlap or not.<sup>3</sup>

**#6: The “Volcker Rule” would be put into play.** This is the rule that would prevent banks from trading with their own money. It would kick in with small concessions. While the reforms would halt most proprietary trading by banks, some limited investment would be permitted – they could provide up to 3% of a fund’s equity, and invest up to 3% of Tier 1 capital in hedge or private equity funds.<sup>4</sup>

The big banks got another key concession from Congress: they don’t have to get rid of their swaps-trading desks (some legislators had contended that this decision would drive such trading to foreign markets). They can still be involved in foreign-exchange and interest-rate swaps dealing.<sup>5</sup>

**#7: An Office of Credit Ratings would appear.** It would oversee the actions of Moody’s, Standard and Poor’s and other big names, and one of its objectives would be to flag potential conflicts of interest that could influence ratings judgements.<sup>1</sup>

**#8: The SEC would no longer regulate equity-indexed annuities.** The promotion and sale of these annuity contracts has generated much flak in recent years. Interestingly, they would be overseen by state insurance regulators if the reform bill passes, and treated strictly as insurance products.<sup>2</sup>

**Now, what about Fannie Mae and Freddie Mac?** Good question. Nothing made it into the final reform bill to address that dilemma. Some analysts expect another bill will emerge in 2011 to propose their restructuring or elimination.<sup>5</sup>

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