

The Financial Consumers' Association

Over the last ten years the financial industry has spent, through lobbying expenditures and campaign contributions, over \$5 billion pushing for and winning deregulation. This deregulation has come at a huge cost to taxpayers and consumers who currently have little voice in the regulatory debate. To protect consumers and to forestall future financial meltdowns, Congress should empower consumers to protect themselves by chartering an independent, nationwide, citizen-run Financial Consumers' Association (FCA).

What is a Financial Consumers' Association?

The FCA would be a federally chartered, nationwide, citizen-run, membership association of financial consumers. It would serve as an independent watchdog for the financial industry. In addition to keeping an eye on the financial industry, the FCA's full-time staff would monitor legislative and regulatory activities, and lobby for pro-consumer reforms. It would also represent financial consumers before regulatory agencies, Congress, state legislatures and the courts. It would serve as an important countervailing force to the power and influence of the financial industry. The FCA would also educate and advise consumers on financial services.

Why do we need the FCA?

The power of the financial industry to push for legislation and regulations that serve its own interests far outweighs that of existing consumer groups. Financial consumers currently lack the resources necessary to advocate their interests before regulatory and legislative bodies. The FCA would serve as a mechanism by which consumers could pool their resources, and would bring about a balance of advocacy before legislative and regulatory bodies.

Don't existing government regulatory bodies adequately protect consumer interests?

Government regulators do seek to protect consumers, however, these regulators do not have the interests of consumers as their only focus and are generally not always able to give priority to consumers' interests. In fact, from 2004 to 2006 when predatory lending abuse was particularly widespread, the Office of Comptroller of the Currency, with authority over almost 1,800 banks, initiated only three consumer protection enforcement actions.

The FCA would have protecting financial consumers as its only purpose and, as a member-funded organization, would be immune to outside financial and political pressures. It would respond only to its members, who would have a direct voice in the FCA's policies and leadership. The FCA would complement the work of government regulatory bodies by educating the public about financial products and the actions of the financial industry. The FCA would also help consumers effectively monitor the performance of the state and federal regulators and participate in policy debates regarding the financial industry.

Won't the proposed Consumer Financial Protection Agency (CFPA), if created, have financial consumer protection as its main focus?

The CFPA would play an important role in terms of consumer protection, however, it would not be an entity independent from government and is therefore susceptible to the overwhelming financial and political pressures of the financial industry. The FCA would complement the work of the CFPA by monitoring both the financial industry and the government regulators. The FCA would enhance the work of the CFPA.

How would the FCA work?

Consumers would be notified of the existence of the FCA through inserts in the customer statements from financial institutions. These inserts would describe the purpose and democratic structure of the FCA, membership fees and eligibility requirements, and the independence of the FCA from government bodies and financial industry groups. Financial consumers could join the FCA by mailing their membership fee and application to the FCA.

Why do FCA inserts need to be included in the customer statements of financial institutions? Can't the FCA recruit members through its own independent mailings?

The insert mechanism would, at no additional cost to the financial institutions and at minimal cost to the FCA, allow the FCA to solicit members and gather the critical mass of resources needed to hire economists, experts, organizers and attorneys. Therefore, the bulk of the money collected by the FCA could go to advocacy purposes, rather than to the FCA's own fundraising and administrative costs. This would also foster low FCA membership fees.

Couldn't the FCA use its mailing privilege to make untrue or inflammatory statements about the very financial institution in whose customer statement FCA material is enclosed?

No. The FCA legislation would prohibit the FCA from making false or misleading statements in FCA insert material. This legislation could also require the Federal Trade Commission (FTC) to review the wording of the FCA's inserts.

Why should Congress mandate the establishment of a federally chartered FCA?**Don't consumers currently have the ability to form their own advocacy organization?**

In order to effectively monitor regulators and financial institutions, consumers must possess a high level of expertise about the financial industry. Without adequate resources, it is prohibitively expensive for consumers to develop this expertise, or to hire experts with the requisite sophistication. Currently, financial consumers have few efficient mechanisms for pooling resources. An FCA would be an effective way to foster this organization with minimal cost and maximum benefit because the Association would be allowed to piggyback onto the mailings that the financial institutions are sending out regularly. Without a mandate from Congress, however, no financial institution would voluntarily allow the FCA to include inserts in the mailings to customers.

Should the FCA represent only financial consumers and not the financial industry?

The FCA's mandate would be to represent a particular point of view – that of the financial consumer. The interests of financial consumers and financial institutions are rarely the same. The financial industry has the resources and mechanisms to very effectively look after its own interests in regulatory proceedings. Financial consumers, however, are a diverse group without any means to effectively organize and pool their resources. The FCA would give them the means to band together and make their viewpoint known.

Isn't it likely that the FCA would be taken over by narrow, special interest groups?

As a member-funded entity, the FCA would be required to maintain a steady flow of voluntary member contributions. This would require the FCA to maintain a broad base of support and serve the common interests of all financial consumers. If the organization were to become too narrow in focus, it would face losing its funding.

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