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A Plan for Consumer-Friendly Financial Industry Reform

Protections for Consumers

- Create a new, robust Consumer Financial Protection Agency (CFPA) that will enforce consumer protection laws on financial products such as credit cards, home mortgages, auto loans, and others.

- Reject the massive loophole to the CFPA that the banking industry has successfully fought for in the House of Representatives, which would exempt the vast majority of banks from oversight and transparency mandates by the CFPA.

- Protect hardest-hit homeowners from foreclosure by lifting the ban on judicial modification of home mortgages during bankruptcy.

- Protect consumers from receiving mortgages at interest rates higher than the market rate by empowering the Federal Reserve to prohibit yield spread premiums.

- Protect bank customers from the abusive "overdraft loan" practice by banks in which banks give the customer automatic, high-fee "overdraft loans" without the customer's consent. The bank allows debit-card transactions to go through, or checks to be cashed, even though the account has insufficient funds, then charges the customer exorbitant fees even if the customer has not agreed to this arrangement.

- Protect consumers from predatory lending practices by creating a national usury rate, similar to the Durbin proposal in the Senate, to curb excessively high interest rates charged for credit credits, and by placing greater restrictions and transparency requirements on payday loans.

Increase Access to Capital

- Make it easier for small businesses to obtain affordable market loans — right now —by injecting money from the stimulus package into banks that actually originate small business loans and by increasing affordable lending programs.

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- End the Community Reinvestment Act loopholes, fought for by the banking industry and enacted by the Bush Administration. This allows banks to opt-out of the CRA rules which require them to make loans to individuals, families and small business in low and moderate income neighborhoods.

Increase Oversight and Transparency Requirements for Banks

- In order to reduce risk and systemic failure of banks, require that complex derivatives (like derivatives backed by sub-prime mortgages) be traded on an open, transparent, public exchange, with the exception of derivatives that are so unavoidably specialized that they cannot be traded on an exchange.

- Set tighter leverage requirements, so banks must hold more cash reserves if (a) they hold a higher amount of risky investments, or (b) they are especially large. The larger the bank, or the riskier their investments, the tighter the leverage requirements.

  This would provide incentives for banks not to grow too large and not to take on excessive risk. As a result, it would make it much less likely that banks filled with risky investments become "too big to fail".

- In order to avoid future taxpayer-funded bank bailouts, require banks over a certain size to maintain an approved "winding down" strategy if regulators determine that they are close to failing. This process would make it much less likely that the government would have to choose between a sudden bank failure and a taxpayer-funded bailout.

- If a bank fails and is taken over by the FDIC, require the FDIC to determine whether large compensation payouts to bank owners and executives in prior periods contributed to the bank's failure. If so, the FDIC should either require the bank owners and executives to return that portion of the compensation over a certain amount (for instance, over $250,000), or should have to post a public, online report stating its reasons for not requiring that the compensation be returned.

- Create executive compensation rules for bank owners and executives that provide incentives for banks to minimize risky, short-term strategies and prioritize long-term stability, as recently proposed by the Federal Reserve. Mandate that banks' Board of Directors have an independent Executive Compensation Committee, which must provide public disclosure of compensation decisions.

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