

Congress begins to Overhaul Consumer Protections, National Public Radio, Morning Edition, July 16, 2009 11:00 AM ET.

RENEE MONTAGNE, host:

The administration also is looking to establish a one-stop financial protection agency for consumers. Lawmakers are looking at draft legislation that would create an agency with authority over everything from credit cards to home mortgages to payday loans.

NPR's Audie Cornish reports.

AUDIE CORNISH: The way it is now, no one agency tries to protect consumers from unscrupulous financial practices. Agencies regulate institutions, like banks, rather than what they're selling, like credit cards or home loans. Even with half a dozen regulators out there, there are major gaps in the system.

Mr. MICHAEL BARR (Assistant Treasury Secretary): The present system of consumer protection is not designed to be independent or accountable, effective or balanced. It is designed to fail.

CORNISH: That's Michael Barr, an assistant Treasury secretary. Barr says part of the problem leading to the financial crisis was that banks could shop around for the most lenient supervisor and some financial institutions could avoid supervision altogether. Regulatory authority is divided among so many agencies, Barr says, that each can avoid stepping in to address problems. At a hearing before the Senate banking committee this week, Barr presented a plan to roll the regulation of consumer products into a brand-new consumer financial protection agency.

Mr. BARR: It is time for a level playing field for financial services competition based on strong rules, not based on exploiting consumer confusion. It is time for an agency that consumers and their elected representatives can hold fully accountable.

CORNISH: The new agency would write the rules for credit cards, retirement accounts, mortgages, and more. It could ban practices it deems unfair, demanding, for example, that lenders offer mortgages that buyers can understand and pay for. Most importantly, it would place consumer protection under one roof. Tennessee Republican Bob Corker says it all goes too far.

Senator BOB CORKER (Republican, Tennessee): This is an example, of all examples, of this administration being Big Brother.

CORNISH: Corker objects to a provision that would require banks and others to offer so-called vanilla versions of their loans. For example, a bank that offers a complex adjustable rate mortgage would also be required to offer customers a fixed-rate version. It would be the same for cars, credit cards and student loans.

Sen. CORKER: I think this is a tremendous overreach, where the federal government is telling citizens the types of products they should and shouldn't buy, and telling companies what they should and shouldn't offer. This is way out of bounds.

CORNISH: And whatever happened to consumers shouldering responsibility for their own financial decisions, says Alabama Republican Senator Richard Shelby.

Senator RICHARD SHELBY (Republican, Alabama): Risk cannot be eliminated from our financial markets. It's risk-taking that generates return. It would be both false and irresponsible to

lead the American people to believe that an enhanced regulator can provide them with risk-free opportunities.

CORNISH: The American Bankers Association also opposes the plan, saying it will prompt its members to drop riskier loan offerings, out of fear of the new bureaucracy. They say it could limit credit all around and shrink consumer choices. All sides will have many more opportunities to make their case. The House Financial Services Committee continues two days of hearings today. And the legislation is expected to take the better part of the year to make its way through Congress.

Audie Cornish, NPR News, the Capitol.