Warren Outlines Goals for New Consumer Agency

Main Street First: Fixing Broken Markets and Rebuilding the Middle Class

Editor's Note: This month's Update features remarks delivered on Oct. 28 by Prof. Elizabeth Warren on the new Consumer Financial Protection Bureau. President Obama named Prof. Warren to head up the development of the \$500 million agency. The full transcript of the speech can be found at www.treas.gov/press/releases/tg932.htm.

By Prof. Elizabeth Warren

Remarks delivered at the University of California

hen I accepted the invitation to deliver the Savio Lecture last spring, my life was very different. By day, I was a law professor at Harvard teaching contracts to first-year students. I also served as the chair of the Congressional Oversight Panel for the Troubled Asset Relief Program, or TARP. I tried to ask hard questions on behalf of American families, and I put some very tough questions to the administrators of TARP both before and after the Administration changed hands.

Prof. Elizabeth Warren

A horde of lobbyists fought us every inch of the way, but, over the summer, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act.... On July 21, the President signed the bill into law and

announced to Americans that there will now be "a new consumer watchdog with just one job: looking out for people—not big banks, not lenders, not investment houses—looking out for people as they interact with the financial system." For the first time in our history, there would be an agency devoted solely to the economic strength of American families.

Changes come from many directions...the Consumer Financial Protection Bureau—or CFPB—is just entering its infancy...[and] I am also glad to help set this new agency on the path to strengthen the economic health of American families.

When I talk about the new agency, I mostly talk about the very specific chang-

es it can make for families. I talk about a broken credit card market in which fine print rains down on families, making it nearly impossible for anyone without a law degree, an accounting degree and a hundred hours to burn to determine the true cost of credit or to make straightforward comparisons among products to determine something as basic as which one is the cheapest.

I talk about significant changes that are already in place like the CARD Act, which...now bans some of the most abusive credit card practices. Right now, that law is making millions of families economically safer.

We are building a new federal agency from the ground up. We should think broadly about credit and American families, but we also have a moment right now to think about what it means to build a new agency in a world where information travels at the speed of light.

We may take it for granted, but we have all profited from the rise of agencies watching out for our welfare.... At the same time, our public servants have often appeared faceless, nameless and distant—much like the industries they regulate....today, we can imagine an agency designed for the 21st Century and for our new world of commerce in consumer financial products and services.

Today, information is king—but information is not evenly accessed by all. Repeat players can understand a complicated financial product that the rest of us have difficulty parsing in full. Lenders can hire teams of lawyers to work out every detail of a contract, then replicate it millions of times; a consumer doesn't have the same option, and with technology to keep track of every purchase, to watch every payment choice, to observe and record the rhythms of our lives, a sophisticated seller can harvest that information—sometimes in ways that provide value, but sometimes

Legislative Update

In our early republic, the government was not distant from the people that it governed. The New England town hall was emblematic of a world in which those who ran the government were well known as neighbors, kinsmen and friends. This made sense in a world in which commerce was largely local: The mill, the livery and the bank were just down the road. Those who served in government and those who needed the services of government were closely connected.

Fast-forward to the 20th Century. Commerce was no longer predominantly local, but national. Industrial manufacturing displaced the individual craftsman, scientific management routinized creative work, and finance began its march toward consolidation into larger and larger banks. Theodore Roosevelt famously tried to adapt Washington to the changes he saw in commerce. Only a strong national government, he thought, could effectively balance against the influence of powerful national industries. Government agencies were created, and professional public servants began to emerge, working on behalf of the people. in ways that manipulate customers who will never see what happened to them.

We can build a government agency that is responsive to the dynamics of our time.... To get there, we need to reimagine the new consumer agency, using changes in technology to propel us...[and] here are three questions to get us started.

Who Has a Voice? Let's start with who has a seat at the table. The industry hires lawyers and lobbyists, who produce papers and research and who monitor everything that happens. The industry pushes its views to the agency and to the public about the right direction for the agency.... That's the industry's right, but for the American public...the field is tilted against them. The public, the people to be served, far too often fade into the background. When an agency loses sight of the public it is designed to serve, academics say it has been captured.

The new consumer agency can develop tools to help level the playing field and discourage capture. The American people can have not just one,

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but thousands of seats at the table. Even before the agency officially opens its doors, it can solicit information from the American people about the challenges and frustrations that they face with consumer financial products day in and day out—and it can organize that information and put it to good use.

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Information technology can allow us to hang out a virtual shingle in front [of] the [a]gency and...declare our intent to the world. It's a lot harder to let yourself fail—and a lot easier for the public to hold you accountable—when you've transparently declared your mission and shared information the public can use to measure your success in meeting it. Technology can force this agency to remain true to its goals.

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Every year, we're also going to produce an annual report on what we're up to: [T]hink of it as a State of the Union for consumer financial issues, but remaining focused on the mission requires more than just transparency—it requires engagement. So, the second thing we'll do is make it easy to interact with the agency.

That's our second question: How Can the Agency Use Information to Perform Better? In a world of experts, it's the experts [who] frame the questions...isolate the problems, sort through the data...and try to design solutions—always with the industry looking on and chiming in, but we can do this differently.

A data-driven agency won't be about conventional wisdom. It will be about data...from many sources—from financial institutions, from academic studies and from our own independent research.

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We can open up our platform to families...who want to tell us what has happened to them as they have used credit cards, tried to pay off student loans or worked to correct errors in a credit report. We can learn more about the loan-application process, about what people see on the front end and what happens on the back end.

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Normally, agencies use supervision and lawsuits to enforce the law. This agency will do that as the cop on the beat watching huge credit card companies, local payday lenders and others in between.

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New technology can help us supplement the cop on the beat by building a neighborhood watch. The agency can empower a well-informed population to help expose, early on, consumer financial tricks. If rules are being broken, we don't need to wait for an expert in Washington to wake up. If we set it up right from the beginning, the agency can collect and analyze data faster and get on top of problems as they occur, not years later.

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The agency may also be able to demonstrate how incentives can change when people are connected not only to the government, but also to each other.... Imagine scanning a credit agreement and uploading to a website where software can analyze the text of the agreement. A consumer could help the agency spot new agreements on the market, and customers could get more information as they make decisions.

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Then our third question [is]: *Who Has the Next Breakthrough Idea?*

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Data must always be handled carefully, and protection of personal data and proprietary models is paramount, but... better data, made available to the media, private investors, scholars and others, will, over time, produce better results... [A]s we drive consumer credit markets toward working better for families, the new consumer agency will be smart enough to encourage—and then to build upon—good ideas that come from far outside the government sphere.

Think for a minute about how more and better data might have helped us avoid the housing finance crash of 2008... Better access to better data could have empowered those on the outside to blow the lid off a faulty housing model, and to do it before terms like "too big to fail" were part of our everyday vocabulary.

These are only three ideas, but notice how they work together. An agency that isn't captured by industry can write better rules and enforce those rules more vigorously. An agency that shares data is an agency that is harder to capture. And an agency that learns from families is an agency that can make markets work better.

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This agency can succeed. More importantly, it must succeed because we are running out of options.

For more than a generation, we have witnessed a steady deterioration in the economic security of the middle class. Flat wages and rising core expenses caught families in the crossfire, and millions turned to debt, only to learn that the friendly advertisements were too often an invitation to disaster.

We are in an economic crisis, but... it is a crisis that has been decades in the making. Long ago, when America was committed to a robust middle class, an economic boom meant prosperity for working people. In the boom of the 1960s, for example, median family income rose 37 percent, but by the 2000s, economic expansion meant prosperity only for the few. In the boom that preceded the crash of 2008, median family income rose a paltry 1.9 percent...37 percent real income growth in good times in the 1960s, 1.9 percent real income growth in the good times of the 2000s. Anyone who wants to understand why America's middle class is not bouncing back from the 2008 crash should remember that, unlike in early boom-andbust cycles, middle-class families had no parachutes when they were pushed off a cliff in the Great Recession of 2008.

Today's families have spent all of their income, spent all of their savings and taken on debt to pay for college, to cover serious medical problems, and [to] just...stay afloat a little while longer.

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Families have been pushed and squeezed and hammered for a generation, but we have a moment...to turn a corner. The new consumer agency won't fix everything, but it gives us the opportunity to help plug a hole in the bottom of the economic boats of America's families. We have a moment, in one very tangible way, to make something better for millions of hard-working, play-by-therules people.

The task before us is great, but I am filled with hope—and determination. ■