

New Consumer Watchdog Stands Guard: Q&A with Leonard Chanin



Leonard Chanin
Associate Director, Regulations
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The Consumer Financial Protection Bureau is up and running. Created under the Dodd–Frank Act of 2010, the Bureau—an independent agency, funded through the Federal Reserve—is the American people’s watchdog over financial services companies. Former Ohio Attorney General Richard Cordray took over as the Bureau’s director in January. As required by the Dodd–Frank Act, a string of proposed new rules covering mortgage lending practices is set for rollout.

Among the Bureau’s top officials is Leonard Chanin, the former deputy director of the Federal Reserve’s Consumer and Community Affairs Division. He now heads the regulation unit, which is responsible for developing new consumer finance protection rules in coordination with the Bureau’s market analysts and economists, and others at the Bureau. We interviewed Chanin on February 13, 2012. Here is an edited transcript.



Q: Why do we need a consumer finance regulator? Aren’t our existing regulators adequate?

Chanin: We used to have seven agencies responsible for different consumer finance laws. The problem was that no one agency had responsibility for all of those laws, so it was difficult to assess the best approaches. That also made it a challenge to address events in a quick fashion. Now, with one entity responsible for developing rules, supervising institutions, enforcing rules, and educating consumers, we can have consistency and continuity across the board.

Q: What is unique about financial products compared with other consumer products?

Chanin: Financial products are usually not an end in themselves. They are a means of getting someplace else. A mortgage loan is used to buy a house. A home equity line of credit allows people to engage in significant major expenses; things like education, medical treatment, and home repairs. And a credit card is the same thing. These products exist to help people achieve other goals or needs. That makes financial products different.

What's also unique is that consumers use these products for different purposes. With credit cards, for example, some use them as a month-to-month convenience and pay them off every month. Those consumers are looking for very different features than consumers who use credit cards as a true loan and make just the minimum payment every month and keep a running balance.

A consumer who pays a credit card balance off every month may not care about the interest rate, but he or she *may* care about any annual membership fee. The other household would definitely be concerned about the interest rate. This makes choosing a financial product a complex decision, increasingly so due to technological changes that have opened up more ways to access products.

Q: What role do you see for disclosures in the Bureau's rule-making efforts?

Chanin: One of the things that the Bureau seeks to achieve is to make information clear so that consumers can understand the costs and main features of products. The way to do that is with clear and meaningful disclosures. We don't want disclosures that distract people from determining what things are most important in their choices.

As a result, the Bureau is committed to consumer testing of disclosures. We're conducting one-on-one testing with consumers for several of our projects to see what they understand. This helps us know what information consumers need and how they use that information. That will help us do a better job.

Q: Are you concerned that increased regulation of consumer finance products will dampen innovation? Is there a risk that your office will actually make it harder for consumers to obtain the financial services they need, now and in the future?

Chanin: We are mindful of how regulations can affect the options that consumers have. For example, we want to ensure that people have the ability to use emerging or recent technological developments with financial products.

Some consumers use mobile phone apps to send remittances; the issue that arose here was that the underlying statute generally requires written disclosures, but that doesn't make sense for mobile phones. If a consumer is able to send a remittance via his or her phone, requiring written disclosures before a transaction can be made would delay the ability of a consumer to send the funds quickly.

The final regulation adopted by the Bureau allows remittance providers to send the disclosures via an app or text directly to the consumer's phone. They do have to follow up with a written disclosure, but that's after the fact, confirming the deal. This is one example of how we look at technological innovations and balance the costs and risks of limiting consumer preferences with the need for consumer protection.

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Q: Even though the Bureau's authority extends mainly over institutions with more than \$10 billion in assets, many community bankers are concerned about regulatory overstep. How will the Bureau's existence affect community banks?

Chanin: Our *supervision* authority extends to depository institutions with over \$10 billion in assets, and, of course, certain nondepository institutions, such as finance companies. But the regulations generally apply to nearly all institutions, subject to certain exceptions established by Congress in the Dodd–Frank Act.

We keep in mind the impact that regulations have on community banks and small institutions. If it is feasible to have special rules or limited rules, or even exceptions for community banks and for smaller institutions more generally, we will look at those possibilities. We know that community banks have quite limited ability to absorb additional compliance costs and to hire people to manage those matters. If they can't do these things, they may not offer the products covered by the regulations, which can pose hardships for consumers in rural areas where there are fewer providers. So within the overall process of rule-making, we are looking to see which rules will have impacts on community banks and where flexibility can be built into the process. ■

Interviewed by
Doug Campbell, Editor