

Straight facts about financial reform

An overview of the **Restoring American Financial Stability Act**.

Recently, President Obama signed into law the **Restoring American Financial Stability Act of 2010**, the single largest overhaul of the U.S. financial regulatory system since the Great Depression. Totalling more than 2,000 pages, the bill was first proposed by the President, and then later initiated by Senators Chris Dodd and Barney Frank, in response to the economic crisis that began in 2007 which included large bank bailouts, unprecedented foreclosure rates, and rising unemployment. In an effort to provide a high-level overview of this historic legislation, we've outlined the key points.

Economic oversight

- Two current regulatory agencies, Office of Thrift Supervision and Office of Comptroller of the Currency, will be consolidated to one, weakening (and likely eliminating) the thrift charter;
- A new oversight council will be established to evaluate systemic risk;
- Market regulations will be enacted, including increased transparency of derivatives.

Consumer protections

- The "Consumer Financial Protection Bureau" will be established separately from, but housed within, the Federal Reserve, will be funded by the central bank, and will report semi-annually to the Senate Banking Committee and House Financial Committee with regard to community affairs, consumer complaints, equitable lending, and consumer financial literacy initiatives, among other things;
- Uniform standards will be created for "plain vanilla" securities and other regulatory protections and disclosures enacted to protect investors;
- Anti-predatory lending practices and consumer credit regulations on interest rates, overdraft fees, billing cycles, and disclosure.

Federal Reserve

- Explicit and limited statement of responsibilities defined as "identify, measure, monitor, and mitigate risks to the financial stability of the United States;"

- New oversight created including a supervisory role on the Board of Governors who will report to Congress semi-annually the activities and efforts of the Board;
- Establishment of several Federal Reserve audits to be conducted by the Government Accountability Office on a one-time, semi-annual, and annual basis.

Ultimately, it is the regulators who will largely determine the shape and scope of this bill, and it will take years before we are able to measure its impact on U.S. businesses and consumers.

Industry watch

Retail	Securities
Mortgage <ul style="list-style-type: none">• Lenders face heightened consumer disclosure, penalty-fee restrictions, and new limits on broker incentives.	Credit rating agencies: <ul style="list-style-type: none">• Legal liability for poor advice.• Regulators will begin monitoring conflict of interest between banks and credit rating agencies.
Consumer credit <ul style="list-style-type: none">• Caps on prices, heightened disclosure and reduced freedoms will translate to a reduced capacity among lending institutions;• Lenders must report scores for any application that receives less than optimal rate;• Consumers will enjoy greater transparency but suffer lower levels of available credit and increased borrowing costs.	Funds / Brokerage: <ul style="list-style-type: none">• Derivative trades now transparent and therefore on exchanges;• Funds with assets > \$150m and advisers managing > \$100m must register with the SEC for oversight.
Banking <ul style="list-style-type: none">• Permanent increase in deposit insurance will handicap large banks in an effort to equalize the lender playing field.• Volcker rule enacted: government-backed institutions may not engage in proprietary trading that is unrelated to customer needs, new limits for non-bank financial firms.	Insurance <ul style="list-style-type: none">• Creation of the Federal Insurance Office to monitor all aspects of the insurance industry (excluding healthcare) will translate to heightened reporting standards for insurers.

For more information on how the new financial reform will impact your workplace, please contact your local Ajilon representative today.