

Overview of New Financial Reform Law-the Dodd-Frank Act

The new Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010—informally called “the Dodd-Frank Act”—includes sweeping financial reforms that will affect individuals and businesses for years to come. Here are some of the most significant changes for consumers in the new law:

*A new Federal Reserve bureau will protect consumers from unfair lending practices, hidden credit card fees and other abuses. Currently, consumer protection is handled by varying bank regulators. The new law consolidates oversight of mortgages, credit cards and student loans.

*A ten-member council will monitor threats to the financial system. The council has the ability to liquidate companies that are the worst offenders.

*Prepayment penalties are removed for adjustable-rate mortgages and other complex mortgage arrangements. Approving loans without proper documentation is banned. Bonuses for mortgage brokers and bankers cannot be based on the type of loans they make. Lenders must disclose the maximum amount that borrowers may pay on adjustable-rate mortgages.

*Derivatives are complex financial products with values based on the price of underlying investments. They often have been used for speculative purposes and traded “out of sight” of regulators. The new law generally requires derivatives to be traded on transparent exchanges.

*In the past, bad loans were sold into a secondary market, where they could be pooled with other loans and sold as mortgage bonds. Thus, the risk associated with a bad loan was passed along to unsuspecting investors. The new law requires lenders to retain 5% of the risk.

*Credit agencies that provide bad advice may be legally liable for investor losses. The agencies must register with the Securities and Exchange Commission (SEC).

*The high fiduciary standards applicable to financial advisers could be extended to stockbrokers. After a six-month study, the SEC can impose new requirements on brokers.

*Shareholders will be granted nonbinding votes on executive pay packages. The Federal Reserve will oversee executive compensation to ensure it does not encourage excessive risk-taking.

*Limits are placed on fees that banks can charge merchants who accept debit cards. In turn, this could hasten the elimination of free check-writing services by banks. Retailers may pass the savings on to customers or keep them.

*The new law allows retailers to require a minimum \$10 purchase on a credit card. Governments and colleges may set maximums for credit card payments.

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*Individuals who are denied a loan, or otherwise hurt by their credit score, are entitled to an immediate free copy of the score.

*Finally, the new law allows the Federal Trade Commission (FTC) to expedite and enforce new rules to protect consumers from abusive auto-financing deals.

This is only a summary of consumer-related provisions in the comprehensive new law. Consult an adviser concerning application of the new rules.