

# Dodd-Frank Act 101: Empowering Consumers



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In response to the nation's economic crisis, Congress passed the Dodd-Frank Act which contained sweeping reforms to protect consumers in banking and financial transactions. While the Act is complex and far reaching, what does it really mean to consumers? The following summary explains how this new law can help your clients.

## A. Bureau of Consumer Financial Protection

The Bureau of Consumer Financial Protection is an independent entity within the Federal Reserve, with authority to prohibit unfair, deceptive or abusive practices. It requires specific disclosures to consumers with regard to various financial products. Additionally, the Bureau has the power to terminate mandatory arbitration provisions in bank-consumers deposit agreements. The Act also creates the Office of Fair Lending and Equal Opportunity to ensure equitable access to credit and the Office of Financial Literacy to promote financial literacy.

## B. Improving Access to Financial Institutions

This provision of the Act gives consumers more choices with regard to banks and financial institutions, and ultimately, provides alternatives to payday loans. Banks will be required to provide additional financial products for all consumers, including low-cost loan programs which allow for loans of \$2,500.00 or less.

## C. Mortgage Reform and Anti-Predatory Lending Act

Next, the Act establishes new regulations for mortgage originators and imposes new disclosure requirements and appraisal reforms. Most significant is the imposition of a duty of care on the

mortgage originator, repayment/loan suitability verifications, prohibition of "no document" loans, and prohibition of some prepayment penalties. In short, the Act creates safeguards for consumers by imposing a requirement on the lender to make a good faith determination, based on verified and documented information that the consumer can afford to repay to loan.



## D. Property Appraisal Requirements

The Act prohibits appraiser coercion and implements requirements on appraiser independence. It also requires an appraiser be licensed or certified subject to new practices standards. This will ensure that consumers are paying fair market value as opposed to inflated sales prices. In some circumstances, the Act requires two appraisals, which are dependent upon the sales history of the property.

## E. Mortgage Resolution/Modification and Loss Mitigation

For all lenders that deny modification requests under HAMP, the Act requires that they provide borrowers with data used in valuation analysis. Further, the Act provides for loss mitigation oversight over lenders. This provision also protects tenants and at-risk multi-family properties.

## F. Office of Housing Counseling

The Office of Housing Counseling establishes, coordinates and monitors counseling procedures, distributes information, certifies counselors, and provides housing counseling services to protect consumers.

Perhaps the most significant element of the Dodd-Frank Act is that it ends the possibility of another "too big to fail" bailout of the banks. Under the Act, taxpayers will not be asked to bail out banks that threaten the economy. The Act creates a safe way to liquidate failed financial firms and imposes stringent new capital requirements that discourage banks from getting too big.

Further, the Act establishes rigorous standards and oversight to protect the economy and consumers, investors and businesses. Finally, the Act eliminates loopholes which permitted abusive practices to go unchecked, such as over-the-counter derivatives, asset backed securities, hedge funds, mortgage brokers and payday lenders.

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