The Dodd-Frank Wall Street Reform and Consumer Protection Act is Good for America's Small Businesses

The current failed financial system is still subjecting many small businesses to tight credit, even as the economy has begun to turn around and the Administration works to help make loans available to more creditworthy businesses.

In the summer of 2009, the Obama Administration put forward a legislative proposal crafted to rein in excessive risk on Wall Street and preserve economic opportunity on Main Street. A year later, the President signed into law a bill aligned to a remarkable degree with that original proposal. This comprehensive financial reform, which put in place the strongest consumer financial protections in history, included the creation of a new, dedicated Consumer Financial Protection Bureau (CFPB).

This historic Act will help create a more stable and predictable financial system, so that banks have the confidence they need to lend and small businesses can concentrate on creating jobs.

"Reform is about security for families in their savings. It's about laying the foundation for investment in our small businesses and entrepreneurs. It's about creating a level playing field for responsible financial service providers. It's about promoting the growth we need to create jobs."
– Treasury Assistant Secretary for Financial Institutions Michael S. Barr, April 26, 2010

Financial Reform Will Restore Certainty and Confidence to Financial Markets and Small Businesses

The current financial system brought the economy to its knees, bankrupting many small businesses:

- Under-investment: The current failed financial system has funneled trillions of dollars into risky mortgage speculation, while under-investing in entrepreneurs and new technology.
- Massive failure and instability: Small businesses need a stable financial environment and predictable funding so they can thrive. The current system produced the biggest financial crisis since the Great Depression, causing massive failures of productive enterprise and widespread unemployment. Eighty percent of small businesses were impacted by the credit crunch. [National Small Business Association, "2009 Mid-Year Economic Report," (2009)] The community banks and credit card companies on which small businesses depend have pulled back.
- Continuing credit restraints: The current failed system is still subjecting small businesses to tight credit, even as the economy has begun to turn around. This slows job creation. According to a special National Federation of Independent Businesses (NFIB) survey released in February, 45 percent of small businesses seeking credit found that their borrowing needs were not satisfied. Additionally, the National Small Business Association reported in its most recent annual survey that 39 percent of small businesses were struggling to access credit.

The Wall Street Reform and Consumer Protection Act will help resolve uncertainty and rebuild the American economy:

- No more loopholes: Loopholes and weaknesses in financial regulation were major contributors to the financial crisis. That is why we need financial reform. The Wall Street Reform and Consumer Protection Act of 2010 will ensure that no large financial institution can escape effective oversight and put the rest of the economy at risk.
- More stability: Businesses do better when funding sources are more stable. Financial reform will make our financial system more stable and safer for those in the real economy that depend on the flow of credit.

The Act will increase small businesses' day-to-day financial flexibility: The Wall Street Reform and Consumer Protection Act will limit the amount of interchange fees that card issuers can charge merchants for accepting consumers' debit cards. The Act will also prohibit card networks from restricting merchants' decisions about how and when to provide discounts to consumers for using less costly forms of payment, like debit cards, instead of credit cards which may cost the merchant more to process.

The CFPB will Benefit Small Business Owners, their Employees and their Customers

Personal finances and business finances are often closely tied for small business owners:

- For small business owners who rely on their personal credit scores: Banks often review the personal credit scores and history of small business owners in deciding whether to extend commercial credit. Errors in small business owners' credit reports can prevent them from accessing loans to start or expand their businesses. Estimates suggest that six million Americans have errors serious enough to result in a denial of credit [National Consumer Law Center, "Automated Injustice," (January 2009)]. For the first time, a federal regulator – the CFPB – will regularly examine the larger credit bureaus or those that pose a risk to consumers, to make sure they comply with the Fair Credit Reporting Act. Furthermore, the Wall Street Reform and Consumer Protection Act will give individuals – including small business owners – the right to get their credit scores for free if they are turned down for a loan or charged a significantly higher price because of their scores.
- For small business owners whose business finances are linked to their family finances: Many small businesses have experienced difficulty accessing the mainstream credit market for their businesses and have been forced to borrow heavily against their main source of financial stability, their homes, to grow their businesses. Better protection for family finances will help small business owners to save money to invest in their businesses and allow their customers to purchase more goods and services.
- For small business owners who rely on credit cards: NFIB supported the Credit CARD Act of 2009—the strictest credit card rules ever adopted. A 2008 NFIB poll found "that small business owners, as credit card consumers, often experienced unfair practices by the industry." [National Federation of Independent Businesses, "NFIB's Letter to the Senate in Support of the Credit Cardholder's Bill of Rights," (May 13, 2009)] The CFPB will ensure that the CARD act is properly enforced.

The CFPB will make consumer financial markets more transparent – and that's good for everyone: The agency will give Americans **–** not just small business owners, but also their employees, and their customers **–** the tools they need to comparison shop for the best prices and the best loans, which will in turn benefit small businesses. Greater transparency will increase competition and innovations that *benefit* borrowers, not take advantage of them through hidden costs and traps. For example:

- For families with credit cards: The current system has allowed steep penalty fees and surprise rate hikes on personal credit card accounts. The CFPB will enforce the Credit CARD Act of 2009, which bans arbitrary rate hikes on existing balances and other unfair practices.
- For families who want to buy a home: The piles of forms needed for a mortgage can be overwhelming, and many brokers have taken advantage of that confusion to give borrowers loans they didn't need or couldn't afford. The CFPB will combine and simplify two overlapping Federal mortgage forms. It will, for the first time, provide ongoing federal oversight of both nonbank companies and banks in the mortgage market, and it will protect borrowers from unfair, deceptive or other illegal mortgage lending practices.

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