



THE CATO INSTITUTE

# HANDBOOK ON AFFORDABILITY

# 11. Consumer Financial Services

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Consumer financial services—payments, checking and savings accounts, mortgages, and small-dollar credit—are part of the plumbing of a modern economy. Their “prices” include interest rates, fees, minimum balances, and product availability.

These products are heavily regulated by state and federal government. Laws should protect consumers from fraud and ensure that institutions honor their obligations. But regulation tends to protect incumbent firms, impede business efforts to address changing consumer demand, and raise the cost of financial services for all Americans.

The post-2008 financial crisis regulatory expansion illustrates the stakes. The Dodd-Frank Act of 2010 spawned approximately 400 separate financial rulemakings. It expanded the authority of existing federal regulators, created new federal agencies, and dramatically altered the regulatory framework for multiple financial sectors. It imposed unnecessarily high compliance burdens on firms and likely contributed to the sluggish recovery after the crisis. One estimate found that repealing the Dodd-Frank Act would have increased US gross domestic product by an average of about 1 percent from 2017 to 2026. Yet lawmakers and regulators continue to expand inessential regulation that will further raise the costs ultimately borne by consumers.

In recent years, Congress, executive branch leaders, and many states have sought to expand controls on financial service fees. Former President Joe Biden and many states enacted rules to combat “junk fees.” President Trump called for credit card companies to cap interest rates at 10 percent for one year. Some states extended regulation of payday-loan interest rates to new small-dollar-credit offerings such as buy-now-pay-later and wage-advance services.

Price controls on finance charges harm consumers. For example, low-income borrowers have less access to credit in states with interest rate caps. Capping credit card interest rates at the federal level would limit access to credit for borrowers who need it most.

The best policy for financial services is to remove regulatory barriers that suppress entry and competition. Innovative uses of data are already helping those with no traditional credit history. Competition has reduced charges such as the fees on overdraft coverage, a popular option for cash-strapped consumers. With more freedom, the sector could deliver services at lower cost still.

## **FEDERAL POLICIES TO IMPROVE CONSUMER FINANCIAL SERVICES AFFORDABILITY**

- **Refocus enforcement on fraud and scams.** Most Americans believe that laws should protect consumers from fraud (64 percent) and ensure that financial institutions fulfill obligations to their account holders (53 percent). Yet consumers reported losing \$12.5 billion to fraud and scams in 2024, while state and federal enforcement resources were often focused elsewhere. Congress, the Federal Trade Commission, the Justice Department, the Federal Bureau of Investigation, and other relevant agencies should shift enforcement resources to investigate and prosecute perpetrators of fraud, returning the profits of crime to consumers.
- **Avoid price controls on consumer finance.** Caps on interest rates or fees do not eliminate risk or operating costs. If lenders may not charge more for high-risk loans, they become less willing to

extend credit to high-risk consumers. That forces consumers to shift to inferior substitute products. Evidence from payday-lending restrictions shows that borrowers often move to overdrafts and late bill payments. To promote affordability, policies should promote competition and expand consumer choice through increased supply, not impose ceilings that shrink supply.

- **Repeal the Dodd–Frank Act.** Rather than dealing with the causes of the 2008 financial crisis, the 2010 Dodd–Frank Wall Street Reform and Consumer Protection Act exacerbated and compounded the existing regulatory framework’s many problems. The resulting regulations held back the economy’s recovery, introduced even more moral hazard, and expanded the number of firms deemed too big to fail. The 800-plus-page act required hundreds of new financial rulemakings, expanded existing federal regulators’ authority, created new federal agencies, and imposed unnecessarily high compliance burdens on banks and nonbanks.
- **Repeal the qualified mortgage and ability-to-repay rules.** These rules come with huge trade-offs, disproportionately burdening small banks, discouraging lenders from offering low-value mortgages for small homes, and reducing the supply of mortgages while increasing costs to consumers.
- **Repeal the Durbin Amendment.** This provision of the Dodd–Frank Act capped the interchange fees paid by merchants to debit card companies. Financial service providers adapted by offering fewer rewards, scaling back services, and increasing other fees. One study estimates that this caused consumers to lose between \$22 and \$25 billion in value.
- **Shutter the Consumer Financial Protection Bureau (CFPB).** The CFPB was intended to protect consumers but has repeatedly embraced price controls that harm them. For example, the CFPB’s proposed cap on overdraft fees—rejected by Congress—would have reduced availability of popular overdraft services and raised minimum

balances. The CFPB unfairly targets legitimate businesses, and its funding mechanism makes it unaccountable to legislators. The overall effect of the CFPB is to raise costs while limiting customer choice.

- **Eliminate the Credit Card Accountability Responsibility and Disclosure (CARD) Act.** The CARD Act of 2009 required credit card issuers to give 45 days’ notice before increasing interest rates or fees, limited rate increases on existing balances, and regulated late fees. These rules limited credit card issuers’ ability to adjust their exposure to increased risk. In response, card issuers reduced access to credit for high-risk consumers, raised interest rates overall, and raised annual fees. Studies showed a significant decline in the percentage of subprime households holding credit cards.
- **Expand the availability of national financial charters to a wide range of firms.** Fintech firms seeking to operate nationwide must often obtain a money-transmitter license in every state, which is costly and hinders the firms’ expansion. The availability of national charters would reduce duplicative licensing costs and expand competition in payments and basic accounts. Difficulty in obtaining national charters limits consumer choice: For example, Walmart offers many financial services at low rates but currently cannot obtain a national charter to expand its offerings.
- **Reform the Bank Secrecy Act (BSA).** US banks spend about \$59 billion annually complying with the BSA, largely due to the law’s low-value reporting mandates regarding anti–money laundering and “know your customer” rules. Ideally, the BSA should be repealed. At a minimum, the Financial Crimes Enforcement Network’s Geographic Targeting Order should be rescinded. The order, which requires financial service providers in some regions to file Currency Transaction Reports for cash transactions over \$1,000, will crush small providers of services such as money orders, currency exchange, and wire transfers and harm their customers.

## STATE AND LOCAL POLICIES TO IMPROVE CONSUMER FINANCIAL SERVICES AFFORDABILITY

- **Oppose harmful regulation of beneficial earned wage access (EWA) options.** EWA programs allow employees to access their already-earned wages before payday. Some states treat EWA services as loans: This discourages employers and fintechs from offering EWA services, because lending is heavily regulated. For example, a 2024 Connecticut decision made it unlawful to charge fees for EWA without a license, discouraging employers from offering EWA at all. State policies that discourage EWA offerings mean that workers run short of cash or resort to more expensive alternatives. The best policy would be to eliminate interest rate caps and restrictive licensing rules that hamper wage advance and lending services at the state level. A reasonable alternative is state or federal safe harbors for EWA products.

- **Eliminate restrictive rules for payday lenders.** Payday lenders offer short-term unsecured loans. The fees for payday loans appear high, but this price reflects the high risk borne by payday lenders, and data show that consumers understand how the fees work. These loans, which are regulated at both state and federal levels, give consumers who lack access to traditional banks' services the ability to get cash quickly in emergencies. The Federal Deposit Insurance Corporation discouraged banks from dealing with payday lenders as part of Operation Choke Point. In addition, the CFPB's rules regulate lenders' attempts to collect repayments. The most onerous rules, however, are state-level limits on interest rates, payday-loan bans, or other aspects of payday lending. All these rules limit lending or increase lenders' costs and may reduce access to payday loans, leaving borrowers with less desirable, higher-cost options such as pawnshop loans, bankruptcy, or overdraft services.