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Introduction to Financial Services: Consumer Finance

Consumer finance refers to the borrowing, saving, and investment choices that consumers and households make over time. Understanding why and how consumers make financial decisions is important when considering policy issues in consumer financial markets. These financial decisions can be complex and can affect long-term financial well-being.

Congress may provide oversight or undertake legislation over consumer finance firms, including financial technology (“fintech”) and credit reporting. Congress provides oversight over the Consumer Financial Protection Bureau (CFPB), the primary federal regulator in consumer finance. Some Members of Congress have debated structural changes to the CFPB—including to the budget or leadership structure—or abolishing the agency entirely.

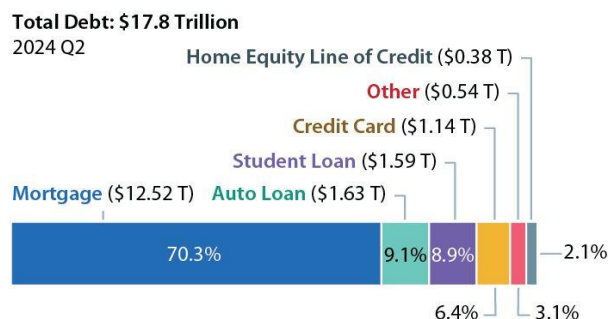
Snapshot of Consumer Finances

Households typically borrow money for certain reasons:

- **Asset building.** Using credit (e.g., a mortgage or student loan) to invest in a home or an education can allow a household to build wealth over time.
- **Consumption smoothing.** Using credit to buy and consume now and pay later (e.g., a credit card).
- **Financial shocks or emergencies.** Using credit (e.g., a payday loan) to pay for unexpected expenses, such as a car or home repair, a medical expense, or a decrease in income.

Total debt held by households has grown from \$14.3 trillion at the beginning of the COVID-19 pandemic in 2020 Q1 to \$17.8 trillion in 2024 Q2. According to the Federal Reserve Bank of New York, mortgage debt is by far the largest type of household debt, accounting for 70.3% of that debt. Auto loans (9.1%) are the second-largest component, followed by student debt (8.9%),

Figure 1. Household Debt Breakdown in 2024 Q2



Source: Federal Reserve Bank of New York, *Quarterly Report on Household Debt and Credit*, 2024.

While **Figure 1** gives an aggregate breakdown of total consumer debt, **Table 1** provides additional context on consumer finances. The median family has a net worth of \$191,000, with \$8,000 in transaction accounts such as savings and checking, while the median household makes \$80,600 a year.

Almost two-thirds (65%) of American households own their homes, with a median value of \$340,000. A little over half (54%) of American families currently hold retirement accounts, with a median value of \$87,000. To illustrate how Americans may handle financial stress, 54% of adults can cover three months of expenses using emergency savings, while 17% of all adults did not pay bills in full in the previous month.

Table 1. Key Statistics in Consumer Finances

Statistic	Amount	Year
Median family net worth	\$191,000	2022
Median household income	\$80,600	2023
Median amount in transaction accounts: savings, checking, etc.	\$8,000	2022
Homeownership rate	65%	2023
Percentage of families holding retirement accounts	54%	2022
Percentage of adults who did not pay bills in full in previous month	17%	2023
Percentage of adults with the ability to cover 3 months of expenses from emergency savings	54%	2023

Source: Federal Reserve Survey of Consumer Finances, American Community Survey, and Federal Reserve Survey of Household Economics and Decisionmaking.

Regulation

Consumers have a number of federal protections in the financial marketplace. Broadly, they fall into three categories:

3. **Fair lending laws** that prohibit discrimination in credit transactions on the basis of sex, race, religion, and various other factors.

These protections are designed to potentially improve consumer outcomes. However, policymakers may monitor the benefits and costs of various regulatory approaches to determine if such approaches are working properly. These protections are not uniform across product types, and many of these protections do not cover commercial lending.

Consumer Financial Protection Bureau

The 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L. 111-203) established the CFPB. The CFPB was designed to implement and enforce federal consumer financial law. The CFPB is headed by a single director, who is appointed by the President with the advice and consent of the Senate. It is funded outside of congressional appropriations by quarterly transfers from the Federal Reserve.

The CFPB has regulatory authority over consumer credit markets such as mortgages, credit cards, debt collection, and payday lending. The CFPB's authorities fall into three broad categories: *rulemaking* (writing regulations to implement laws under the CFPB's jurisdiction), *supervision* (the power to examine and impose reporting requirements on financial institutions), and *enforcement* of various consumer protection laws and regulations. Dodd-Frank also directed the CFPB to develop and implement financial education initiatives, collect consumer complaints, and conduct consumer finance research.

Selected Policy Issues

CFPB budget and structure. Since the CFPB was created, policymakers have debated its budget and structure. Congress has considered a variety of proposals to reduce the degree of independence the CFPB possesses and if the CFPB is necessary at all.

The CFPB, similar to some other banking regulators, is funded outside the traditional congressional appropriations process. The agency is funded via quarterly transfer from the Federal Reserve System's combined earnings in an amount the CFPB director determines to be "reasonably necessary" to perform its statutory functions, subject to a cap. The Supreme Court has previously stated in *Community Financial Services Association of America v. CFPB* that the CFPB's funding is constitutional. This funding source limits congressional oversight of the agency but gives the CFPB more independence. Proposals in the 119th Congress would bring the CFPB under congressional appropriations or modified its budget in other ways, including abolishing the agency entirely. For more on the CFPB's budget, see CRS Report R48295, *The Consumer Financial Protection Bureau Budget: Background, Trends, and Policy Options*, coordinated by Karl E. Schneider.

Similar to the Office of the Comptroller of the Currency and the Federal Housing Finance Agency, the CFPB is led by a single director, appointed by the President with the

advice and consent of the Senate. The CFPB director has broad discretion to generally set the priorities and budget of the CFPB. The director can now be fired at will as a result of the Supreme Court decision *Selia Law LLC vs. CFPB*. Some Members of Congress and other advocates have sought to rein in the CFPB's independence, and this leadership structure remains a contentious issue. Legislation introduced in the 119th Congress has proposed modifying the leadership structure at the CFPB to a five-member bipartisan commission, similar to other multi-member boards at the Federal Trade Commission and the Securities and Exchange Commission.

Fintech. *Fintech* refers to financial innovations that apply new technologies to financial services or products, such as "peer to peer" payments, digital wallets, earned wage access (EWA), and "buy now, pay later" (BNPL) financing. These consumer financial products could potentially improve consumer experiences, lower costs, and expand access to underserved consumers. Fintech products could also pose consumer protection and data security risks. Related policy questions generally concern whether the current regulatory framework appropriately fosters the benefits of new technologies while mitigating potential risks to consumers.

The CFPB's regulatory and enforcement scrutiny of fintech firms increased under the Biden Administration. For example, CFPB rulemakings included new oversight of digital wallets and payment apps, extending Truth in Lending Act protections to BNPL and EWA products, and the creation of a registry of prior nonbank enforcement actions. Congress can revise or repeal these regulations or modify fintech regulation through legislation. These rulemakings may also be modified by Acting Director Vought or a future director at the CFPB.

Credit reporting. The credit reporting agencies (also called *credit bureaus*) collect and subsequently provide information to firms about the behavior of consumers when they participate in various financial transactions. Firms use consumer information to screen for consumer risks. For example, lenders rely upon credit reports and scores to determine the likelihood that borrowers will repay their loans.

Various policy issues related to credit reporting include how to ensure data security and privacy, how to address inaccurate or disputed consumer information, and what information is fair to include in consumer credit reports. The CFPB finalized a rule under the Biden Administration banning the inclusion of medical debt on credit reports. Congress could further clarify how credit reports are created or revise this forthcoming rule. This rulemaking may also be modified by Acting Director Vought or a future director at the CFPB.

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