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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.

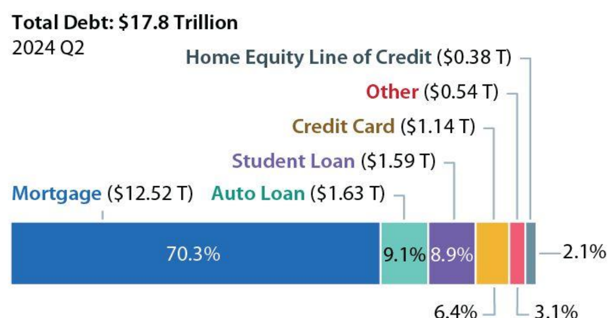
Snapshot of Consumer Finances

Households typically borrow money for the following 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:

1. **Standardized consumer disclosures** that help explain product terms. Standardized disclosures can also help consumers shop for the best terms, because all financial product terms are required to be disclosed in the same way.
2. Prohibitions against **unfair, deceptive, or abusive acts or practices** to potentially protect consumers against adverse product features or firm conduct.

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, give consumers more information on their financing options, and provide additional protections in case of adverse outcomes in credit decisions or delinquencies. These protections are not uniform across product types, and many of these protections do not cover commercial lending.

Policymakers may monitor the benefits and costs of various regulatory approaches to determine if such approaches are working properly.

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 while maintaining consumer access to financial products and services. The CFPB may regulate providers of an array of consumer financial products and services, including deposit taking, mortgages, credit cards and other extensions of credit, loan servicing, consumer reporting data collection, and consumer debt collection.

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.

The CFPB, similar to many 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. Previous proposals in the 118th Congress would have brought the CFPB under congressional appropriations or modified its budget in other ways. 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. Some Members of Congress and other advocates have sought to rein in the CFPB's independence, and this leadership structure remains a contentious issue. The director can now be fired at will as a result of the Supreme Court decision *Selia Law LLC vs. CFPB*.

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 has increased in recent years. For example, recent 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 new leadership 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 recently finalized a rule 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 new leadership at the CFPB.

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