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CFPB head pitches tougher punishments for repeat offender banks

Article

The news: Consumer Financial Protection Bureau (CFPB) Director Rohit Chopra is advocating for big US banks with repeat federal offenses to **face punishments rigorous enough to put an end to them in their present form.**

- Chopra criticized status quo regulatory approaches as too lenient and outlined his proposals in a speech prepared for the University of Pennsylvania Carey Law School.

- In particular, he took issue with violations of court or agency orders, stating that "recidivism has become normalized and calculated as the cost of doing business."
- Big financial institutions (FIs), Chopra contends, get preferential treatment because they are "too big to fail" and "too big to jail."
- He named five big FIs that have been repeatedly on the receiving end of CFPB actions: **Wells Fargo**, **JPMorgan Chase**, **Citigroup**, **American Express**, and **Discover**.

The punishments: Chopra outlined six potential punishments for recidivist FIs, explicitly highlighting order violations.

- **Taking away FIs' "government-granted privileges"** would be the most severe punishment. This includes, per Chopra, **barring depository institutions from FDIC coverage** and **even halting their ongoing operations**.
- **Capping their growth or sizes**, as the Federal Reserve did with Wells Fargo in 2018 after the fake accounts scandal.
- **Ordering banks to shed certain business types**, under the rationale that new management without problematic business models could still run them.
- **Imposing leverage and capital requirements** designed to remove banks' incentives for participating in short-term activities like chasing return on equity.
- **Prohibiting FIs from engaging in some business practices** through business closures or by halting specific activities.
- **Ousting managers and board members**, potentially coupled with lifetime occupation bans and charges.

Explaining the CFPB's legal role, Chopra said **its authorizing statute lets it pursue "limits on the activities or functions"** of companies that violate orders and laws.

Chopra's Challenges: The CFPB can't uniterally address Chopra's vision, per The New York Times.

- It pointed out that the CFPB will need support—and shifts in longstanding approaches—from other regulators, like the FDIC, the Fed, and the Securities and Exchange Commission (SEC).
- Banking lobbying groups will likely oppose stricter enforcement measures, the Times added.

The big takeaway: Even if Chopra's proposals are a wishlist, rather than imminent changes, banks that behave as if recent historical enforcement patterns will persist risk finding out otherwise.

- At the very least, compliance with orders will help them avoid negative publicity and incurring related costs
- Chopra can still take actions directly allowed under the CFPB's authority.
- Administration steps like merger-approach reviews from the FDIC, plus the Justice Department and the Federal Trade Commission (FTC), suggest openness to adopting forms of stricter action, particularly regarding banks' business lines.

US Bank Executives' Leading Concerns, 2020-2022

% of respondents

	2020	2021	2022
Ability to attract qualified talent	27%	19%	67%
Cybersecurity	23%	28%	51%
Interest rate environment	43%	56%	50%
Regulatory burden	22%	18%	44%
Efficiency, noninterest expenses, costs	32%	36%	39%
Weak economy/loan demand	24%	48%	36%
Noninterest income	11%	17%	29%
New customer growth	25%	25%	28%
Cost of funds	15%	8%	8%
Credit quality/problem loans	10%	42%	6%

Note: 2020 n=300; 2021 n=260; 2022 n=300
Source: Cornerstone Advisors, "What's Going On in Banking 2022," Jan 25, 2022

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