JULY 18, 2011

Building the CFPB

a progress report

Consumer Financial
Protection Bureau

MISSION

The Consumer Financial Protection Bureau (CFPB) is a **21st century agency** that helps consumer financial markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives.

MISSION

The CFPB will achieve its mission through:

- *data-driven analysis*
- *innovative use of technology*
- *valuing the best people and great teamwork*

A consumer finance market place:

...where customers can see prices and risks up front and where they can easily make product comparisons;

...in which no one can build a business model around unfair, deceptive, or abusive practices;

...that works for American consumers, responsible providers, and the economy as a whole.

Letter from Elizabeth Warren

SPECIAL ADVISOR TO THE SECRETARY OF THE TREASURY ON THE CFPB

One year ago, Congress passed and President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act, which created this new Consumer Financial Protection Bureau (the CFPB). This law establishes a single point of accountability to assure that markets for consumer financial products work for American consumers and for responsible providers of those products. On July 21, the CFPB starts this work, and it will be a cop on the beat to enforce the laws on credit cards, mortgages, student loans, prepaid cards, and other kinds of financial products and services. The purpose of this report is to summarize in one place what we've been up to.

The consumer bureau's statutory obligations are designed to make markets for consumer financial products and services work in a fair, transparent, and competitive manner. This means, in part, creating a level playing field where all providers of consumer financial products and services are subject to meaningful oversight to ensure that they play by the rules. It also means creating a level playing field where both parties to the transaction – the customer and the lender – can understand the terms of the deal, where the price and the risk of products are made clear, and where direct comparisons can be made from one product to another.

Americans aren't looking for a free ride. They expect to be held responsible for their debts and purchases. And they understand that there are consequences to not keeping up with payments.

When consumers are presented with a choice between two financial products, and they know the true costs, the actual benefits, and the real risks of those products, they will be better able to make good decisions for themselves and their families. A level playing field encourages personal responsibility and smart decision-making.

Americans are looking for an honest marketplace. They want to know the costs up-front, so that they're not blindsided by hidden fees, interest rate changes, or payment shocks. A properly functioning market relies on consumers' getting the information necessary to make the best decision for themselves and their families.

Consumers have the power to drive markets, but only if they're provided with the basic information that lets them choose products that meet their needs and reject those that do not.

Across the country, there are responsible financial institutions offering products and services that provide real value to their customers. But finding those products in a sea of fine print and complex terms can overwhelm even the most diligent consumers.

If there is a lesson from the past five years, it's this: We all lose when consumers cannot readily determine whether they can afford to pay back their loans. We all lose when lenders routinely sell credit in ways that hide the risks and costs. We all lose when a broken consumer credit system magnifies risks throughout the economy. We can do better.

At the consumer bureau, we will do better. Over the past year, we have built a strong foundation, and, in the years ahead, the CFPB will work hard for consumers across the country.

Sincerely,

Elizabeth Warren

Table of contents

Introduction

Beginning in 2007, the United States faced the most severe financial crisis since the Great Depression. Millions of Americans saw their home values drop, their savings shrink, their jobs eliminated, and their small businesses lose financing. Credit dried up, and countless consumer loans – many improperly made to begin with – went into default.

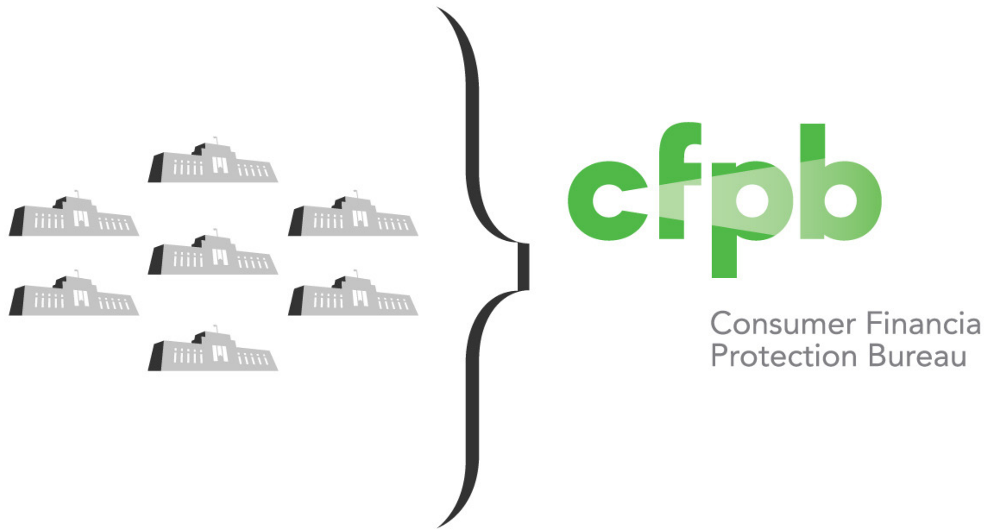
Many Americans took on loans that they did not fully understand and could not afford. Although some borrowers knowingly took on too much debt, many Americans who behaved responsibly were also lured into unaffordable loans by misleading promises of low payments. Honest lenders that resisted the pressure to sell complicated products had to compete with their less responsible competitors.

Even those who avoided the temptations of excessively risky credit were caught in its web. Those who never took out an unaffordable mortgage nonetheless saw the values of their homes plummet when neighbors lost homes in foreclosure. Those who used credit cards and home equity lines of credit judiciously saw across-the-board increases in interest rates on credit cards and contraction of outstanding lines of credit. And those who had saved regularly helplessly watched their retirement funds lose significant value and their cities and states cut back on services to make up for their own revenue losses. The costs of irresponsible lending were borne by tens of millions of American families.

In June 2009, President Obama proposed to address failures of consumer protection by establishing a new financial agency to focus directly on consumer protection. This new agency would heighten government accountability by consolidating in one place responsibilities that had been scattered across government. The agency would also have responsibility for supervising providers of consumer financial products and services that had not had regular federal oversight and for enforcing the consumer protection laws with respect to such providers. This agency would protect families from unfair, deceptive, and abusive financial practices. The President urged Congress to give the consumer agency the same accountability and independence that the other banking agencies have and sufficient funding so it could ensure that financial companies would comply with consumer laws.

In July 2010, Congress passed and President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act. The law – often referred to as the Dodd-Frank Act created the Consumer Financial Protection Bureau (the CFPB). Part of the purpose of – creating the Bureau was to increase accountability in government by consolidating consumer financial protection authorities that had existed across seven different federal agencies into one. Consumer financial protection had not been the primary focus of any Federal agency, and no agency had effective tools to set the rules for and oversee the whole market. The result was a system without effective rules or consistent enforcement. The results can be seen, both in the 2008 financial crisis and in its aftermath.

Instead of important consumer protection powers being scattered across the federal government, now a single entity will have the oversight authority to make sure consumer financial markets work for all of us.



THE CFPB'S STATUTORY PURPOSE

To implement and enforce federal consumer financial law consistently for the purpose of ensuring that all consumers have access to markets for consumer financial products and services and that markets for consumer financial products and services are fair, transparent, and competitive.

THE CFPB'S STATUTORY OBJECTIVES

1. To ensure that consumers have timely and understandable information to make responsible decisions about financial transactions;

2. To protect consumers from unfair, deceptive, or abusive acts or practices, and from discrimination;

3. To reduce outdated, unnecessary, or overly burdensome regulations;

4. To promote fair competition by enforcing the Federal consumer financial laws consistently; and

5. To advance markets for consumer financial products and services that operate transparently and efficiently to facilitate access and innovation.

Leveling the Playing Field for Consumer Financial Products and Services

The Consumer Financial Protection Bureau will aim to bring clarity to the marketplace. A fair, efficient, and transparent market depends upon consumers' ability to compare the costs, benefits, and risks of different products effectively and to use that information to choose the product that is best for them. Fine print and overly long agreements can make it difficult for consumers to understand and compare products, and that obstacle to sound markets is not removed by disclosures that are too complicated or that do not focus on the key information consumers need. The principal role of consumer protection regulation in credit markets is to make it easy for consumers to see what they are getting and to compare one product with another, so that markets can function effectively.

The CFPB believes in markets – markets that make prices and risks clear and that give consumers the basic information they need to determine who is offering the best deal. One of the Bureau's goals is to make markets for consumer financial products and services work in a fair, transparent, and competitive manner. That means ensuring that consumers have access to information to help them understand the terms of the deal. Fair and transparent markets encourage personal responsibility and smart decision-making. When consumers are presented with a clearer choice between two financial products and they can easily know the costs, benefits, and risks of those products, they will be better able to make decisions that work for themselves and for their families.

HOW THE CFPB HAS ALREADY BEGUN TO HELP CONSUMERS

The Bureau already has been hard at work attempting to make clarity a reality. Early efforts have focused on mortgages and credit cards, but those are not the only areas in which the Bureau has made progress.

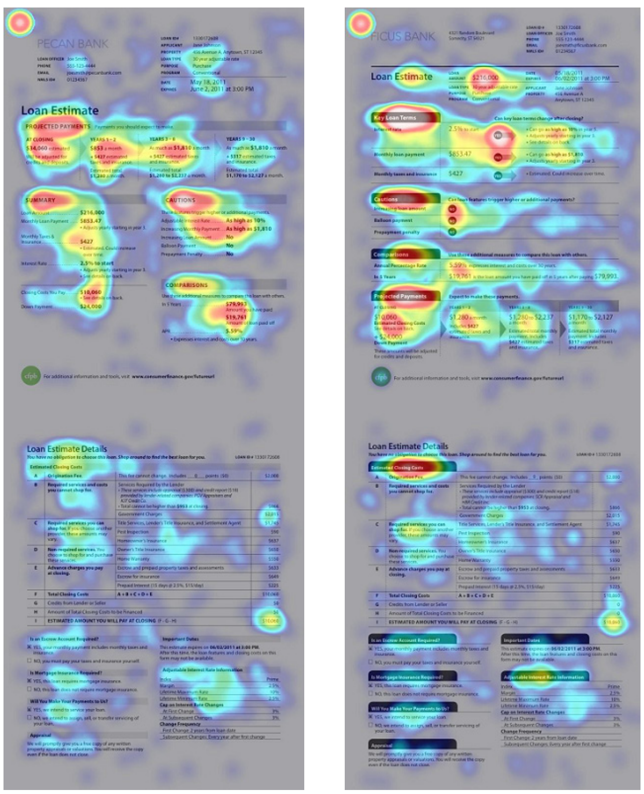
KNOW BEFORE YOU OWE: SIMPLIFYING MORTGAGE DISCLOSURE FORMS

In Professor Elizabeth Warren's first week on the job, the Treasury Department sponsored a symposium that brought together lenders and consumer advocates to discuss how to simplify federal mortgage disclosures. Consumer groups explained that many consumers didn't use current disclosures to assess costs or to compare alternatives because the forms are complicated and hard to use. The forms came under even more intense criticism from those who have to fill them out. Mortgage originators, particularly community banks and credit unions that work closely with their customers, described paperwork that was costly to complete and produced little value for borrowers.

In May, the CFPB launched the Know Before You Owe project, an effort to combine two federally required mortgage disclosures into a single, simpler form that makes the costs and risks of the loan clear and allows consumers to comparison shop for the best offer. The CFPB began testing two alternate prototype forms that are designed to be given to consumers who have just applied for a mortgage loan. This testing – which will continue in the coming months and involve one-on-one interviews with consumers, lenders, and brokers – will precede and inform the CFPB's formal rulemaking process. The CFPB also has posted the prototypes on its website with an interactive tool to gather public input about the designs.

The Bureau expects to conduct five rounds of evaluation and revision through September 2011 to select a single draft disclosure and then refine it. Initial rounds of testing will include both English- and Spanish-language versions. Interviews will be conducted in six cities: Albuquerque, New Mexico; Baltimore, Maryland; Birmingham, Alabama; Chicago, Illinois; Los Angeles, California; and Springfield, Massachusetts. In addition to this qualitative testing, the Bureau is soliciting online feedback from consumers and market participants and reaching out to consumer and industry groups to gather input, particularly regarding implementation and usability.

The testing and public feedback process will enable the CFPB to revise the design and refine the content based on how it works for consumers. Two rounds of feedback and revision have occurred so far. In the first round, the Bureau received 13,096 comments on the two initial versions of the new disclosure form.



These heatmaps show which parts of the form users left comments on.

This summer, in addition to testing the draft forms, the CFPB will conduct additional analysis and research. The Bureau will also consider underlying regulatory issues and ways to refine closing-stage forms, a process that will likely extend into the fall and early next year. The Bureau is required by the Dodd-Frank Act to issue proposed forms and implementing regulations by July 2012 for formal notice and comment. The CFPB also expects to conduct quantitative tests prior to finalizing the form.

Buying a home is one of the biggest financial decisions most Americans will ever make. The Know Before You Owe project is about giving consumers upfront, easy-to-understand information that helps them compare different mortgage offers and find the one that's best for them. The current forms can be complicated and difficult for consumers to use. They are also redundant and can be costly for lenders to fill out. With a clear, simple form, consumers will be in a better position to answer two basic questions: Can I afford this mortgage, and can I get a better deal somewhere else?

TRANSPARENCY IN CREDIT CARDS

Credit cards are the most commonly used form of consumer credit. Almost two out of three families now have at least one credit card, and almost half of all families with credit cards carry a balance. Millions of borrowers use credit cards to pay for medical expenses, to cover educational costs, to tide them over during a period of unemployment, to cover emergency expenses, or simply to make it to the end of the month.

In February, the consumer bureau held a conference on the first anniversary of when many provisions of the Credit Card Accountability Responsibility and Disclosure Act – the CARD Act – took effect. When that Act was signed into law in May 2009, it was clear that the credit card market was in need of serious reform. Congress concluded that certain practices in the credit card industry were neither fair nor transparent to consumers, and the CARD Act passed with strong bipartisan support in both the House and the Senate. The CFPB's conference brought together industry representatives, consumer groups, academics, government experts, and others for a review of data on how the CARD Act, coupled with the recession and its aftermath, have affected supply, demand, and pricing within the credit card marketplace. The CFPB undertook a voluntary survey of the nine largest card issuers, representing approximately 90 percent of the market, and other studies also were conducted in connection with the conference. The studies revealed that late fees, interest rate hikes, and over-limit fees had been significantly curtailed since the CARD Act took effect. Significantly, the total amount consumers are paying for their credit cards is no higher, on average, than it was one, two, or three years ago, but the pricing is clearer and more up-front.

The CARD Act has pushed in the right direction. It has brought about significant reforms in both the pricing practices of card issuers and the information provided to consumers. Even so, there are a lot of moving parts in a credit card price, and there is still room for improvement in the transparency of this market. The Bureau's next challenge will be to further clarify price and risk and make it easier for consumers to make direct product comparisons.

As part of the CFPB's commitment to transparency, the raw data from the survey results were made public.

REPORT ON USING REMITTANCE HISTORY FOR CREDIT SCORES AND REMITTANCE EXCHANGE RATES

Each year, U.S. consumers send tens of billions of dollars to family members, friends, and other recipients abroad. For both the U.S. senders and the foreign recipients, these transfers can be significant. The Dodd-Frank Act has defined many of these transfers as "remittance transfers" and requires the CFPB to prepare a report[1] regarding how a consumer's remittance history could be used to enhance her credit score, the impediments to using a consumer's remittance history in this way, and recommendations on how to achieve greater transparency and disclosure to consumers of exchange rates used for remittance transfers.

[1] Dodd-Frank Act, Public Law 111-203, Section 1073(e).

The report, to be released by July 21, is based on the CFPB's review of existing data and research, and interviews of market participants, researchers, and other industry experts. The Bureau plans to supplement the report with additional data and analysis in the future

REPORT ON CREDIT SCORES

The Dodd-Frank Act also requires the CFPB to conduct a study and submit a report to Congress on variations among the credit scores sold to creditors and consumers by certain consumer reporting agencies.[2] Congress also directed the Bureau to address whether those variations disadvantage consumers. The report, to be released by July 21, will be supplemented by additional data and analysis in the future.

[2] Dodd-Frank Act, Public Law 111-203, Section 1078(b).

LARGER PARTICIPANTS AND NONBANK SUPERVISION

The Dodd-Frank Act charged the CFPB with ensuring that both banks and nonbanks comply with federal consumer financial laws. Historically, depository institutions like banks, thrifts, and credit unions have been subject to examinations by federal regulators, but other types of companies providing consumer financial services generally have not. Today, there are thousands of such nonbank companies, and these nonbanks constitute a significant portion of the consumer financial marketplace.

The CFPB will be able to examine companies that have never been subject to federal oversight to ensure that no one is gaining an unfair advantage by breaking the law. This will ultimately create more fair competition and more transparent markets for consumers.

The Dodd-Frank Act authorizes the CFPB to examine all sizes of nonbank mortgage companies, payday lenders, and private education lenders. However, the CFPB generally can supervise only "larger participants" in other markets for consumer financial products or services, and the CFPB must define such larger participants by rule before it can begin its nonbank supervision program in these other markets. Under the Dodd-Frank Act, the CFPB must issue an initial "larger participant" rule no later than July 21, 2012.[3]

[3] Dodd-Frank Act, Public Law 111-203, Section 1024(a)(2).

To prepare for this key element of the agency's nonbank supervision program, the CFPB last month issued a Notice and Request for Comment seeking public input on issues relevant to defining who is a "larger participant" in certain consumer financial markets. The larger participant rule will not impose substantive consumer protection requirements. Instead, the rule will enable the CFPB to begin a supervision program for larger participants in certain markets.

The Notice identified six markets for potential inclusion in an initial rule:

- debt collection
- consumer reporting
- consumer credit and related activities
- money transmitting, check cashing, and related activities
- prepaid cards
- debt relief services

OTHER PENDING ACTIVITIES REQUIRED BY CONGRESS

The CFPB is actively engaged in a wide variety of work to fulfill requirements set by Congress in the Dodd-Frank Act.

The Equal Credit Opportunity Act

The Dodd-Frank Act amends the Equal Credit Opportunity Act to require that financial institutions collect and report information concerning credit applications made by women- or minority-owned businesses and by small businesses.[4] Earlier this year, CFPB General Counsel Leonard Kennedy released guidance to financial institutions that their obligations do not take effect until the Bureau issues necessary implementing regulations.

[4] Dodd-Frank Act, Public Law 111-203, Section 1071.

The data collection requirement is an important tool that will significantly bolster both fair lending oversight and a broader understanding of the credit needs of small businesses. The CFPB is working to achieve Congress's objectives of producing reliable and consistent data that can be analyzed by the Bureau, other government agencies, and members of the public to facilitate enforcement of fair lending laws and to identify business and community development needs and opportunities. As part of that effort, the Bureau is gathering input from stakeholders.

List of enforceable regulations

The Dodd-Frank Act required the Bureau to consult with "transferor agencies" about the rules and orders that will be enforced by the Bureau and to publish by the designated transfer date a list of such rules.[5] In May, the Bureau published a draft list for public comment. The final list will be published in the Federal Register by July 21.

[5] Dodd-Frank Act, Public Law 111-203, Section 1063(i).

Training and workforce development plans

The Dodd-Frank Act required the CFPB to prepare a report on three plans pertaining to the Bureau's staff: a training and workforce development plan, including identification of skill and technical expertise needs, steps taken to foster innovation and creativity, and a leadership development and succession plan; a workplace flexibilities plan, covering items such as telework, flexible work schedules, and parental leave benefits; and a recruitment and retention plan that includes provisions on targeting highly qualified applicant pools with diverse backgrounds, streamlined application processes, and the collection of information to measure indicators of hiring effectiveness.[6] The report, to be released by July 21, provides overarching information on the vision for the CFPB, the unique "start-up" context of the Bureau, the challenges faced, and the current make-up of the CFPB's staff.

[6] Dodd-Frank Act, Public Law 111-203, Section 1067(b).

Engaging the Public

OUTREACH

One of the CFPB's top priorities is to communicate substantively and frequently across a wide range of industry and consumer group sectors. The Bureau aims to actively engage all stakeholders that could potentially be affected by the agency, with the understanding that there is much insight to be gained from varied perspectives that represent many distinct points of view.

Elizabeth Warren and agency staff have traveled across the country to listen to and learn from the hopes, fears, and concerns of industry and consumer groups. As a result, the CFPB has collected ample information about how the Bureau's work will affect various stakeholders, and suggestions from stakeholders have informed preparations in setting up the agency.

COMMUNITY BANKS AND CREDIT UNIONS

Shortly after joining the CFPB, Elizabeth Warren set a goal for the new consumer bureau: to reach out to small, independent bankers from all 50 states before July 21st. By April,

Pushpins on a map (left) tracked Elizabeth Warren's progress speaking with community bankers from all 50 states. Warren discusses the CFPB's work at a roundtable with community bankers in San Diego in March (top right and bottom right).

she had reached her goal of speaking to bankers from every state. She continues to visit with small, independent bankers regularly during her travels.

Warren has delivered speeches at the Independent Community Bankers of America National Convention, the Credit Union National Association Governmental Affairs Conference, and, in her first address on the job, at the National Association of Federal Credit Unions Congressional Caucus.

A CFPB team, headed by former community banker Elizabeth Vale, has been dedicated to outreach to small financial service providers.

TRADE ASSOCIATIONS AND BANK EXECUTIVES

Warren and CFPB staff have frequently met with banking executives and trade associations that represent both depository and non-depository institutions. The agency has spoken directly to many of the major trade organizations representing firms likely to be affected by the Bureau's work.

Warren has delivered speeches to the Financial Services Roundtable and at the U.S. Chamber of Commerce Fifth Annual Capital Markets Summit.

SERVICEMEMBERS AND MILITARY FAMILIES

In January, the CFPB made one of its very first key hires when it announced the selection of Holly Petraeus to establish its Office of Servicemember Affairs. Petraeus understands – from both her personal experience as a military spouse and her work at the Better Business Bureau Military Line – that men and women in our armed forces encounter unique financial issues.

Holly Petraeus (left) and Elizabeth Warren (right) speak with servicemembers in April at Joint Base Myer-Henderson Hall in Virginia.

In January, Petraeus and Warren visited Joint Base San Antonio, Texas – where two of Warren's brothers took basic training – to speak with servicemembers and financial counselors about the unique financial circumstances and challenges that exist in military communities. In April, Petraeus and Warren traveled to Joint Base Myer–Henderson Hall in Virginia to meet with servicemembers and their families.

Petraeus has visited many other military bases as well, talking about the financial challenges facing American men and women in uniform. She was the first CFPB staffer to testify before Congress when she appeared before the House Committee on Veterans Affairs and has also testified before a subcommittee of the Senate Committee on Homeland Security and Governmental Affairs.

CONSUMERS AND CONSUMER ADVOCATES

Warren has met with more than 200 consumer, civil rights, and community-based organizations across the country. These groups have accumulated significant expertise in the consumer financial sector through community-focused studies and research, through direct work with consumers who have been affected by financial products and services, and by collaborating with state legislatures that are often the laboratories for innovative approaches to consumer financial protection.

Warren and the CFPB staff have visited some of the communities that have been hardest-hit by financial problems. Among the visits: Warren sat in on foreclosure court in Miami, met with victims of predatory lending in San Antonio and the Mission District of San Francisco, and held a roundtable in Columbus, Ohio. She also listened to the concerns of consumer advocates in Little Rock, Arkansas; Chicago; and the Anacostia community of Washington, D.C.

Warren has delivered speeches at Consumers Union's 75th Anniversary Celebration and to the Consumer Federation of America. She has also convened numerous roundtables and other meetings in Washington, D.C., and elsewhere with consumer advocates.

The CFPB staff will build on these efforts with listening tours and other meetings with key stakeholders at the Bureau's Washington, D.C., headquarters and beyond.

THE FAITH COMMUNITY

The Bureau has been interested in hearing from religious leaders about what they are seeing on the ground – what financial issues their congregations are confronting and what people of faith are doing to help. Faith leaders often have been the first responders as their parishioners and communities have been affected by harmful consumer financial practices. Many faith leaders provide financial counseling and moral guidance, and often speak out against destructive lending practices.

Warren and CFPB staff have met numerous times with faith leaders of many denominations throughout the country. These meetings include a roundtable with faith groups in Washington, D.C., in November, an April session in Dallas with the Texas Faith for Fair Lending coalition, a faith roundtable at the White House in February; a community briefing in February at Chicago's Lakeview Lutheran Church; and a meeting with Industrial Areas Foundation leaders at St. John's Church in Washington, D.C., in May.

OTHER OUTREACH

The CFPB's senior staffers have participated in hundreds of meetings, phone calls, and speaking engagements with stakeholders. The list above is not exhaustive; our outreach efforts have also brought the Bureau valuable insights from student organizations, advocates for older Americans, small businesses, civil rights groups, and representatives for depository and non-depository financial services providers.

A DIGITAL PRESENCE

As the first 21st-century consumer protection agency for the country, the CFPB is reaching out to the public using 21st-century tools. This effort began with the launch of a website, ConsumerFinance.gov, months ahead of the transfer date. Coinciding with the debut of the website was the CFPB's "Open for Suggestions" campaign, soliciting input from the public through multiple outlets. The CFPB received hundreds of suggestions, and posted video responses to many on its YouTube channel.

The Office of Engagement maintains a blog to keep anyone who's interested apprised of the Bureau's work. To date, there are nearly 60 posts on the blog. The CFPB also has its own Facebook page, Twitter stream, and Flickr channel, in addition to the YouTube channel.

ConsumerFinance.gov has grown over time, adding an easy-to-use Jobs page in April in order to recruit qualified candidates for employment at the CFPB. This Jobs page also includes a tool for CFPB staff to update and maintain this content, providing an efficient channel to post open positions and attract top talent.

CONSUMER RESPONSE

The Dodd-Frank Act directs the CFPB to facilitate the collection and monitoring of and response to consumer complaints regarding certain financial products and services.[7] These complaints and consumers' inquiries will help the CFPB identify areas of concern and help CFPB in its supervision and other responsibilities.

The Bureau is implementing the consumer response function gradually through a phased roll-out of functionality. The CFPB aims to build an efficient and effective consumer response system that is useful to American consumers, minimizes burden on financial institutions, and leverages the best of technology. A phased roll-out will enable proper consideration of the needs of consumers, the requirements of financial institutions, and the relevant operational constraints. In the initial phase, the CFPB will focus on taking complaints for credit cards, with other products to follow.

In anticipation that many distressed homeowners will contact the CFPB soon after the Consumer Response function begins, the Bureau has designed a process to connect these homeowners with a housing counselor via the Homeowner's HOPE™ Hotline, a housing counseling hotline funded by the Treasury.

The CFPB is coordinating its approach with other regulators to prevent any gaps for consumers during this transition of responsibilities. As the CFPB rolls out its full functionality, it plans to route or refer incoming complaints for other products to the prudential regulators or other appropriate agencies.

The consumer agency is investing in a 21st-century IT infrastructure to ensure that its consumer response function is accessible, easy to use, and secure. To ensure broad access, the CFPB will provide a variety of contact channels, including the Internet, mail, fax, and a toll-free telephone number with English and Spanish language capabilities. For consumers, the Bureau is creating an integrated web and phone system to file and track complaints. The CFPB's website and call center will also provide answers to frequently asked questions regarding financial products. For credit card complaints, the consumer agency is creating a web-based system that allows card issuers to log on, view, and respond to complaints online. Eventually, this system is expected to be used by providers of other financial products.

The Bureau has engaged and will continue to engage a broad range of stakeholders – including community banks, consumer advocates, industry groups, and others – to gather input on the complaint handling process. The CFPB has presented its complaint intake process and complaint handling system to the largest credit card issuers. The Bureau will be holding ongoing discussions with them regarding improvements to the system.

[7] Dodd-Frank Act, Public Law 111-203, Sections 1013(b)(3) and 1034.

Building the Organization for Success

One of the Bureau's top priorities since last September has been to develop an organizational design that will provide the infrastructure the Bureau will need to meet its responsibilities in the months and years ahead. Late last year, the CFPB began providing its draft organizational chart to Members of Congress and the media. In early February 2011, the Bureau posted the chart to our newly launched CFPB website. In developing the CFPB's organizational structure, the Bureau has asked for comments and critiques from stakeholders across the spectrum.

THE SIX DIVISIONS

The CFPB organizational chart currently includes six primary divisions:

CONSUMER ENGAGEMENT AND EDUCATION

This division provides, through a variety of initiatives and methods, information to consumers that will allow them to make the decisions that are best for them. Consumer education is a central mission of the Bureau. The Bureau is also developing targeted outreach to groups that face particular challenges, as required by the Dodd-Frank Act.

The division includes the following CFPB offices:

Community Affairs

This office conducts outreach to consumer groups, civil rights groups, community organizations, and other organizations focused on traditionally underserved consumers and communities.[8]

[8] The Office of Community Affairs is mandated by the Dodd-Frank Act, Public Law 111-203, Section 1013(b)(2).

Consumer Engagement

This office works to create an engaging experience for people interacting with the Bureau about the financial services marketplace by developing platforms for participatory government and open, responsive communication channels.

Financial Education

This office is a resource for consumers who are looking to better understand how to make decisions in the financial services marketplace, and it provides access to tools and information that can help consumers make financial choices.[9]

[9] The Office of Financial Education is mandated by the Dodd-Frank Act, Public Law 111-203, Section 1013(d).

Older Americans

This office helps prevent financial abuse of seniors, promotes consumer education and consumer protection efforts, and develops initiatives to ensure appropriate tools are available to guide financial decision-making for Americans 62 and over.[10]

[10] The Office of Financial Protection for Older Americans is mandated by the Dodd-Frank Act, Public Law 111-203, Section 1013(g).

Servicemember Affairs

The Office of Servicemember Affairs will work in partnership with the Department of Defense to help ensure that military families receive the financial education they need to make the best financial decisions for them; to monitor complaints from military families, and responses to those complaints; and to coordinate the efforts of federal and state agencies to improve consumer financial protection measures for military families.[11]

[11] The Office of Servicemember Affairs is mandated by the Dodd-Frank Act, Public Law 111-203, Section 1013(e).

Students

This office assesses and develops policy and educational solutions to address and prevent consumer financial protection issues of students.[12]

[12] The Office of Students will include the Private Education Loan Ombudsman function mandated by the Dodd-Frank Act, Public Law 111-203, Section 1035(a).

SUPERVISION, FAIR LENDING, AND ENFORCEMENT

This division ensures compliance with federal consumer financial laws by supervising market participants and bringing enforcement actions when appropriate. The division includes the following offices:

Bank Supervision

This office, which is tightly coordinated with the Nonbank Supervision office, conducts examinations of the largest and most complex banks, thrifts, and credit unions in the country, as well as other depository institutions under the CFPB's jurisdiction.

Enforcement

This office will initiate investigations and enforcement actions, where appropriate, to ensure that providers of consumer financial products and services are complying with the law, and that such providers are held accountable when they fail to do so.

Fair Lending and Equal Opportunity

This office is responsible for providing oversight and enforcement of fair lending laws to make certain that credit decisions are not based on race or any other prohibited factor. The office also engages in fair lending outreach and education.[13]

[13] The Office of Fair Lending and Equal Opportunity is mandated by the Dodd-Frank Act, Public Law 111-203, Section 1013(c).

Nonbank Supervision

This office is responsible for conducting examinations of different types of nonbank consumer financial services companies, including nonbank affiliates of large depository institutions.

RESEARCH, MARKETS, AND REGULATIONS

This division is responsible for understanding consumer financial markets and consumer behavior and for evaluating whether there is a need for regulation and the costs and benefits of potential or existing regulations. Before the Bureau acts, it will seek to be fully informed. The offices within this division are staffed with professionals selected for their strong analytic skills and subject matter expertise. This division includes the following offices:

Market teams

The five market teams – Card and Prepaid; Credit Information; Deposit and Payment; Installment Lending; and Mortgage and Home Equity – provide real-time market intelligence, guidance, and analysis of their respective consumer markets.

Regulations

This office works to ensure that rulemaking is conducted in an informed, fair, and efficient manner in accordance with the law.

Research

This office conducts research and rigorous policy evaluations and publishes findings on a variety of topics to support the Bureau's evidence-based policymaking and to develop a deeper understanding of consumer financial markets and household finances.

THE OFFICE OF GENERAL COUNSEL

This division is responsible for the Bureau's compliance with all applicable laws and provides advice to the Director and the Bureau's divisions.

EXTERNAL AFFAIRS

This division ensures that the Bureau maintains robust dialogue with various stakeholders that have an interest in its work in order to promote understanding, transparency, and accountability. The division includes the following offices:

Community Banks and Credit Unions

This office conducts outreach to smaller credit providers, especially community banks and credit unions.

Consumer Advisory Board

This office, required by statute,[14] advises and consults with the Bureau in the exercise of its functions and provides information on emerging practices in the consumer financial products or services industry, including regional trends and concerns.

[14] The Consumer Advisory Board is mandated by the Dodd-Frank Act, Public Law 111-203, Section 1014.

Intergovernmental Affairs

This office conducts outreach to municipal, state, and other government entities with coinciding concerns or initiatives.

Legislative Affairs

This office serves a liaison function with the Members of Congress and congressional staff, providing timely information on the Bureau's activities and responding to inquiries and concerns.

Media Relations

This office serves a liaison function with the media.

Ombudsman

As required by statute,[15] this office focuses on problem resolution between the CFPB and regulated entities or other third parties.

[15] The Ombudsman is mandated by the Dodd-Frank Act, Public Law 111-203, Section 1013(a)(5).

CHIEF OPERATING OFFICER

This division builds and sustains the CFPB's operational infrastructure to support the entire organization and includes the following offices:

Chief Financial Officer

This office manages the CFPB's planning and budgeting.

Chief Information Officer

This office directs information technology program development and oversees the development of IT operating procedures.

Chief Technology Officer

This office identifies innovative technology solutions to increase the efficiency and effectiveness of the Bureau's work.

Consumer Response

This office receives complaints and helps consumers find answers for questions about consumer financial products and services.

Human Capital

This office recruits and hires personnel and institutes policies and practices designed to engage and retain staff.

Inclusion

This office, required by statute,[16] is responsible for all matters of the agency relating to diversity, including in its senior management, employment, and business activities.

[16] Dodd-Frank Act, Public Law 111-203, Section 342.

Operations and Facilities

This office oversees CFPB's temporary facilities arrangements and the transition to the Bureau's permanent space at 1700 G Street, N.W., in Washington D.C.

Procurement

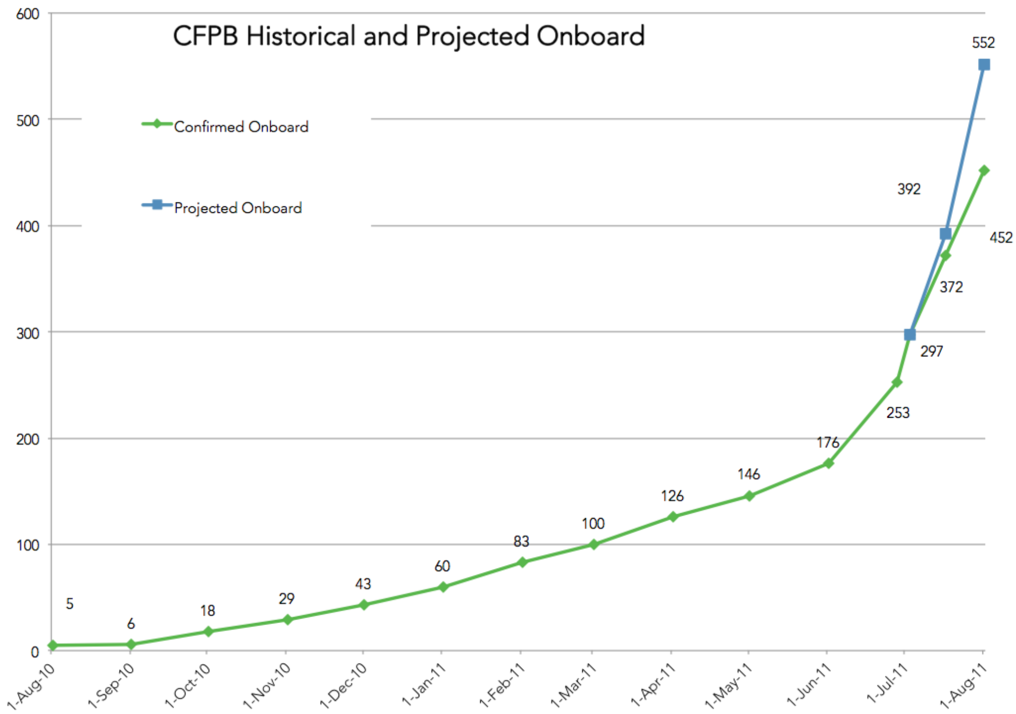
This office oversees the Bureau's contracts with outside contractors and service providers.

Records and Privacy

This office is responsible for the Bureau's records and privacy policies, including its compliance with the Freedom of Information Act and the Privacy Act.

THE CFPB TEAM

The CFPB team currently consists of more than 400 members. The graph below illustrates how the Bureau's headcount is growing quickly.



The leadership of the CFPB is diverse, with people coming from a variety of backgrounds – public and private, banking and non-banking, large institutions and small institutions, academic and non-profit. The expertise and diversity represented by the CFPB's leadership team is extraordinary. There is no single point of view that dominates this group, other than a shared vision to make consumer financial markets work better for all Americans. The leadership team includes the following individuals:

- Steve Antonakes, the former Commissioner of Banks in Massachusetts, serves as Assistant Director for Large Bank Supervision.
- Leonard Chanin, the former Deputy Director of the Federal Reserve Board's Division of Consumer and Community Affairs, serves as Assistant Director for Regulations.
- Richard Cordray, the former Attorney General of Ohio and previously the Ohio Treasurer, serves as Assistant Director for Enforcement.
- Raj Date, who worked in consumer finance and banking for more than a decade and was a Managing Director at Deutsche Bank Securities, serves as Associate Director of Research, Markets, and Regulations.
- Patrice Ficklin, who has practiced law at the law firm Relman, Dane & Colfax

and has provided fair lending, fair housing, and other consumer law advice regarding mortgage products, pricing, and servicing while working at Fannie Mae, serves as Assistant Director for Fair Lending and Equal Opportunity.

- David Forrest, who spent 16 years helping develop the Motley Fool, a multi-media financial-services company that promotes investor education, serves as Chief Technology Officer.

- Meredith Fuchs, who worked in the U.S. House of Representatives as Chief Investigative Counsel of the Committee on Energy and Commerce, serves as Principal Deputy General Counsel.

- Roberto Gonzalez, who served in the Office of White House Counsel, serves as Deputy General Counsel.

- Michael Gordon, who was Counselor to the General Counsel in the Treasury Department, serves as Deputy General Counsel.

- David Gragan, formerly Chief Procurement Officer for the District of Columbia, serves as Assistant Director of Procurement.

- Gail Hillebrand, who joined Consumers Union in 1985 and was a Senior Attorney there, serves as Associate Director of Consumer Education and Engagement.

- Len Kennedy, former General Counsel of Sprint Nextel and long-time regulatory attorney, serves as the CFPB's General Counsel.

- Zixta Martinez, an expert on housing policy who last worked at Freddie Mac, serves as Assistant Director of Community Affairs to work with consumer, civil rights, and other organizations.

- Patricia McCoy, a scholar on the housing market and chaired professor at the University of Connecticut who has served as Director of its Insurance Law Center, serves as Assistant Director for Mortgage and Home Equity Markets.

- Holly Petraeus, a top financial educator for military families, leads the Bureau's Office of Servicemember Affairs as Assistant Director.

- David Silberman, who built a successful affinity credit card business and then served as a banking consultant, serves as Assistant Director for Card and Prepaid Markets.

- Dennis Slagter, formerly Director of Human Resources at the Millennium Challenge Corporation and Director of Strategic Initiatives for the Assistant Secretary of the Army (Manpower and Reserve Affairs), serves as Assistant Director for Human Capital.

- Corey Stone, formerly a Chairman of the Board of a community bank and CEO of an alternative credit reporting business, serves as Assistant Director for Credit Information Markets.

- Peggy Twohig, formerly Associate Director of the Division of Financial

Practices at the Federal Trade Commission, serves as Assistant Director for Non-Bank Supervision.

- Elizabeth Vale, who started her career with 16 years in community banking and later served as a managing director at Morgan Stanley, leads the Office of Community Banks and Credit Unions as Assistant Director.

- Catherine West, a former President of the credit card business at Capital One, serves as Chief Operating Officer of the CFPB.

A 21ST-CENTURY TECHNOLOGY INFRASTRUCTURE

The CFPB deployed a hybrid cloud-based infrastructure in March 2011 to provide the foundation for all the Bureau's systems. This hybrid infrastructure leverages several commercial providers to balance risk and cost and is consistent with White House guidance on cloud computing. The CFPB infrastructure includes a private cloud to house the CFPB systems and data in a secure environment, a public hosting environment for web content, and a facility to accept cloud-based software into the CFPB environment, while observing all federal security standards and protocols, and remaining consistent with industry best practices.

The CFPB has also heavily leveraged the capabilities of the Treasury Department for facilities, network, and desktop computing infrastructure, and other services like security monitoring, to ensure a productive work environment on "day one" with minimal risk. While these services will migrate to the CFPB over time, we expect a continued partnership operationally as the CFPB grows and scales up.

BUDGET AND FUNDING

Under the Dodd-Frank Act, the CFPB is funded principally by transfers from the Board of Governors of the Federal Reserve System up to a limit set forth in the statute. The CFPB can request funds from the Federal Reserve that are reasonably necessary to carry out its consumer financial protection functions, but the CFPB's funding from the Federal Reserve is capped at a pre-set percentage of the total 2009 operating expenses of the Federal Reserve System, subject to an annual adjustment. Specifically, the Dodd-Frank Act places a cap on this primary source of funding for the CFPB by limiting transfers:

- in FY2011 to 10 percent of these Federal Reserve System expenses (or approximately $498 million);

- in FY2012 to 11 percent of these expenses (or approximately $547.8 million), and

- in FY2013 to 12 percent of these expenses (or approximately $597.6 million).

- The cap remains at 12 percent in FY2014 and beyond but will be adjusted for inflation.

The Dodd-Frank Act followed long-established precedent in providing the CFPB with funding outside of the congressional appropriations process. Congress has consistently provided for independent funding for bank supervisors to allow for long-term planning and the execution of complex initiatives and to ensure that banks are examined regularly and thoroughly for both safety and soundness and compliance with the law.

The CFPB has been tasked with supervising more than twice the number of entities as all other federal bank supervisors combined, including supervising the largest, most complex banks. Effective supervision that levels the playing field between bank and non-bank institutions will require dedicated and predictable resources, and independent examiners. Moreover, consumer compliance examinations for depository institutions with less than $10 billion in assets will continue to be conducted by prudential regulators and thus funded independently. Thus, consumer compliance examinations of community banks and large bank and non-bank institutions will all be funded independently.

Although Congress provided the CFPB with a source of funding outside the appropriations process, the consumer bureau is nonetheless the only bank supervisor with a statutory cap on its primary source of funding. If the statutory cap is too low, the CFPB is required to seek a supplemental appropriation from Congress – unlike other banking regulators.

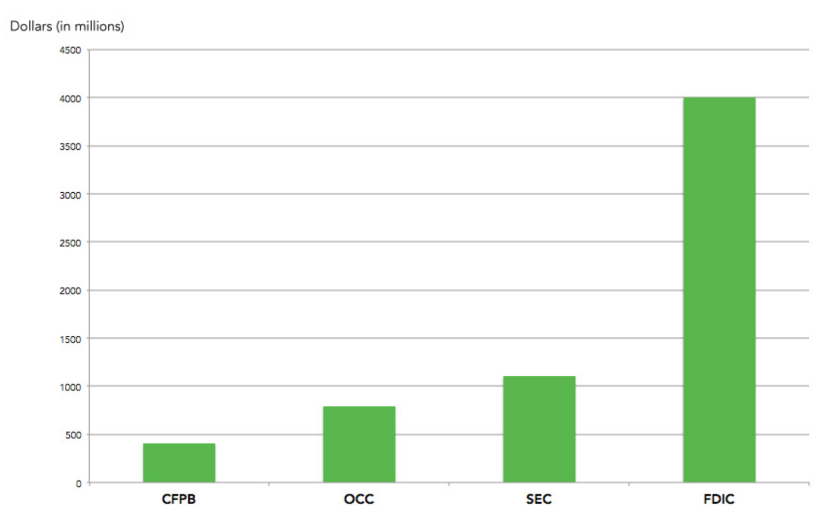
Through the first eight months of Dodd-Frank implementation, the CFPB requested three funding transfers from the Federal Reserve for a total of approximately $60 million. Of that total amount, approximately $13.1 million is allocated to personnel costs, approximately $15.4 million is allocated to technology and IT costs, approximately $10.1 million is allocated to mission-specific support, and approximately $14.9 million is allocated to human capital support. The remaining $7.0 million is allocated to general start-up costs, including organizational design and planning. Because these expenses capture the CFPB's initial expenditure of funds, much of this budget – approximately 32 percent – is devoted to one-time start-up expenses.

THE CFPB'S TRANSFER CAPS IN CONTEXT

- The SEC's budget in FY 2010 was almost three times the size of the CFPB's transfer cap this fiscal year; the FDIC's was almost ten times that size.

- CFPB's funding cap this fiscal year was approximately half the OCC's budget authority in FY 2010.

Funding of other federal financial regulators



While it is challenging to estimate resource requirements in the first months of standing up an agency, the Administration has worked hard to develop budgets necessary for the consumer bureau to fulfill the responsibilities vested in it by Congress. The President's Budget for Fiscal Year 2012 includes budget and personnel estimates for the CFPB for FY2011 and FY2012. Specifically, the budget estimates a $142.8 million operating budget for FY2011 and a $329 million operating budget for FY2012 as the CFPB works to phase in functions and infrastructure. These amounts are based on the approximate resources that will be necessary to stand up and begin executing the consumer bureau's key functions.

The largest component of the CFPB's FY2012 budget estimate is devoted to human capital – the people working day in and day out protecting consumers. Personnel expenditures account for a full 69 percent of the CFPB's budget for that year, with the remainder dedicated to non-personnel expenditures such as rent, travel, IT systems, and other equipment and contracts.

The CFPB's effectiveness will depend in large part upon its supervision, enforcement, and response center teams – the front lines of consumer protection. These teams will handle significant responsibility and will receive the bulk of the CFPB's resources. According to estimates, nearly 70 percent of the CFPB's staff will be on these teams.

Additionally, the Dodd-Frank Act requires the CFPB to establish a research unit. The CFPB has already begun to build research, markets, as well as related regulations teams, and expects a total of about 10 percent of the CFPB's staff to work on these teams.

Coordination with Other Entities

In the years ahead, the Bureau will work cooperatively with numerous other entities to achieve its mission as efficiently and effectively as possible. Because the CFPB is dedicated to engaging in partnerships that allow it to better serve the American people, it has entered into agreements with other federal agencies and non-government entities. Below are some of the Bureau's memoranda of understanding (MOUs) that are signed and in effect. These MOUs will aid the Bureau in sharing information across agencies and organizations, and in our human capital endeavors.

In January, the CFPB, the Conference of State Bank Supervisors (CSBS), and several initial states signed an MOU to establish a foundation of state and federal coordination and cooperation for supervision of providers of consumer financial products and services. State regulators and the CFPB will endeavor to promote consistent examination procedures and effective enforcement of state and federal consumer laws, minimize regulatory burden, and efficiently deploy supervisory resources. As of July 11, 2011, 39 bank and financial services regulators from 32 states and Puerto Rico, in addition to five state regulator associations, have signed the MOU.

In April, the CFPB and the Presidential Initiative Working Group of the National Association of Attorneys General agreed on a Joint Statement of Principles, the first step in forging a new partnership between federal and state officials to protect consumers of financial products and services. State Attorneys General and the CFPB will work together to advance their shared goals of protecting consumers from unlawful practices, providing clear rules to improve the marketplace, and addressing consumer concerns efficiently and effectively.

In its efforts to support servicemembers and their families, the CFPB signed a Statement of Principles with the Judge Advocate Generals of the Army, Navy, Air Force, and Coast Guard and the Staff Judge Advocate to the Commandant of the Marine Corps. Under this joint agreement, the parties will work together to identify potential violations of federal consumer financial laws, establish points of contact, share information, and create a formal working group.

The CFPB has entered into memoranda of understanding with the Office of Thrift Supervision, the Office of the Comptroller of the Currency, the National Credit Union Association, the Department of Housing and Urban Development, the Federal Reserve, and the Federal Deposit Insurance Corporation. In each of these MOUs, the parties agreed to share non-public information in connection with their responsibilities related to or affecting the establishment of the Bureau.

The CFPB and the Federal Financial Institutions Examination Council (FFIEC) signed an MOU to safeguard the confidentiality of information provided by the FFIEC to the CFPB.

The CFPB has signed an agreement with the Financial Crimes Enforcement Network (FinCEN) that will permit the CFPB to access FinCEN's Bank Secrecy Act database and will permit the CFPB to obtain information such as money services business registration data and Suspicious Activity Reports submitted to FinCEN by financial institutions. This information will assist in CFPB supervision and enforcement.

The CFPB has signed MOUs for employee details with: the Board of Governors of the Federal Reserve System, Treasury Department's Departmental Offices, Office of Thrift Supervision, Internal Revenue Service, Department of Housing and Urban Development, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Federal Financial Institutions Examination Council, and Department of Commerce. These agreements provide an arrangement for employees still employed at other government agencies to work at CFPB and assist in the stand-up process.

The CFPB has signed an MOU with the Board of Governors of the Federal Reserve System concerning the terms and conditions under which Bureau employees will participate in the Federal Reserve System's retirement and thrift plans and the Bureau will make payments to those plans as required under the Dodd-Frank Act. The CFPB also signed an MOU with the Board of Governors of the Federal Reserve System on interagency transfers, outlining a transfer process for eligible employees who wish to transfer to CFPB.

The CFPB and the North Carolina Credit Union Division signed an MOU to establish and enhance a cooperative relationship between the parties. This agreement states that both parties will preserve the confidentiality of the information they share.

The CFPB and the U.S. Department of Justice, the Department of Housing and Urban Development, and the Federal Trade Commission signed an MOU to provide for the sharing of information related to the agencies' fair lending investigations, screening procedures, and investigative techniques.

Commitment to Accountability

The CFPB was designed to increase accountability by consolidating into a single agency the core consumer financial protection functions that had existed across the federal government. Accountability was a central policy rationale for the establishment of the CFPB, and it is essential that the CFPB be accountable for its efforts moving forward.

Elizabeth Warren and CFPB staff meet in April with open government organizations at a roundtable in Washington, D.C.

Warren initially came to Washington, D.C., as Chair of the Congressional Oversight Panel on the Troubled Assets Relief Program, and this experience helped make her a firm believer in the importance of oversight. The CFPB has taken several concrete steps to strengthen this tenor of accountability and transparency:

- Warren's calendar was posted to the Treasury Department website on November 24, 2010, even before launching the CFPB website. Her calendar has now been posted online once each month, and that practice will continue as a commitment to our openness. In order to make the calendars as useful as possible, each month's calendar is provided in multiple formats.

- Warren has had nearly 100 one-on-one conversations with Members of Congress from both sides of the aisle, and CFPB staff have provided additional information and briefings.

- Warren has met with a variety of open government organizations, including Public Citizen, OpenTheGovernment.org, Citizens for Responsibility and Ethics in Washington, Judicial Watch, the Sunlight Foundation, the Project on Government Accountability, and OMB Watch. CFPB staff have had additional meetings and conversations with these groups.

- The CFPB has provided updates on our hiring, including listing the names and experience of all our senior leadership, and posted spending updates to provide a snapshot of how the Bureau is spending funds to provide a broader perspective on how it is using its resources to fulfill its mission. This includes a description of major financial commitments.

The CFPB is subject to substantial oversight and limitations on its activities and authorities. The CFPB is subject to the requirements and limitations of the Administrative Procedure Act. The Bureau is one of only three agencies anywhere in government (and the only banking regulator) that is required to conduct SBREFA panels, a process to gather input directly from small businesses about the potential impact of proposed rules. And the Bureau is also specifically required to consider the benefits and costs of any proposed rules to consumers and providers. The CFPB's activities are subject to judicial review, ensuring that the CFPB operates within the constraints set by Congress and the U.S. Constitution.

In addition to being subject to judicial review, the CFPB is the only bank regulator whose rules can be overruled by a council made up of other federal agencies. In an unprecedented restriction unlike that on the authority of any other Federal financial regulator, Congress determined that a two-thirds majority of the banking regulators and other members of the Financial Stability Oversight Council can veto any rule issued by the consumer bureau if the council determines that it would put the safety and soundness of the banking system or the stability of the financial system at risk. And, of course, like with any federal agency, Congress can always overturn the Bureau's rules if the legislature disagrees with our judgments.

Finally, the CFPB is also the only bank regulator that is expressly limited in its ability to determine its own funding levels. If the Office of the Comptroller of the Currency believes it needs more funds to hire more examiners, it can raise more through assessments on the industry. But the consumer agency's independent funding is statutorily capped at a portion of the Federal Reserve System's operating expenses. If the CFPB concludes that it needs additional funding, it must persuade Congress to provide that funding.

The CFPB understands, though, that accountability is about much more than oversight and legal constraints: Ultimately, it is about being responsible for getting a job done on behalf of American families. Those families want a market in which prices and risks are clear, and in which product comparisons are easy. They want to be protected from unfair, deceptive, abusive, or discriminatory practices. They want to be assured that all financial services providers are following the rules. They want to be empowered to take more control over their economic lives. In short, they want a consumer financial market that works. And, they want an agency that will be accountable for getting that job done.

On July 21, the CFPB gets to work. It will build from groundwork already laid to improve disclosures for mortgages, credit cards, and other products and services so that consumers can understand the key terms and choose the best deal for themselves and their families. It will start supervising the activities of financial services providers, examining banks and other companies to ensure that they are following the law. It will enforce Federal consumer financial law against providers that violate it. And it will provide information and tools to consumers to help them make the financial choices that are right for them. In all of these activities, the CFPB will drive toward its vision of a consumer financial market that works for American consumers, responsible providers, and the economy as a whole.