

**TESTIMONY OF  
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**Before the**

**SUBCOMMITTEE ON TARP, FINANCIAL SERVICES AND BAILOUTS OF PUBLIC  
AND PRIVATE PROGRAMS  
UNITES STATES HOUSE OF REPRESENTATIVES  
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The views expressed in this testimony are those of the Director, and do not necessarily reflect the views of the Board of Governors of the Federal Reserve or the President of the United States.

## **Introduction**

Thank you, Chairman McHenry, Ranking Member Quigley, and members of the Subcommittee for inviting me to testify about the Consumer Financial Protection Bureau. I am pleased to have this opportunity to discuss the work of the Consumer Bureau, and I look forward to working with you and other members of Congress in the future.

I am honored to serve as the first Director of the Consumer Financial Protection Bureau, the first agency whose sole mission is making sure that consumer financial markets work for American families. As Director, I am committed to establishing the kind of productive working relationship with you and your colleagues that will allow this agency to succeed. As we work to fulfill the statutory mission set out by Congress, we believe it is critical that Congress receives the information it needs about our activities. My testimony today represents the Consumer Bureau's 12<sup>th</sup> appearance testifying before Congress. (See Appendix A)

Moreover, we need and want to hear from you. At every stage, I believe that input from Congress will help improve our work and our ability to deliver real value to American consumers. I look forward to an open dialogue with Congress on the many important issues that affect your constituents and consumer financial markets nationwide.

Consumer finance is an enormous part of our economy, and it plays a vital role in the daily life of almost every American. The stakes could not be higher. Financial products can make life better and create opportunities for people to invest in their future. However, as we have all seen in recent years, these same products can also make life more difficult. Over time, consumer finance has become more complicated and risky, and the results can be disastrous not only for families but for communities and the entire economy. Consumers need better information about the costs and risks of their financial decisions, and they should be able to make up-front comparisons among competing products. Sellers of financial products need to know that their competitors are playing by the rules and cannot succeed by deceiving customers or engaging in other unscrupulous practices that achieve cost advantages by violating the law.

My vision for the Consumer Bureau is that it will work to make consumer financial markets operate fairly in order to protect consumers, support honest businesses, and play a crucial role in helping to safeguard the overall economy.

First, the Consumer Bureau will benefit consumers by clarifying the prices and risks of consumer financial products and services. When consumers know the true costs, benefits, and risks of competing products, they will be better able to make good decisions for themselves and their families. It will also help people avoid being ambushed by costly surprises buried in the fine print, so they can have proper confidence that the terms of the deal stated today are the terms they will actually be living with down the road.

Second, the Consumer Bureau will benefit honest businesses by leveling the playing field and ensuring that financial institutions play by the same set of rules. In the run-up to the financial crisis, nonbank firms generally were not subject to the federal supervision that applied to banks. Some of these unsupervised entities led a race to the bottom in lending standards that

hurt responsible businesses, including community banks and credit unions, and greatly harmed consumers. With a Director now in place, the Bureau can work to level the playing field on which our nation's financial institutions will innovate and compete.

Honest businesses want to compete in a market where buyers understand the terms of the deal and can compare possible alternatives. These firms work to win market share based on fair competition and excellent customer service, not through deception or fraud. The Consumer Bureau can help responsible businesses by ensuring that everyone competing in the marketplace follows the same set of fair and reasonable rules.

Finally, the Bureau's efforts can help strengthen our nation's economy. We have all seen how gross imbalances in consumer financial markets, most notably in the mortgage market, were a significant cause of the recent financial crisis. By creating this new agency with an intensive focus on consumer financial protection, Congress has provided an important means to ensure that such imbalances will be identified and addressed long before they produce such devastating results.

### **Consumer Bureau Activities to Date**

Although the Consumer Bureau was officially launched only six months ago, we have already begun several initiatives to help consumer financial markets work better.

#### Bank and Nonbank Supervision

This month, the Consumer Bureau launched the first federal nonbank supervision program, one of the central new authorities provided by the Dodd-Frank Act. There are thousands of nonbank providers of financial products and services that make up a significant portion of the consumer financial marketplace and affect millions of Americans each year. Nonbanks include companies such as mortgage lenders, mortgage servicers, mortgage brokers, payday lenders, consumer reporting agencies, debt collectors, and money services corporations. The nonbank supervision program will include conducting individual examinations and may also include requiring reports from businesses to determine what areas need greater focus. The Bureau will determine what degree of supervision to perform based on an analysis of the risks posed to consumers, including factors such as the nonbank's volume of business, types of products or services, and the extent of state oversight for consumer financial protection.

Last year, the Consumer Bureau launched its large bank supervision program, which focuses on ensuring that banks with more than \$10 billion in assets comply with federal consumer financial laws. The large bank program covers more than one hundred of the largest banks, thrifts, and credit unions in the country, as well as their affiliates.<sup>1</sup>

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<sup>1</sup> In connection with its bank and nonbank supervision program, the Consumer Bureau released a Supervision and Examination Manual that provides direction to CFPB examiners on how to determine if companies are complying with federal consumer financial laws. In addition, the Consumer Bureau has issued procedures focused on particular industries, including mortgage origination, mortgage servicing, and payday loans.

## Know Before You Owe

The Consumer Bureau is hard at work to make transparency in consumer financial products a reality. The CFPB launched *Know Before You Owe* campaigns to help consumers better understand various financial products by simplifying often confusing and duplicative information. Thus far the CFPB has launched *Know Before You Owe* projects for residential mortgages, student loans, and credit cards to improve the quality and clarity of information provided to consumers. The Bureau continues to solicit feedback to make mortgages, student loans, and credit card agreements more understandable.

On mortgages, in particular, as part of our required tasks under the Dodd-Frank Act, the CFPB is creating shorter and more useful disclosure forms for the loan estimate that consumers receive shortly after they apply for a mortgage. Our work in this area will reduce regulatory burden and make the costs and risks of a loan clearer so that consumers can choose the mortgage that best meets their needs. Specifically the CFPB is working to integrate the separate disclosures required under the Truth in Lending Act (TILA) and the Real Estate Settlement Procedures Act (RESPA). Over five rounds of testing prototype forms, the CFPB received feedback on the forms from more than 24,000 members of the public, industry participants, and market experts. The CFPB is also working to reduce unnecessary paperwork by combining disclosures received at the closing of a mortgage agreement.

On student loans, in collaboration with the Department of Education, the CFPB released a suggested one-page “shopping sheet” to provide students and their families with important financial aid information such as estimated monthly payment levels after leaving school. The “shopping sheet” is intended to encourage more informed decisions about paying for higher education by reducing jargon, facilitating comparisons, and distinguishing loans from other types of financial aid.

In December, the CFPB released a prototype credit card agreement that makes it easier for consumers to understand the terms and features of the product. The two-page agreement is written in plain language and explains key prices and features upfront. The CFPB is testing the prototype with Pentagon Federal Credit Union, one of the largest credit unions in the country, which has more than 350,000 credit card customers

## Regulatory Streamlining

The Bureau launched a targeted initiative to streamline the regulations that the agency inherited from seven different federal agencies under the Dodd-Frank Act. In November 2011, the Bureau issued a Notice and Request for Information asking the public to identify provisions of the inherited regulations that the agency should make the highest priority for updating, modifying, or eliminating because they are outdated, unduly burdensome, or unnecessary. In addition, it seeks suggestions for practical measures the Bureau could take to make complying with the regulations easier.

### Office of Servicemember Affairs

The Office of Servicemember Affairs is charged with educating and empowering servicemembers and their families to make better informed decisions regarding consumer financial products and services. Under the leadership of Assistant Director Holly Petraeus, the Consumer Bureau has been collecting data and other information from servicemembers, their advocates and counselors, and industry participants. Mrs. Petraeus has already brought important attention to the unique financial circumstances of men and women in uniform and has focused our efforts in several specific areas.

Mrs. Petraeus has led the Bureau's efforts to coordinate with federal and state agencies on consumer protection issues affecting military families. She has traveled to seventeen military installations to hear firsthand the financial challenges that military families face and has testified four times before Congress about servicemember issues. The Office held a day-long "Financial Fitness Forum" bringing industry leaders together to discuss how to better serve military members and veterans.

### Office of Financial Protection for Older Americans

The Office of Financial Protection for Older Americans will help seniors navigate financial challenges by educating and engaging them about their financial choices. We have all seen the prevalence of scams and frauds aimed at exploiting seniors to gain access to their money or their sensitive personal financial information. In fact, I fought these predatory schemes constantly in my work as Ohio Attorney General. Under the leadership of Assistant Director Skip Humphrey, the office has begun holding town halls and other events to gather information about issues affecting seniors in states such as California, Florida, Massachusetts, Minnesota, New York, and Maine.

### Enforcement

In my prior role, I was building the enforcement arm of the Bureau. Now that we have a Director, we have our full authorities to investigate and bring enforcement actions to ensure that financial providers are held accountable if they violate the law, and that the rules of the road governing banks and nonbanks are applied evenhandedly to all participants. In this area, the Bureau is also cooperating closely with other law enforcement agencies to avoid any duplication of work and to coordinate limited resources. The Bureau has many tools to address problems in the financial markets, including supervision, rulemaking, and enforcement. Filing lawsuits or administrative actions will be necessary at times to ensure that the law is followed and respected, and that harm to consumers from unlawful conduct is remedied.

### Office of Fair Lending and Equal Opportunity

The Office of Fair Lending and Equal Opportunity leads the Consumer Bureau's efforts to ensure fair, equitable and nondiscriminatory access to credit for individuals and communities. The Office's function is to provide oversight and enforcement of federal fair lending laws; coordinate fair lending efforts of federal agencies and state regulators; and work with private

industry, civil rights, and consumer advocates to promote fair lending compliance and education. It is operating in close partnership with Bank and Nonbank Supervision to develop supervisory manuals and begin fair lending examinations of supervised institutions.

## **Engaging with Stakeholders**

One of the highest priorities of the Consumer Bureau is to communicate frequently, substantively, and candidly with a wide range of industry and consumer groups who are affected by our activities. In addition to the outreach efforts discussed above, Consumer Bureau staff have traveled across the country to engage with stakeholders and listen to their expectations and concerns about consumer finance markets and the agency itself.

Engagement with individual consumers is of course a cornerstone of the Consumer Bureau's activities. In cooperation with other federal regulators, the Consumer Bureau has taken a phased approach to the scope of its Consumer Response function, which fields complaints from the public. This approach enables the Consumer Bureau to staff and build the infrastructure and processes needed to provide a service that is trusted, easy to use, and effective. Consumer Response began taking complaints related to credit cards on July 21, 2011, and the system was expanded to include mortgage complaints on December 1, 2011. The Consumer Bureau expects to handle appropriate complaints with respect to all products and services within its authority by the end of 2012.

The Bureau also created a "Tell Your Story" feature on its website that gives consumers the opportunity to share their experiences with consumer financial products – positive or negative. These submissions, along with complaints received through the Consumer Response function, help inform other aspects of the Bureau's work, including policy making, supervision, enforcement, rulemaking, and consumer education functions. In addition to learning from individual consumers, the Consumer Bureau engages frequently with consumer, civil rights, and community-based organizations that have acquired substantial expertise in the consumer financial sector.

The Consumer Bureau has also been committed to meaningful engagement with industry stakeholders whose input is essential to understanding consumer finance markets and the implications of Consumer Bureau actions. From the earliest stages of our efforts to stand up the agency, outreach to smaller lenders has been a particular focus of the Consumer Bureau. We recognize that a strong and diversified financial services industry – one that includes small as well as large providers – is the best way to serve American consumers. Community banks and credit unions know their customers, can provide tailored products and services, and have built a business model based upon long-term relationships and trust. They disproportionately provide credit to small businesses. In short, their importance to our communities and to the national economy cannot be overstated. A special team at the Bureau is dedicated to community bank and credit union outreach so that we can stay continually informed about developments in their industry as well as their unique perspective on regulatory compliance issues.

Consumer Bureau staff also continue to engage with large bank and nonbank executives as well as trade associations representing financial institutions. Large financial institutions have

a broad view of consumer finance markets, and their practices and products affect millions of Americans every day. A well-grounded understanding of the nation's largest financial companies is essential to fulfilling our mission to improve consumer financial markets.

## **Building a 21<sup>st</sup> Century Agency**

Six months from the official launch of the Consumer Bureau, we are well along the path to building a modern and efficient agency. The early accomplishments of the Consumer Bureau are the direct result of careful planning and recruitment of a top-notch workforce.

From the early days of building the Consumer Bureau, we have recognized the importance of extensive input from and collaboration with the public at large as well as our key stakeholders. For example, when designing the agency's structure in late 2010, we provided our draft organizational chart to members of Congress and other stakeholders, and we posted the chart on our website early last year. With help and advice from many outside stakeholders, we have established an organizational structure that provides the infrastructure the Bureau needs to meet its responsibilities in the years ahead.

By creating and implementing a strategic workforce plan, the Consumer Bureau has recruited a talented, dedicated, and experienced workforce that brings a variety of backgrounds and perspectives to our work. This team includes people with significant business backgrounds, public sector experience (including transferees from other agencies), and experience in academia and non-profit organizations. As of December 31, 2011, we have hired approximately 757 employees who support operations in our Washington, D.C. headquarters and our regional satellite offices in Chicago, New York City, and San Francisco. Attached for your reference is additional detail on the Consumer Bureau's workforce. (See Appendix B)

From the earliest stages of our start-up efforts, the Consumer Bureau has worked to establish budgeting and financial controls that will help ensure that resources are deployed effectively and efficiently. The Government Accountability Office completed its first annual audit of the Consumer Bureau in November 2011, and the Bureau received an unqualified "clean" opinion in the fiscal year 2011 audit. The Bureau is also subject to an additional yearly independent audit of its budget and operations. The Bureau received positive performance ratings in the first such audit, which was completed and submitted to Congress in October 2011.<sup>2</sup> Consistent with the Consumer Bureau's commitment to transparency, we have posted on our website quarterly updates on our budget and expenditures, including the most recent update posted this week. Details regarding the Consumer Bureau's fiscal year 2011 funding requests and expenditures can be found in the attached materials. (See Appendix C and D)

## **Conclusion**

At the Consumer Bureau, we are working to make financial markets work better for consumers and the honest businesses that serve them. Prior to the financial crisis, seven federal

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<sup>2</sup> The report of GAO's fiscal year 2011 audit of the Consumer Financial Protection Bureau and the additional independent audit of budget and operations are attached as Appendix E and F.

agencies had some responsibility for consumer financial protection, but none of these agencies had consumer financial protection as its sole priority, or the tools to regulate and oversee the whole market. As a result, there were gaps in oversight and basic problems of accountability, contributing to markets that failed and an economy driven to the brink of collapse. The Consumer Bureau is now directly and singularly responsible to the public for performing its consumer financial protection functions, and it has comprehensive tools to help ensure that financial markets work for American families.

Chairman McHenry, Ranking Member Quigley, and members of the Subcommittee, thank you again for inviting me to testify today about the Consumer Bureau. I have great appreciation for the important role of oversight. I believe that the Bureau must be an active participant in the congressional oversight process, and that meaningful oversight will help build public confidence in the Bureau. I welcome the opportunity to discuss the activities of the Bureau and update you on our efforts to protect consumers and improve consumer financial markets.