SENSITIVE AND PRE-DECISIONAL
OCTOBER 17, 2012

Supervision Prioritization

Field and Market Intelligence Discussion

Note: This document was used in support of a live discussion. As such, it does not necessarily express the entirety of that discussion nor the relative emphasis of topics therein.

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Consumer Financial
Protection Bureau

Agenda

- What is Prioritization? (3 minutes)
- Status update & next steps (5-10 minutes)
- Discussion on FMIs in various product markets (approx. 160 minutes)

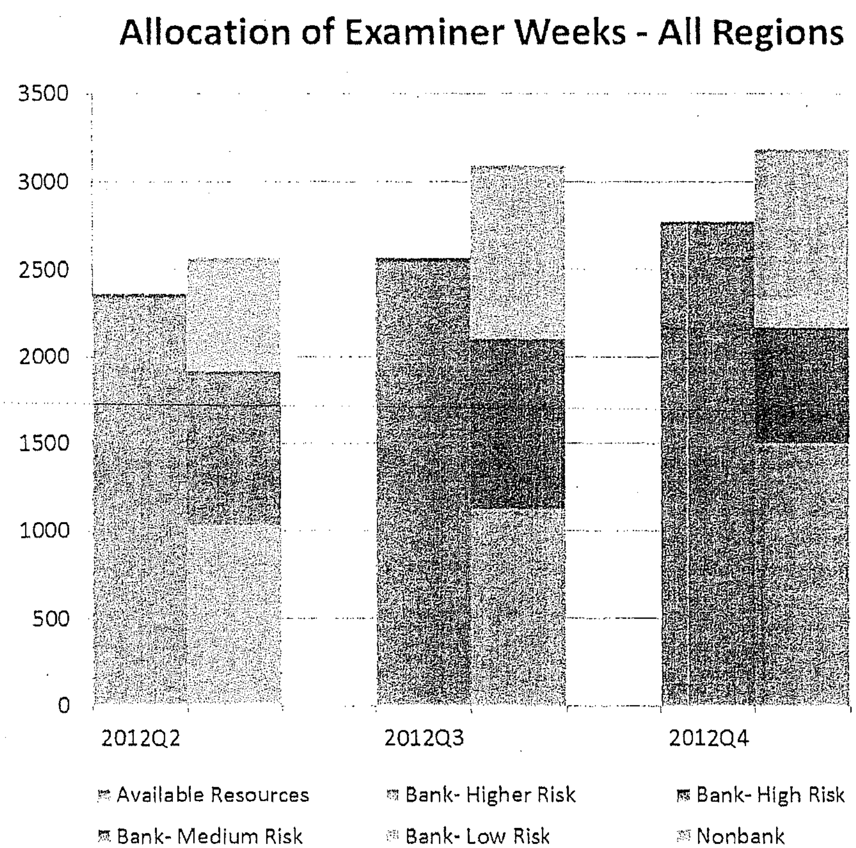
Market	Duration	Facilitators
Credit Cards	25 minutes	[redacted]
Mortgage Origination	25 minutes	[redacted]
Mortgage Servicing	25 minutes	[redacted]
Debt Collection	20 minutes	[redacted]
Student Loan Servicing	20 minutes	[redacted]
Auto Finance	20 minutes	[redacted]
Deposits	25 minutes	[redacted]

SECTION I – BACKGROUND AND STATUS UPDATE

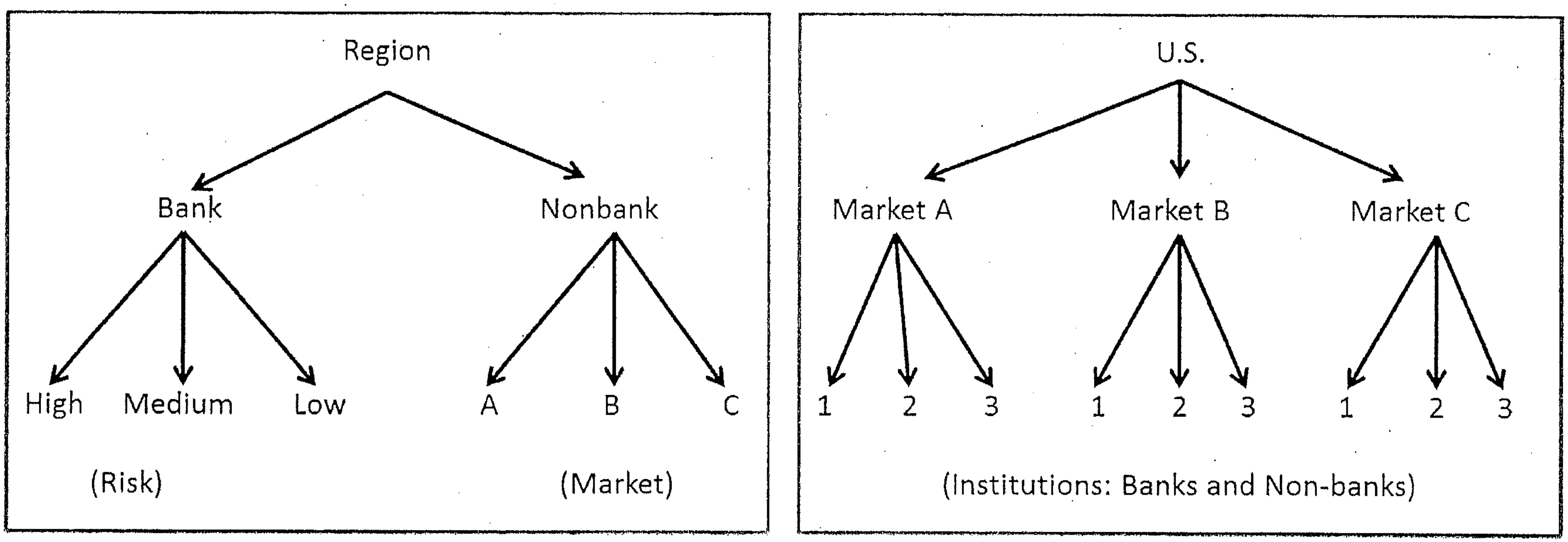
What is the prioritization exercise all about?

The Prioritization Exercise allocates scarce examination resources across institution and product types, using a number of quantitative and qualitative factors

- What this exercise isn't:
  - Discussion of Bureau priorities
  - Black-box tool to replace decision-making
  - Exam scheduling



A "horizontal" rather than an "institutional" model will better address resource constraints while maximizing risk coverage



Old Approach New Approach

We use four factors to compare and prioritize across products, institutions and charters

Product Size • $ market size • # of consumers • # of accounts/loans	**Product Risk** • P(loss) • "Suckers" • Transparency/shopping	Product Market
Institution Product Size • $ outstanding of line • # of transactions • Growth	**Field & Market Intel.** • Complaints • Management • Compliance systems	Institution Product Line

Focus of today's discussion

Expansion to [redacted] IPLs covers all DIs and significant activity in non DI space

Market	Product Risk	Product Size	% Market Covered	All Tiers	Tier IV	Tier V	IV and V Mkt Share
Debt collection	1	5	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Payday	2	8	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Credit cards	3	6	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Mortgage origination (brokers)	3	7	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Student loan servicing	4	5	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Mortgage servicing	4	2	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Consumer reporting	5	2	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Mortgage origination (lenders)	6	1	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Auto finance	6	7	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Installment	8	10	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Deposits	9	3	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Total				**494**	**101**	**89**	

SECTION II – FMI DISCUSSION

FMI: Preliminary inputs identified in Denver

Market/Financial

- Product structure
- Channel mix
- Customer mix
- Financial Stress
- Aberrational returns
- Growth
- Risk retention
- Earnings/accounting quality

Operational

- Risk management
- Top of the house
- Line of business
- Culture/attitude
- Risk appetite/"Close to the line"
- Corporate structure/complexity
- Sales culture/ compensation/incentives
- Strategy shift
- Mergers and acquisitions
- Employee/management turnover
- Franchise (risk retention)
- Service providers/vendors

Regulatory/Compliance

- Compliance system
- Role & centrality of compliance
- Federal/state compliance ratings/history
- Non-CFPB regulatory coverage
- Complaint response
- Litigation
- Complaints/Whistleblower
- Grassroots intelligence/canary in the coal mine
- Previous CFPB examinations

Market Trends: Credit Cards

Market Structure

- Subprime market consolidated to one major mainstream player – [redacted]
- Regionals issuing again: [redacted]
- New fee harvesters ([redacted])

Growth Trajectory

- Overall debt of $865BN has been mostly flat since 2011 driven by consumer caution
- Loss rates and delinquencies at or near lows, as losses and unemployment remain decoupled
- Origination volume stable at appx 10MM accounts per quarter at the largest issuers

Access and Cost

- Subprime at 19% of originations in Q2'12, up from 13% in Q2'10 (FICO <660)
- [redacted] not going as deep into subprime as [redacted] used to go

Other Developments

- Issuers ([redacted]) exiting or pulling back in add-on product market

Source: Fed G19, Loan Level Credit Card Database Reports

Source: Markets Presentation to Policy Committee dated 9/6/12

Credit Cards

Market Measures

CFPB Risk Factor:	3	
Size Factor:	6	\$803 bn outstanding 380 mn accounts (FRB G19, 1/2011)

Institution Measures

Number of IPLs:	59 (84% of estimated market share)
IPL Size Measure:	Loan volume (SNL, 2010-2011)
FMI Factors:	Non-performing asset rate (SNL, Q1CY2012)
Additional Factors to Consider:	Fees from add-on products

Notes

Extent of state oversight not a factor because this is largely a depository product

Complaints not used because of other metrics being available and because complaints often go to Prudentials rather than FTC

Market Share: Mortgage

Market Structure

- In 1999, the market share of the top 3 servicers and originators were each less than 20%. Today, however, the market is much more concentrated with the 3 largest institutions originating 46% of loans while servicing 49% of all mortgages.

Growth Trajectory

- As defaults continue to outpace originations, the balance of outstanding mortgages is expected to decline until 2014. Between 4Q 2011 and 1Q 2012, outstanding mortgages dropped $90 billion to $10.2 trillion.
- Despite an increased incentive to refinance (the average outstanding mortgage could lower their interest rate by 100 bps), market participants expect originations over the next couple of years to hover around $1.5 trillion annually, well below the 2004 peak of $3.8 trillion.

Access and Cost of Product

- Access to credit continues to be challenging as underwriting standards remain tight. The median FICO score on a conforming GSE purchase loan today is 772, almost 50 points higher than just three years ago. However, the biggest curtailment in credit is occurring at the lower-bounds of the credit spectrum. Only 10% of 4Q 2011 originations had a FICO score below 700, which effectively excludes 60% of all borrowers.

Other Developments:

- Private-equity backed non-depository servicers continue to increase market share.

Source: Markets Presentation to Policy Committee dated 9/6/12

Mortgage Origination

Market Measures

CFPB Risk Factor: 6

Size Factor: 1

$891 bn originations
$235k average new loan
4 mn mortgages annually
(Inside Mortgage Finance, 2012; CFPB)

Institution Measures

Number of IPLs: 49 (93% of estimated market share)

IPL Size Measure: Origination volume (HMDA, 2009-2010)

FMI Factors: Complaints (FTC Sentinel, 2011)
Enforcement actions (CSBS, FTC, CFPB)

Additional Factors to Consider: Average LTV
Average interest rate

Notes

Asset size not an accurate measurement of risk because many lenders sell mortgage loans after origination

Extent of state oversight considered via state information/exam report requests, MMC coordination, and through scheduling and scoping

Mortgage Servicing

Market Measures

CFPB Risk Factor: 4

Size Factor: 2

$10,200 bn outstanding
$225k avg loan balance
45 mn mortgages
(Inside Mortgage Finance, 2012)

Institution Measures

Number of IPLs:	90 (80% of estimated market share)
IPL Size Measure:	Servicing volume (Inside Mortgage Finance, 2010-2011)
FMI Factors:	Complaints (FTC Sentinel, 2011) Enforcement actions (CSBS, FTC, CFPB)
Additional Factors to Consider:	Number of accounts serviced Delinquency rate

Notes

Asset size not an accurate measurement of risk because servicers do not own the loans

Extent of state oversight considered via state information/exam report requests, MMC coordination, and through scheduling and scoping

Market Trends: Debt Collection

Market Structure

- Over 5,200 collection agencies, and 600 substantial debt buyers, respectively.
- Firms with receipts above $10M LP cut-off account 60% of revenues.

Growth

- Gross collector recoveries at $54.9B and net recoveries of $44.6B in 2010.
- Activity generally tracks unsecured debt charge-offs (down since crisis) and consumers' ability to make payments (which may only be recovering slowly).
- Medical debt is over 50% of collections volume and rising

Entry/Exit/Consolidation

- Not a consumer choice. Major creditors contract with large players due to reputational, compliance, and information security risks.
- Tightening compliance and in-sourcing at large card issuers.
- Debt purchasers report bidding on debt is increasingly competitive.
- Several larger debt buyers have exited industry in the past year.

Issues

- Use of litigation as a collection channel is increasing. Two of the public firms have litigation as their most important source of recoveries.

Source: Corey Stone: BAI Retail Delivery: 10/11/12

Consumer Risk Issues from the Debt Collections Working Group:

1. ***Information integrity and availability:*** *degradation of records as debt ages, handed off to 3rd party buyers, collectors, litigators (robosigning)*
2. ***Adequacy of consumer disclosures:*** *FDCPA requires limited info in "g notice." More would help. Can we identify best practices?*
3. ***1st party creditor practices:*** *exempt from FDCPA. "DeMayo Letter" extension. UDAAP as way to proscribe for 1st parties what's already proscribed for 3rd parties.*
4. ***Concerns about special populations:***
   - *Students: SL Servicers not advising regarding payment options*
   - *Servicemembers: Lenders/collectors contacting commanding officers*
   - *Relatives of deceased debtors: permissibility of contacts by collectors*
5. ***Use of new communications technology*** *(best/worst practices)*
   - *Predictive dialing* -- *Voicemail*
   - *Email* -- *Cellphones*
   - *Social media*

Source: Corey Stone: BAI Retail Delivery: 10/11/12

Debt Collection

Market Measures

CFPB Risk Factor: 1

Size Factor: 5 — $40 bn in collections; 143,879 employees (2007 Economic Census)

Institution Measures

Number of IPLs: 36 (70% of estimated market)

IPL Size Measure: Number of employees (CFPB Research) - a proxy for gross collections, which is unavailable

FMI Factors: Complaints (FTC Sentinel, 2011)*
Enforcement actions (FTC, CFPB)

* CFPB Consumer Response database did not have sufficient complaints at the time of scoping. Over time, it is anticipated that CFPB complaint database will be used.

Additional Factors to Consider: Gross collections
Number of accounts
Average age of debt

Notes

Asset size not an accurate measurement of risk because market consists of both debt buyers and contract debt collectors

Extent of state oversight considered in scheduling and scoping but effect is limited because of variety of state laws and lack of multistate approach

Market Trends: Student Servicing

Market Structure:

- Many banks exiting/reducing investment in Private Student Loan (PSL) market ([redacted])
- Potential for expansion of refi/consolidation market ([redacted])
- Federal servicing market will become more fragmented as Title IV Additional Servicers (TIVAS) are added to the direct loan program

Growth Trajectory:

- Overall PSL outstandings will likely grow modestly from existing $150 billion, while origination volumes of $8 billion are likely to stagnate, absent an expansion of ABS funding
- Title IV/Direct Loan Program growth to continue as enrollment and cost of attendance grow
- Growth in outstanding PSLs and Title IV loans will increase the relevance of the servicing market as more Americans begin to repay their student loans. Additional TIVAS present consumer protection issues for the same reason

Access and Cost:

- Potential for PSL asset backed securities market to open further, which could provide lower prices generally and refi/loan consolidation opportunities
- High cost of some Title IV loans (6.8 – 8.5%) in a low interest rate environment could drive lender interest in offering Title IV privately funded refi/consolidation options. While payments would be lowered, consumer protection issues arise due to fewer PSL repayment and forgiveness options, relative to Title IV loans

Other Developments/Issues:

- Proprietary schools under pressure from regulators, press, and investors over sales practices, value of education, and student debt burden
- Third party student aid disbursement management, firms like [redacted], are increasingly popular managers of disbursement and payment programs on campus (particularly at prop schools). After coming under pressure over excessive fees, [redacted] announced new products and measures to offer low fee choices, but no concrete details. This is an area to monitor.

Source: Markets Presentation to Policy Committee dated 9/6/12

Student Servicing

Market Measures

CFPB Risk Factor: 4

Size Factor: 5

$1,000 bn outstanding
$25k average balance
40 mn borrowers
(CFPB estimates)

Institution Measures

Number of IPLs: 8 (76% of estimated market share)

IPL Size Measure: Portfolio size (SLSA, 2010-2011)

FMI Factors: Complaints to CFPB on Private Loan Servicing

Additional Factors to Consider: Number of accounts

Notes

Asset size not an accurate measurement of risk because market is not based on lending

Extent of state oversight considered in scheduling and scoping but effect is limited because of variety of state laws and lack of multistate approach

Market Trends: Auto Finance

Market Structure:

- Subprime continues to grow
  - Positive loan performance reinforcing ABS availability and expanding universe of issuers and investors
  - Equity capital continues to flow (both venture and private-equity)
  - Loan terms becoming longer – average term now 70 months
- Recent studies suggest that consumers may have changed their payment hierarchies - paying their auto loans before other secured and unsecured debt
- Leasing is growing at approximately 11-12% of new originations

Growth Trajectory:

- Auto loans totaled $750 billion in outstandings as of Q2 2012
- Auto loan originations were up 14.2 percent in the second quarter to $82 billion
- Total new car sales were up 16.3% in the second quarter from a year earlier
  - Average age of vehicle on the road is 10.8 years (all-time high)
- 30 and 60 day delinquency rates are at record low levels

Access and Cost:

- Loan performance and demand for auto finance credit driving market expansion – credit is readily available at or near all-time low cost to consumers
- Market may begin to exhibit characteristics seen during the mid-1990s and mid-2000's when increased competition led to poor underwriting practices, subsequent high losses, and eventual market exits
- Growth in the subprime market may blur distinction between subprime and Buy Here, Pay Here (BHPH) seller-financed deep subprime

Other Developments:

- Potential shift in business model of BHPH to "Buy-Here, Pay-There" and jurisdictional issues
- Supervisory examinations continue – potential impacts on fair lending issues
- Availability of quality, used vehicles

Source: Markets Presentation to Policy Committee dated 9/6/12

Auto Finance

Market Measures

CFPB Risk Factor: 6

Size Factor: 7

\$385 bn originations \$20k average loan 19 million loans/year (Big Wheels Auto, 2010; CFPB estimates)

Institution Measures

Number of IPLs: 33 (67% of estimated market share)

IPL Size Measure: Origination Volume (Big Wheels Auto, 2010-2011)

FMI Factors: Average interest rate (CFPB research on ABSs)
Charge-off rate (CFPB research on ABSs)

Additional Factors to Consider: Asset size
Number of loans

Notes

Asset size not broadly available

Extent of state oversight considered in scheduling and scoping but effect is limited because of variety of state laws and lack of multistate approach

Complaints not used because of availability of other metrics and many IPLs are within depositories whose complaints often go to Prudentials

Market Trends: Deposits

Market Structure

- 26 largest institutions maintain 63.5% of total deposits yet operate less than 40% of the nations branches.

Growth Trajectory

- Aggregate domestic deposits increased 1.0% from 1Q12 to 2Q12 to $8.9 trillion
- Aggregate loan/deposit ratio increased slightly to 72.8% in 2Q12 but still lower than any point since 1984
- Industry-wide service charges on deposits totaled $8.53B in 2Q12, lowest since 2003 (Reg E, class actions leading large banks to drop pure high-to-low processing)
- Drop in debit card interchange (Durbin Amendment)

Access and Cost of Product

- 92% of all U.S. households have at least one checking account
- Banks closed 767 more branches than openings for YE 6/12 (5 years ago, industry opened 3.5 branches for each 1 closed)
- Pct of institutions that offer free checking halved between 2008 and 2011, from 80% to 40%.
- Minimum balances to avoid monthly fees are increasing.
- Novantas: roughly ¼ of consumers almost never return to branch after initial account sign-up.
- Growth in reloadable prepaid substitutes for traditional checking.

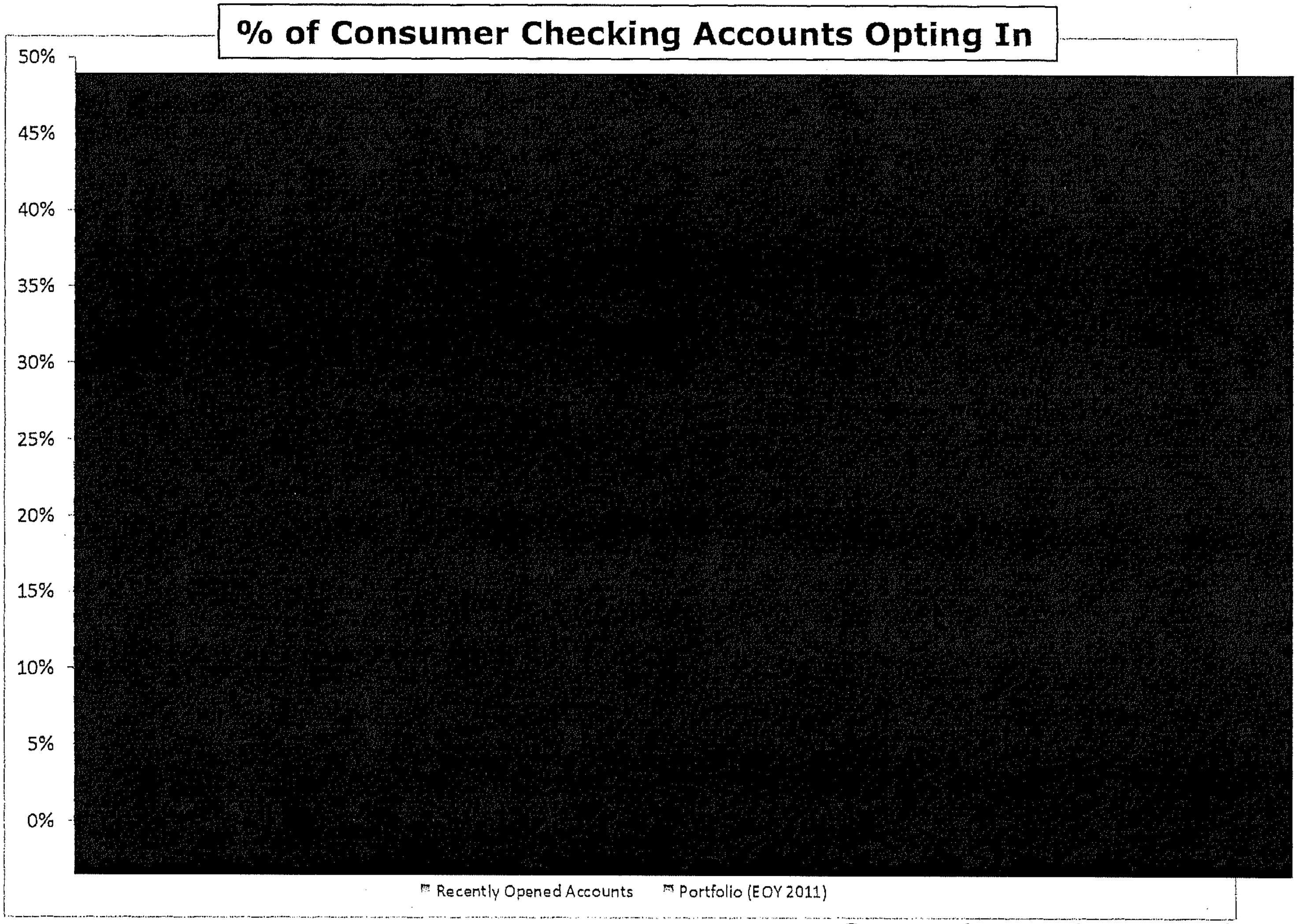
Source: Corey Stone: BAI Retail Delivery: 10/11/12

Overdraft & Related Program Features

		[redacted]
Policy	Opt In Policy	[redacted]
Overdraft Pricing	NSF/OD Fee	[redacted]
	Extended OD	[redacted]
	Fee Cap	[redacted]
	De Minimis	[redacted]
OD Limits	OD Coverage Max	[redacted]
	Static vs. Dynamic	[redacted]
ODP Services	Linked Acct Options	[redacted]
	Sweep/Xfer Fee	[redacted]
DAP	Deposit Advance?	[redacted]
	DAP Pricing	[redacted]
Notes	Other Comments	[redacted]

Source: Supervision OD Update 09/12/12

Reg E Elections



Source: Supervision OD Update 09/12/12

Posting Order

[redacted]

Source: Supervision OD Update 09/12/12

Consumer Financial Protection Bureau

SENSITIVE & PRE-DECISIONAL
NOT FOR EXTERNAL DISTRIBUTION

NSF/OD Incidence

% of Consumer Checking Accounts by 2011 NSF/OD Items

[redacted]

Source: Supervision OD Update 09/12/12

Deposits

Market Measures

CFPB Risk Factor: 9

Size Factor: 3

$8,600 bn domestic deposits
575 mn accounts (FDIC, June 2012)

Institution Measures

Number of IPLs: 90 (74% of estimated market share)

IPL Size Measure: Core deposits (SNL, 2010-2011)

FMI Factors: Service charge to core deposit rate (SNL, Q1CY2012)

Additional Factors to Consider: Overdraft fees

Notes

Extent of state oversight not a factor because this is a depository product

Complaints not used because of availability of other metrics and because complaints often go to Prudentials rather than FTC