Testimony of Raj Date
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The Consumer Financial Protection Bureau: The First 100 Days

Thank you Chairman Capito, Ranking Member Maloney, and members of the Subcommittee for inviting me to testify about the Consumer Financial Protection Bureau (CFPB). I am pleased to have this chance to update you on our progress.

My name is Raj Date and I serve as the Special Advisor to the Secretary of the Treasury for the Consumer Financial Protection Bureau. Our mission at the CFPB is to help 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. We are here to restore confidence that markets for consumer financial products and services can work *for* families rather than *against* them. And we are here to give our nation's financial institutions a more level playing field on which to innovate and compete.

In the three months since we launched the CFPB, we have been hard at work building the agency. We have hired some 700 employees, many of whom were hired from the prudential regulators' consumer protection divisions. We have travelled across the country to meet and listen to consumers, consumer groups, civil rights organizations, big banks, community banks, investors, and trade organizations. And, among other things, we have started on site examinations of the largest banks, we have started our consumer education campaign, and we have started to take consumer complaints and solve consumer problems. We are working on a summary of our consumer response efforts that will be provided to you. It has been an exceptional beginning.

Before the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), responsibility for administering and enforcing the various federal consumer financial laws was scattered across seven different federal agencies – the Office of the Comptroller of the Currency, the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, the Federal Reserve, the National Credit Union Administration, the Department of Housing and Urban Development, and the Federal Trade Commission. For each of these agencies, consumer financial protection was just one of their responsibilities. Not one of them was solely focused on consumer financial protection.

The CFPB is the first agency whose sole mission is making sure that consumer financial markets work for American families. In addition to rulemaking and enforcement responsibilities, we have authority to supervise large depository institutions and their affiliates. This supervisory jurisdiction covers the 100 or so largest banks, thrifts, and credit unions in the United States, which collectively hold the majority of bank assets in the country and interact with the majority of consumers. When we have a Director in place, we will also supervise key nonbank providers of consumer financial products and services.

To achieve our goals, we are working to be transparent and participatory in everything we do. Our goal is to be an open agency, sharing with the public not only what we are doing but how we are doing it. And to carry out our mission, we have lots of tools in our toolkit – research, supervision, rulemaking, enforcement, and consumer education. Having a full range of tools means we do not have to force a square policy peg into a round hole. Our goal is to use each of these tools in the smartest way possible, matching solutions to problems.

In the first 100 days, we have been hard at work to promote a consumer financial market where consumers know what they are getting into, where firms follow the rules, and where consumers are protected and empowered.

Transparency

One of the CFPB's primary objectives is to bring clarity to the marketplace by promoting easy-to-understand disclosures that make prices and risks clear up front. This will ensure that consumers get the information they need to make the financial decisions they believe are best for themselves and their families.

A basic premise of an efficient, well-functioning market is that the buyer and the seller both understand the terms of the deal, and that buyers are able to make comparisons among products. But in the years leading up to the financial crisis and continuing through today, in many consumer financial markets, that was not the case.

We saw the most egregious example of this in the mortgage industry during the housing bubble, when the fastest growing mortgage products were some of the most complicated: hybrid ARMs, option ARMs, interest-only loans. The potential costs and risks of these mortgages were often not clearly understood. To properly calculate the costs and risks, borrowers needed sophisticated knowledge of things like rate caps and rate spreads. The result was that too many consumers ended up with mortgages they couldn't afford.

The Bureau is doing what it can to fix this lack of transparency in financial product markets. With our *Know Before You Owe* mortgage initiative, we are creating a single, shorter, more useful mortgage disclosure form that satisfies the requirements of the Truth in Lending Act and the Real Estate Settlement Procedures Act. Congress asked us to combine these two forms, and our work in this area will both 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.

Our goal with the form is to reduce unwarranted regulatory burden for industry at the same time that we improve the usefulness of information provided to consumers. Before we began designing the sample form, we reached out to the public, industry participants, and market experts to find out what on the current disclosure forms is helpful for consumers, what is not, and what is information overload. What do consumers really need to know? And what approach makes the most sense for the industry?

We incorporated that feedback as we developed alternative forms, the first two of which we introduced back in May. We invited comments from stakeholders and displayed the forms on our website. We have continued to seek public comments through four subsequent rounds of testing, and have received more than 22,000 comments to date.

And just last week we announced another exciting *Know Before You Owe* initiative with student loans. In partnership with the Department of Education, we are working to improve the way schools communicate loan and repayment information to students. At the CFPB, we are deeply committed to working cooperatively with other agencies in order to efficiently use resources and to further common goals.

In that vein, along with the Department of Education, we released a draft one-page "financial aid shopping sheet" that would provide students and their families with important information such as estimated monthly payment levels after leaving school, and school-related information like graduation rates. It gives information on how students from that school have fared in repaying their loans. Just like with our *Know Before You Owe* mortgage initiative, we are soliciting feedback from the public, industry, and other stakeholders on how to provide the best possible information for students.

The financial aid shopping sheet is intended to be a thought starter to advance both the Bureau's mission in the student loan area and the Department of Education's interests in promoting more informed decisions about higher education. We, and the Department of Education, hope that it is a first step toward greater transparency in this area, and that the process will result in useful tools for colleges, student loan providers, and others who are interested in providing better information to students and their families.

The Bureau is also working to bring greater transparency to the private student loan market – one of the least understood consumer credit markets. We are asking the public, the higher education community, students, families, and the student loan industry – both lenders and servicers – to provide us with information about this market voluntarily. What terms do these student loan products offer? Are students able to repay them? What rules apply to who is approved and who is denied a private loan? With this information, and as required by the Dodd-Frank Act, the CFPB and the Department of Education will draw up a detailed report to give to Congress next summer.

And, finally, part of the Bureau's commitment to transparency means taking stakeholders' views into account. As I mentioned earlier, we have reached out to market participants and the public for feedback on our *Know Before You Owe* projects, and we anticipate that their input will be important in our work to improve clarity for consumers and reduce regulatory burden for industry. We have taken a similar approach in our development of a "larger participant" rule to help define the scope of our nonbank supervision. This is part of our broad efforts to seek industry and public feedback to complement the requirements under the Dodd-Frank Act and other laws, including the Small Business Regulatory Enforcement Fairness Act (SBREFA).

Following the rules

In the lead-up to the worst financial crisis since the Great Depression, we saw a dramatic growth in lending. From 1999 to 2007, household debt almost tripled to more than $12 trillion. But the regulatory system prior to Dodd-Frank failed to protect consumers from harmful practices in this gigantic lending market.

Perhaps the worst example of that was, once again, seen in the mortgage market. Because federal and state rules created a fragmented system of mortgage regulation, supervision, and enforcement, the mortgage market became an un-level playing field that encouraged irresponsible lenders to shop for the most permissive – or least monitored – legal regime. The opportunity for regulatory arbitrage accelerated a race to the bottom in lending standards.

The Dodd-Frank Act charges the Bureau with making mortgage markets work better for all consumers, regardless of what charter the business falls under. When we have a Director in place, brokers, originators, and servicers who are not part of a bank or bank affiliate will – for the first time – be subject to a regime of examination and supervision by federal regulators. Our mission is to ensure that brokers, originators, and servicers play by the rules, regardless of their charter. It doesn't matter if you're a thrift, bank, finance company, industrial loan company, or investment bank. If you want to be in the business of consumer finance, then you've got to play by the rules like everyone else.

To this end, the Bureau has published its Supervision and Examination Manual, the guide for our examiners to use in overseeing companies that provide consumer financial products and services. We have also released our examination procedures for mortgage servicing. Both provide direction to our examiners on how to determine if providers of financial products and services are complying with Federal consumer financial laws – and how to determine if the providers have adequate policies and procedures in place to ensure continued compliance.

We consider both the servicing procedures and the broader Supervision and Examination Manual to be evolving documents. We welcome feedback from all stakeholders. Over the coming months, we will release more guides that explain specific examination procedures for particular products and lines of business.

While the CFPB will examine large banks and their affiliates first, when the CFPB has a Director in place, these guides will be used across the markets we supervise. Our goal is to help promote fair, transparent, and competitive consumer financial markets where consumers can have access to credit and other products and services, and where providers can compete for their business on a level playing field where everyone has to play by the rules.

One of the Bureau's central responsibilities is to identify and address outdated, unnecessary, or unduly burdensome regulations. The Bureau has a unique opportunity to streamline and simplify rules to ensure that they are truly making consumer financial markets work better. The Bureau has inherited from other agencies numerous regulations, many of which have been on the books for years. Changes in technology, market practices, and the legal landscape may have caused some of these rules to be obsolete, unnecessary, redundant, or counterproductive.

Later this month, the Bureau will initiate a targeted review of these rules in search of ways to update and streamline the regulations. Consistent with the Bureau's philosophy, we will ask the public to participate in this process from the beginning. The Bureau will invite public input to identify specific rules that should be priority candidates for review, to provide a fact base to help the Bureau evaluate the costs, benefits, and impacts of those rules, and to suggest alternatives that may achieve the goals of the underlying statute at a lower cost. This input will be vital to the Bureau as we seek to determine how we can make regulations more effective at achieving intended benefits for consumers while lowering costs for lenders.

Empowering Consumers

We have been hard at work building up the Bureau's capability to empower consumers.

Dodd-Frank directs the CFPB to create offices and positions within the agency to address the needs of specific populations, including servicemembers, seniors, and students. These units will focus on improving the financial decision-making of these groups. This includes providing educational materials tailored to these groups' particular needs and situations and addressing unfair, deceptive, and abusive practices targeted against them.

Last month, we brought on Hubert "Skip" Humphrey III to head up our newly established Office of Financial Protection for Older Americans. This follows our hiring of Holly Petraeus to lead our Office of Servicemember Affairs. Mrs. Petraeus is doing a superb job. She is bringing important attention to the unique financial needs of our men and women in uniform.

CFPB's Office of Servicemember Affairs addresses financial issues faced by members of the military. Among other duties, the Office is charged with educating and empowering servicemembers and their families to make better informed decisions regarding financial products and services. Servicemembers face special circumstances such as deployments, relocations, and overseas assignments – and these present unique challenges to the military members and their lenders. Under Mrs. Petraeus's leadership, the Bureau has been collecting data and other information from servicemembers, their advocates and counselors, and industry participants. The Office has hosted town hall meetings with military families and roundtable discussions with financial readiness program managers and counselors, legal assistance lawyers, chaplains, and other professionals servicing the military community.

With Mr. Humphrey's leadership of CFPB's Office of Older Americans, seniors have someone looking out for them when it comes to financial products and services. Seniors have been hard hit by the economic crisis. Even if they planned well, too many saw their retirement savings and home equity shrink. The Office of Older Americans will, among many of its plans, help seniors navigate financial challenges by educating and engaging them about their financial choices in areas such as long-term savings and planning for retirement and long-term care. The Bureau will coordinate with senior groups, financial institutions, law enforcement offices, and other Federal and state agencies to identify and take action against scams targeting seniors. And we will use data from the field to identify trends and bad practices in a timely and effective way.

With students, we are also making strong progress. In addition to our *Know Before You Owe* initiative, we now have a "Private Education Loan Ombudsman." The Secretary of the Treasury recently designated Rohit Chopra to this position, which was created by the Dodd-Frank Act. The ombudsman will work with the Department of Education to receive, review, and attempt to resolve complaints from borrowers of private student loans. In this capacity, he will also work with institutions of higher education, lenders, guaranty agencies, loan servicers, and other participants in private education loan programs. In the Dodd-Frank Act, Congress directs the ombudsman to enter into a memorandum of understanding with the Department of Education's student loan ombudsman; this will enable both agencies to coordinate closely and share information. This memorandum of understanding is complete, allowing us to begin planning how to intake these complaints. Last week, we began helping student loan borrowers by launching the Student Debt Repayment Assistant. Already, consumers have viewed the repayment tool over 28,000 times.

In July, the ombudsman will provide a report to Congress on the CFPB's efforts to assist borrowers of private education loans.

Conclusion

I will conclude by explaining how we will approach every issue that we work on. First, we are committed to basing our judgments on research and data analysis. We will not shoot from the hip. We will not reason from ideology. We will not press a political agenda. Instead, we are going to be fact-based, pragmatic, and deliberative. And I am proud to say that we are building a team that is eminently capable of making good on that promise. We have hired top-notch regulators, researchers, lawyers, and market practitioners.

Second, once we understand a problem and its causes, we will be careful to use the right policy levers to address it. As I mentioned earlier, we have a wide range of tools at our disposal. We will strive to use each of them in the smartest way possible, matching policy solutions to policy problems.

Finally, and perhaps most importantly, we will tackle our mission knowing that we are singularly accountable for it. Consumer protection in financial services is a hard job. And by enacting Dodd-Frank, Congress recognized that if you do not make someone singularly accountable for doing a hard job, you shouldn't expect it to get done well. You can count on us to make sure consumer financial markets actually work – for families, for the honest firms that serve them, and for the economy as a whole.