JEB HENSARLING, TX , CHAIRMAN

United States House of Representatives
Committee on Financial Services
Washington, D.C. 20515

MAXINE WATERS, CA, RANKING MEMBER

# M E M O R A N D U M

To: Members of the Financial Services Committee

From: Financial Services Committee Majority Staff

Date: June 13, 2013

Subject: June 18, 2013 Oversight and Investigations Subcommittee Hearing entitled "CFPB Budget Review"

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The Subcommittee on Oversight and Investigations will hold a hearing entitled "CFPB Budget Review" at 2:00 p.m. on Tuesday, June 18, 2013, in Room 2128 of the Rayburn House Office Building. The hearing will examine the past and planned obligations and expenditures of the Consumer Financial Protection Bureau (CFPB) for fiscal years 2011-14, the purpose and propriety of such obligations and expenditures, and whether the absence of CFPB accountability to Congress has an impact on such obligations and expenditures . The hearing will consider management issues at the CFPB and review salary levels for CFPB staff.

This will be a one panel hearing with the following witness:

- Stephen Agostini, Chief Financial Officer, CFPB

## Background

Title X of the Dodd-Frank Act created the CFPB to regulate and supervise the offering and provision of consumer financial products or services under federal consumer financial laws. The CFPB can enforce existing federal consumer financial protection rules and promulgate new rules. As of July 21, 2011, CFPB assumed responsibility for certain consumer financial protection functions that were formerly the responsibilities of the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the now-defunct Office of Thrift Supervision, the Federal Deposit Insurance Corporation, the Federal Trade Commission, the National Credit Union Administration, and the Department of Housing and Urban Development.

## The Consumer Financial Protection Bureau's Budget

*Funding Sources*

The CFPB is funded principally by transfers from the Federal Reserve System, up to maximum transfer limits set forth in the Dodd-Frank Act. In any given fiscal year, the CFPB Director can request from the Board of Governors amounts up to a percentage, set by statute, of the total 2009 operating expenses of the Federal Reserve System.[1] In FY 2013, the CFPB may request up to

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[1] The Director is authorized to request amounts that he determines "to be reasonably necessary to carry out the authorities of the Bureau under Federal consumer financial law." Dodd-Frank Act at §1017(a)(1). The Act further provides that the Federal Reserve System *shall* transfer amounts requested by the CFPB Director.

$597.6 million (12 percent of the 2009 Federal Reserve System operating expenses). Each year after FY 2013, the CFPB may spend up to 12% of the Federal Reserve's 2009 expenses plus an adjustment for inflation. If the authorized transfers from the Federal Reserve are not sufficient to cover expenses in fiscal years 2010-2014, the CFPB can ask Congress for up to $200 million more through the appropriations process. Any transfer amounts received by the CFPB from the Federal Reserve System that have not been obligated may be retained and invested in U.S. Treasury securities.

In addition to transfers from the Federal Reserve, the CFPB is authorized to levy fines on those who violate Federal consumer protection laws or regulations. The Dodd-Frank Act permits the CFPB to retain those fines to compensate victims for damages or, when not practicable to do so, for consumer education and financial literacy programs.

Federal Reserve System transfers to the CFPB create budget consequences for the size of the federal debt. The income of the Federal Reserve System is derived primarily from: the interest on U.S. government securities acquired through open market operations (the main tool used by the Federal Reserve to influence monetary and credit conditions); interest on foreign currency; and interest on loans to banks and fees received for services to banks, including check clearing and fund transfers. After it pays its expenses, the Federal Reserve System turns the remainder of its earnings over to the U.S. Treasury. Historically, about 95 percent of the Federal Reserve System's net earnings have been paid into the Treasury. Every dollar transferred to the CFPB is a dollar that is not returned to the Treasury, thus reducing the funds available to pay down the debt.

*Employee Resources and Compensation*

On March 29, 2013, the CFPB released a report entitled *Semi-Annual Report of the Consumer Financial Protection Bureau*, which summarized the CFPB's activities during the period of July 1 to December 31, 2012.[2] In the report, the CFPB revealed that it spent approximately $134 million on salary and benefits in FY 2012 and had a total of 1,073 employees as of December 15, 2012. In FY 2011, the CFPB spent $48.4 million on salary and benefits and, as of December 31, 2011, had a total of 757 employees.[3]

*Current Year and FY 2014 Budgets*

In April 2013, the CFPB released its Budget for FY 2013 and FY 2014 in conjunction with its Strategic Plan for Fiscal Years 2013-2017. For FY 2013, the CFPB estimated that it would spend $541 million and increase its full time equivalent employees to 1,214. The CFPB estimates that it will spend $497 million in FY 2014, a decrease from FY 2013. This budget decrease still allows for an increase in the number of full time equivalent employees, bringing the total to 1,545.

[2] Semi-Annual Report of the Consumer Financial Protection Bureau, March 29, 2013, available at http://files.consumerfinance.gov/f/201303_CFPB_SemiAnnualReport_March2013.pdf
[3] Semi-Annual Report of the Consumer Financial Protection Bureau, January 30, 2012, available at http://www.consumerfinance.gov/report/financial-report-fy2011/