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Chairman Hensarling, Ranking Member Waters, and Members of the Committee, thank you for the invitation to appear today on the impact of regulation on financial markets and institutions. My name is Meredith Fuchs and it is my privilege to serve as General Counsel at the Consumer Financial Protection Bureau (Bureau).

As you know, the Bureau was created as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), in response to the recent financial crisis. That crisis resulted in part from failures of the federal regulatory system, including the fragmented responsibility for consumer financial protection. Different regulators were responsible for overseeing different kinds of entities—even though those entities operated in the same markets—and some entities operated without any meaningful federal oversight at all. In the end, this fragmented regulatory system proved unable to protect the market for consumer financial products and services, and both consumers and the economy as a whole suffered as a result.

To address this problem, Congress created the Consumer Financial Protection Bureau. We are now hard at work fulfilling the objectives that Congress set out for us, including making sure that consumers have better information for making financial decisions, reducing unwarranted regulatory burden, leveling the playing field for different kinds of entities offering the same kinds of products and services, promoting transparent and efficient markets that facilitate access and innovation, and preventing discriminatory practices.

The Consumer Financial Protection Bureau's Work

In our regulatory work, we are focused on making consumer financial markets work better. More specifically, we are working to make the rules for these markets more effective, to apply them fairly and consistently, and to strengthen consumers' ability to make the decisions that are best for them. Our vision is a market where consumers can see prices and risks and compare products, and where firms do not feel pressure to lower their standards to compete.

To help achieve this vision, we have, as the Dodd-Frank Act requires, issued regulations to strengthen mortgage markets, to make federal mortgage disclosures easier for consumers to understand and less burdensome for firms to make, and to establish standards for mortgage servicing. We also have issued rules to allow us to examine a range of larger non-bank participants in the consumer debt collection, consumer reporting, and student loan servicing markets, and issued a proposed rule to enable us to examine larger participants in the international money transfer market. We are also considering regulations on debt collection, payday lending, prepaid cards, and overdraft programs.

As we do this work, we are committed to ensuring that our rules are effective at protecting consumers and making consumer financial markets work better, and that they do not unduly burden the institutions participating in those markets. We employ a number of strategies to achieve those goals.

Consider input from a wide variety of stakeholders

First, in crafting our regulations, we consider the input of many stakeholders, including the businesses operating in the relevant markets. For example, we have created an Office of Financial Institutions and Business Liaison, which connects the Bureau with bank and nonbank trade associations, financial institutions, and businesses to enhance collaboration and communication with those groups as the Bureau does its work. We have also hosted roundtables, town halls, and field hearings across the country to get public input on topics including payday lending, debt collection, and credit reporting. At these events, we have heard from consumers, community leaders, and members of the financial services industry.

We also seek targeted input on specific regulations. In our project to reform mortgage disclosures, for example, we engaged extensively with lenders about how to reduce compliance burdens. That engagement began well before we proposed a regulation. In addition, the Bureau is the only banking regulator, and one of only three federal agencies, that the Small Business Regulatory Enforcement Fairness Act (SBREFA) requires to convene small business review panels. Pursuant to that Act, before we propose a rule that would have a significant economic impact on a substantial number of small entities, we seek input directly from small entities on the potential costs and potentially less-burdensome alternatives. To do this, we work with the Small Business Administration (SBA) and the Office of Management and Budget (OMB) to convene small business review panels to get in-depth input from 15-20 representatives of diverse small entities. Before those panels meet, we distribute materials giving a background and overview of the proposed rule or options under consideration and a detailed list of questions and issues for discussion by the small business representatives. We also make these materials public on our website and invite other stakeholders to provide feedback. The Bureau, SBA, and OMB then issue a public report that summarizes the feedback received from the small entity representatives and makes findings and recommendations. This process has proven extremely valuable. To take just one example, at the panel outreach meeting on our proposal to integrate mortgage disclosures required under TILA and sections 4 and 5 of RESPA, small entity representatives expressed concern about the proposal to require disclosures to be completed three days before closing. In response to this concern, we proposed a rule that would permit certain specific changes after the disclosure has been provided, and also solicited comment on whether additional exceptions would be appropriate.

Avoid imposing unwarranted new regulatory burdens

A second strategy we use to ensure the most effective regulation possible is to consider consciously the costs and benefits of rules to avoid imposing unwarranted new regulatory burdens. One way we do that is through the small business review panels previously described. In addition, pursuant to the Dodd-Frank Act, when issuing a rule under Federal consumer financial law, we are required to consider the potential benefits and costs to consumers and to financial service providers. This includes specifically considering the impact of the rules on banks and credit unions with assets of $10 billion or less, and on consumers in rural areas.

Similarly, under the Regulatory Flexibility Act, we generally conduct a regulatory flexibility analysis unless we determine that a proposed regulation would not have a significant economic impact on a substantial number of small entities. Those analyses consider the compliance burdens of a proposal as compared to less burdensome alternatives. Moreover, where a proposed rule would impose disclosure, recordkeeping, or information-collection requirements, the Bureau also specifically considers the burden imposed by those requirements, and ways to minimize that burden, pursuant to the Paperwork Reduction Act.

The Bureau's organizational structure was carefully designed to assure that the Bureau's rules are pragmatic and cost-effective. The Office of Regulations is housed within the Division of Research, Markets, and Regulations precisely to assure that our regulations reflect the input and insights of economists and market specialists as well as of regulatory attorneys.

Reduce existing regulatory burdens

Third, we also act deliberately to reduce existing regulatory burdens where feasible. For example, shortly after it assumed its full powers, the Bureau issued a notice seeking input on ways to streamline the regulations that the agency inherited from seven different federal agencies, so that those regulations would work better for consumers and the institutions that serve them. The comments we received have helped us to identify several priority areas for taking action to update, modify, or eliminate outdated, unduly burdensome, or unnecessary regulations, or to make compliance easier. For example, some commenters suggested that we eliminate a requirement to provide annual privacy notices in certain circumstances, such as when financial institutions do not share consumers' information with third parties or have not changed their practices since they provided the last annual notice. In response to these concerns, the Bureau is working on a proposal that, if adopted, would reduce the compliance burden for industry and unwanted paperwork for consumers. As another example, we heard about a problem with the rules that implemented a statutory requirement that credit card issuers evaluate a consumer's ability to pay before opening a new credit card account. Under the old rules, a card issuer generally could consider only the independent income or assets of the individual card applicant. This unduly limited the ability of stay-at-home spouses and partners to obtain credit cards based on the income of their spouse or partner. Last May, the Bureau published a final rule to address this problem.

In another effort to reduce regulatory burdens where practicable, we have revamped federal mortgage disclosures. For several decades, federal law generally required mortgage lenders to give consumers two different, overlapping disclosures within three business days after receiving a mortgage application, and again at or shortly before closing. These forms contained duplicative information that could be confusing to consumers and unnecessarily burdensome for businesses. Pursuant to the Dodd-Frank Act, the Bureau worked to simplify and streamline this information. In November, after more than two years of extensive research, testing, and review, the Bureau issued a rule requiring easier-to-use mortgage disclosure forms that clearly lay out the mortgage terms and costs for homebuyers.

In addition, our Research, Markets, and Regulations Team is studying the costs of complying with existing regulations. To further that effort, we have sought qualitative information on the impact of regulations on financial service providers so that we can better understand the compliance activities, burdens, and other economic costs and benefits of regulations. Based on some of the information we received, we recently issued a public report on the costs that banks incur to comply with regulations governing consumer deposit-related products and services. This report marks an important step towards the Bureau's goal of learning more about compliance costs and identifying meaningful opportunities to avoid imposing unnecessary operational costs.

Going forward, we will continue to look back to assess the benefits and costs of the regulations we issue. Currently, we are developing a comprehensive plan to assess the effectiveness of the significant rules that we adopt under Federal consumer financial law within five years of their issuance, as Section 1022 of the Dodd-Frank Act requires. Before we publish a report assessing our regulations, we'll seek public comment on the regulations and on recommendations for changing them.

Facilitate compliance

Fourth, in addition to eliminating unwarranted regulatory burdens where feasible, we are working to make it as easy as possible to comply with our regulations. To that end, we have implemented comprehensive regulatory implementation programs to help industry comply with our rules. For example, in the lead-up to the October 2013 effective date of our rule on international remittance transfers, we created a downloadable Small Entity Compliance Guide providing an overview of the rule's requirements, a video summarizing the rule, and a webpage containing those and other key resources. In addition, Bureau staff participated in industry forums and conferences, and routinely answered informal guidance questions, to help industry meet their obligations under the new rule.

Similarly, after we issued new mortgage rules last January, we published plain-language compliance guides and video presentations that give an overview of the rules. In close coordination with other regulators, we also developed and issued examination procedures as early as practicable to help the implementation process. In addition, we issued a readiness guide and other implementation materials, all of which are available on an implementation-specific page on our website. That one-stop shop is designed to make compliance materials more accessible for a broad array of industry constituents, particularly smaller businesses with limited legal and compliance staff. To supplement these resources, we also provide informal oral guidance to industry participants who contact us with interpretive questions.

As we worked to help industry to implement the new mortgage rules, stakeholders raised questions and concerns about various issues. Where warranted, we responded by proposing and issuing amendments and clarifications to facilitate compliance and better protect consumers. To take just one example, creditors and loan originators expressed concern about new requirements for persons classified as loan originators to have certain qualifications and not to be compensated in certain ways. In particular, industry participants explained that tellers or other administrative staff could be unintentionally classified as loan originators subject to these requirements simply by engaging in routine customer service activities. In response to this concern, we amended our loan originator rule to clarify the limited circumstances in which administrative staff members qualify as “loan originators” subject to the rules. As another example, we amended our rules to make it easier for servicers to offer short-term forbearance plans for delinquent borrowers who need only temporary relief without going through a full loss-mitigation evaluation process. By addressing the issues that arose during the implementation process, we aim to produce better compliance and better protections for consumers.

Hold parties accountable for violations of law

Of course, despite our best efforts, not everyone complies with the law all the time. That brings me to our fifth strategy for helping to make financial markets work better for consumers: holding parties who violate the law accountable through an effective supervision and enforcement program. Through our supervision program, we examine a variety of banks and nonbanks for compliance with federal consumer protection law. To ensure that we use our supervisory resources most effectively, we take a risk-based approach to conducting examinations. In particular, we assess various factors in deciding which entities to examine so that we can direct our resources to the products and markets that pose the greatest risks to consumers. Similarly, our Office of Enforcement has focused its investigative resources on violations of law that cause the greatest harm to consumers. Together, our supervision and enforcement programs have returned hundreds of millions of dollars to injured consumers, halted violations of law, and required companies to strengthen their compliance systems.

Support innovation in the market

Finally, the sixth strategy we employ to help make consumer financial markets work better is to support innovations in the market. We believe that looking at problems and solutions from new angles can produce important insights and innovations that will help achieve our vision of a consumer finance market that works well for all consumers. To help make this vision a reality, we launched “Project Catalyst” to support innovators in creating consumer-friendly financial products and services. As one aspect of this project, we have invited innovators to collaborate with us on changes that could serve consumers. In particular, the public may propose changes in financial regulation that could better foster consumer-friendly innovation, or they may share an idea for a new, consumer-friendly financial product or service and ask to collaborate with us in developing it.

Another part of Project Catalyst is our trial disclosure program. Under this program, companies can design an innovative disclosure or way of delivering a disclosure that is not permissible under existing regulations. Where appropriate, we will grant a waiver from compliance with the existing regulations, with safeguards in place to protect against consumer harm, so that the company can try out its idea and measure how well it works. We will then be able to review the data from the trial disclosure to help determine whether the proposed innovation works better than what is currently required.

All of these strategies play an important part in our work to promote well-functioning markets for consumer financial products and services that are fair, transparent, and competitive.

Conclusion

Thank you again for the opportunity to discuss the impact of regulation on financial markets and institutions with the Committee. We look forward to carrying out our responsibilities under the Dodd-Frank Act to strengthen the financial services market for consumers.