BUDGET HEARING—CONSUMER FINANCIAL PROTECTION BUREAU

HEARING

BEFORE THE

SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

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BUDGET HEARING—CONSUMER FINANCIAL PROTECTION BUREAU

Wednesday, February 15, 2012

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON OVERSIGHT
AND INVESTIGATIONS,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:04 a.m., in room 2128, Rayburn House Office Building, Hon. Randy Neugebauer [chairman of the subcommittee] presiding.

Members present: Representatives Neugebauer, Fitzpatrick, Pearce, Posey, Hayworth, Renacci, Canseco, Fincher; Capuano, Lynch, Waters, Baca, Miller of North Carolina, Ellison, Himes, and Carney.

Ex officio present: Representatives Bachus and Frank.

Also present: Representatives Royce, Green, and Maloney.

Chairman NEUGEBAUER. Good morning. I will call the hearing to order. I would like to remind the Members that we will have 2 minutes of opening statements on each side. I see that Mr. Royce is here, and I think Mr. Grimm will also join us.

I ask unanimous consent that members of the full Financial Services Committee who would like to sit in on this hearing be allowed to sit and be a part of our panel this morning.

One of the primary responsibilities, I believe, of government is to make sure there is transparency and accountability. And sometimes, those two terms can be mutually exclusive.

This hearing today is about a new entity that was created in the Dodd-Frank Act—the Consumer Financial Protection Bureau. It was tucked inside the Federal Reserve, some say to preserve its independence. Others would say that in trying to preserve its independence, it put this entity in a place where there is a lack of transparency and accountability. And that we give one person a tremendous amount of authority to not only make rules and regulations but also to spend money without congressional oversight or really accountability to any other entities as well.

So, what we hope to accomplish with this hearing today is to determine exactly what types of activities have been going on in the Consumer Financial Protection Bureau.

With this understanding, a reminder to everyone that this is budget season; and in the beginning of this week, the President of the United States laid out a budget. And in that budget, it calls for another trillion dollar deficit.

So, this will be the fourth trillion dollar plus deficit in this term of this President. And this is an unsustainable route.

Somebody asked, "What does a hearing today on the Consumer Financial Protection Bureau have to do with the deficit?"

This is a reminder to everyone that the Federal Reserve (Fed) has gotten a great deal. It borrows through zero and it buys bonds and pays interest and creates an arbitrage and creates earnings for the Federal Reserve. And the Federal Reserve then takes that money and spends some of it for the operations of the Fed and then the balance of that money, and, by the way, it has been increasing at a pretty substantial rate here because the Fed has grown multifold since the beginning of the crisis. And so, those revenues come back to the Treasury, which is a part of the revenue source.

If you go through the President's budget, you will see where they are expecting the Federal Reserve to send them some money to spend which will either go for deficit reduction or for operations of this country.

And so, to the extent that we make sure that the money that is being spent by the Consumer Financial Protection Bureau, because they get their money from the Federal Reserve, to the greatest extent possible is being spent as efficiently and effectively as we can is actually a deficit reduction opportunity for this Congress.

I look forward to hearing from our witness today, Mr. Cordray, and having a very open and honest discussion about that.

And with that, I yield to my good friend, the ranking member of the subcommittee, Mr. Capuano.

Mr. CAPUANO. Thank you, Mr. Chairman. Mr. Chairman, thank you for having this hearing. Mr. Cordray, welcome. I am looking forward to hearing your testimony.

I am using this hearing personally to kind of catch up on where you are. I do want to know more about your budget. I think our role as an oversight committee is important to make sure that we agree with generally where you are going and what you are doing.

But at the same time, I expect that during this hearing, it is a little premature to draw our judgments. As I see it, you are kind of just getting started. And I would hope that this doesn't become just a rehash of why people didn't like your creation in the first place. If they don't like it, repeal you, and we will see about that.

But for me, I just kind of want to know where you are, where you are going, and what to expect in the next year or so.

I will tell you unequivocally that I think the creation of the CFPB is a good thing for America. I am hoping that—just one little statistic. I am looking at a Pew report that says we lost $3.4 trillion in wealth relative to real estate during the last financial crisis.

If we could have saved one tenth of that with the amounts of money that we spend in your agency, it would have been well worth it for the American people and for the world economy as a whole.

So, as far as I am concerned, I look forward to this CFPB becoming a great and wonderful defender of American consumers and I am hoping that you are in the right track. I will also look forward to hearing your testimony today.

Thank you.

Chairman NEUGEBAUER. I thank the gentleman.

Now, the vice chairman of the committee, Mr. Fitzpatrick, is recognized for 2 minutes.

Mr. FITZPATRICK. Thank you, Mr. Chairman. I appreciate your calling this hearing. I know we are all looking forward to the hearing in part because there is a lot of talk in this town about honest budgeting and transparency in government.

And as a big believer in these ideals, I look forward to discussing them today with Mr. Cordray.

As this committee has explored for the better part of the year, the CFPB is unique among not just regulators, but among most government agencies. And that uniqueness is what has drawn so much attention.

Despite not being subject to oversight that comes with the normal, usual appropriations process, Congress still has a role to play to ensure that taxpayer dollars are being well-spent, which is arguably our most important role here in this town.

I also believe that the taxpayers deserve to know how their money is being spent ahead of time rather than after the fact. Careful and thorough planning makes a goal much easier to achieve. Not only is that good fiscal management but it is also common sense.

So, thanks, again, Mr. Chairman, for calling the hearing. I look forward to hearing from the witness.

Chairman NEUGEBAUER. I now recognize the ranking member of the full Financial Services Committee, Ranking Member Frank.

Mr. FRANK. Mr. Chairman, I would take, I guess, 5 minutes now; and we can reserve if any other of our Members come forward, if that is all right.

I welcome everybody to what I think is the sixth or seventh hearing this year. It is the sixth or seventh oversight hearing in which people complain that there is no oversight.

It makes me wonder. It raises philosophical questions, "Are we really here?" We are told that there is no oversight. And we are told repeatedly in meetings of the Oversight Subcommittee, in which we are conducting oversight, that there is no oversight.

In fact the notion that this is unique is surprising to me coming from people who have been serving on a committee which has primary jurisdiction over the Office of the Comptroller of the Currency. The Comptroller of the Currency is an independent entity appointed by the President, funded not through the appropriations process but by fees that office gets.

And, in fact, the previous Comptroller—an appointee of President Clinton—after using his authority, which we tried to curtail in the financial reform bill, to cancel all State consumer protection laws, then sent out a CD to State-chartered banks saying, in effect, "come be chartered by me and you won't be regulated." And that, of course, enhanced his financial capability.

That may or may not be right. But I do not remember any member of the Republican Party ever complaining about the status of the Comptroller of the Currency, which is exactly the same as that of the Consumer Bureau.

And I would say if you look historically and talk to bankers about which agency is more important to them, particularly community bankers, it is the Comptroller of the Currency. The Comptroller of the Currency is a very significant figure.

And while he is housed in the Department of the Treasury, he is independent, very analogous to the role of the Consumer Bureau in the Federal Reserve.

As to one individual, not a board, having enormous power, once again, I would say that many people I think would believe that the Environmental Protection Agency, run by a single Administrator, has more authority that will affect the economy and people's lives.

People did not object to the Comptroller of the Currency because the Comptroller of the Currency had a very comfortable relationship with the banks. And there are people in this committee who believe that it is the job of regulators to accommodate the banks.

What we did in the Financial Reform Bill was just say that where consumer protection is concerned, it is kind of a conflict of interest for the people who are the bank regulators to also be the Consumer Bureau. And so, we created a new Consumer Bureau.

Now, by the way, on the budget—and I am going to ask Mr. Cordray for these numbers—the gross number for the budget is a little bit misleading if it is suggested that is all new spending, because one of the things that we did in the Consumer Bureau was to transfer legal authority and personnel from existing bank-regulating agencies.

There are personnel who work now in the Consumer Bureau who had been at the Federal Reserve, at the Comptroller of the Currency and, I believe, at the FDIC. I am told the number is about 200 of the 700 and some odd employees. In other words, more than 25 percent of the employees now working and charged to the CFPB were budgeted for elsewhere. So, that is not a net increase.

Finally, there have been some concerns raised about the fact that the charter is statutorily to deal with issues that are about fraud, deception or abuse. A number of Republicans have complained about abuse. And they have said very explicitly, "But that must mean that something which is not inherently dishonest is abusive as applied to some individuals."

Many of us believe that when 88-year-old semi-literate individuals are being pressured into certain bogus terms, that could be considered abusive. And, in fact, we recognize that in the investment area, where we have the qualified investor. So, investments that can be pitched to some people aren't pitched to others.

But there is this question, "Should the mandate of the Bureau, even from people who don't like it, be limited only to fraud and deception, or is it legitimate to also give them the power to step in when there is a problem where things are abusive as applied to the particular individuals?"

I want to read from a very distinguished economist whom I think supports that. He says, "In those systems that can be rationally defended where the States just do nothing, an effective competitive system—he a great advocate of competition—needs an intelligently designed and continuously adjusted legal framework as much as any other.

"Even the most essential prerequisite of its proper functioning, the prevention of fraud and deception including exploitation of ignorance, provides a great and by no means yet fully accomplished object of legislative activity."

It was written before we did the Bureau. But I want to stress, again, this is a very distinguished economist arguing that, "Yes, you want to prevent fraud and deception." But he includes in that the exploitation of ignorance. And that is the strong endorsement of the charter that the Bureau has.

I yield back.

Chairman NEUGEBAUER. I thank the gentleman. And I want to say that I agree with the gentleman that the EPA Director does have too much authority and I would be glad to work with him in a bipartisan way to eliminate that position.

Mr. FRANK. Will the gentleman yield?

Chairman NEUGEBAUER. I will.

Mr. FRANK. Has the gentleman filed legislation, done anything before answering me to advance that?

Chairman NEUGEBAUER. No. But now that I know you—

Mr. FRANK. Oh, okay.

Chairman NEUGEBAUER. I will.

Mr. FRANK. Conversion is always proper even it is very circumstantial in its motivation.

Chairman NEUGEBAUER. I now yield to the chairman of the full Financial Services Committee, Chairman Bachus.

Chairman BACHUS. Thank you.

Mr. Cordray, welcome to the hearing. I think this is your first appearance before this committee.

In a well-publicized speech 2 months ago in Kansas, the President said we should be strengthening oversight and accountability. Now, I totally agree with that. There should be stronger oversight and accountability of every government agency.

Unfortunately, the CFPB is designed in a way to avoid critical oversight and accountability. The ranking member of the full committee mentioned the EPA, and I know Mr. Neugebauer picked up on that and my antenna went up as well.

And I think it was appropriate to mention the EPA. The CFPB actually has more sweeping authority than the Director of the EPA. Title 10 of the Dodd-Frank Act confers virtually unfettered discretion on the Director of the CFPB.

As Mr. Cordray has said many times, "This is not about personalities. It is not about Elizabeth Warren. It is not about you." But the Director, whoever it is, can identify financial products and services that he or she alone finds objectionable, "unfair, deceptive, or abusive" and ban them under a highly subjective standard that has no legally defined content.

Without question, this gives the CFPB Director power that far exceeds that of any other financial regulator. We have seen the EPA do that, and Chairman Neugebauer, I commend you for holding this hearing. We have seen them do some things that the American people have said, "Whoa! Wait just a minute."

They are doing that to fire trucks now—volunteer fire departments. They put a new regulation that is costing volunteer fire departments, some of them, a whole year's budget just to put a different restrictor on their exhaust systems and it is actually shutting down fire trucks as they go out to fires and it has created a real problem.

Now, will the CFPB do something as we have seen the EPA do in overreach? I don't know. But if they do, with the EPA, political pressure can be brought on the President. He appoints the Director of the EPA as a Cabinet position. He can fire him.

Mr. Cordray—even the President cannot fire him. The difference in this agency—another difference—is that EPA gets its appropriation from Congress.

The CFPB isn't under the appropriation process. If they spend $100 million on paper clips, we can't even say, "Wait a minute, you can't do that next year. We are going to cut your budget," no matter what they spend money on. We have absolutely no control.

And let me tell you, in a time of a budget deficit, oversight and accountability on spending is urgently important. In this agency, there is no accountability. There is no board and they have unfettered discretion to ban products or to declare them as unfair.

And, "unfair" or "fair" could be a debate that could go on forever. But we actually have somebody who can just say, "Fair, unfair"—one person, no accountability, not even to the President.

Thank you, Mr. Chairman.

Chairman NEUGEBAUER. I thank the gentleman.

And now, Mr. Lynch is recognized for 1½ minutes.

Mr. LYNCH. Thank you, Mr. Chairman.

I would also like to thank Director Cordray for joining us here today. This is your first of what I expect will be many, many appearances before this subcommittee. I have a feeling you will be a frequent flyer here.

We are here today to examine the Consumer Financial Protection Bureau's budgetary process, something that was debated extensively during the Wall Street reform process in the last Congress.

Before the Dodd-Frank Act was passed, there were seven different Federal agencies that had partial responsibility over consumer protections in the financial services sector and apparently none of them did a very good job at it.

The Consumer Bureau was created to centralize that authority over consumer protection into one agency and to give that agency the necessary tools to carry out that mission effectively.

To give the Consumer Bureau real teeth, we removed it from the appropriations process and created a funding mechanism whereby the Bureau draws the funds it needs from the Federal Reserve up to a statutory maximum.

Still, the Consumer Bureau operates on a budget less than that of the OCC, the SEC, the FDIC, and the Federal Reserve. A recent report found that the Bureau costs each taxpayer less than $2 per year. That same report found that the financial crisis cost the American taxpayers $12 trillion in lost wages, lost home value, lost stock wealth, and fiscal costs.

I would that less than $2 per year is a small price to pay for the protection that you will provide. The bottom line here is that the CFPB's statutory mandate is to implement and enforce Federal financial consumer laws consistently for the purpose of ensuring that all consumers have access to markets for consumer financial products and services, and that those markets for consumer financial products and services are fair, transparent, and competitive.

Apparently, that scares the heck out of a lot of people in the financial services industry. But I think that is a worthy goal. I wish you the best of luck in your duties and I hope that I can be a good partner for the Bureau in your work going forward.

Thank you very much, and I yield back the balance of my time.

Chairman NEUGEBAUER. I thank the gentleman.

And now, the gentleman from Texas, Mr. Canseco, is recognized for 1½ minutes.

Mr. CANSECO. Thank you, Mr. Chairman.

Mr. Chairman, this is certainly a very important hearing as we look into just how the CFPB managed to spend $160 million last year and why it feels the need to spend an additional $330 million this year.

The CFPB seems to have no concrete plan on how this money is going to be spent. But I guess, with this agency, that is par for the course. I am reminded too that the crafters of Dodd-Frank conveniently allowed the CFPB to spend however much it wants without any input from Congress or any other body for that matter.

So, in effect, while today's hearing is important, we as Congress sit here powerless and can only listen to Mr. Cordray as he lays out his priorities for how to spend money that could be used to reduce our national debt, which just crossed $15 trillion this year.

And I am also reminded that Mr. Cordray is what is called a "recess appointment," that occurred while the Senate was in session. And it has created even more uncertainty for the financial institutions and small businesses who now correctly believe that every rule handed down by the CFPB will be subject to judicial review.

What we have is a rogue Director in charge of a runaway budget for an agency whose mission is still unclear. Mr. Chairman, this is a recipe for disaster that will only hurt our economy going forward.

Thank you, and I yield back.

Chairman NEUGEBAUER. I thank the gentleman.

And now, Mr. Ellison is recognized for 1½ minutes.

Mr. ELLISON. Mr. Chairman, thank you.

And I want to thank the ranking member.

Let me a tell you what a recipe for disaster is—allowing citizens to be lied to and bilked into subprime predatory mortgages, then repackaging those subprime mortgages into a mortgage-backed security, then somehow convincing someone to rate it AAA and then allowing banks to trade on their own accounts to buy those assets in proprietary trading and then, having some insurance-like product that would back it all up, but of course, they wouldn't have any reserves to cover the losses.

That is a recipe for disaster and that is exactly what happened. It is shocking to me that my friends on the other side of the aisle act like the financial crisis of 2008, 2009, and 2010 didn't even happen. They don't think anything should be done to try to rein in people who took advantage of consumers and destroyed whole neighborhoods.

In the zip code of 55411, which is where I live, 48 percent of the houses are in foreclosure; not underwater, in foreclosure. This is because of the bad behavior that you want to protect these people from.

If your business model is not about bilking consumers, you have nothing to worry about from the CFPB; but if your aim and your goal is to hook them and crook them and take advantage of consumers, of course, you are horrified.

And all this stuff about: "Oh, yes; they have too much authority. They have taken too much money. We can't talk to them. We can't control them"—this is all nonsense. This is all just shilling and trying to run alibis and interferences for crooked individuals.

I yield back.

Chairman NEUGEBAUER. Thank you.

And now, the gentlewoman from New York, Mrs. Hayworth, is recognized for 30 seconds.

Dr. HAYWORTH. Thank you, Mr. Chairman.

Mr. Director, I note that one of the key responsibilities of the CFPB is to educate consumers. And I would implore you that one key aspect of that financial education should be regarding the unintended consequences of Federal intervention in the markets, even when well-intentioned.

I would welcome the opportunity to work with your staff in that regard because I do think that is a crucial piece of this entire picture, including, as the distinguished Member from Minnesota has just mentioned, the 2008 fiscal mortgage industry crisis which can certainly be laid at least in part and a major part at the feet of Federal intervention.

Mr. Chairman, I yield back.

Chairman NEUGEBAUER. I thank the gentlewoman.

Now, I think the ranking member reserved—and I recognize him for 30 seconds.

Mr. FRANK. Thank you, Mr. Chairman.

Just a couple of points—first of all, this notion that the Director cannot be removed is fanciful. It says in the statute that, yes, the Director is appointed for a 5-year term, but can be removed by the President for insufficiency, neglect of duty, or malfeasance.

No one doubts that if a change in Administration comes, and the new President disagrees with the existing Director, he or she can be removed. And proving that you were not inefficient, the burden of proof being on you, would be overwhelming.

Secondly, just as we are having an oversight hearing about the lack of oversight, we capped the appropriation last year and we are now hearing that we can't do that. This is just bizarre.

Last year, in the appropriation in the budget, the amount that this agency can spend was limited by Congress and people keep arguing it wasn't. Finally, I read a quote—because I know it has been controversial as whether or not the Bureau could protect people against ignorance, the abusive—I am talking about "unfair," and we did say yes, there were some things that may be "fair" with regards to some people and not others.

I read the quote that said that even the most essential prerequisite of the proper function of government, the prevention of fraud and deception including exploitation of ignorance, provides a great object of legislative activity.

And I forgot to mention that this endorsement of legislative activity to prevent the ignorant from being exploited was written, as I said, by a very distinguished economist. His name was Friedrich Hayek.

I am quoting from the edition I have from the Library of Congress, “The Road to Serfdom,” and it is Mr. Hayek who says that he is against central planning but he believes strongly in the appropriate regulation including the prevention of ignorance. I don’t claim that Mr. Hayek, were he still alive, would have endorsed this particular wording, but the purpose of going beyond this fraud and deception and preventing exploitation of ignorance—and I have given out the quote—four pages of it because it is very much in context.

I thank you.

Chairman NEUGEBAUER. Thank you.

Now, the gentleman from Florida, Mr. Posey, is recognized for 30 seconds.

Mr. POSEY. Thank you very much, Mr. Chairman.

Mr. Cordray, I hope in your comments, you will address Judicial Watch and other public interest organizations that investigate and prosecute government corruption, address their issues—one thing, such as, let us know why an Associate Director of Consumer Education needs to make $251,288 a year for the entry-level position.

Also many of us believe, unlike some on the other side, that the only way we are going to stop the crisis and corruption and the crony capitalism that we have seen in the past and we see going on now is to hold somebody accountable, and that means prosecute somebody for their bad deeds, which the Justice Department, obviously, has not seen fit to do, at least not yet, and I would like to know what your specific plans are.

And if you think, maybe you can even get help from the Justice Department that other agencies apparently can’t, to bring some of these criminals to justice. I think most of us on both sides of this aisle want to see done. Thank you.

Chairman NEUGEBAUER. I thank the gentleman.

And now, Mr. Royce from California is recognized for 1½ minutes.

Mr. ROYCE. Let me agree with Mr. Frank in terms of the observations made by Professor Hayek. But when we look at this situation, I think what Professor Hayek would also argue is that government intervention into regulation in order to achieve certain political ends could also create a problem.

The problem that exists here is that we have sort of a bifurcated regulatory structure. At least in the opinion of many of us, what we have done with the CFPB is to dilute the power of the safety and soundness regulators in this situation.

The concern we have is that it might morph into the type of situation we had with the bifurcated regulation when we had HUD on one side and NOFA on the other.

The regulators wanted more power at that point in order to—they wanted it by statute so that they could better regulate safety and soundness. HUD, on the other hand, weighed in. And so, we ended up with the situation of the overleverage that existed with the GSEs of the zero down payment loans and so forth.

Unless this power rests not with the products' regulator, but with the prudential safety and soundness regulator, it is much more likely that politics, government intervention will come into play and who knows, we could end up with the argument for the political allocation of credit.

We could end up with the same kinds of assertions that were made over at HUD for zero down payment loans or for a 100 to 1 leverage through the GSEs. Why? Because we are going to put everybody in a home and that was going to be everybody's right whether they could afford to pay for it or not.

So what we are actually talking about is trying to get some balance back in this so that the prudential regulator can step in and prevent the type of thing that all of us saw happen before. And I just wanted to make that point.

Chairman NEUGEBAUER. I thank the gentleman. I would remind all Members that your opening statements will be made a part of the record.

And now, we will hear from our one and only witness, Mr. Richard Cordray, Director of the Consumer Financial Protection Bureau. You are recognized for 5 minutes. Thank you.

STATEMENT OF THE HONORABLE RICHARD CORDRAY, DIRECTOR, THE CONSUMER FINANCIAL PROTECTION BUREAU

Mr. CORDRAY. Thank you, Chairman Neugebauer, Ranking Member Capuano, members of the subcommittee, and those members of the full committee who are here, for the opportunity to testify on the budget of the Consumer Financial Protection Bureau.

Before I became Director, I promised Members of Congress in both chambers and on both sides of the aisle that I would be accountable to you for how the Consumer Bureau carries out the laws you have enacted.

I said that I would always welcome your thoughts about our work and I stand by that commitment today. This is the 14th time that we have testified before either the House or the Senate and my colleagues and I look forward to continuing to work with you to provide the kind of oversight that allows you to understand the work we are doing and helps us improve our performance.

We are committed to fulfilling our statutory responsibilities and delivering value to American consumers. This means being accountable and using our resources wisely and carefully.

As you know, the Consumer Bureau is funded through transfers from the Federal Reserve. Under the new law, the cap on those transfers for Fiscal Year 2011 was 10 percent of the Federal Reserve's 2009 operating expenses or $498 million.

As this was our start-up year, we did not use all of our available funds. In fact, we only used $123 million, but we got under way and we continue to build toward a steady state that will allow us to accomplish the objectives set forth in the laws enacted by you, the Congress.

The Government Accountability Office rendered an unqualified clean audit of our financial statements and an additional independent third-party audit found that the Consumer Bureau addressed all relevant budgeting requirements under Dodd-Frank.

Because we are committed to transparency, we have posted our budget justification, our financial statements, the GAO audit, and the independent audit on our Web site at consumerfinance.gov. We invite you and your staff to look at these documents and we will be glad to answer any questions you may have about them.

Now that we have completed our statutory transition period and have become a full-fledged independent agency with the legal responsibility to protect American consumers in the financial marketplace, our expenditures have naturally increased.

As you can see in our budget justification, however, our budget estimates remain considerably below our budget cap at $356 million for 2012 and $448 million for 2013. At this time, we have no plans to ask Congress for any additional funds, as we are authorized to do by law.

While our budget is small relative to the other banking agencies, our mission is critical. Our budget is a means to an important end: to make life better for American consumers. Much is at stake. Consumer finance is a big part of the American economy, and it bears heavily on all of our lives.

Mortgages allow people to buy homes and spread the payments over many years. Student loans give young people with talent and ambition, as well as those who may not be so young, access to an education. Credit cards are a convenient means of accessing money to make purchases.

Products like these undeniably help people achieve their dreams. But as we have seen in recent years, they also can create dangers and pitfalls if they are misused or misunderstood. In State and local government, I was deeply engaged in consumer finance issues. I saw good people struggling with debt they could not afford. Sometimes, people made bad decisions. Sometimes, an unexpected event, like a loved one getting sick or a family member losing a job, can overwhelm even the most careful planning.

Still other times, unscrupulous businesses obscured the terms of loans or engaged in outright fraud, harming unsuspecting consumers and even ruining lives and devastating communities. I am sure each of you hears every day from your family, friends, neighbors, and constituents who have these kinds of stories to tell. They are not looking for special favors. They just want a fair shake, and a chance to get back on track toward achieving the American Dream.

They deserve a consumer financial system that actually works for consumers. Accomplishing our mission will take time. But we are already taking important steps to improve the lives of consumers.

One of our main objectives is to make sure the costs and risks of financial products are clear. People make their own decisions, and nobody can or should try to do that for them. But it is the American way for responsible businesses to be straightforward and upfront with their customers, giving them all the information they need to make informed decisions. That is good for honest businesses and it is good for the overall economy.

So another key objective is making sure banks and nonbanks get the evenhanded oversight needed to promote a fair marketplace.

Our supervisors are going on-site to examine their books, ask tough questions, and fix problems we uncover.

The Consumer Bureau will also make clear that violating the law has consequences. We will use all the tools available in our effort to ensure everyone follows the rules of the road. Where we can cooperate with financial institutions to do that, we will. When necessary, we will not hesitate to use enforcement actions to uphold the law and right a wrong.

We are listening closely to consumers and the businesses that serve them. We are holding events throughout the country. We have been to Philadelphia, Minneapolis, Cleveland, and Birmingham. Next week, we are going to be in New York City. We hope you will join us at these kinds of events as we come to your communities.

Thank you, Mr. Chairman. I look forward to your questions.

[The prepared statement of Mr. Cordray can be found on page 48 of the appendix.]

Chairman NEUGEBAUER. Thank you, Mr. Cordray. Your full written statement will be made a part of the record, and we appreciate that you stayed within the 5 minutes.

We will now have the question-and-answer period for Members. I recognize myself for 5 minutes.

Mr. Cordray, I have been looking through some of the requests that you made for advances from the Fed and up on the screen and I know it may be hard for Members to see, but it is one that was, I think, sent on September 28, 2011, and it requests $94,281,564 be transferred and I guess that would be for operations for the first quarter of 2012.

I was just kind of surprised that you can get $94,281,564 with just a one-page letter. There was no back-up as it was sent with that.

And that is evidently not an estimated number. If I was going to get an advance on my budget, I would just say, "Well, send me $94 billion or $94 million." Don't you think that when you are going to be submitting for these kinds of funds, transfers, that there ought to be more documentation than just writing a letter?

Mr. CORDRAY. Thank you, Mr. Chairman. The process that we have is that the Fed—a portion of its budget, a dedicated portion that Congress set by law is available to us for expenditures and our budgeting purposes.

There are considerable controls around our budgeting process. As noted, we are subject to two outside audits: the GAO audit; and we also have an independent audit that you all put in to the law that is special to our Bureau, different from the other banking agencies.

We are, of course, subject to congressional oversight. And one of the things that I would say is that I believe that the oversight that you all are exercising over us is meaningful. It is significant—the notion that, as was suggested earlier, we would spend $100 million on paperclips.

And it would matter that we can be brought up here in front of you and have to answer for that publicly and embarrass ourselves if it turns out we were engaged in frivolous expenditures. That is a very meaningful oversight, I believe.

We also have just put out our budget justification. We have put it out for last year. We just put it out for the next year. That is on our Web site. All of these materials I have described are on our Web site.

We are also putting out quarterly reports on our expenditures on our Web site which is something that the other agencies do not do. That is above and beyond for us. So I think there is considerable explanation and analysis of what our budget is. And I think the Federal Reserve folks have total access to all of that as well.

Chairman NEUGEBAUER. I just would think—when I was in the private sector and I asked for an advance, I had to provide documentation. I want to go back to—I am glad you mentioned your budget justification plan. We did go online and I believe this is your—this is a 12-page budget justification plan. Do you recognize this? Is that your budget justification?

Mr. CORDRAY. Yes. It is from our document.

Chairman NEUGEBAUER. Yes. So, then we have looked at, for example, the CFTC and some of the other agencies, and this is the kind of document that they generate for their budget justification.

I think when you are spending that amount of money—while you mentioned that those amounts are small relative to other agencies, they are still significant amounts of money. And so, when I look at what you are producing and what other agencies have to produce, it appears to me that you all could use a little beefing-up in your budget plan and performance because you are hiring a lot of people. You are spending a lot of money.

And it would be hard to measure the performance of your agency from a document like this, and I would think it would be hard for you, as the Director, to hold accountable these various groups if they haven't submitted to you some kind of a justification of what they are going to be doing with the money that they are asking you to request from the Fed.

Would you agree that is an area where we should move in and get a little clearer plan; because, basically, you all have hired nearly 800 people and have requested several hundred million dollars? And when we requested from you a plan, you said, "We are developing a plan." Generally, everybody else has to develop a plan and then they get that plan funded. Would you agree that you are behind the curve on that?

Mr. CORDRAY. Mr. Chairman, I would agree that the general commentary you are providing is a fair concern. Understand again, that we are a start-up agency. Our budget justification provided last year was nine pages. We were brand new. We had just a few handfuls of employees at that time.

The budget justification we just provided is much more fulsome. I think it runs 25 to 28 pages. It is not yet what we want it to be and what it will be in future years. So I think your comment is well taken. We are going to continue to provide more detail, more specificity. But I would refer again—the Government Accountability Office did audit our operations and they gave us a clean financial audit, and they found that we were appropriately handling and documenting our finances, but a problem may be in part with the fact that we were new.

They will continue to audit us every year and render opinions on that. We have a separate independent outside audit that Congress provided for us, I think to make sure that we would be highly accountable. That also was a good audit. But I think there is more we can provide, and more we intend to provide. We will continue to ramp that up. And I would be glad to remain in contact with you as we go forward to see if as we develop more detail, we are meeting your expectations.

Chairman NEUGEBAUER. Just one follow-up—I am over my time. But would it be possible and appropriate, in say, 48 hours prior to requesting one of these advances, that you publish the request for advance and the backup for that? If you are, as you said, for transparency and accountability, would you think that would be a fair thing to do?

Mr. CORDRAY. We will give that some thought. I think the key is that—the important thing is what are we spending and why; and we provide that in the budget justification. We provide it in the quarterly expenditure reports that we are posting on our Web site which also are becoming more fulsome.

The actual letter you are referring to is merely a matter of the transfer of funds. That is sort of a ministerial act. The important thing is the kind of oversight that we are providing in our budget justification, in the audits that are being done of us, and the like.

So we will be glad to go back and consider the point you have raised. But I think the mere transfer of funds itself is less to the point than the justification for our budget, the audits that are being done both forward- and backward-looking of our operations. But we will be glad to consider that.

Chairman NEUGEBAUER. I just want to conclude by saying that I think either we are going to have to beef up the budget justification and performance, or we are going to need more detail on the advances; because this is still—you have doubled it from 13 to 25—and it is still, I think, woefully inadequate.

With that, I recognize the ranking member of the subcommittee.

Mr. CAPUANO. Thank you, Mr. Chairman.

Thank you, Mr. Director.

Mr. Director, the statute that created you, is that the statute that has capped the amount of money that you can spend?

Mr. CORDRAY. That is correct.

Mr. CAPUANO. And as I understood, it doesn't matter what the amount is at this point in time. But am I correct in believing that at no time, have you even come close to reaching that cap?

Mr. CORDRAY. That is correct. We are in a start-up phase as I said, although we are building and moving forward.

Mr. CAPUANO. But up until now, you have—the last I heard, you are about $150 million below the cap which is, give or take, 20 percent, maybe more?

Mr. CORDRAY. We remain considerably below the cap. Yes, sir.

Mr. CAPUANO. Are there any other agencies that you know of that are equivalent to you that are capped by statute as to how much they can spend?

Mr. CORDRAY. I know that there are none.

Mr. CAPUANO. There are none?

Mr. CORDRAY. Correct.

Mr. CAPUANO. You are the only one. So, we don't do direct budgeting, but we allowed you to get off budget, which I think is a good thing, but we still kept some control over it. We can always go back tomorrow, change that statutory authorization, and make it any number we choose. Is that correct?

Mr. CORDRAY. The Congress ultimately controls that. And yes, they require us to live within a specified budget.

Mr. CAPUANO. In these audits and oversight via the Fed, Inspectors General (IGs) or whatever, have there has been any significant findings of deficiencies?

Mr. CORDRAY. There have not. As I said, both of those were clean audits. We were pleased with that. As I said, we are in a start-up phase, and you are always a little concerned as you are getting your operations going and getting them organized.

But there are things, in the give and take of that, that we learned from them that are improving our operations. We listen very, very closely and take very seriously every audit and team of auditors that is working with our agency. The same is true of the Inspector General.

We were under two Inspectors General last year, both the Treasury and the Federal Reserve. Going forward, we will be subject to the Fed's IG. We have begun having discussions with them to make sure we understand their interests, their concerns, and that we are providing them with the kind—

Mr. CAPUANO. So if we had a hearing tomorrow with your auditors and the other two IGs who will be seeing you and asked them if there were material deficiencies in your activities or your reporting, you would expect them to say no?

Mr. CORDRAY. That is as far as I know and as far as we are aware. Yes, sir.

Mr. CAPUANO. Thank you. Honestly, I was listening to the chairman's questions, and paper work for a justification is all well and good, but the truth is I don't judge most agencies by what they say they want to do. I judge them by what they do, the EPA included.

I have actually voted to cut some EPA funding in the past because I don't like some of the things they have done. I like most of what they do but not everything, and I expect the day will come when I won't like everything you do either and we will have that discussion when the time comes.

At the same time, I think that I am looking forward, as I said earlier, I understand that you are in a start-up phase and there is really not a whole lot of substance I can ask you at this point in time; but this subcommittee spent a lot of time this year, and I think rightfully so, on trying to check out the MF Global situation.

I understand that you don't have any authority over that situation, but you have no authority over credit unions or community banks with less than $10 billion, and I respect that. I understand that. I wouldn't expect you to do everything overnight, and maybe someday we will revisit all of that, but you have to start someplace.

At the same time, my hope is that your agency is keeping an eye on these things, and I am wondering if you are, and if you will have either done it or plan on making any comments or suggestions either to the appropriate regulatory agencies or to this Congress as to some things that you might find in any of the areas that you may not have specific authority to act.

And again, I am not suggesting you broaden your authority, but you are the one who is out there dealing with consumers and understanding how it all goes together. I would hope that if you see things in areas you don't have authority on, that you would be proactive in reaching out to other regulators or to this committee to make those suggestions.

I guess I am just wondering, are you keeping an eye as best you can, knowing you are in a start-up, knowing your hands are full with what you have? I am hoping you are paying at least some attention to things you don't have any specific authority over. Is that a fair question?

Mr. CORDRAY. Thank you, Congressman. I appreciate that perspective, and we will take it to heart. We are focused primarily and almost exclusively, and certainly we should be, on doing our job, the job that Congress has provided for us implementing and following the law that we operate under. That is what any Federal agency should be doing.

We also, by law—I sit on the Financial Stability Oversight Council. I sit on the FFIEC. These are bodies that were created in part to make sure that there is coordination among the Federal financial regulators, and that they do share perspective with one another.

I have found those meetings already to be useful and of interest to our work, and I think we bring a consumer perspective that may help inform the work that others are doing. The same is true of the FDIC Board—the law placed us on that Board, myself as well as the Comptroller of the Currency, to bring our distinct perspectives to that work.

That, I think, is useful. I think more collaboration by us with the other financial regulators is good for them. It is good for us. It is good for the American economy. It is good for the people we serve. But again, virtually entirely, our focus is on the jobs we have ahead of us, the big jobs, the important jobs that matter to the public that we both serve.

Mr. CAPUANO. My time has expired, but I do want to make one last comment on that last point. I think that is great and I think that is exactly what you should be doing. But as you are getting started, remember that Congress wrote this law kind of going forward, too. We didn't necessarily know everything that was going to come out of this.

And as a strong proponent and supporter of the concept, if we miss something that we should have given you authority over, I would certainly like to know about it.

The whole reason I supported the creation of this agency is that there were too many agencies doing their own little work in their own little silo, and too many things that fell in between the silos. And for me, I am hoping that doesn't happen again ever. People can disagree on what to do about things, but at least if we know about them, we can have a debate and discussion if we want to do something and, therefore, what to do.

So I am hoping that as you go forward, if you see areas particularly that may fall out of your purview that maybe should be in your purview, if not you or someone else, that you let us know. I certainly don't want to be back in the same situation we were in 2008 when everybody was pointing at everybody else saying it wasn't me, it was the other guy. And that is the whole idea in my mind as to why we created the agency in the first place. Thank you, Mr. Director.

Chairman NEUGEBAUER. I thank the gentleman.

And now, the vice chairman of the subcommittee, Mr. Fitzpatrick, is recognized for 5 minutes.

Mr. FITZPATRICK. Thank you, Mr. Chairman.

Mr. Cordray, in your November letter last year, this committee asked the CFPB to explain its spending plan for the rest of Fiscal Year 2012 because we simply can't do oversight by looking through the rearview mirror.

On behalf of the Bureau, Raj Date refused to provide this plan until the President released his budget on the grounds that OMB policy bars the advance release of information that would be included in the President's upcoming budget

Mr. Date wrote, and this is a quote: "We will be happy to provide you with this update budget information for Fiscal Year 2012 at the appropriate time."

I have two issues with this. First, I don't see how OMB policy can be a bar to the Bureau providing its current year spending plan to the Congress. Dodd-Frank specifically exempts the Bureau from any requirement that it seek OMB approval for its budget, so I don't see that as an objection.

And the second issue is that the Bureau's promised spending plan for Fiscal Year 2012 is so limited as to be frankly almost useless. For example, on page 9, there is a table that identified something called "other services" for $130 million with no further explanation. On one other page dedicated to providing a justification, 400 employees—no further information on a single page.

We need more than what has been provided currently in order for us to do our due diligence. In contrast, we have a detailed Treasury spending plan which gives us information on every dollar spent and every new hire accomplished. This is the kind of information that we are looking for.

You pledged to ensure transparency at the Bureau, and given that pledge, I would like to ask you to make two commitments to us today.

First, can you commit to providing Congress with a better forward-looking spending plan for the current fiscal year, can you do that now?

Mr. CORDRAY. Thank you, Congressman. On that point, one of the things that I wanted to point out is when this committee had that exchange with Deputy Director Date of the Bureau, we were, at that time without a Director, and therefore, we were part of Treasury by law. And so, we were subject to all of the same constraints that Treasury, as a Cabinet Department, has, including the OMB requirements that you note.

Now, we have a Director, we are an independent agency; we are not part of Treasury. It is a different situation for us and so we will consider going forward what is the appropriate way to handle that situation and perhaps we can be more forward-leaning then we were able to be, again, because we were legally required to adhere to the President's budget process at that time.

One of the things that we are doing, as I have noted, and this is something that the other agencies do not do, the appropriating agencies come up to you when they are appropriated on an annual basis—each quarter, we are posting on our Web site detail about our expenditures for that quarter.

We are trying to get those up within 30 to 45 days of the end of the quarter, and so there is going to be considerable information during the year prior coming back to you with that process but, look, we are actively considering how we can provide more detail, provide it sooner, and frankly satisfy what I think are legitimate requests you all have to know what we are doing, to know what we are spending, to know why we are spending it, and to know that it is consistent with our mission, which is the laws that Congress has enacted that we are carrying out.

And so, I think that is a fair line of questioning and something that we will attentive to.

Mr. FITZPATRICK. So for the current fiscal year, can we get updated spending projections?

Mr. CORDRAY. We have already posted for the first quarter, which was the quarter from October 1st to December 31st. That is on our Web site. As the second quarter concludes, we will be posting. And so, we will be posting all along.

We have just provided the budget justification, which I think was the advance information you all were looking for. We did post that on our Web site on Monday, and I know your staffs have had access to it, and I believe have been reviewing it. It is, as I have said to the chairman, more fulsome disclosure than we were able to provide in our first year. It is not as full a disclosure as I expect we will be able to provide next year.

We are working towards that and we want it to be satisfactory to you and your colleagues.

Mr. FITZPATRICK. And so, Mr. Cordray, our point—and we appreciate these quarterly postings, but they are looking back. I am talking about looking forward in the current fiscal year.

Can you provide that update?

Mr. CORDRAY. Yes, we have just provided the budget justification for the coming year, and as I have said in the exchange with the chairman, although it is more than we were able to provide in our first year, it is not yet what we will be able to provide next year. It will get fuller. And that is the forward-looking justification that I think you are looking for.

Mr. FITZPATRICK. So then on October 1, 2012, which is of course the first day of the new fiscal year can we expect a revised and updated spending plan?

Mr. CORDRAY. Let me say this: I would like to know in more detail exactly what you are looking for and when. I would be glad to have my staff work with your staff to see if we can reach a satisfactory conclusion of that issue.

Mr. FITZPATRICK. I am sure we can discuss the detail of what we are looking for, but essentially, more than one line listing "other services" for $130 million.

Mr. CORDRAY. There is more than that on our Web site about our contract services, much of which is going to Treasury, because we are building off their IT and HR systems but, yes, sir, we will be glad to direct your staff to that so they know what is available.

Mr. FITZPATRICK. Thank you, sir.

Chairman NEUGEBAUER. Thank you.

And now, Mr. Lynch is recognized for 5 minutes.

Mr. LYNCH. Thank you, Mr. Chairman, and I appreciate that.

Thank you, Mr. Cordray, for appearing before the committee and helping us with our work. Rather than ask a direct question, I just want to push back a little bit on this assumption that the funding of the Consumer Financial Protection Bureau is somehow diverting money from the Federal Reserve.

I just want to point out that in contrast to the scrutiny that we are giving this agency that is assigned to protect consumers, the Fed has done oftentimes without the approval of Congress and without any oversight hearings.

I want to point out that since 2008, the Fed has diverted, really diverted $868 billion to Barclays, that is a British bank, without any hearing, without any oversight on our part. It has diverted $541 billion to the Royal Bank of Scotland, again, a foreign bank. And think about this, this is funding that is supported basically by the good faith and credit of the United States Government but backed up by the United States taxpayer.

The Federal Reserve actually did divert $354 billion to Deutsche Bank, a German bank, a foreign bank. I don't know how the United States taxpayer gets to do that but we never had a hearing on the real diversion of the reserve funding to a foreign bank in Deutsche Bank; UBSAG—that is a Swiss bank—$287 billion.

Did we have a hearing on that like we are having a hearing on this—10 percent or 12 percent of the Fed's operating budget to protect consumers in this country who actually support that system? We never had a hearing on that.

I am trying to point out the disingenuousness of these proceedings to go after Mr. Cordray, who is charged with the responsibility of protecting consumers. I will go on. Credit Suisse—we had the Fed divert $262 billion to Credit Suisse, a Swiss bank; the Bank of Scotland, $181 billion. The Federal Reserve diverted U.S. taxpayer money to them. BNP Paribas, a French bank, along with Society Generale, also in France—$125 billion for them; and Paribas, $175 billion. Dexia, a Belgian bank—$159 billion diverted from the Federal Reserve Bank.

Do you think we had a hearing on any of these banks? The silence in this room is deafening. We never had a hearing, on a total of $3 trillion that the Federal Reserve diverted to foreign banks.

Did this committee ever have a hearing on that to scrutinize where every single dollar is going? Zero, silence, nada, but here we have an agency that is set up to protect the American taxpayer, to protect the American consumer, and my colleagues across the aisle are going over every single line to make sure where the money is going, but the $3 trillion that the Federal Reserve gave to the foreign banks, silence.

And so, I just want to point out the absurdity and the disingenuousness of this process to go after Mr. Cordray, who alone is assigned within that Federal Reserve Bank—is assigned to watch out for the consumers.

I thank the gentleman for his time and I yield back.

Mr. NEUGEBAUER. I thank the gentleman.

And now, Mr. Renacci is recognized for 5 minutes.

Mr. RENACCI. Thank you, Mr. Chairman.

And I want to welcome my fellow Buckeye, Mr. Cordray, to this hearing. Thank you for being here.

You have said several times in your testimony that you—and by the way, I want to go back to the purpose of the hearing. The hearing will be to examine your budget, and so, I am going to try and stay within that realm.

You said you would be accountable to us and the American people in your opening statement. One of my colleagues on the other side said the statute allowed dollars to be spent and you are below the cap. I applaud you for that, but it doesn't justify you spending those dollars unwisely or inappropriately, would you agree?

Mr. CORDRAY. I agree.

Mr. RENACCI. Audits, you said you have audits and the audits have come through and said that you are spending dollars appropriately and handling your expenditures appropriately but you would also agree that audits, outside auditors do not confirm that expenditures are justifiable, reasonable, it compares in other possible options, is that correct?

Mr. CORDRAY. I think that is probably right. You have more of a background in accounting than I do, I am aware. There is a different issue I supposed, which is—but I think the GAO tried to assess this, which is, "What are our objectives that the statute provides? What is the job that Congress has told us we have to do? Are expenditures appropriate to doing that job rather than doing something else that isn't our job?"

And I think what they have said is that we are spending appropriately in light of our mission, and I think that is an important indicator of our responsibility.

Mr. RENACCI. Thank you and not to—but I do think as a CPA, as someone who has done audits, that they are probably making sure that you are justified in spending within the purpose but they are not justifying and that is what this is really about, to talk about your expenditures.

Mr. CORDRAY. Yes.

Mr. RENACCI. You said in doing your job—does your job include appropriately spending your dollars? So you talked about what your job is; it is to take those dollars and spend them appropriately for the taxpayers.

Mr. CORDRAY. It is and again our budget relative to that of the other Federal bank regulatory agencies, ours is smaller, and so, we have to be careful about how we are allocating our limited resources. And we are trying to do that, yes, sir.

Mr. RENACCI. Thank you. So, I am just going to get down to a specific concern—one concern I have. Now, it relates to what some of my colleagues have also asked, too. Earlier, in 2011, the chairman asked the CFPB to give us information related to the construction or rehabilitation of its new headquarters.

At that time, the CFPB refused to give us the information. Can you give me a reason why it was not presented to the committee?

Mr. CORDRAY. I don't know that—I am not aware that we refused to give information. I would say that at that time—and it still remains true to some degree—the facility's solutions for the Bureau's needs were rather unsettled.

We had been working to try to obtain a lease on a particular building. It is the former Office of Thrift Supervision building where we could consolidate our employees who currently are spread out at several sites because it is just difficult when you are a start-up agency.

This does not involve the construction of any building but would potentially involve the renovation of a building that is about 40 years old now. And as I understand it, unfortunately, some of the electrical and mechanical systems in the building have kind of reached their natural life span, and there are some code issues of bringing the building up to code.

So there is some work that will need to be done and we are also going to double the prior density of that building to try to make it more efficient. It is a work in progress for us, and it is a source of some frustration to us and it will be probably for the next couple of years.

Mr. RENACCI. It looks like in the President's budget, there is $15 million to be spent in 2012, and $40 million in Fiscal Year 2013 for land and structures. Will you commit to getting us the details of what the $55 million is going to be spent on so there is transparency to the American people and to Congress?

Mr. CORDRAY. Yes, Congressman. I think that is a very fair request. We will do that. That is not yet in focus. We do not yet have contracts for that. As I said, we are still working to procure a lease. We hope to have more progress on that soon. We will be glad to update your staff regularly on how that is going to make sure that we are acting responsibly.

Mr. RENACCI. Thank you. I would like to also follow up on another issue that is a little off topic but I believe is still in line with overall transparency. It might provide you an opportunity to give an example of how the Bureau is operating.

Back in November when Raj Date testified before this subcommittee, I asked him whether the CFPB intends to provide guidance to States seeking to enact transitional licensing laws under the SAFE Act.

Mr. Date seemed to appreciate the issue but was unable to answer whether the Bureau would provide guidance. In our home State of Ohio, I understand the Senate may soon take up legislation that would permit State bank regulators to issue transitional licensing.

Can you please tell me whether States like Ohio should expect to hear from the CFPB on whether their efforts will be in compliance with the SAFE Act? And if so, what is your timing for providing the guidance?

Mr. CORDRAY. It is a good question, Congressman. And it is something that we are focused on as one of the issues we have inherited from other agencies. As I understand it, we are working closely with the State regulators and, in some cases, as you note, there are State legislatures which are potentially active in this area.

We are glad to consult with them at any time as to whether proposed legislation would be in compliance with the SAFE Act. That is the purpose of their legislating; they obviously need and want to know that. So, I know we have had extensive consultation with the States.

We have now signed a memorandum of understanding with, I believe, 46 or 48 of these 50 State banking superintendents and regulators who often are overseeing this type of licensing as well.

So if people want to be in touch with us, if you want to put constituents in touch with us or legislators to talk back and forth about what they are trying to do and whether we are going to have some difficulty that they wouldn't want to know about later, they would rather know about it now, we are happy to do that.

Mr. RENACCI. Thank you, Mr. Cordray.

I yield back.

Chairman NEUGEBAUER. I thank the gentleman.

And now, Ms. Waters is recognized for 5 minutes.

Ms. WATERS. Thank you very much, Mr. Chairman.

I would first like to thank Director Cordray for being here today and tell him how pleased we are that the President took the necessary action to fill the vacancy.

I was a member of the conference committee that established the CFPB. And I think it is one of the most important actions this Congress has taken in many years and certainly the most important action to give some protection to our consumers.

And so, despite the fact that there are those who have tried to interfere with the establishment of this Bureau, I want you to know that you have a lot of friends, a lot of support not only in this committee and on this side of the aisle, but I was at a huge public meeting this past weekend where I did a public thank you to the President about your appointment and got a standing ovation with people yelling out all kinds of things about credit cards and payday loans and operations, etc.

So I am just awfully pleased that you are here. Mr. Cordray, I have spent a lot of time learning about servicers. As a matter of fact, I went so far as to get the permission of some of my constituents who had problems trying to get loan modifications to allow me to interact with servicers.

And during that time, a couple of television stations followed my actions in trying to get to a servicer where I spent hours being sent on a menu to all kinds of places in one of the banks trying to locate the servicer. It took hours and I learned a lot.

I have learned, number one, that many of our constituents can reach a servicer and I don't understand how this loss mitigation operations are in the banks. They operate in all kinds of different ways. In addition, the lost paperwork, the over requirements of seniors who were trying to straighten out fraud that has taken place, all of this.

We desperately need you to look at and do something about the servicers. Having said all of that, I have a couple of pieces of legislation I would like you to take a look at, as it relates to servicers.

H.R. 1567 is a servicer's reform piece of legislation dealing with loss mitigation and single point-of-contact.

And talking about a dedicated 1–800 number and, of course, I have H.R. 3841 talking about principal reduction. With all that you have to do, if you can get a handle on how we regulate servicers, how we can create some kind of consistency in how they operate so that constituents would know, number one, how to get to them and what to expect of them, it would be the greatest thing we could do for consumers.

So I have no questions for you. All that I have for you is to say, God bless you. We are so glad that you are here. Your work is not going to be easy. There are going to be those who are going to picket you and try and talk about your budget and try to manage your budget, all of that.

But I hope that you don't get disgusted with all of this, that you will stick with it. It requires some fighting and some of us are fighters and we are prepared to fight with you because we think that your job is just so extremely important. So, welcome, welcome, welcome.

Chairman NEUGEBAUER. I thank the gentlewoman.

And now, the gentleman from New Mexico, Mr. Pearce, is recognized for 5 minutes.

Mr. PEARCE. Thank you, Mr. Chairman.

And thanks, Mr. Cordray, for your service, and for being here today. I noticed that although you reported a clean audit, there were deficiencies. What were the deficiencies?

Mr. CORDRAY. There were a number of things as—

Mr. PEARCE. Give us the highlights.

Mr. CORDRAY. —come up in any audit where there are suggestions for improvement. And, again, that was an audit that was done on the Bureau at the very preliminary stage. As I say, it was a clean audit but every auditor worth their salt, when you look at your operations carefully, they are going to have suggestions. They are going to have proposals.

And if the agency is worth its salt, it will listen carefully to those proposals and look to implement—

Mr. PEARCE. Anything to do with internal controls?

Mr. CORDRAY. They found that our internal controls were appropriate at that time. But I think that my personal view is—and we are hard at work on this—that there is much more we can and should do in order for me to have confidence that the Bureau is both spending money appropriately, which I believe we are, but we want more controls on that, and also that we are following through on the policies that we have adopted to make sure that we are living those policies day in and day out.

Mr. PEARCE. Hold on just a second. Excuse me. I noticed the second audit that came from ASR Analytics. On page one, they note that some members have ongoing efforts to achieve minimum hours of continuing professional education that directly relates to government auditing.

So somebody in the agency hired an audit firm that did not have the required internal expertise. Who made that decision?

Mr. CORDRAY. I would have a different vantage point on that. This was—

Mr. PEARCE. I just want to know who made the decision to hire this firm. I can read the report where they say they don't have the background. So I don't care about someone's interpretation. Who made the decision?

Mr. CORDRAY. Okay. I think they have a considerable background but I would be glad to—

Mr. PEARCE. No. Sir, if you would just tell me who made the decision.

Mr. CORDRAY. Yes.

Mr. PEARCE. We will have our differences of whether they do or not.

Mr. CORDRAY. Sure.

Mr. PEARCE. They are the ones who point out they don't have the expertise.

Mr. CORDRAY. Yes.

Mr. PEARCE. So, who made the decision?

Mr. CORDRAY. They have expertise. But that was done before I was Director—

Mr. PEARCE. Would you mind answering the question, sir? Just who made the decision? There ought to be a name or a position. I don't care which.

Mr. CORDRAY. I don't know offhand. That was before I was—

Mr. PEARCE. If you would give me the information on who did that, I would really appreciate it. Did you as Director kind of find fault with—was there no one in the auditing community in the whole Nation with expertise? Did you come back and find fault with this or you did not?

You are just getting your feet on the ground. There are a lot of great concerns. Wouldn't you want to check the box that said yes, they are qualified, and everybody who comes out here has the background, wouldn't you want that to kind of reassure people that you are taking troubled waters and you are beginning to calm them down?

Mr. CORDRAY. Shall I answer? That firm is a very qualified firm, that some of their folks are keeping up with their continuing education requirements is one thing. But we will look again at your request at the firm we will use in the next year.

That was a competitive process and I think it was an appropriate process. No one to date, until your question, has found any fault with that. But we will be glad to look at it and I will get the answer to your staff that you asked of me.

Mr. PEARCE. Thank you.

On page 16 of the GAO—that is actually page 21 of the GAO report—but on page 16 of your pages, it talks about how the people that you supervise have larger participation in nonbank supervision, especially as it relates to Federal consumer financial protection laws compliant with that. So explain to me what kind of nonbank groups that you supervise.

Mr. CORDRAY. Sure. Congress specified in the law certain nonbank—first of all, Congress specified in the law that we should regulate financial products and services in the marketplace without regard to whether it is a bank or a nonbank, recognizing that in a lot of these markets, there are nonbank participants who compete directly with banks, but they are not subject to the same regulation. So you are regulating part of the market and leaving part of the market unregulated. That is not a formula that works.

So Congress specified us to be overseeing nonbank participants in the mortgage market which can be mortgage originators, mortgage brokers, mortgage servicers. They also specified that we would oversee payday lenders. And Congress specified that we would oversee private student lenders.

Mr. PEARCE. Do you have anything to do with Fannie Mae and Freddie Mac, do you have any oversight?

Mr. CORDRAY. That is a good question to the extent that they would be servicers. We could have oversight over them, yes. Other than that, many other financial industries not specified by Congress in which Congress said to us, "You should oversee them as well, but you should first identify who are the larger participants in those industries and those are the ones that will be subject to direct supervision by you."

So that can be other fields such as debt collection, check cashing, debt relief and settlement, credit reporting, and a number of others.

But that is something that we have to do by rule. We are in the process of getting under way with that. We didn't have any of that authority until we had a Director in place. It is fairly early days for us.

The other thing I wanted to mention, sir, and it is probably near to your heart, is our Office of Servicemember Affairs, which has been working aggressively to bring attention to the kinds of financial exploitation of servicemembers, often when they are on active duty which is inexcusable—foreclosures that were inappropriate on servicemembers, interest rates that exceeded the Military Lending Act requirements, and other problems.

Ms. Holly Petraeus has been hard at work on those issues and I think is doing a terrific job of bringing those to the attention of the Congress and the public at large and other regulators, as well as things we can do directly.

Mr. PEARCE. Thank you. It is near and dear to my heart. And I hope that you will push that. Also, financial exploitation of hog farmers is pretty near and dear to my heart. And so, I hope that you will go back and ask the other regulatory agencies why—ask the Justice Department why they have never had an interview on MF Global. That is near and dear to a lot of farmers across the entire United States.

But I thank you, Mr. Chairman, and I yield back.

Chairman NEUGEBAUER. I thank the gentleman.

Now, Mr. Miller is recognized for 5 minutes.

Mr. MILLER OF NORTH CAROLINA. Thank you, Mr. Chairman.

CFPB is hardly alone in having a dedicated source of funding, in fact, all the financial regulators appear to have a very similar budget process with a dedicated source of funding and then require justification.

Mr. Cordray, have you had the chance to review the OCC's Fiscal Year 2013 budget justification?

Mr. CORDRAY. I have not had the opportunity to do that in detail. I am generally familiar with the broader outlines of their budget.

Mr. MILLER OF NORTH CAROLINA. That document and your budget justification were strikingly similar in how they are organized. And their budget justification for more than a billion dollars in spending is 23 pages long, including the cover sheet, and the title and the table of contents. Whereas yours, to justify $448 million, less than half of that amount, is 25 pages long, including the cover sheet and the table of contents. Have you heard any complaints about the lack of completeness in the OCC's budget justification?

Mr. CORDRAY. I have not heard any to this point. I am not sure they would be directed at me, but I have not heard any.

Mr. MILLER OF NORTH CAROLINA. The only financial regulator that appeared to be subject to appropriations from Congress, that it depends upon Congress for their annual appropriations was OFHEO, the late, unlamented regulator of Fannie and Freddie.

And it appears that OFHEO was completely captured by Fannie and Freddie. Fannie and Freddie clout really prevented them from getting the resources that they needed and OFHEO was perhaps the most captured of all the regulatory agencies.

The OCC sets a high bar for capture, but it appears that OFHEO truly was Fannie and Freddie's monkey. They got exactly what they wanted from Fannie and Freddie.

Other oversight, Mr. Cordray—do you have an Inspector General?

Mr. CORDRAY. Yes. Actually, last year, uniquely, we were subject to two Inspectors General because we were both in Treasury without a Director, but also within the Fed and by statute.

Going forward, we are subject to the Inspector General of the Federal Reserve. We have had meetings with the Inspector General, a very capable individual, with a very capable team. And they will have full access to information to assess our performance.

Mr. MILLER OF NORTH CAROLINA. Did they review your budget submissions, your budget submission?

Mr. CORDRAY. I am not certain of that, but my staff could tell you.

Mr. MILLER OF NORTH CAROLINA. But they certainly can review your budget?

Mr. CORDRAY. They can review anything they want to review.

Mr. MILLER OF NORTH CAROLINA. All right. Under the IG statute, the Inspector General statute, the head of the agency is provided all IG reports, but also Congress. Is that correct?

Mr. CORDRAY. Correct, yes.

Mr. MILLER OF NORTH CAROLINA. So we will get a copy of any IG report?

Mr. CORDRAY. Yes, sir.

Mr. MILLER OF NORTH CAROLINA. How about the effect of the APA? Are you subject to the APA for rulemaking, the Administrative Procedures Act?

Mr. CORDRAY. We are and therefore it is subject to review by the courts.

Mr. MILLER OF NORTH CAROLINA. Okay. So there is a notice of proposed rulemaking, there is a comment period, and there is a final rule and comment after that as well?

Mr. CORDRAY. I don't know that there is comment after the final rule, but we are subject to all those same processes.

Mr. MILLER OF NORTH CAROLINA. And then, there is a judicial review after that?

Mr. CORDRAY. Yes.

Mr. MILLER OF NORTH CAROLINA. How about for any—there was some reference on the other side to sanctions that the CFPB might have imposed and it sounded like it was an "Off with your head" kind of power. But are you subject to contest the case procedures under the APA for sanctions, any fines that you imposed?

Mr. CORDRAY. Sir, everything we do, anything we do that constrains anyone is subject to judicial review if they want to challenge it in court. And we would be held to all of those procedures.

I should add in response to your question about our rulemaking process, we are subject to some special constraints as well that are unique to us as a banking agency. No other banking agency is subject to SBREFA panels to consider the impact on small providers of our rules. There are only two other agencies in government subject to that. And so, I think that there is considerable oversight of our rulemaking.

Mr. MILLER OF NORTH CAROLINA. Have you heard any problem at the Federal Reserve Board or the FDIC or the OCC—that they were spending entirely too much on paper clips?

Mr. CORDRAY. I have never heard that allegation, and I hope I will never hear it about our Bureau as well.

Mr. MILLER OF NORTH CAROLINA. Okay. I yield back.

Chairman NEUGEBAUER. I thank the gentleman.

And now the gentleman from Florida, Mr. Posey, is recognized for 5 minutes.

Mr. POSEY. Thank you very much, Mr. Chairman.

Mr. Cordray, you mentioned in your remarks that one way to be assured that you would be held accountable is that you were going to face a couple of audits. I would hope that you would know, as most of us know, that audits will tell you if any money was blatantly stolen—in the classic sense of the word, if anybody took cash or equipment.

But they don't generally tell you how efficient an agency is or how well taxpayer dollars are spent or if agencies plunder the public, the Trust, and the Treasury by overpaying employees and giving exorbitant bonuses that aren't necessary and aren't earned and things like that. You usually don't see those in audits.

Audits didn't work with the SEC when 20-some investigators and 30-some examiners and untold members of management or maybe those numbers are reversed, it is not really important, turned a blind eye to Bernard Madoff for over a decade after they were given an open-and-shut case.

Audits didn't care about the poor victims of the MF Global scandal. And audits have not yet exposed, and there has been no prosecution for the crony capitalism of the crooked deals like Solyndra that have burdened our taxpayers unnecessarily. And so, my question to you is, do you plan to actually prosecute any wrongdoers, and if so, how and when?

Mr. CORDRAY. Sure. And let me say a couple of things. First of all, I didn't mean to misspeak. I don't mean to suggest that the two audits here, even though it is more audits than the other banking agencies are subject to, are sufficient oversight.

I do think that the active oversight by Congress, as exemplified by having me testify here today—and I testified in front of the House Oversight Committee a couple of weeks ago—and I assume we will be here frequently. I think that is entirely appropriate. I welcome that. That is an important part of the oversight as well.

In terms of the issue you raised in your opening statement, and I think it is an important issue to raise, is what is being done to hold people accountable for violations of law in the financial marketplace? That is something that our Bureau has the authority to do.

We are under way in our Enforcement Division, which I headed up before being appointed as Director. I can say that there are a number of investigations we have inherited and they are working in a coordinated way with other agencies.

And a number that we have initiated ourselves, I can't, of course, give details on those. But we take very seriously our obligation to require people to comply with the law. And when they don't, we will take action. It will be strong action. It will make sure that consumers as much as possible are recompensed for the harm that was done to them by a violation of the law.

And I see that function particularly important as supporting all the other responsible businesses in that market who themselves are not violating the law, who are very careful to comply with the law.

Often, it costs them money to do that. It means they can't cut corners and cut costs in some ways that the violators do. It is unfair competition. And so, I think when we enforce the law evenhandedly and reasonably, we support all the good businesses in that marketplace, and typically, they welcome that.

Mr. POSEY. Do you expect and should we expect any subprime investigations and prosecutions?

Mr. CORDRAY. I want to be careful here because I know I am not supposed to talk about ongoing investigations or give any details or potentially move the markets by saying something that I shouldn't.

What I would say is if you or your staff have particular areas of concern that you want to bring to our attention, we are all ears. We are interested in that perspective, not only from you all who hear a lot from your constituents that we may not hear although we hear a lot from the same people but also from the public at large. We have a whistleblower portal on our Web site now.

Mr. POSEY. I only have a minute left.

Mr. CORDRAY. I am sorry.

Mr. POSEY. Do you plan on overseeing errant regulators? We have errant regulators whom I think have gone way beyond the scope of their authority and have caused havoc in our community banking industry. And there seems to be an inability of the agencies to rein them in.

Mr. CORDRAY. I would say this, first of all, I think our primary responsibility is that we not become some sort of errant regulator ourselves, and I think that is important. And I want to hear from you if people are bringing to your attention ways in which we are erring in that regard.

We don't have the authority to control other regulators, per se, but we work with them, we collaborate with them, and we also collaborate and work cooperatively with State regulators in a lot of these areas.

So to the extent we can set an example by working with them to make sure that things are being done appropriately, we will. Beyond that, I do want us to treat community banks and the smaller institutions appropriately, recognizing that their different size, their different model, and their community roots often make them very different from the largest institutions and we want to try to preserve and encourage that model.

Mr. POSEY. Thank you. I see my time is up.

Chairman NEUGEBAUER. Thank you.

Mr. Ellison is now recognized for 5 minutes.

Mr. ELLISON. Thank you, Mr. Chairman.

I would like to yield 15 seconds to Congressman Miller.

Mr. MILLER OF NORTH CAROLINA. Thank you, Mr. Ellison.

I would like to ask unanimous consent to place in the record the OCC's justification for Fiscal Year 2013, a 23-page document explaining how they expect to spend a little more than $1 billion.

Mr. FITZPATRICK [presiding]. Without objection, it is so ordered.

Mr. ELLISON. Thank you.

Thank you, Mr. Miller.

Mr. Cordray, could you talk about how consumer protection figures into safety and soundness?

Mr. CORDRAY. Thank you, Congressman. It is a subject that we have all been thinking a lot about at the Bureau because one of the premises of Dodd-Frank was that consumer protection in the financial marketplace was largely—"ignored" is maybe too strong a word—but it was a lower priority for the existing Federal regulatory agencies because their primary focus, appropriately so, since this was their mandate, was on safety and soundness.

And so, there were issues that just got missed or didn't get enough attention. Mortgage servicing, as was described earlier, is a tremendous example. A lot of the practices in the mortgage market that in fact, looking back on, led to and precipitated the financial crisis, were caused in part by the fact that people were not focusing on what was happening with the actual consumers.

To me, safety and soundness and consumer protection go together. They go in tandem in the following way: Safety and soundness sort of takes a snapshot of an institution at a point in time and looks at its books, looks at its capital reserves, looks at its ongoing revenues and the like, and looks at the risks.

But you can't really get a good picture of safety and soundness if you aren't looking at how that institution treats its customers over time, and whether that is a sustainable business model or whether it is taking advantage of customers in the short term in ways that cannot be sustained in the future.

So, for example, when you give loans to people and you do not require any documentation of income and you do not require any kind of underwriting standards to be met, you can make that loan, and for a moment, it will look okay on your books. But over time, that loan is not going to succeed and you will not be a safe and sound institution. Why? Because you are mistreating your customers in ways that cannot be sustained.

So, to me, consumer protection is an important part of this. As we work to protect consumers, I think we will help strengthen the financial system and strengthen the economy. We want people to be treated in ways that are sustainable over time for them and for the institution. That is good business, that is the way most businesses look at how they do their work, and that is part of what I think the reforms in Dodd-Frank were intended to accomplish.

Mr. ELLISON. Thank you. Also, the chairman, before he left, held up two documents: one appears to be your budget justification, which looks like some white pieces of paper stapled together; and the other one is a thick color-coded document.

If you redirected the resources of your office, could you come up with a big, fat, shiny, fancy document that might please some people in this committee?

Mr. CORDRAY. I—

Mr. ELLISON. You don't have to answer that.

Mr. CORDRAY. Yes, it is always a question of how much detail and how much presentation do you provide and whether that is the best use of your resources.

Mr. ELLISON. What do you think, Mr. Cordray, about simplicity? I remember talking about the—in the health care debate, a lot of my friends on the other side of the aisle were going on and on about how thick it was. And now, we get a thick document and they don't like that.

So, I am just trying to figure it all out and this is not a question, just sort of help trying to figure out when is a big, fat, thick document a good thing and when is it a bad thing?

If it helps consumers get simplicity and frugality help for something, I don't know. I am just asking a question for all of us to ponder. I am sorry.

Mr. CORDRAY. I know before your old project, we were trying to streamline the mortgage forms, trying to streamline credit card agreements, trying to streamline student loan forms so that consumers can really understand the most important information that they really want to know before making a choice. I think simplicity counts. Maybe there are times where length counts but we are happy to take guidance on that as we go.

Mr. ELLISON. Right. And we you did point out there that part of what you are doing is trying to make documents shorter and simpler, and this is part of the mandate, that this is an important function.

Let me ask this: If the CFPB funding were subject to appropriations and could be significantly cut, what do you think the impact would be on our servicemembers, older Americans, and consumers generally?

Mr. CORDRAY. We will look again. We start from a budget that is capped unlike every other Federal banking agency. It is capped at a much lower level than the other Federal banking agencies. Of course, we have different functions, they have different functions.

But if we were forced to make really tough choices, can we protect servicemembers, would we have to choose between them and older Americans, would we have to choose between trying to fix the problems in the mortgage market or taking a closer look at things like payday lending or credit cards or student loans, all of which are problems in various ways and pose issues for consumers.

Those will be pretty tough choices to have to make. And we will have to make them because we have limited resources as it is. But to cut our budget tremendously would really cripple our ability to protect consumers and the marketplace.

Mr. ELLISON. I have to yield back, Mr. Cordray. Thank you very much, and I am absolutely overjoyed that you are in the role you are in.

Mr. FITZPATRICK. The Chair recognizes the gentleman from Delaware, Mr. Carney, for 5 minutes.

Mr. CARNEY. Thank you, Mr. Chairman. Thank you for having this hearing today.

Mr. Cordray, it is good to see you again. We met in my office some months ago. I am delighted to see you as the Director of this new Bureau. I think you were the Chief of Enforcement at the time we had a conversation about your priorities, and I want to get to that in a minute, but I also want to start with some conversation about the budget.

So, your budget is tied to the Fed's operating budget at 12 percent. You mentioned that you spent $350 million, or thereabouts, in 2012, and something over $400 million in 2013. Your cap would have been $597 million, if my numbers are right.

How do you see yourself budgeting in the future? My orientation is State government like yours and I am pleased that you bring that experience to the table here.

How do you see yourself budgeting and staying within the budget that you have in the years to come?

Mr. CORDRAY. Congressman, it is a great question. It is a challenge for us as it is a challenge for any agency. Although most are not subject to a budget cap, they may be subject to caps imposed by the appropriations process.

I think we will do it in the same way that I did it when I was attorney general in Ohio, when I was a treasurer in Ohio, the same way you did it in the different offices you served in, in Delaware, where you were subject to oversight by the legislature there, which is we have—

Mr. CARNEY. And the budget director, the governor's budget director.

Mr. CORDRAY. Absolutely, and the Secretary of Finance perhaps. But we will have to set priorities, we are doing that. We have obviously had to do that already. We will look carefully at the mission that we are trying to carry out, the objectives Congress has set out for us, that is our touchstone, what is it that Congress has told us to do because that is the law we are obliged to carry out.

We will look at the progress we are making in different areas. Sometimes, things become priorities because you think you can achieve something faster. Sometimes, you recognize you need to study it, probably know more about it before you go folding in.

We will look at the input that we are getting from you and your colleagues. You are hearing from the same people that we hear from.

Mr. CARNEY. Absolutely.

Mr. CORDRAY. You are serving the same people we serve, so your insight into whether we are addressing the kinds of problems we should be addressing or whether we are missing things that will inform us. But it is an iterative process; it is something we will learn from as we go.

Some of the things we start with are mandated for us, so we don't really have a choice, although I think that there are good choices Congress made. Fixing a number of specific problems in the mortgage market is going to take up a lot of our rulemaking time over the next year.

Obviously, examining these institutions to make sure that they understand what is expected of them and what the law requires and that they are carrying that out is a very important function and that encompasses many of our personnel.

Mr. CARNEY. Let us talk about a couple of those areas that you and I talked about some time ago. One other concern that I hear from my constituents is payday lenders, these basically high-risk individuals who are trying to get access to loans. What is your approach going to be and do those clients of lenders—nonbank lenders, if you will—where does that fit in your priority and what is your approach going to be?

Mr. CORDRAY. It is a key part of our priorities because Congress told us that it needs to be. Congress told us that in some of these markets, you have banks and nonbanks competing directly against one another, but they are under very different regulatory regimes. That is not appropriate. And it is part of the system that was broken before.

There are other markers where it is virtually all nonbanks and you don't have much in the way of a bank competition. Those markets matter a lot to consumers as well.

So, for example, we conducted our first field hearing in Birmingham, Alabama, last month on the topic of payday lending. We are looking carefully at how those products work. We understand and acknowledge and we heard a lot of testimony that there is a strong demand for short-term consumer loans in our society, that is a real need people have.

What we want to make sure is that the products that are fulfilling that need are actually helping consumers rather—

Mr. CARNEY. So how do you draw that line? We had a hearing right here about just that subject.

Mr. CORDRAY. Yes.

Mr. CARNEY. And there are basically poor people who are trying to get from here, from this week, the next week or whatever it might be, but the annual rates are off the charts even with the pilot program the Treasury has?

Mr. CORDRAY. Yes.

Mr. CARNEY. How do you strike that balance, I guess, and what do you—?

Mr. CORDRAY. It is a tough issue in some ways and that is part of why we started with the field hearing to try to gather a lot of input. We got a balanced input on both sides of the question: payday lenders themselves as well as customers who like the product; and others who were critical of the product and have seen some of the devastating consequences for some people of getting trapped in the debt cycle.

One of the things we think there is a need for is to try to foster competition in the small-dollar loan market. Some of the banks are providing products. We want to scrutinize those carefully.

But if they are good products, maybe they will help ease some of the strain of this. It is something to which frankly, we don't have all the answers. That is why we did a field hearing. We are going to continue thinking about it. We are interested in input from you all and your perspectives to help inform us.

But some of these are not the easiest problems in the world to figure out.

Mr. CARNEY. Thank you very much for your hard work. You have a tough job. We wish you well and hope that your door and your phone will remain open to us as we hear from—as you say, these are our constituents, and I look forward to working with you. It is great to see you today.

Thank you. I yield back.

Mr. FITZPATRICK. Thank you. I recognize the gentleman from Texas, Mr. Green, for 5 minutes.

Mr. GREEN. Thank you, Mr. Chairman, for the recognition. I also thank the chairman and the ranking member for the opportunity to sit with the subcommittee today, as I am not a member of the subcommittee.

Mr. Director, welcome to the committee and, hopefully, this will be one of many visits that you will make.

The debate today and for some time now has really been about how independent the CFPB will be. It is really about independence. And in this country, we decide that certain agencies—because of the sheer importance that they hold in the orderly function, functionality, if you will of the country—we decide how independent they will be.

We decided that we wanted our Judiciary to be exceedingly independent; hence, they are appointed for life. Federal judges are appointed for life, conditional to good behavior. They can be removed, but the appointment is for life. Assuming that they behave themselves, they will be there for life, unless they choose to do otherwise.

So, it is not unusual for us to have agencies and offices with a great amount of tenure.

The Comptroller General who heads the GAO is appointed for 15 years. That is because we want independence.

This agency, in my opinion, merits a great deal of independence given what we went through with the debacle as it relates to financial institutions and the crisis from which we are still recovering.

But notwithstanding the independence that I believe you have and should have, there is still accountability.

You are appointed by the President for 5 years, and you can be removed for cause. You have to testify before Congress semi-annually. You have an annual GAO audit. Your enforcement measures can be appealed, meaning enforcement against some party. That party has a right to take it before the courts and have an independent judge make a decision as to whether or not what you have done was correct.

Your actions are subject to judicial review, meaning, if you implement some sort of rule, that can be reviewed in the judicial system. You have other regulators that can literally veto your actions, such as the FSOC. Any member of the FSOC can petition to veto an action that you might take.

No other agency, as I understand it, has other agencies that can override the rules and regulations that they promulgate.

Mandatory rulemaking consultation: you can't just decide to do something as it might appear based on some of the things that we have heard. You are forced to consult with the Federal banking agencies before you produce a final product.

And you have to perform a cost-benefit analysis of your rules. You are required to conduct a cost-benefit analysis of all proposed rules.

There seems to be a fair amount of checks and balances in the process.

But in the final analysis, if I don't like the idea of a CFPB, then I don't want you to be independent. I want you to have to report to me. I want to control your budget. I want to determine whether you can have an appointment of 5 years or some smaller amount of time.

On the other hand, if you believe as I do, that 3/27s and 2/28s didn't help consumers, if you believe that prepayment penalties that coincide with teaser rates were abhorrent at that time, and if you believe that no-doc loans and certain other products that were promoted and produced were detrimental, then, you probably want to see someone looking out for the consumer, someone whose job it is to put the consumer first.

The prudential regulators had the opportunity to do this. They had every opportunity. And this is not to demean them in any way. But it is to say that history shows a need for what you do and what you are about to do.

So, I thank you for accepting the challenge. I believe you ought to have independence and I look forward to your many visits in the future.

I yield back.

Chairman NEUGEBAUER. I thank the gentleman from Texas. And the gentlewoman from New York, Mrs. Maloney, is recognized.

Mrs. MALONEY. I want to thank the chairman and the ranking member for calling this important hearing and for recognizing me. I am not a member of this subcommittee, so you are giving me a great honor and privilege. Thank you so much.

First, I would like to welcome Mr. Cordray, and really observe that during this entire confirmation process where there have been many challenges and obstacles put in place, none of the criticism in any way, shape, or form has been directed towards your life in public service, your commitment to doing the job, or your qualifications. You are really able to do the job, and everyone thinks you are great.

And I would like to add my voice to that, and add my concern that for the first time in my lifetime, I have seen the confirmation process used as a way not to confirm a person but as an attempt to change the underlying bill, in this case, the creation of the CFPB.

A number of my colleagues on the other said of the aisle and the Republicans in the Senate have publicly said, and said in writing, that if we would change the underlying bill, which they were not able to achieve in a vote in Congress or in the Conference Committee, then Mr. Cordray would be confirmed.

I believe it is a severe abuse of a confirmation process. The confirmation process should center on the qualifications of an individual, not on attempting to change the underlying bill.

But I would like to return to the subject of today's hearing and the budget. As I understand it, the CFPB's budget is capped at $557 million for Fiscal Year 2012. Do you anticipate using all of that? And do you happen to know what the budget cap is or what the budget is for the OCC, the FDIC or the FHFA?

Also, I understand that you are the only regulatory agency that does have a budget cap. Could you clarify and comment on those questions?

Mr. CORDRAY. Sure. Thank you, Congresswoman, for the comments and the questions.

First of all, we do not anticipate spending through our budget cap either this year or next year. We are building up, as you know, as a start-up agency, building up from really zero as of July 2010 when Dodd-Frank was enacted.

So, it will take us some time to get a steady state.

We are the only banking agency whose budget is capped on a hard cap. It is lower than the budget of the OCC, the FDIC, or the Federal Reserve. We are a fraction of the Federal Reserve.

There are some different functions that agencies perform certainly. But there are some different functions we are expected to perform such as overseeing and supervising nonbank firms in a number of financial fields that are not touched by the other regulators at all. And, of course, the consumer protection function is one that I happen to believe Congress, obviously, believed is incredibly important. It is important to protect consumers. I think it is important to protect responsible businesses that do compete fairly in these markets.

And I think that attention will strengthen our economy by avoiding the kinds of problems we saw that lead to the financial meltdown, the kinds of irregular mortgage practices that Congressman Green was just detailing a moment ago that should not have happened and, I believe, would not have happened or not have metastasized to the point they did had the Consumer Bureau been in place 10 years ago.

Mrs. MALONEY. Thank you. I join some of my colleagues in really believing that consumer protection is a very, very important part of the safety and soundness of our financial institutions. And, certainly, we need safety and soundness. We need these services for our economy.

But as you pointed out earlier, the subprime crisis was a threat to consumers and also to the overall economy of our country.

So, my question is, what are you doing now or what has the agency done to help fix the mortgage industry to promote transparency and to help curb servicing abuses?

Mr. CORDRAY. Thank you. That is, in some respects, our single highest priority, in part, because Congress told us it should be; in part, because we can look at the financial crisis and see what caused it; and in part, because that is the single biggest expenditure many consumers make.

We are going to be adopting a number of rules that Congress has told us to put in place to address some of these abuses, to make sure loans are made with ability to repay in mind, to make sure that mortgage servicer statements are given periodically and that they do disclose the kinds of fees and up-to-date status on where your mortgage is. Many people have received very little communication in that regard.

There are other protections we are going to be putting in place to address the mortgage servicing problems that have been widely documented, very severe problems. GAO has documented them. The other banking agencies have recognized now that there were abuses going on for years; and that they have hurt consumers and hurt the system.

And, actually, as you say, consumer protection issues that became safety and soundness issues because they began to loom so large and were so widespread and had been unaddressed for so long.

So, this is a high priority for us.

We also have examination over both bank and nonbank mortgage servicers now going forward. And we have the authority to enforce the law, which is a very important thing as well.

Mrs. MALONEY. Thank you. I think that is a tremendous step forward. I think all of us can agree on both sides of the aisle.

And just in closing, I have a tremendous amount of respect for my colleagues on the other side of the aisle who run for office and, certainly, for people who serve in government to put your ego, your reputation, and, in many cases, the finances of your family to take tremendous hits to serve this country. And I really applaud public servants.

I thank you for what you are doing, Mr. Cordray. And I just really appreciate it. It is meaningful and important for the overall economy, the safety and soundness of our economy, and really the protection of consumers, too.

So, thank you very much.

Mr. CORDRAY. Thank you.

Chairman NEUGEBAUER. I thank the gentlewoman. We are going to do another quick round here.

Mr. Cordray, I want to go back to kind of something I was talking about earlier. I am looking at, I believe this might be the current plan, the budget justification for 2013. And, I believe, it shows that you estimate that you are going to have 1,359 employees by the end of 2013, if I am reading that correctly. Is that correct?

Mr. CORDRAY. Correct.

Chairman NEUGEBAUER. And so, what do you think the total number of employees will be at the Consumer Financial Protection Bureau? Were you maxed out at say, 1,400 people? Is that where you are headed?

Mr. CORDRAY. I am not certain how to answer that question at a specific number level. I think we are getting into the range by the end of 2013 of what we—first of all, of what we can actually do under our budget cap.

And also, second, I think in having the resources we need to perform the responsibilities that Congress has laid out for us.

So, I think that at the end of 2013, we will be getting probably pretty close to the limits of our resources. And we are going to have to make those stretches and make sure we are doing the job we are supposed to do.

Chairman NEUGEBAUER. And so, I will go back to this planning process. If this is your planning document, how did you determine that 1,400 is the number?

Mr. CORDRAY. We have a detailed and iterative process within the Bureau. And, frankly, I would say very candidly that we are getting better at this as we go along. Every division is required to assess, analyze; look at the work that they have ahead of them; put forward their projections in terms of what they need in terms of hiring. That is scrutinized by the chief operating officer and their team. It is a very experienced team, a very capable team.

We had sort of a staff estimate process that we went through in the fall. It took a number of months and there were some tough discussions. There were people who wanted things who were told "no."

Some of the things that we recognized were important weren't immediate priorities for the Bureau, so we had to make choices. I think this goes on in any organization, whether public sector or private sector, and it goes on for us as well.

I think the ultimate measure is whether if you match up the responsibilities Congress has told us by law we have to carry out and match up the way in which we are spending our resources and what the employees are actually devoting their time to, whether those correspond and I think that is what the GAO said. At that stage, they thought that we were doing that very well but it is something that is a challenge for us, and obviously goes to the responsibility that we are talking about today.

Chairman NEUGEBAUER. I would love for you to furnish to the committee those departmental analyses of how you got to those numbers. I think that would maybe help us to better understand the objectives, because quite honestly, it is really kind hard at this particular point.

I understand you are new in that position, but a huge amount of resources are committed, you are committed, and obviously, if you are going to have this many people, you are going to have to find space for those people, so I think it would be extremely helpful for the committee to have the background documents on how you are going to get to those numbers, and what those people are going to be doing and what level of business expectation that you have for those people.

In other words if you are hiring people to be in the call center or something like that, how many calls that those individuals would be expected to have. So I assume you would furnish that?

Mr. CORDRAY. Yes, and in fact if you look at the budget justification that we just put out, which I think is the document you are looking at, there is considerably more detail there then there was in the first year.

A lot of it is going into what we are doing to build an institution; what we are doing to deliver tangible value, and what some of our accomplishments were. It goes through, and there are specific descriptions of what is going on in supervision and fair lending; what is going on in consumer education engagement; what is going on in research-markets regulations.

I do expect that detail to become fuller and even more comprehensive as we go along, but in the meantime, if your staff wants to work with our staff to make sure that they think that they have the kind of insight and information about what we are doing and why, I think that is totally appropriate, and we will be glad to work with you and provide that.

Chairman NEUGEBAUER. I want to ask one last question. There has been some discussion, and in fact I think the chairman of the full committee has introduced a piece of legislation that recommends that rather than going from a single Director who has very broad authority on rule making and making these decisions, that you switch to, say, a CFTC model where you have commissioners and that you have more than one person making those decisions.

You have the benefit of multiple people so that when a rule or a change in the direction of determining whether a financial is predatory or not, one person is not making that decision. Would you agree that having a panel or a group of people would give some—one, I think could make the system better but certainly for those people who are being regulated and for the people who are relying on good decisions to come from this agency, that the multiple-panel scenario makes sense?

Mr. CORDRAY. It is an interesting question, Congressman. I understand it was debated, Mr. Chairman, very extensively in Dodd-Frank itself; and so there are four main banking agencies now in the Federal Government. There is also the NCUA, but of those four, two are headed by a single official, our Bureau and the Comptroller of the Currency, the same model. Two are headed by a Board or a Board of Governors, in the case of the Federal Reserve.

And so, obviously organizations can function differently at different models—

Chairman NEUGEBAUER. I know the history, Mr. Cordray, I have to ask, do you support that? Yes or no?

Mr. CORDRAY. I actually think that having a single Director makes me more accountable to the Congress. If I come up here, I am responsible for what we do. I can't say, well, there are three others on the commission who feel this way or that way.

It is a model. When I was a State treasurer and State attorney general in Ohio, I was singularly accountable for what I did, and so, I see the advantages of that model. There are also advantages to the other model. Whatever Congress does, we will carry out that law.

Chairman NEUGEBAUER. So your opinion is that you being in charge is a better model?

Mr. CORDRAY. It is the same model as the Comptroller of the Currency, it is a 100-year-old model and nobody is proposing to change that. I don't hear anybody suggesting that here today. It seems to work for them and I think it will work for us.

Chairman NEUGEBAUER. So that is a "yes," correct?

Mr. CORDRAY. Again, whatever you all decide to do as to our structure, we will carry it out. I will say it is a big job. It is a hard job but I have come to see that, and I don't know that I fully appreciate it yet.

We have a team approach at the Bureau. We have a team of senior executives who are excellent. I rely on them heavily. I think you would be crazy to try to run an organization like this if you didn't do it that way. They are all accountable to you as well and you can speak to them at any time.

We have broad experience from the public and private sectors there but whatever model you would give us, whatever the law is, that is what we will carry out and we will do it cheerfully.

Chairman NEUGEBAUER. I recognize Mr. Fitzpatrick for 5 minutes.

Mr. FITZPATRICK. Thank you, Mr. Chairman.

Mr. Cordray, I also want to thank you for your service both in Ohio and now to the country. And I agree with Mrs. Maloney, you are making a sacrifice and I am sure you understand that our obligation here, not just on this committee but in Congress, is to make sure that we are watching the dollars and that for every dollar that our residents, our constituents and folks back home and taxpayers send here, they get a dollar in value in return.

Are you familiar with the principles and the procedures of performance based budgeting?

Mr. CORDRAY. I am. I first became familiar with those when I was the county treasurer in Franklin County, Ohio, and found that when we went into our budget process, it was something that I had not known before because I had not been an executive before. We found it very useful. It turned out when I was in the State office that was being used, and the legislature was holding us accountable for that. More and more I understand it has now been a Federal Government model for at least a decade or more.

Mr. FITZPATRICK. In Fiscal Year 2011, before you ran the agency, was the agency engaged in the use of performance based budgeting?

Mr. CORDRAY. In a manner of speaking, that is what we were working toward when we were in our very first year. It was difficult to implement that in a meaningful way because obviously, the year before we didn't exist at all, and so, we didn't have any objectives so then trying to measure us against non-existing objectives doesn't make a lot of sense.

I would say that within 3 and 4 years here, as we are building out and becoming more familiar and rendering a more comprehensive budget justification and like we want you to be able us to that and hold ourselves to that but it is for us it is a start-up process. That is my only cautionary note.

Mr. FITZPATRICK. So in Fiscal Year 2011, when your agency, in excess of $160 million, for instance, was there a strategic plan in place? I just wanted the basics of performance based budgeting.

Mr. CORDRAY. There was in a sense, in a rudimentary sense. It is not the kind of strategic plan that you should rightfully expect from us and that we are putting together now and it is something that we have been working on over the last several months and we will be providing you. And I think that is a fair expectation of us going forward.

Again, what I would simply say is put all this, please, in context of the fact that we started from nothing in July of 2010. We were an information team, not even an agency until July of 2011. We did not have a Director until January of this year which meant that quite a bit of what we are supposed to do under the law we could not under the interpretations in place at that time. So be patient with us but that is what we intend to do and I think it is fair for you to hold us accountable for doing that.

Mr. FITZPATRICK. Looking back at 1 and 1½ years, do you have any comment on the agency's drawing on the reserve, I think it was an extra $28 million. We are about 28 percent over what was estimated. And how would the existence of a strategic plan have changed that? Would you have blown though that budget estimate with the strategic plan in place and how would that change going forward?

Mr. CORDRAY. There were some things that came up that were not anticipated and maybe couldn't have been anticipated. And so, for example, it was mentioned earlier that we ended up with—I think, in the end, at this current count, it is 232 transfer employees from other Federal agencies, including predominantly the Federal banking agencies.

The Federal Reserve contacted us and indicated that for those folks to transition into the Federal Reserve's pension system, there was going to have to be a negotiation and an adjustment made which would result in a payment by us to them that was in the eight figures and that was part of what led to the revision of the budget at that time.

There were also some IT needs. We have, as I said, been contracting with Treasury, that is the bulk of our expenses to provide IT and HR at a time when we really didn't have them in place. We will be transitioning off of those. Some of those expenses were not fully understood or estimated at the outset when we were just getting started, and so, there was some of that in the first year.

That is diminishing. I wouldn't expect that to be true going forward, but I think that any time you see any kind of adjustment or difference it is highly appropriate for you and your staffs to call us in and talk to about it, and exert that oversight. And frankly, that will give me confidence that if you are satisfied with what we are doing, then I can be satisfied with—

Mr. FITZPATRICK. There have been a number of comparisons between the Bureau today and the OCC and the FDIC, but the difference is the OCC and the FDIC can't go and demand money within a day and receive it as the Bureau can, is that right?

Mr. CORDRAY. I actually don't know how the FDIC and the OCC effectuate the transfer of funds and spend within their budget. I don't know whether that is something they can do quickly or not. Once you—

Mr. FITZPATRICK. One of the other distinctions—

Chairman NEUGEBAUER. Just very quickly because we don't have—

Mr. FITZPATRICK. Maybe that the dollars don't affect the annual operating deficit of the Federal Government. I am looking at the

Fiscal Year 2013 budget that was delivered by the President this week. General fund receipts is a line item in the budget deposited by the Federal Reserve System, their earnings that paid down the debt or go against the annual operating deficit estimated this year to be about $81 billion, estimated for Fiscal Year 2013 to be $80 billion. And so, it goes down by $1 billion.

Is it fair to say that for every dollar your Bureau spends from the Federal Reserve, that is $1 less that will be returned to the Federal Treasury? So for every $100 million your agency spends, that is $100 million less that will go to pay down the annual budget deficit?

Mr. CORDRAY. I don't know if that is the full picture or not. I know the Federal Reserve is unique because they conduct open market operations, they have assets, they make earnings on assets and the like and money comes back to Treasury.

I don't know if that is true of the OCC or the FDIC—

Mr. FITZPATRICK. But is it true of the Bureau that for every dollar that you spend from the Federal Reserve, it is $1 in their earnings that will not be returned to the Federal Treasury?

Mr. CORDRAY. What I know is, for example, our expenditures have not approached our budget cap, and so, we have not made the full demands that we could upon the Fed for funding. I don't happen to know exactly what the Fed then does with money that is not spent or whether it is returned to the Treasury or whether they hold it in and then use it in the next quarter or just what.

I am not as familiar with the Fed's—the details of their expenditures as I am with the Bureau.

Mr. FITZPATRICK. I appreciate you being here. According to the President's own budget, it is returned in earnings to the Federal Treasury.

Mr. CORDRAY. Yes.

Mr. FITZPATRICK. So the dollars your Bureau spends are dollars not returned to the taxpayers. We just need to make certain that every dollar is accounted for and that every dollar is wisely spent. That is our obligation.

Mr. CORDRAY. Agreed.

Mr. FITZPATRICK. Thanks for being here.

Mr. CORDRAY. Agreed. Thank you.

Chairman NEUGEBAUER. Thanks, gentlemen.

And I now recognize the gentlewoman from New York, Mrs. Maloney.

Mrs. MALONEY. One of the proposals that my good friends on the other side of the aisle are working very hard on is to make the CFPB subject to the appropriations process.

And this is very troubling to me, because the other regulators—the Fed, the FHFA, the FDIC, the SEC—are not subject to the appropriations process. And the appropriations process oftentimes can become very political and it could be that it could result in significant cuts to your ability to help people.

So I would like to ask you, what do you think the impact would be on your programs to service the Office of Servicemember Affairs, the Office of Older Americans, and for consumers generally? What is the impact on how you would be able to service them if the

CFPB did not have the capped budget—was subject to the yearly, daily appropriations spites that we are involved in?

Mr. CORDRAY. It is a good question, Congresswoman. I would go back to, I say, two things.

First, I would go back to the debate over the original Dodd-Frank Act, and I know that this was extensively discussed and debated and the determination was made that the Consumer Financial Protection Bureau, as a bank regulatory agency, should be treated like the other bank regulatory agencies.

In some other cases, the Comptroller of the Currency—the Federal Reserve—they go back to approximately a century and it has been determined over time that those should be nonpolitical in their budgeting and appropriations.

I think the other issue that was raised earlier today which is the cautionary tale was OFHEO. OFHEO was an appropriated agency which was supposed to exert oversight over Fannie Mae and Freddie Mac.

This Congress reviewed that situation and found it highly unsatisfactory in the last decade, and therefore moved to a model where the FHFA is now the overseer of Fannie Mae and Freddie Mac and is not subject to appropriations because they found that the politicization of the OFHEO mission had impeded its ability to oversee these large and sophisticated and quite powerful financial institutions.

We are now overseeing from the consumer protection standpoint, some of the largest and most sophisticated financial institutions in our country. Several of them have assets in excess of $1 trillion. Doing the same kind of work with a different emphasis as our fellow banking agencies, it feels to me we should probably be on a par. And if we are not on a par, it is dangerous to the confidence with which people could expect to us to carry out our work.

Mrs. MALONEY. Thank you.

Also, could you comment on the oversight of the Fed's IG on your agency, the CFPB? And can you talk about how much is the IG in contact with you and your staff, what types of activities the IGs office looks at and what the IG has found in any report or investigation the office has completed?

Mr. CORDRAY. Sure.

The Inspector General model is a new model to me because I don't have background and experience with the Federal Government before coming to this Bureau. At the State level, we were always subject to oversight by our State auditor and they had the ability to come in and look at any aspect of our operations.

They could set the priorities—that was entirely appropriate. And we always worked very closely with them, not only because we thought it was important to have clean audits for the public's trust and confidence, but also because that was a measure of whether we were doing things right.

And if there were disagreements about how to do something, we would typically defer to them. At this level, my understanding, the Inspector General is—it is a broad authority to give the public and the Congress confidence that we are operating appropriately and effectively and efficiently.

We will be an open book to our IG. We already have been open to both the Treasury and Fed IGs who both oversaw us last year.

We have met with the Federal Reserve's Inspector General, who is our IG—impressive individual; impressive staff; obviously going to take their work very seriously. I take it seriously as well.

I have let them know that they should bring anything they want to my attention personally at any time. I would be accountable in that way. And I think Congress obviously will look very carefully at their work—

Mrs. MALONEY. My time has almost expired. I do want to know to what extent is the CFPB subject to Federal contracting procurement and other laws. And is it comparable to other similar agencies? Are you subject to the procurement laws of the Federal Government?

Mr. CORDRAY. We are, again, analogous to the other banking agencies. We are an independent agency, not part of the Executive Branch, per se. We are closer to Congress, but we are, again, akin in that respect to the other Federal banking agencies.

Mrs. MALONEY. So, are they subject to the contracting procurement laws of the country?

Mr. CORDRAY. I know that we are subject to procurement laws and the constraints and I believe they are the same ones as the other banking agencies.

Mrs. MALONEY. Thank you very much. I yield back. Thank you.

Mr. FITZPATRICK. I recognize the gentleman from Florida, Mr. Posey, for 5 minutes.

Mr. POSEY. Thank you, Mr. Chairman.

Just a follow up on a question from earlier in our first round—did you indicate you plan to seek criminal and civil penalties for wrongdoing?

Mr. CORDRAY. Congressman, we do not, under our statute, have the authority to bring any criminal actions. What we are authorized to do and in fact told to do by our statute is if we uncover any conduct that we believe could be criminal in nature, we are to refer it to the Department of Justice which I think is akin to what you—

Mr. POSEY. Yes, because most of the people I represent, they resent the civil penalties without criminal penalties. They don't like to see the big, rich people who are exploiting them buy their way out of this stuff.

And I know the agencies like to levy the penalties there because then they have it as revenue. It doesn't go directly back into the Treasury like it should. And I hope that someday Congress will have the political will to do that because that is just right.

There were some discussions earlier about the level of detail expected for your agency. And, while there may be people in this Chamber who would be glad to check out of a grocery store and have the cashier look at the basket and arbitrarily say, "Well, your bill is about $200 or so," but most people would like to have an itemized receipt. They don't need to know the ingredients that are in every item that they buy, but they would like to have some kind of accountability for that.

Accountability changes behavior. Bureaucrats who don't perform, don't change behavior. The SEC has over 200 lawyers. They handle an average of 600 cases a year.

I hope that your attorneys that you have talked about will be capable of handling more than an average of a half a case a year. In the private sector, they carry a much greater load than that. And if something else, I think that next to the general public is suspect.

And speaking of general public suspect, again, I talked about the article in Judicial Watch that discussed the salaries that you began paying some of these new employees. And I noticed an intern was hired at $42,000 a year.

Most of the interns in our offices work for nothing. If all the agencies start paying interns that kind of money, we will never get any interns to work for the experience which is typically what they like to do.

I noticed we had a new employee, $251,388—an Associate Director for Consumer Education. Now, that is over 5 times the average household income for working people who play by the rules back in my district.

How do I justify that? How can I explain that to my constituents as being reasonable?

Mr. CORDRAY. Certainly. To begin with, I worked as an intern for Senator John Glenn years ago and I was unpaid, so I am familiar with what you are describing.

The salary levels for the Consumer Bureau are fixed by law by Congress. And we are required by law to have a comparable salary structure and benefit structure to that of the Federal Reserve.

Congress did it, so Congress would know better than I why it was done, but it was done, I believe, to make us comparable and competitive with the fellow Federal banking agencies so that we wouldn't consistently lose better and more experienced employees to them.

The other thing that needs to be understood is that the work that we do is attempting to oversee, again, the most sophisticated, the most powerful—and many of them, very extensive financial institutions in our society. And we need to be able to do the kind of sophisticated work that involves examining banks with a trillion dollars or more in assets, multiple—

Mr. POSEY. No. But this is for a Consumer Education Associate Director, over a quarter of a million dollars a year. That doesn't pass a straight-face test.

Mr. CORDRAY. Yes.

Mr. POSEY. And are you telling me that Judicial Watch was wrong when they said records show workers starting at twice the maximum pay specified by the Office of Personal Management?

Mr. CORDRAY. Again, we have broad pay bands and we don't always—we typically try to pay to the midpoint of our pay range, not at the very top. So I would like to look at the particular incidents that you are describing.

But what I will say is we are required by law to have pay bands and a pay structure that is comparable to the Fed. As of last account, as I was preparing for this hearing, we on average are about 1 percent below the Fed in our pay bands and we are about 4 percent below them in average salary.

So, we are complying with the law. That is what we are supposed to do.

If you have concerns about individual positions or individual salaries, we would be happy to take them up, go back and review them, and get your staff whatever information you require.

Mr. POSEY. Yes. I have a lot of concerns and a lot of questions about them. But if the Fed has an Assistant to the Director of Consumer Education that they pay over $251,288 a year, I would like to know about it. And if they do, I would bet it is not an employee who just started at that. If another employee made that in the Fed, I would guess they would probably have been there a lifetime to accumulate that. I hope I am right.

Mr. CORDRAY. We will go back and review that particular incidence that you are noting. I assume that out of all of our employees, your staff has looked carefully, and if there are others that they want us to look at, we will do that as well.

Mr. POSEY. I have a pretty good-sized file here. I will just use that as an example.

Thank you. My time is up.

Mr. CORDRAY. Thank you.

Mr. FITZPATRICK. Mr. Cordray, there are no other questions. I want to thank you for your attendance and for your responsiveness.

The Chair notes that some Members may have additional questions for this witness, which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for Members to submit written questions to this witness and to place his responses in the record.

This hearing is adjourned.

[Whereupon, at 12:21 p.m., the hearing was adjourned.]

A P P E N D I X

February 15, 2012

TESTIMONY OF
RICHARD CORDRAY
DIRECTOR
CONSUMER FINANCIAL PROTECTION BUREAU

Before the
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
FEBRUARY 15, 2012

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 System or the President of the United States.

The Budget of the Consumer Financial Protection Bureau

Chairman Neugebauer, Ranking Member Capuano, and members of the Subcommittee, thank you for this opportunity to testify on the Consumer Financial Protection Bureau's budget.

Before I became Director, I promised Members of Congress in both chambers and on both sides of the aisle that I would be accountable to you for how the Consumer Bureau carries out the laws you enact. I said that I would always welcome your thoughts about our work, and I stand by that commitment. This is the 14th time that we have testified before either the House or the Senate, and my colleagues and I look forward to continuing to work with you to provide the kind of oversight that allows you to understand the work we are doing and that helps us improve our performance.

We are committed to fulfilling our statutory responsibilities and delivering value to American consumers. This means being accountable and using our resources wisely and carefully. As you know, the Consumer Bureau is funded through transfers from the Federal Reserve. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the cap on those transfers for fiscal year 2011 was 10 percent of the Federal Reserve's 2009 operating expenses, or $498 million. As this was our start-up year, we did not use all of our available funds – in fact we used only $123 million -- but we got underway and continue to build toward a steady state that will allow us to accomplish the objectives set forth in the laws enacted by you, the Congress.

The Government Accountability Office rendered an unqualified "clean" audit of our financial statements, and an additional independent, third-party audit found that the Consumer Bureau addressed all relevant budgeting requirements under Dodd-Frank. Because we are committed to transparency, we have posted our budget justification, our financial statements, the GAO audit, and the independent audit on our website at consumerfinance.gov. We invite you to look at these documents and will be glad to answer any questions you may have about them.

Now that we completed our statutory transition period and have become a full-fledged independent agency with the legal responsibility to protect American consumers in the financial marketplace, our expenditures have naturally increased. As you can see in our budget justification, however, our budget estimates remain considerably below our budget cap at $356 million for 2012 and $448 million for 2013. At this time, we have no plans to ask Congress for any further appropriations, as we are authorized to do by law.

While our budget is small relative to the other banking agencies, our mission is critical. Our budget is a means to an important end – to make life better for American consumers. Much is at stake. Consumer finance is a big part of the American economy, and it bears heavily on all of our lives. Mortgages allow people to buy homes and spread the payments over many years. Student loans give people with talent and ambition access to higher education. Credit cards are a convenient means of accessing money to make purchases. Products like these can help people achieve their dreams. But as we have seen in recent years, they also can create dangers and pitfalls if they are misused or misunderstood.

In state and local government I was deeply engaged in consumer finance issues. I saw good people struggling with debt they could not afford. Sometimes people made bad decisions.

Sometimes an unexpected event – like a loved one getting sick or a family member losing a job – overwhelmed even the most careful planning. Still other times, unscrupulous businesses obscured loan terms or engaged in outright fraud, harming unsuspecting consumers and even ruining lives and devastating communities.

I am sure each of you hears every day from friends, neighbors, and constituents who have these kinds of stories to tell. They are not looking for special favors. They just want a fair shake, and a chance to get back on track toward achieving the American Dream. They deserve a consumer financial system that actually works for consumers. Accomplishing our mission will take time. But we are already taking important steps to improve the lives of consumers.

One of our main objectives is to make sure the costs and risks of financial products are clear. People make their own decisions, and nobody can or should try to do that for them. But it is the American way for responsible businesses to be straightforward and upfront with their customers, giving them all the information they need to make informed decisions. That is good for honest businesses and good for the overall economy. I saw a quote which embodies this view: "Free men engaged in free enterprise build better nations with more and better goods and services, higher wages and higher standards of living for more people. But free enterprise is not a hunting license." That was Governor Ronald Reagan in 1970. I agree with what he said, and it is a view shared by those I work with at the Consumer Bureau.

So another key objective is making sure banks and nonbanks get the evenhanded oversight needed to promote a fair marketplace. Our supervisors are going on-site to examine their books, ask tough questions, and fix problems we uncover. Under the laws Congress enacted, and with a director in place, we can now do this across all markets for consumer financial products and services.

The Consumer Bureau will also make clear that violating the law has consequences. Through our field examiners, direct contact with consumers and businesses, and highly skilled researchers, we have many ways to learn facts about what is happening in the marketplace. We will use all the tools available in our effort to ensure everyone follows the rules of the road. Where we can cooperate with financial institutions to do that, we will; but when necessary, we will not hesitate to use enforcement actions to uphold the law and right a wrong.

We are listening closely to consumers and the businesses that serve them. We do this through our website, consumerfinance.gov, where people tell us their personal stories. We also get out of Washington regularly to hear from people first-hand. We have held town hall meetings in Philadelphia, Minneapolis, and Cleveland, and we held our first field hearing in Birmingham. We hope you will join us at these events when we come to your communities.

Thank you. I look forward to your questions.

Consumer Financial Protection Bureau

Program Summary by Budget Activity

(Dollars in thousands)

	2011 Actual		2012 Estimates		2013 Estimates		% Change
	FTE	Amount	FTE	Amount	FTE	Amount	
Supervision, Enforcement, and Fair Lending & Equal Opportunity	101	59,632	635	214,053	873	261,119	22%
Consumer Education and Engagement/Consumer Response	41	43,339	196	84,585	345	126,025	49%
Research, Markets and Regulations	36	20,359	111	57,736	141	60,544	5%
Total Expenses/Obligations	**178**	**$123,330**	**942**	**$356,374**	**1,359**	**$447,688**	**26%**

Note: Estimates are based on the best available information at the time the Budget was prepared and are subject to revision. Consistent with the presentation of the CFPB's audited financial statements, the resource estimates in this volume, including staffing allocations, are displayed across three budget activities, with funding for the Bureau's operations and executive management functions allocated among the three activities.

Background

The Consumer Financial Protection Bureau ("CFPB" or the "Bureau") was established under Title X of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act").[1] To create a single point of accountability in the federal government for consumer financial protection, the Act consolidated many of the authorities previously shared by seven federal agencies under the Federal consumer financial laws[2] into the CFPB and provided the CFPB with additional authorities. Among the Bureau's tools are authorities to:

- Conduct rulemaking, supervision and enforcement with respect to the Federal consumer financial laws;
- Handle consumer complaints and inquiries;
- Promote financial education;
- Research consumer behavior; and
- Monitor financial markets for risks to consumers.

The CFPB receives a mandatory transfer of funding from the Federal Reserve System in an amount determined by the Director of the CFPB to be necessary to fund Bureau operations, subject to limits established in the Act. The CFPB is also authorized to request up to $200 million in discretionary appropriations in Fiscal Years (FY) 2010-2014 if the amount transferred by the Federal Reserve is not sufficient. Any request to secure funding through discretionary appropriations under this provision would be subject to the Congressional appropriations process. The CFPB is not requesting a discretionary appropriation in FYs 2012 or 2013.

Priorities

In support of the CFPB's strategic goals, the Bureau's key priorities for FYs 2012 and 2013 include:

- Recruit the most qualified employees;
- Build-out core supervision and enforcement capabilities;
- Coordinate supervision and other activities with federal and state agencies;
- Make critical investments in technology, data infrastructure and facilities;
- Expand the Bureau's capacity to receive and respond in a timely manner to consumer complaints for the full range of consumer financial products and services;
- Build efficient and effective management processes;

[1] P.L. 111-203, 124 Stat. 1955 (July 21, 2010)

[2] As used throughout this document, the term "Federal consumer financial laws" has the meaning set forth in Section 1002(14) of the Act.

- Monitor and enforce compliance with the Federal consumer financial laws through supervision in order to protect consumers from illegal acts or practices;
- Protect honest businesses from competitors who use unscrupulous practices to gain an unfair advantage by addressing potential violations of Federal consumer financial laws in a range of markets;
- Promote fair lending compliance and education by working with federal agencies, State regulators, private industry, and fair lending, civil rights, and consumer and community advocates;
- Engage consumers in a timely way through innovative initiatives to educate them about financial issues and use consumer input, including consumer complaint and inquiry data, to identify needed policy changes with particular impact on students, older Americans and servicemembers, as required by the Act;
- Address challenges in the mortgage market and evaluate potential policy problems in a range of consumer finance markets;
- Simplify or update regulations that have become unnecessary, outmoded, overly burdensome, or are otherwise unduly difficult to understand and comply with;
- Produce original research to improve understanding of consumer behavior and market operations and practices to support the CFPB's policymaking and the general functioning of the market;
- Monitor various consumer financial markets for emerging risks, technological advances and other important developments; and
- Issue regulations that promote a fair, transparent, and competitive marketplace for consumer financial products and services after proper consideration of benefits and costs.

CFPB FY 2013 Budget Highlights

(Dollars in thousands)

Budget Adjustment Table	FTE	Amount
FY 2011 Actual	178	123,330
FY 2012 Estimate	942	356,374
Net FY 2013 Program Changes:		
Supervision, Enforcement, and Fair Lending & Equal Opportunity	238	47,066
Consumer Education and Engagement/Consumer Response	149	41,440
Research, Markets and Regulations	30	2,808
Subtotal FY 2013 Net Program Changes	417	91,314
Total FY 2013 Estimate	1,359	$447,688

FY 2013 Budget Adjustments

Net Program Increases +$91,314,000/ +417 FTE

Supervision, Enforcement, and Fair Lending & Equal Opportunity +$47,066,000/ +238 FTE
The CFPB will make critical investments in core supervisory and enforcement capabilities to ensure that the Bureau is positioned to monitor compliance with and enforce the Federal consumer financial laws. Resources will support continued hiring, professional development and travel of field examination, Enforcement and Fair Lending & Equal Opportunity staff; the build-out of core infrastructure necessary to manage the examination process (i.e. risk monitoring, examination scoping, report generation); and the initiation of investigations and enforcement actions. Funding will also allow the CFPB to continue the use of technology that supports a more targeted, risk-based review of loans and entities, which promotes compliance and the efficient use of limited resources.

Consumer Education and Engagement/ Consumer Response +$41,440,000/ +149 FTE
The Act established several offices within the CFPB to support targeted outreach, including Financial Education, Older Americans, Servicemember Affairs, and Students. The Budget provides funding to support additional staff and outreach activities within these and

other consumer engagement offices, which will allow the Bureau to comply with several statutory mandates. These mandates include the development and implementation of work consistent with the National Strategy for Financial Literacy; initiatives for servicemembers and their families; activities to facilitate the financial literacy of older Americans; and initiatives to assist student loan borrowers in resolving complaints related to private student loans and to collect and analyze information on the private student loan marketplace. The Budget also includes funding to continue building the organization's capacity to handle consumer complaints related to credit cards, mortgages and other financial products regulated by the Bureau in a timely manner, as required by the Act.

Research, Markets and Regulations
+$2,808,000/ +30 FTE
The Budget provides resources to expand expertise in research, markets and regulation offices, and support the use of data assets that allow the Bureau to comply with research, rulemaking, supervision and education mandates, including statutory requirements to analyze and report on the following: (1) developments in markets for consumer financial products or services; (2) access to fair and affordable credit; (3) consumer awareness, understanding and use of disclosures and communications regarding consumer financial products and services; (4) consumer awareness and understanding of costs, risks, and benefits of consumer financial products and services; (5) consumer behavior with respect to consumer financial products and services; and (6) experiences of traditionally underserved consumers. Resources will also support the Bureau's consideration of the potential benefits and costs to consumers and covered persons, including the potential reduction of access by consumers to consumer financial products or services in its rulemakings. The CFPB is coordinating with other federal agencies, including through the Financial Stability Oversight Council, to ensure the most efficient use of data and avoid duplication.

Explanation of Budget Activities

Supervision, Enforcement, and Fair Lending & Equal Opportunity ($261,119,000)
The CFPB's Supervision, Enforcement, and Fair Lending & Equal Opportunity Division oversees depository and non-depository institutions for compliance with the Federal consumer financial laws and brings enforcement actions against those institutions, where appropriate, to address violations of law and in order to protect consumers from illegal acts or practices and to protect honest businesses from unscrupulous competitors.

Consumer Education and Engagement/ Consumer Response ($126,025,000)
The Consumer Education and Engagement Division and Consumer Response strive to enhance the ability of consumers to make financial decisions consistent with their personal financial goals. In accordance with statutory requirements, the Bureau maintains the capacity to receive consumer complaints relating to consumer financial products and services over the telephone or through a portal on its website and to facilitate their resolution.

Research, Markets and Regulations ($60,544,000)
The Research, Markets and Regulations Division is responsible for monitoring consumer financial markets, improving understanding of consumer behavior and evaluating the benefits and costs of potential policies; as well as implementing the Federal consumer financial laws through regulations, in coordination with other parts of the Bureau, where appropriate. Before the Bureau acts on its own initiative, it will carefully gather evidence about particular practices, products or trends from a wide variety of sources.

CFPB Performance by Budget Activity

Budget Activity	Performance Measure/Indicator	FY 2012	FY 2013
Supervision, Enforcement, and Fair Lending & Equal Opportunity	Supervision activities (examinations, target reviews, or horizontal reviews) opened during the fiscal year	Baseline	TBD
Consumer Education and Engagement/Consumer Response	Percent of complaints closed within 60 Days	Baseline	TBD
Research, Markets and Regulations	Percent of the mortgage market monitored through data	Baseline	TBD

Description of Performance

Overall Process for FYs 2012 and 2013

The CFPB's priority for FY 2011 was to build its staff and capacity to the point where it could begin formal operations on the transfer date. That priority was consistent with Section 1061 of the Act, which provided for the transfer of certain consumer financial protection responsibilities from seven existing agencies to the Bureau by the transfer date – July 21, 2011. In the year leading up to the transfer date and since, Treasury and CFPB staff successfully completed projects critical to establishing key operations of the Bureau, including:

- Started on-site examinations of the largest banks;
- Began investigating possible violations of Federal consumer financial laws;
- Began accepting and facilitating the resolution of consumer complaints and inquiries concerning credit cards and residential mortgage loans;

The CFPB is now in the process of developing a robust set of performance measures to track the Bureau's progress toward achieving its strategic goals in FY 2012 and beyond. The CFPB will use FY 2012 to collect baseline data that will inform target-setting in the future. The CFPB will continue to modify and develop additional measures during FYs 2012 and 2013.

Supervision activities (examinations, targets reviews, or horizontal reviews) opened during the fiscal year

The CFPB will conduct examinations, target review, or horizontal reviews of the entities over which it has supervisory authority. Included in this figure are a number of entities that will be under a continuous supervision program due to the size and complexity of the entity. The results of these activities will be subject to a rigorous internal review process to ensure consistent, fair, and balanced outcomes that protect consumers. As a new indicator in FY 2012, the Bureau will collect information on the number of supervisory activities throughout the fiscal year in order to assess performance against strategic goals.

Percent of complaints closed within 60 Days

This measure demonstrates Consumer Response's efficiency in investigating and closing out consumer complaints (following closure by the financial institution). Targets will be set in the future as the Bureau continues to collect baseline data on response times for credit card complaints, as well as other products and services that will be launched in FY 2012.

Percent of the mortgage market monitored through data

This measure reflects the CFPB's efforts to monitor trends and emerging risks in the mortgage markets. The Bureau is investing in data not just in aggregate but rather at the level of particular consumer transactions.

Consumer Financial Protection Bureau

FY 2013
Budget Justification

Table of Contents

Section 1 – Purpose

1A – Mission Statement

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.

1.1 – Resource Detail Table[1]

(Dollars in thousands)

	2011 Actual		2012 Estimates		2013 Estimates		% Change
	FTE	Amount	FTE	Amount	FTE	Amount	
Budgetary Resources:							
Revenue/Offsetting Collections							
Transfers-in		161,850		340,300		447,688	32%
Total Revenue/Offsetting Collections		**161,850**		**340,300**		**447,688**	**32%**
Unobligated Balances, Start of Year		9,200		47,720		31,646	-34%
Recoveries of Prior Year Obligations							
Net Transfers							
Total Budgetary Resources Available		**171,050**		**388,020**		**479,334**	**24%**
Expenses/Obligations							
Supervision, Enforcement, and Fair Lending & Equal Opportunity	101	59,632	635	214,053	873	261,119	22%
Consumer Education and Engagement/Consumer Response	41	43,339	196	84,585	345	126,025	49%
Research, Markets and Regulations	36	20,359	111	57,736	141	60,544	5%
Total Expenses/Obligations	**178**	**$123,330**	**942**	**$356,374**	**1,359**	**$447,688**	**26%**

1B – Mission, Priorities, and Context

The Consumer Financial Protection Bureau ("CFPB" or the "Bureau") was established under Title X of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act").[2] To create a single point of accountability in the federal government for consumer financial protection, the Act consolidated many of the Federal consumer financial laws authorities previously shared by seven federal agencies[3] into the CFPB and provided the CFPB with additional authorities. Among the Bureau's tools are authorities to:

- Conduct rulemaking, supervision and enforcement with respect to the Federal consumer financial laws;
- Handle consumer complaints and inquiries;
- Promote financial education;
- Research consumer behavior; and
- Monitor financial markets for risks to consumers.

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[1] Estimates are based on the best available information at the time the Budget was prepared and are subject to revision. Consistent with the presentation of the CFPB's audited financial statements, the resource estimates in this volume, including staffing allocations, are displayed across three budget activities, with funding for the Bureau's operations and executive management functions allocated among the three activities.

[2] P.L. 111-203, 124 Stat. 1955 (July 21, 2010)

[3] As used throughout this document, the term "Federal consumer financial laws" has the meaning set forth in Section 1002(14) of the Act.

The CFPB is organized into six primary operating divisions:

1. Supervision, Enforcement, and Fair Lending & Equal Opportunity: Ensures compliance with and enforcement of the Federal consumer financial laws, including fair lending laws, by supervising market participants and bringing enforcement actions when appropriate.

2. Research, Markets and Regulations: Monitors consumer financial markets; improves understanding of consumer behavior and evaluates the benefits and costs of possible policy initiatives; as well as implements the Federal consumer financial laws through regulations, in coordination with the other parts of the Bureau where appropriate.

3. Consumer Education and Engagement: Empowers consumers to make financial decisions that are best for them through wide-ranging education efforts, including targeted outreach required by the Act to students, older Americans and servicemembers.

4. General Counsel: Responsible for the Bureau's compliance with all applicable laws and for providing legal advice to the Bureau's leadership and operating divisions.

5. External Affairs: Disseminates information about the Bureau's work and manages the Bureau's relationships with stakeholders in order to encourage understanding, participation, transparency and accountability.

6. Chief Operating Officer: Builds and sustains the CFPB's operational infrastructure to support the entire organization. The division also includes Consumer Response, which handles consumer complaints and inquiries related to consumer financial products and services.[4]

Strategic Goals & Priorities

Build a Great Institution.
The Bureau continues to build its operational capacity. As it does so, it must ensure that its internal infrastructure – ranging from its human capital operations to its technology and data infrastructure – will be able to support its work now and in the future. Key priorities in support of this strategic goal include:

- Recruit the most qualified employees;
- Build-out core supervision and enforcement capabilities;
- Coordinate supervision and other activities with federal and state agencies;
- Make critical investments in technology, data infrastructure and facilities;
- Expand the Bureau's capacity to receive and respond in a timely manner to consumer complaints for the full range of consumer financial products and services; and
- Build efficient and effective management processes.

[4]While Consumer Response is a function under the Bureau's Chief Operating Officer, for the purpose of budget presentation, funding for Consumer Response is grouped with the Bureau's Consumer Education and Engagement division, as Consumer Response is a generally regarded as a program rather than an operations function.

Deliver Tangible Value.
The Act endowed the Bureau with wide-ranging policy tools, and the Bureau must coordinate the use of those tools in a way to promote a consumer financial marketplace that works for consumers, responsible providers and the economy as a whole. Key priorities in support of this strategic goal include:

- Monitor and enforce compliance with the Federal consumer financial laws through supervision in order to protect consumers from illegal acts or practices;
- Protect honest businesses from competitors who use unscrupulous practices to gain an unfair advantage by using enforcement authority to address violations of Federal consumer financial laws in a range of markets;
- Promote fair lending compliance and education by working with federal agencies, State regulators, private industry, and fair lending, civil rights, and consumer and community advocates;
- Engage consumers in a timely way through innovative initiatives to educate them about financial issues and use consumer input, including consumer complaint and inquiry data, to identify needed policy changes with particular impact on students, older Americans and servicemembers, as required by the Act;
- Address challenges in the mortgage market and evaluate potential policy problems in a range of consumer finance markets;
- Simplify or update regulations that have become unnecessary, outmoded, overly burdensome, or are otherwise unduly difficult to understand and comply with;
- Produce original research to improve understanding of consumer behavior and market operations and practices to support the CFPB's policymaking and the general functioning of the market;
- Monitor various consumer financial markets for emerging risks, technological advances and other important developments; and
- Issue regulations that promote a fair, transparent, and competitive marketplace for consumer financial products and services after proper consideration of benefits and costs.

<u>Accomplishments</u>
Many consumer financial protection authorities transferred to the CFPB on July 21, 2011 (the "transfer date"). In the year leading up to the transfer date and since, Treasury and CFPB staff successfully completed projects critical to establishing key operations of the Bureau, including:

- Started on-site target reviews and examinations of the largest banks;
- Began investigating possible violations of the Federal consumer financial laws;
- Issued interim final rules governing adjudications and investigations and developed a policy to give subjects of an investigation notice and an opportunity to respond prior to the commencement of formal enforcement proceedings;
- Began accepting and facilitating the resolution of consumer complaints and inquiries concerning credit cards and residential mortgage loans;
- Initiated a referral process for troubled homeowners who contact the CFPB's Consumer Response Center;
- Launched the CFPB website, including a blog and interactive tools designed to support specific policy initiatives, and web pages for students, older Americans, and servicemembers;

- Developed the Supervision Manual, including specific mortgage servicing and examination procedures;
- Launched *Know Before You Owe*, a three-part campaign to improve the quality of information given to consumers who seek residential mortgages, credit cards and student loans;[5]
- Published a Notice and Request for Comment as a prelude to the Office of Nonbank Supervision's effort to define "larger participants" in certain nonbank markets;
- Held a conference to assess the impact of the Credit Card Accountability Responsibility and Disclosure Act (the CARD Act) and released related data from issuers and consumers;
- Gathered information via Notices and Requests for Information on (1) financial products and services tailored to servicemembers and their families and (2) a series of issues relating to private student loans from origination to servicing to collection;
- Released reports: "Building the CFPB"; "The Impact of Differences between Consumer- and Creditor-Purchased Credit Scores"; and a "Report on Remittance Transfers";
- Hired 663 employees by the end of FY 2011, many of whom transferred from the consumer protection divisions of the prudential regulators and other transferor agencies;
- Established the financial management and human resource infrastructure necessary to support the organization's administrative processes;
- Received positive performance ratings in the independent performance audit of CFPB operations and budget;
- Received an unqualified "clean" opinion from the Government Accountability Office on the Bureau's first annual audit of financial statements and an opinion that the Bureau maintained effective internal controls over financial reporting for FY 2011; and
- As required by Section 1067(b) of the Act, the Bureau developed and released three human capital plans in FY 2011: (1) "Recruitment and Retention Plan"; (2) "Training and Workforce Development Plan"; and (3) "Workforce Flexibilities Plan".

Challenges

While the CFPB's accomplishments are important, challenges the Bureau will face as it seeks to achieve its goals, include:

- Continuing to recruit the most qualified individuals over the next two years to support the diverse requirements of the Bureau; and
- Building processes the correct way so that strategies can be implemented effectively and priorities can be accomplished within established timeframes.

Funding Mechanism

Funding required to support CFPB operations is obtained primarily through transfers from the Board of Governors of the Federal Reserve System (the "Board of Governors"). The Act requires the CFPB to maintain an account with the Federal Reserve – "Bureau of Consumer Financial Protection Fund" (the "Bureau Fund"). Upon request from the CFPB, the Board of Governors transfers the funds into the Bureau Fund, which is maintained at the Federal Reserve

[5] For further information, including links to many of the reports discussed herein, go to http://www.consumerfinance.gov.

Bank of New York (the "FRBNY"). The Act provides that these funds are not to be considered government funds or appropriated monies. Bureau funds that are not needed to finance the Bureau's current operations are invested in Treasury securities on the open market. Earnings from the investments are also deposited into this fund. The CFPB anticipates requesting funds on a quarterly basis.

Transfers to the Bureau Fund are capped as follows (Sec. 1017 of the Act):

> *...the amount that shall be transferred to the Bureau in each fiscal year shall not exceed a fixed percentage of the total operating expenses of the Federal Reserve System, subject to an annual inflation adjustment, as reported in the Annual Report, 2009, of the Board of Governors, equal to:*
>
> 1. *10 percent of such expenses in fiscal year 2011 [approximately $498 million];*
> 2. *11 percent of such expenses in fiscal year 2012 [approximately $548 million];*
> 3. *12 percent of such expenses in fiscal year 2013 [approximately $598 million], and in each year thereafter.*[6]

If the Director were to determine that these non-appropriated funds authorized under the Act are insufficient to carry out the CFPB's responsibilities, the Act provides the authority for the CFPB to also request appropriated funds, up to $200 million, in FYs 2010-2014. Any request to secure funding through discretionary appropriations under this provision would be subject to the Congressional appropriations process.

The CFPB also collects filing fees from developers under the Interstate Land Sales Full Disclosure Act ("ILSA").[7] On July 21, 2011, this program was transferred to the CFPB from the Department of Housing and Urban Development pursuant to the Act. The CFPB continues to study the legal effects of the legislation on the transfer of these functions under the ILSA. The fees collected may be retained and are available until expended to cover all or part of the costs that the Bureau incurs for ILS program operations.

Pursuant to the Act, the CFPB is also authorized to collect civil penalties in any judicial or administrative action under the Federal consumer financial laws. The Act requires the CFPB to maintain a separate fund, known as the Consumer Financial Civil Penalty Fund ("Civil Penalty Fund"). Collections of civil penalties will be deposited into the Civil Penalty Fund, which will be maintained at the FRBNY. Per the Act, such funds will be available for payments to victims of Federal consumer financial laws violations, and, if victims cannot be located or payments are not practicable, the Bureau may use such funds for consumer education and financial literacy programs.

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[6] Pursuant to the Act, the maximum amount that can be transferred from the Board of Governors in FY 2013 shall be adjusted annually using the percent increase in the employment cost index for total compensation for State and local government workers for the 12-month period ending on September 30 of the year preceding the transfer.

[7] In 1968, Congress enacted this statute, which is patterned after the Securities Law of 1933 and requires land developers to register subdivisions of 100 or more non-exempt lots and to provide each purchaser with a disclosure document called a Property Report. The Property Report contains relevant information about the subdivision and must be delivered to each purchaser before the signing of the contract or agreement. The ILS program protects consumers from fraud and abuse in the sale or lease of land.

Section 2 – Budget Adjustments and Appropriations Language

Table 2.1 Budget Adjustments Table

(Dollars in thousands)

	FTE	Amount
FY 2011 Actual	178	123,330
FY 2012 Estimate	942	356,374
Net FY 2013 Program Changes:		
Supervision, Enforcement, and Fair Lending & Equal Opportunity	238	47,066
Consumer Education and Engagement/Consumer Response	149	41,440
Research, Markets and Regulations	30	2,808
Subtotal FY 2013 Net Program Changes	**417**	**91,314**
Total FY 2013 Estimate	**1,359**	**447,688**

Note: Consistent with the presentation of the CFPB's audited financial statements, resource estimates, including staffing allocations, are displayed across three budget activities, with funding for the Bureau's operations and executive management functions allocated among the three activities.

2A – Budget Increases and Decreases Description

Net Program Increases..$91,314,000/ +417 FTE

Supervision, Enforcement, and Fair Lending & Equal Opportunity +47,066,000/ +238 FTE
The CFPB will make critical investments in core supervisory and enforcement capabilities to ensure that the Bureau is positioned to monitor compliance with and enforce the Federal consumer financial laws. Resources will support continued hiring, professional development and travel of field examination, Enforcement and Fair Lending & Equal Opportunity staff; the build-out of core infrastructure necessary to manage the examination process (i.e. risk monitoring, examination scoping, report generation); and the initiation of investigations and enforcement actions. Funding will also allow the CFPB to continue the use of technology that supports a more targeted, risk-based review of loans and entities, which promotes compliance and the efficient use of limited resources. The Budget also supports the CFPB's work to design and implement a system to collect and analyze demographic data about small business loans as required by amendments to the Equal Credit Opportunity Act, and provides for the continued collection and analysis of demographic data as required by the Home Mortgage Disclosure Act.

Consumer Education and Engagement/Consumer Response..........+41,440,000/ +149 FTE
The Act established several offices within the CFPB to support targeted outreach, including Financial Education, Older Americans, Servicemember Affairs, and Students. The Budget provides funding to support additional staff and outreach activities within these and other consumer engagement offices, which will allow the Bureau to comply with several statutory mandates. These mandates include the development and implementation of work consistent with the National Strategy for Financial Literacy; initiatives for servicemembers and their families; activities to facilitate the financial literacy of older Americans; and initiatives to assist student loan borrowers in resolving complaints related to private student loans and to collect and analyze

information on the private student loan marketplace.[8] The Budget also includes funding to continue building the organization's capacity to handle consumer complaints related to credit cards, mortgages and other financial products regulated by the Bureau in a timely manner, as required by the Act.[9]

Research, Markets and Regulations...+2,808,000/ +30 FTE
The Budget provides resources to expand expertise in research, markets and regulation offices, and support the use of data assets that allow the Bureau to comply with research, rulemaking, supervision and education mandates, including statutory requirements to analyze and report on the following: (1) developments in markets for consumer financial products or services; (2) access to fair and affordable credit; (3) consumer awareness, understanding and use of disclosures and communications regarding consumer financial products and services; (4) consumer awareness and understanding of costs, risks, and benefits of consumer financial products and services; (5) consumer behavior with respect to consumer financial products and services; and (6) experiences of traditionally underserved consumers.[10] Resources will also support the Bureau's consideration of the potential benefits and costs to consumers and covered persons, including the potential reduction of access by consumers to consumer financial products or services in its rulemakings.[11] The CFPB is coordinating with other federal agencies, including through the Financial Stability Oversight Council, to ensure the most efficient use of data and avoid duplication.

2.2 – Operating Levels Table

(Dollars in thousands)

		FY 2011 Actual	FY 2012 Estimate	FY 2013 Estimate
FTE		178	942	1,359
Object Classification				
11	Personnel Compensation	22,225	105,988	163,055
12	Personnel Benefits	26,154	37,096	57,069
21	Travel	2,180	20,814	32,167
22	Transportation of Things	316	785	828
23	Rent, Communications, and Utilities	160	18,965	16,587
24	Printing and Reproduction	8	499	864
25	Other Services	68,703	130,074	124,090
26	Supplies and Materials	1,180	4,712	4,121
31	Equipment	2,405	22,440	8,907
32	Land and Structures	0	15,000	40,000
Total		**123,330**	**356,374**	**447,688**

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[8] Sections 1013 and 1035 of the Act.
[9] Section 1013 of the Act.
[10] *Ibid.*
[11] Section 1022 of the Act.

2B – Appropriations Language and Explanation of Changes –
The CFPB is not requesting any appropriations from Congress.

2C – Appropriations Language and Explanation of Changes –
The CFPB currently has no legislative proposals.

Section 3 – Performance Plan and Report[12]

The CFPB's priority for FY 2011 was to build its staff and capacity to the point where it could begin formal operations on the transfer date. That priority was consistent with Section 1061 of the Act, which provided for the transfer of certain consumer financial protection responsibilities from seven existing agencies to the Bureau on that date. Some of the CFPB's first operating activities included:

- The CFPB sent introductory letters to the CEOs of the depository institutions – generally large banks and their affiliates as defined in the Act – that are subject to CFPB supervision. These letters marked the beginning of the CFPB's regular communications with the institutions it supervises and outlined the Bureau's approach to supervision.

- Consumer Response began accepting credit card complaints through a toll-free number and a web portal. The CFPB also began referring distressed homeowners to housing counselors via the Homeowner's HOPE hotline.

- The CFPB published interim final rules in the following areas: implementing the Act's amendments to the Alternative Mortgage Transactions Parity Act; creating records and information procedures to implement the Privacy Act and the Freedom of Information Act; establishing the CFPB's rules for investigations and adjudications of potential violations of the Federal consumer financial laws; and establishing a process by which parties may seek testimony or records from the CFPB for use in litigation.

The CFPB is now in the process of developing a robust set of performance measures to track the Bureau's progress toward achieving its strategic goals in FY 2012 and beyond. In the discussion below, the Bureau is reporting performance results from FY 2011 and preliminary measures that have been informed by the practices of the prudential regulators and the strategic goals of the Bureau. The CFPB will use FY 2012 to collect baseline data that will inform target-setting in the future. The CFPB will continue to modify and develop additional measures during FYs 2012 and 2013.

3A: Supervision, Enforcement, and Fair Lending & Equal Opportunity

Budget Activity

The CFPB's Supervision, Enforcement, and Fair Lending & Equal Opportunity Division oversees depository and non-depository institutions for compliance with the Federal consumer financial laws and brings enforcement actions against those institutions, where appropriate, in order to protect consumers from illegal acts or practices and to protect honest businesses from unscrupulous competitors. The division is comprised of the following offices:

[12] The goal owner for all three CFPB budget activities is Richard Cordray, CFPB Director.

- The Offices of Large Bank and Nonbank Supervision are responsible for examining both depository institutions and non-depository institutions, and addressing adverse findings through supervisory oversight.

- The Office of Enforcement investigates potential violations of Federal consumer financial laws and, where appropriate, pursues enforcement actions against those who violate these laws.

- The Office of Fair Lending & Equal Opportunity leads the Bureau's efforts to ensure fair, equitable, and nondiscriminatory access to credit for both individuals and communities through supervisory oversight and enforcement of federal fair lending laws, and outreach to civil rights, community, and industry groups.

3.1.1- Performance Plan and Report Table

Measures/Indicators	FY 2012	FY 2013
Supervision activities (examinations, target reviews, or horizontal reviews) opened during the fiscal year	Baseline	TBD
Enforcement matters (investigations or cases) opened during the fiscal year	Baseline	TBD
Fair lending matters (examinations, target reviews, horizontal reviews, investigations or cases) opened during the fiscal year	Baseline	TBD

Measures/Indicators

1. **Supervision activities (examinations, target reviews, or horizontal reviews) opened during the fiscal year**
   The CFPB will conduct examinations, target reviews or horizontal reviews of the entities over which it has supervisory authority. Included in this figure are a number of entities that will be under a continuous supervision program due to the size and complexity of the entity. The results of these activities will be subject to a rigorous internal review process to ensure consistent, fair, and balanced outcomes that protect consumers. As a new indicator in FY 2012, the Bureau will collect information on the number of supervisory activities throughout the fiscal year in order to assess performance against strategic goals.

2. **Enforcement matters (investigations or cases) opened during the fiscal year**
   The CFPB aims to consistently enforce the Federal consumer financial laws and support consumer protection efforts nationwide by investigating alleged violations both independently and in conjunction with other federal and state law enforcement agencies. This indicator will track the historical number of matters opened by the Office of

Enforcement in furtherance of that effort. The total number of matters does not necessarily correlate with impact, efficiency or performance of the Office; therefore additional metrics will be developed based on the information learned over the Office's first years of operations.

3. **Fair lending matters (examinations, target Reviews, horizontal reviews, investigations, or cases) opened during the fiscal year**
The CFPB is committed to ensuring fair, equitable, and nondiscriminatory access to credit for both individuals and communities. During its early operations, the CFPB will track the fair lending supervisory activities and enforcement matters opened during the fiscal year, and will use this metric to measure baseline capacity. Additional measures will be developed over time to reflect the outcomes of examinations, investigations, and cases and to assess performance against strategic goals.

Strategies

In FYs 2012 and 2013 the CFPB will continue to build its supervision and enforcement capacity. It will build this capacity by issuing various required rulemakings to support supervisory activities, refining its supervision and enforcement policies and procedures, establishing a framework for supervisory cooperation with fellow regulators and extending the reach of its supervisory and enforcement activities as capacity increases. This effort will be accomplished through strategic investments in staff, technology, internal processes such as project management, quality control and other operations infrastructure; partnerships with fellow regulators and law enforcement agencies; and continued hiring and training of CFPB staff.

Results

Examples of key accomplishments in support of supervision activities include:

- **Started on-site examinations.** The examination staff has begun on-site supervision activities at the largest institutions, and also begun examination of several other institutions in each of the Bureau's four operating regions. In addition, a review of a number of reports required from mortgage servicers is underway to assess risk of noncompliance.

- **Released the Supervision and Examination Manual.** To fulfill its statutory mandate to assess compliance with the Federal consumer financial laws, the CFPB released the first edition of the CFPB Supervision and Examination Manual, which outlines the Bureau's policies and procedures for supervising entities that offer consumer financial products or services. The Manual includes a separate section on policies and procedures for supervising mortgage servicers.

- **Published a Notice and Request for Comment as prelude to the Office of Nonbank Supervision's rulemaking to define "larger participants" in certain nonbank markets.** On June 29, 2011, the CFPB published a Notice and Request for Comment ("Notice"), requesting input on how its rulemaking should define a "larger participant." Public comments on the questions listed in the Notice will inform the definition of this term, which in turn will define generally the coverage of the CFPB's nonbank supervision in certain markets.

- **Enforcement Procedures and Investigations**. The CFPB has issued interim final rules setting forth its rules of investigation and adjudication, as well as the process for states to notify the CFPB of certain pending actions. In addition, the Bureau has established a process for handling tips from whistleblowers and for providing subjects of an investigation with notice and an opportunity to respond prior to the commencement of formal enforcement proceedings. Working collaboratively with supervision, fair lending and other Bureau staff, the Office of Enforcement has also begun investigating potential violations of Federal consumer financial laws in matters transferred from the prudential regulators and matters commenced by its own staff.

- **Fair Lending Procedures and Examinations.** The CFPB has started fair lending exams of the largest banks and is working on several fair lending investigations transferred from other agencies. As part of the Bureau's Supervision and Examination Manual, the CFPB released policies and procedures for examinations involving fair lending laws, including the Equal Credit Opportunity Act and the Home Mortgage Disclosure Act.

3B: Consumer Education and Engagement/Consumer Response

Budget Activity
The Consumer Education and Engagement Division (CEE) and Consumer Response strive to enhance the ability of consumers to make financial decisions consistent with their personal financial goals. CEE has the following six offices:

- The Office of Consumer Engagement creates an interactive, informative relationship between consumers and the Bureau to link consumers to information targeted to particular types of financial decisions and to use consumer input to help inform the Bureau's policymaking.

- The Office of Financial Education educates and empowers consumers to make better-informed financial decisions through a variety of activities, including determining the most effective financial education practices, providing access to tools and information relevant to making particular financial choices, and enhancing access to services to improve financial literacy.

- The Office for Older Americans helps improve financial literacy among Americans 62 and over and protect them against illegal acts and practices through outreach, education and specific initiatives, such as monitoring certifications of financial advisors who advise seniors. The Office also monitors complaints submitted by older Americans to Consumer Response.

- The Office of Servicemember Affairs works to improve consumer financial protection measures for servicemembers and their families. This involves partnering with the Department of Defense to ensure that servicemembers and their families receive financial education that is relevant to their specific needs, monitoring complaints submitted by servicemembers and their families to Consumer Response and escalating certain complaints for expedited resolution, and coordinating efforts of federal and state agencies on financial issues related to servicemembers and their families.

- The Office of Students works to enhance the financial decision-making capability of students by increasing awareness about the financial impact of borrowing to finance higher education. That includes providing information and tools to help students understand the risk from student loans and other financial products, identifying policy and marketplace issues with special impact on students and providing escalation for expedited resolution of complaints submitted by private student loan borrowers to Consumer Response.

- The Office of Financial Empowerment will work to improve the financial stability of lower-income consumers by providing opportunities to access financial products and services, promoting improved financial capability and enhancing opportunities to build assets.

Consumer Response, in accordance with statutory requirements, supports the capacity to receive consumer complaints relating to consumer financial products and services ("consumer complaints" or "complaints") over the telephone or through a portal on its website. Consumer Response facilitates the resolution of consumer complaints according to the following process. After taking in a complaint, Consumer Response refers the complaint to the named financial institution. The financial institution provides a response to the consumer complaint. Consumer Response prioritizes for investigation complaints for which the financial institution offered no relief and complaints where the consumer has disputed some part of the relief offered by the institution.

3.1.2 – Performance Plan and Report Table

Measures	FY 2012	FY 2013
Targeted populations reached by digital content, decision tools, educational materials and resources, and outreach work	Baseline	TBD
Percentage of complaints closed within 60 days	Baseline	TBD

Measures

1. **Targeted populations reached by digital content, decision tools, educational materials and resources, and outreach work**
   This measure assesses the Bureau's ability to reach targeted populations, with a special focus on issues in the financial services marketplace for servicemembers and their families, students, older Americans, and traditionally underserved lower-income consumers. The CFPB engages consumers in four principal ways: (1) offerings in online or other digital

formats; (2) tools to provide needed information to consumers at relevant times; (3) educational materials and resources; and (4) raising awareness of the issues facing consumers through various approaches, including in person direct outreach to consumers and through partners and others.

2. **Percentage of consumer complaints closed within 60 days**
This measure demonstrates Consumer Response's efficiency in investigating and closing out consumer complaints (following closure by the financial institution). Targets will be set in the future as the Bureau continues to collect baseline data on response times for credit card complaints, as well as other products and services that will be launched in FY 2012.

Strategies

In FYs 2012 and 2013, the CFPB will continue to engage the public through outreach and events, including working groups, convenings, and military summits; education and engagement initiatives, including new financial education campaigns and the development of informational tools; and developing and disseminating timely and targeted information about specific financial decisions, with a particular focus on students, older Americans and servicemembers.

The CFPB will also continue to build the capacity of the Consumer Response function in order to receive and respond to consumer complaints and inquiries related to consumer financial products and services in a timely manner. At various intervals, the Bureau will expand the types of complaints and inquiries that it will receive until it is accepting complaints and inquiries for all consumer financial products and services.

Results

In order to engage consumers, Bureau staff traveled throughout the country to listen to and learn from industry and consumer groups:

- **Consumer, Community and Civil Rights Advocates.** Between September and December 2011, through the efforts of the Office of Community Affairs, the CFPB hosted three major fair lending/consumer protection roundtables in Philadelphia, Minneapolis and Cleveland. The CFPB also hosted public town hall events in each of these cities to learn from consumers about their experiences. The CFPB staff has met consistently with advocates about access to credit in home lending and other types of lending, and the Mortgage Markets team hosted a one-day conference which brought together academics and other stakeholders to discuss these issues with respect to mortgage lending. The CFPB External Affairs staff has also led dozens of meetings, phone calls, and speaking engagements with stakeholders on a range of consumer protection, fair lending and access to credit issues.

- **Servicemembers and Military Families.** Since January 2011, senior staff from the Office of Servicemember Affairs have visited many military bases across the country to discuss with servicemembers and their families and financial counselors the unique financial circumstances and challenges that affect military communities. In addition, the Office of Servicemember Affairs has testified about these issues at several Congressional hearings. Working with other federal agencies, the Bureau successfully helped secure a streamlined mortgage foreclosure assistance process for servicemembers and helped military consumers recoup thousands of dollars in fees and penalties from their credit card companies.

- **Students.** The Office of Students, along with other CFPB divisions including Research, Markets and Regulations, worked with the Department of Education to develop a proposed college financial aid assistance form that would help students and parents understand the debt burden that results from choosing a particular college. There were 14,083 unique visits to the proposed form on the Bureau's website, and 1,206 comments from the public on the content of the form.

- **Financial Education and Engagement.** The CFPB, through its Offices of Financial Education and Consumer Engagement, began developing educational content for its website, including content for the knowledge base system to provide consumers with an interactive Q and A platform. Also through the Office of Financial Education, the CFPB began work on a pilot program that will evaluate certain financial education programs in the field, provide feedback about the results to other program providers, and help inform and advance the field of financial literacy. Consumer Education and Engagement leadership spoke to community financial education and service providers at a variety of forums in Ohio, Montana, Massachusetts, and Illinois.

- **Older Americans.** Senior staff from the Office for Older Americans testified at the Senate Banking Subcommittee on Financial Institutions and Consumer Protection on senior lending issues, and have met with community educators and service providers at a variety of forums in Washington, DC, California, Florida, Maine, Massachusetts, and Minnesota.

On July 21, 2011, Consumer Response began operations with an exclusive focus on credit card inquiries and complaints and planned to expand the types of complaints it handled over time as its operating capacity increased.

- **Credit Card Complaints.** Inquiries and complaints are received by mail, fax, telephone, the Bureau website, the online chat function on the website, and referral from other agencies. The CFPB's United States-based call centers handle calls with little or no wait times, provide services for the hearing- and speech-impaired, and have the ability to assist the public in 187 languages.

  The Consumer Response inquiry and complaint system has received thousands of credit card complaints since beginning operations. The Bureau released an initial report on the first three months of credit card complaints. The report, which is available on the CFPB's website, provides an analysis of the type of complaints received and how they were handled.

3C: Research, Markets and Regulations

Budget Activity

The Research, Markets and Regulations (RMR) Division is responsible for monitoring consumer financial markets; improving understanding of consumer behavior and evaluating the benefits and costs of possible policy initiatives; as well as implementing the Federal consumer financial laws through regulations, in coordination with the other parts of the Bureau where appropriate. Before the Bureau acts on its own initiative, it will carefully gather evidence about particular practices, products or trends from a wide variety of sources. The offices within this division are staffed with professionals selected for their strong analytic skills and subject matter expertise. The division includes the following offices:

- The Research Office supports policy, supervision, enforcement, and education functions of the Bureau with data analysis, conducts empirical research to shed new light on consumer behavior and market operations and practices, and evaluates benefits and costs of potential regulations.

- The Markets Teams provide the Bureau's other operating divisions with current market intelligence and analysis about major consumer financial markets. There are four market teams: Card and Prepaid; Deposit, Payment, and Credit Information; Installment Lending; and Mortgage.

- The Regulations Office works, in coordination with other parts of the Bureau, to ensure that rules implementing the Federal consumer financial laws are issued and interpreted in an informed, fair and efficient manner in accordance with the law.

3.1.3 – Performance Plan and Report Table

Measures	FY 2012	FY 2013
Percentage of the mortgage market monitored through data	Baseline	TBD
Percentage of the credit card market monitored through data	Baseline	TBD
Reports published about specific consumer financial products	4	5

Measures

1. **Percentage of the mortgage market monitored through data**
   This measure reflects the CFPB's efforts to monitor trends and emerging risks in the mortgage markets. The Bureau is investing in data not just in aggregate but rather at the level of individual consumer transactions. To the extent the CFPB will be using sampling that is representative of the larger population, this measure and future targets will represent the larger population covered.

2. **Percentage of the credit card market monitored through data**
   This measure reflects the CFPB's efforts to monitor trends and emerging risks in the consumer credit card market. The Bureau is investing in data not just in aggregate but rather at the level of individual consumer transactions. To the extent the CFPB will be using

sampling that is representative of the larger population, this measure and future targets will represent the larger population covered.

3. **Reports published about specific consumer financial products**
This measure reflects the Bureau's work to inform its own policymaking and to improve the quality of public information about consumer and firm behavior and consumer financial products and services. In FYs 2012 and 2013, in addition to reports on important consumer finance subjects like prepaid card use and patterns, the CFPB will produce a report on private student lending, which is required by the Act[13], as well as updates to reports published in FY 2011 on remittances[14] and credit information[15], which were required by the Act. The Bureau has established a target of five reports in FY 2013.

Strategies
In FYs 2012 and 2013, the CFPB will continue to acquire the data necessary to properly monitor the mortgage and credit card markets for emerging risks, technological advances and other important developments, and to provide support to other functions within the Bureau.

The Bureau will produce original research in key areas related to consumer financial products and services, including consumer behavior and decision-making, the impact of regulation, and incentives for firms and consumers. These reports will improve understanding of consumer behavior and market operations and practices to support the CFPB's policymaking and the general functioning of the market.

Results
Accomplishments to support market monitoring include:

- **Established a process for collecting mortgage data.** The CFPB reached a memorandum of understanding with other regulatory agencies to continue the collection and processing of Home Mortgage Disclosure Act data. This loan-level mortgage data will inform the CFPB's understanding of the mortgage market and bolster the CFPB's fair lending oversight.

Key reports from FY 2011 include:

- **Report on Using Remittance History for Credit Scores and Remittance Exchange Rates.** On July 20, 2011, the CFPB fulfilled one of its statutory mandates under the Act by issuing a report analyzing remittance transfers. The report studied how exchange rates used in remittance transfers are disclosed to consumers and the potential for using remittance histories to enhance the credit scores of consumers. As a follow-up to the report, the CFPB has obtained additional data to evaluate the predictive value of using remittance history in credit scoring and will produce a second report on this subject.

[13] Section 1077 of the Act.
[14] Section 1073 of the Act.
[15] Section 1078 of the Act.

- **Report on Credit Scores.** On July 19, 2011, the CFPB issued a report required by the Act that examines the differences between credit scores sold to consumers and scores used by lenders to make credit decisions. The CFPB's report covers the process of developing various credit scoring models, the differences among scoring models that may produce multiple scores for the same consumer, creditors' use of different scoring models in the marketplace, availability of certain types of scores for purchase by consumers, and the consumer impact of differences between the credit scores provided to creditors and those provided to consumers.

  The report also discusses the general lack of information about credit scoring. As a follow-up to the report, the CFPB will obtain and analyze data that shed further light on differences in scores and the significance of related concerns. To help educate consumers, the CFPB also posted advice on its website about how to improve their credit score.

- **Analysis in connection with CARD Act Conference.** In February 2011, the CFPB held a conference on the first anniversary of the effective date of many provisions of the Credit Card Accountability Responsibility and Disclosure Act – the CARD Act. The CFPB's conference brought together industry representatives, consumer advocates, academics, government experts, and others for a review of data on how the CARD Act, coupled with the recession and its aftermath, have affected supply, demand and pricing within the credit card marketplace. To prepare for this event, the CFPB undertook a voluntary survey of the nine largest card issuers, representing approximately 90 percent of the market and a consumer survey. Prior to the event, data from the industry and consumer surveys were made public on the Bureau's website.

Verification and Validation of Performance Data

As the CFPB collects baseline data for its measures in FY 2012, and develops additional measures to report on in the future, the Bureau will strive to ensure that the information reported in performance documents and the processes used to develop that information is complete and reliable. As an example of existing validation and verification processes, the Bureau is subject to an annual independent audit of operations and budget, as required by Sec. 1573 of Public Law 112-10, which includes a review of the CFPB's performance-based budgeting processes.

Additional information on the CFPB performance will be posted online at consumerfinance.gov.

Section 4 – Supplemental Information

4A – Capital Investment Strategy

The CFPB's capital investment strategy is focused on achieving the following goals:

- **Providing Meaningful Governance and Oversight.** The Investment Review Board (IRB) is the executive advisory body at the Bureau that provides the executive and technological leadership to ensure all capital investment decisions align with the CFPB's mission and strategic goals. The IRB reviews capital investments using best practices for assessing return on investment and alignment with strategic goals. Further, the CFPB uses a dashboard, modeled on the Federal IT Dashboard, to monitor and assess its key investments. The Bureau is in the process of developing a robust capital investment plan.

- **Building a 21st Century Infrastructure.** The CFPB's IT infrastructure strategy is focused on cloud-based solutions, open source solutions, and shared services wherever possible to balance risk, cost, and desired functionality. The CFPB will continue to migrate off of the Department of the Treasury infrastructure for network and desktop computing, establishing its own, independent technology and facilities infrastructure. Additionally, the CFPB will develop and acquire operations support systems to provide necessary capabilities to all divisions. The CFPB will also continue to remain compliant with all security requirements to protect its information assets and secure the public trust.

- **Creating Engaging Online Experiences.** The CFPB is reaching out to the public using 21st century tools. Whether collecting and responding to consumer complaints and inquiries, soliciting feedback on potential regulations, or empowering consumers through financial education, the CFPB is committed to designing and building a powerful consumerfinance.gov website. The CFPB will continue to build meaningful, engaging, and informative content, tools and experiences online to ensure that consumers are empowered to take more control of their financial lives. In addition, the CFPB will provide data, content, open source code and application programming interfaces for external use.

- **Enabling a Data Centric Organization.** The CFPB is focused on data-driven decision making and the use of advanced analytics to inform supervision and enforcement activities, market monitoring, and policy development. The CFPB will acquire a broad range of financial market data and will provide data-driven analysis, reporting and data sharing, to comply with statutory requirements.

- **Developing the Best IT team.** The success of the CFPB's technology investments is dependent on building a deep pool of IT talent within the Bureau. The CFPB's focus on innovative and industry leading technologies and practices will serve to attract and retain the high quality personnel necessary to design, build, and maintain critical technology assets.

- **Headquarters Modernization.** The CFPB is consolidating its staff in the DC Metro area into one headquarters building to ensure the most efficient use of space. The CFPB will initiate a capital improvement plan that upgrades the condition of the building, which has not undergone any major renovations since it was constructed in 1976, and in which most of the building systems have reached the end of their lifecycle. The Bureau is currently in the design and development phase of this rehabilitation project. Once a design plan is finalized, the Bureau will seek competitive proposals from industry. Improvements will likely include replacement of aging mechanical and electrical systems; installation of energy efficient lighting; elevator upgrades; repairs to the parking garage decks; updates to main lobby and office space; and repairs to the exterior courtyard and sidewalks.

4B – Human Capital Strategy

As required by Section 1067(b) of the Act, the Bureau developed and released three human capital plans in FY 2011: (1) "Recruitment and Retention Plan"; (2) "Training and Workforce Development Plan"; and (3) "Workforce Flexibilities Plan". The CFPB's Chief Human Capital Office (CHCO) is responsible for leading the development and execution of the Bureau's human capital strategy. This strategy includes the following goals:

- Build world-class expertise in competencies essential to the CFPB's mission. These include, but are not limited to, financial and statistical data analyses, effective use of information technology, bank and nonbank supervision, financial education and outreach, business operations, research, law and administrative support.

- Develop a leadership culture that aligns with the CFPB's mission and core organizational values, ensure effective development of the leadership skills required by that culture and prepare for the succession of leadership talent.

- Implement the CFPB Diversity Plan for hiring and retaining staff in groups that are underrepresented in particular occupational categories.

- Enrich the business, administrative, and leadership skills and capabilities needed throughout the Bureau to ensure successful mission accomplishment and sound management practices.

- Ensure the nationwide CFPB workforce has a strong organizational identity, is committed to the CFPB mission and strategic objectives and displays the principles and values central to the CFPB culture.

- Develop the core skills and attributes needed across the workforce to foster innovation and creativity in pursuit of the CFPB's mission and goals, encourage the effective use of technology in business processes and ensure a cohesive and collaborative organizational culture.

- Establish policies that will provide all employees with the opportunities to move, as appropriate, across and within occupations in order to maximize their contributions to mission accomplishment based on personal commitment to developmental opportunities and to exceptional performance.

- Develop innovative hiring and outreach programs to attract talented and skilled candidates from diverse backgrounds.

- Build a culture and brand of "Best Place to Serve" that will enable the CFPB to recruit and retain employees committed to public service.

The CFPB will actively manage and improve upon these plans, using the following strategies:

- Refine goals and planned actions as the workforce comes on board, mission activities expand, and new needs and issues are identified;
- Define metrics and indicators for monitoring progress in achieving the human capital goals identified;
- Collect and analyze human capital data relevant to these metrics in order to understand the impact of initiatives and identify where adjustments are needed;
- Engage managers and employees in reacting to human capital data and in helping to refine plans to ensure the CFPB is building and implementing a successful organization;
- Continue to report to the Congress annually on progress made and refinements needed to human capital plans; and
- Integrate these plans into a complete Strategic Human Capital Plan and Human Capital Accountability Report for submission to the U.S. Office of Personnel Management.

Accomplishments

The CFPB established the tools and processes needed to attract, hire, develop, and retain the human capital needed to build an agency responsible for protecting consumers of financial products and services, and to date has:

- Designed the CFPB organization and developed comprehensive job analyses;
- Established systems for job announcements and candidate screenings;
- Developed a compensation program, including job evaluation and classification systems;
- Acquired HR and payroll systems and services;
- Developed benefits policies and negotiated for provision of benefits services;
- Negotiated employee transfers with related agencies;
- Launched on-boarding and orientation training to engage new staff; and
- Provided comprehensive examination and consumer response training.

Challenges

While the CFPB is proud of all of these accomplishments there will be challenges ahead, including:

- Maintaining the pace of the CFPB's recruitment strategies in order to hire the talented and diverse staff for the remaining positions needed to fulfill our responsibilities under the Act.

- Acquiring highly advanced skills in a number of specialized financial, statistical, legal, and business areas. Recruiting efforts to date have focused on building the core organizational leadership and infrastructure necessary to stand up the CFPB and begin operations. Longer-term recruiting efforts need to focus on acquiring the many specialized competencies necessary to fully round out the workforce and position the organization for success.

United States Government Accountability Office

GAO

Report to Congressional Committees

November 2011

FINANCIAL AUDIT

Bureau of Consumer Financial Protection's Fiscal Year 2011 Financial Statements

GAO-12-186

November 2011

GAO Accountability * Integrity * Reliability

Highlights

Highlights of GAO-12-186, a report to congressional committees

FINANCIAL AUDIT

Bureau of Consumer Financial Protection's Fiscal Year 2011 Financial Statements

Why GAO Did This Study

Title X of the Dodd-Frank Wall Street Reform and Consumer Protection Act, referred to as the Consumer Financial Protection Act of 2010, created the Bureau of Consumer Financial Protection (CFPB). The act charged it with the responsibility of regulating the offering and provision of consumer financial products or services under the federal consumer financial laws. The act also requires CFPB to annually prepare financial statements, and further requires GAO to audit these statements. The Full-Year Continuing Appropriations Act, 2011 also requires that GAO audit CFPB's financial statements.

Pursuant to the above-referenced requirements in these two acts, GAO audited CFPB's fiscal year 2011 financial statements to determine whether (1) the financial statements were fairly presented, and (2) CFPB management maintained effective internal control over financial reporting. GAO also tested CFPB's compliance with selected laws and regulations.

What GAO Recommends

GAO is not making any recommendations in this report. In commenting on a draft of this report, CFPB stated that it was pleased with the results of the audit, and that it would continue to work to enhance its internal controls and ensure the reliability of its financial reporting.

View GAO-12-186. For more information, contact Steven J. Sebastian at (202) 512-3406 or sebastians@gao.gov.

What GAO Found

In GAO's opinion, CFPB's fiscal year 2011 financial statements are fairly presented in all material respects. GAO also concluded that CFPB had effective internal control over financial reporting as of September 30, 2011. GAO found no reportable instances of noncompliance with the laws and regulations it tested.

On July 21, 2010, the Consumer Financial Protection Act established CFPB as an independent bureau within the Federal Reserve System to be headed by a Director. Since the date of enactment, CFPB has been forming its structure and commencing operations. To assist in this process, the Department of the Treasury provided administrative support services to CFPB during this first year. Effective July 21, 2011, CFPB assumed responsibility for certain consumer financial protection functions formerly the responsibilities of the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Director of the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, the Federal Trade Commission, the National Credit Union Administration, and the Secretary of the Department of Housing and Urban Development.

In July 2011, the President of the United States submitted a nomination to the United States Senate for the CFPB's first Director. This nomination is currently pending before the Senate. Until the Director is confirmed, the Secretary of the Treasury has the power to perform some, but not all, of the functions of the CFPB. The Secretary of the Treasury appointed a Special Advisor to the Secretary to lead the CFPB's day-to-day operations.

While CFPB began operations in 2010, fiscal year 2011 was its first full year of operations and the first year for which it prepared financial statements. Consequently, CFPB's fiscal year 2011 financial statements do not present comparative information for the prior year.

GAO noted deficiencies involving CFPB's internal controls that were less significant than a material weakness or significant deficiency and will be reporting separately to CFPB management on these matters.

Contents

Abbreviations

CFPB	Bureau of Consumer Financial Protection
FMFIA	Federal Managers' Financial Integrity Act of 1982
OMB	Office of Management and Budget

GAO
Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

November 15, 2011

The Honorable Timothy Johnson
Chairman
The Honorable Richard Shelby
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Spencer Bachus
Chairman
The Honorable Barney Frank
Ranking Member
Committee on Financial Services
United States House of Representatives

This report presents the results of our audit of the financial statements of the Bureau of Consumer Financial Protection (CFPB) as of, and for the fiscal year ending, September 30, 2011—the first full year of CFPB's operation. These financial statements are the responsibility of CFPB. This report contains our (1) unqualified opinion on CFPB's financial statements, (2) opinion that CFPB's internal control over financial reporting was effective as of September 30, 2011, and (3) conclusion that our tests of CFPB's compliance with selected laws and regulations disclosed no instances of reportable noncompliance during fiscal year 2011.

CFPB was established in Title X of the Dodd-Frank Wall Street Reform and Consumer Protection Act, commonly referred to as the Consumer Financial Protection Act of 2010.[1] The act established the CFPB as the federal entity charged with the responsibility of regulating the offering and provision of consumer financial products or services under the federal consumer financial laws. The act requires CFPB to annually prepare financial statements and further requires GAO to audit the financial statements. The Full-Year Continuing Appropriations Act, 2011 also requires that GAO audit CFPB's financial statements. We conducted this audit in accordance with U.S. generally accepted government auditing

[1] Pub. L. No. 111-203, Title X, 124 Stat. 1955, signed into law on July 21, 2010.

standards. The accomplishment of this first-ever audit of CFPB's financial statements was made possible by the tremendous dedication of time and effort from CFPB management and staff.

CFPB was created as an independent bureau within the Federal Reserve System to be headed by a Director. As a newly established entity, CFPB spent the majority of fiscal year 2011 forming its structure and commencing operations. To assist in this process, the Department of the Treasury provided administrative support services to CFPB during this first year. The services related to, among others, financial management, human resource management, information technology, and general support operations. Effective 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 Comptroller of the Currency, the Director of the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, the Federal Trade Commission, the National Credit Union Administration, and the Secretary of the Department of Housing and Urban Development.[2]

In July 2011, the President of the United States submitted a nomination to the United States Senate for CFPB's first Director. This nomination is currently pending before the Senate. Until a Director is confirmed, the Secretary of the Treasury has the power to perform some, but not all, of the functions of the CFPB. The Secretary of the Treasury appointed a Special Advisor to the Secretary to lead CFPB's day-to-day operations.

We are sending copies of this report to the Chairmen and Ranking Members of the Senate Committee on Appropriations and the House Committee on Appropriations, the Director of the Office of Management and Budget, and other interested parties. In addition, this report will be available at no charge on GAO's website at http://www.gao.gov.

If you have any questions concerning this report, please contact me at (202) 512-3406 or sebastians@gao.gov. Contact points for our Offices of

[2] See section 1061 of the Dodd-Frank Act, *codified at* 12 U.S.C. § 5581. Also, Title III of the Dodd-Frank Act provided for the abolishment of the Office of Thrift Supervision and the transfer of its other functions to the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation.

Congressional Relations and Public Affairs may be found on the last page of this report.

Steven J. Sebastian
Director
Financial Management and Assurance

GAO
Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

To the Secretary of the Treasury

In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Full-Year Continuing Appropriations Act, 2011, we are responsible for conducting audits of the financial statements of the Bureau of Consumer Financial Protection (CFPB). In our audit of CFPB's fiscal year 2011 financial statements, we found

- the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- CFPB maintained, in all material respects, effective internal control over financial reporting as of September 30, 2011; and
- no reportable noncompliance with laws and regulations we tested.

The following sections discuss in more detail (1) these conclusions; (2) our conclusions on CFPB's Management's Discussion and Analysis; (3) our audit objectives, scope, and methodology; and (4) agency comments and our evaluation.

Opinion on Financial Statements

CFPB's financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, its assets, liabilities, and net position as of September 30, 2011; and its net costs, changes in net position, and budgetary resources for the fiscal year then ended.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act created CFPB as an independent bureau within the Federal Reserve System. For the remainder of fiscal year 2010 and for fiscal year 2011, the Department of the Treasury provided administrative and operational support services to CFPB in an effort to assist with establishing the new entity. As discussed in note 1B of the financial statements, fiscal year 2011 was the first full year of CFPB's operations and therefore, the first year for which CFPB prepared financial statements. Consequently, the financial statements do not present comparative information for the prior year. However, CFPB's fiscal year 2010 financial activity is discussed in note 11 of the financial statements.

Opinion on Internal Control

CFPB maintained, in all material respects, effective internal control over financial reporting as of September 30, 2011, which provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements would be prevented or detected and corrected on a timely basis. Our opinion is based on criteria established under 31 U.S.C. § 3512 (c), (d), commonly known as the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

During our audit of CFPB's fiscal year 2011 financial statements, we identified deficiencies in CFPB's system of internal control that do not individually or collectively represent a material weakness or significant deficiency.[1] Nonetheless, these deficiencies warrant CFPB management's attention. These deficiencies related to CFPB's documented accounting policies and procedures, process of assessing internal controls, and information security management program. We have communicated these matters to CFPB management and, where appropriate, will report on them separately along with recommendations for corrective actions.

Compliance with Laws and Regulations

Our tests of CFPB's compliance with selected provisions of laws and regulations for fiscal year 2011 disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards. The objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Consistency of Other Information

CFPB's Management's Discussion and Analysis contains information that is not directly related to the financial statements. We did not audit and we do not express an opinion on this information. However, where appropriate, we compared this information for consistency with the

[1] A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

financial statements and discussed the methods of measurement and presentation with CFPB officials. On the basis of this limited work, we found no material inconsistencies with the financial statements, with U.S. generally accepted accounting principles, or with applicable guidance in OMB Circular No. A-136, *Financial Reporting Requirements*.

Objectives, Scope, and Methodology

CFPB management is responsible for (1) preparing the financial statements in conformity with U.S. generally accepted accounting principles, (2) establishing and maintaining effective internal control over financial reporting and evaluating its effectiveness, and (3) complying with applicable laws and regulations. CFPB management evaluated the effectiveness of CFPB's internal control over financial reporting as of September 30, 2011, based on the criteria established under FMFIA. CFPB management's assertion based on its evaluation is included in appendix I.

We are responsible for planning and performing the audit to obtain reasonable assurance and provide our opinion about whether (1) CFPB's financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles; and (2) CFPB management maintained, in all material respects, effective internal control over financial reporting as of September 30, 2011. We are also responsible for (1) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements, and (2) performing limited procedures with respect to certain other information accompanying the financial statements.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of the entity and its operations, including its internal control over financial reporting;

- considered CFPB's process for evaluating and reporting on internal control over financial reporting that CFPB is required to perform by FMFIA and the Consumer Financial Protection Act;
- assessed the risk that a material misstatement exists in the financial statements and the risk that a material weakness exists in internal control over financial reporting;
- evaluated the design and operating effectiveness of internal control over financial reporting based on the assessed risk;
- tested relevant internal control over financial reporting;
- tested compliance with selected provisions of the following laws and their related regulations: 31 U.S.C. § 3902 – Interest penalties under the Prompt Payment Act; 31 U.S.C. § 3904 – Limitations on Discount Payments Under the Prompt Payment Act; 5 U.S.C. § 8334 (a)(1), (2) – Civil Service Retirement Act; 5 U.S.C. §§ 8422, 8423, 8432 – Federal Employees' Retirement System Act of 1986; Social Security Act of 1935, as amended; 5 U.S.C. §§ 8905-8909 – Federal Employees Health Benefits Act of 1959, as amended; and Title X of the Dodd-Frank Wall Street Reform and Consumer Protection Act; and
- performed such other procedures as we considered necessary in the circumstances.

An entity's internal control over financial reporting is a process affected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (2) transactions are executed in accordance with the laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements.

We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing internal control over financial reporting. Our internal control testing was for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting and may not be sufficient for other purposes. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness. Because of inherent limitations, internal control may not prevent or detect and correct misstatements due to error or fraud, losses, or noncompliance. We also caution that projecting any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We did not test compliance with all laws and regulations applicable to CFPB. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements for the fiscal year ended September 30, 2011. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our audit in accordance with U.S. generally accepted government auditing standards. We believe our audit provides a reasonable basis for our opinions and other conclusions.

Agency Comments and Our Evaluation

In commenting on a draft of this report, the Special Advisor to the Secretary of the Treasury for CFPB stated that the agency was pleased that the audit found that the CFPB financial statements were presented fairly, that it maintained effective internal control over financial reporting, and that there were no instances of reportable noncompliance with laws and regulations. CFPB also stated that it will continue to work to enhance its internal controls and ensure the reliability of its financial reporting, its operating performance, and public confidence in its work.

The complete text of CFPB's response is reprinted in appendix II.

Steven J. Sebastian
Director
Financial Management and Assurance

November 9, 2011

Management's Discussion and Analysis

Message from the Special Advisor to the Secretary of the Treasury for the Consumer Financial Protection Bureau

The Consumer Financial Protection Bureau (CFPB) was launched on July 21, 2011 with a focused goal: To make the markets for consumer financial products work for consumers, responsible providers, and the economy as a whole. We want to make sure that the price and risks of financial products are clear so that consumers can decide what products are best for them. And we want to make sure that there are sensible rules of the road and a level playing field so that providers can innovate and compete fairly.

The CFPB was created on July 21, 2010 by the Dodd-Frank Wall Street Reform and Consumer Protection Act. Before the Dodd-Frank Act, responsibility for administering and enforcing the various federal consumer financial laws was scattered across seven different federal agencies. For each of those seven agencies, consumer protection was only one of its responsibilities. The result was that no single agency was truly on the hook for protecting the average, everyday user of financial products and services. There was no true accountability, and consumers got left behind. The Dodd-Frank Act changed this by creating in the CFPB a single point of accountability for consumer financial protection. And we have been given, for the first time at the Federal level, supervisory authority over independent nonbank companies in addition to depositories. That means, for example, that when it comes to the mortgage market, we will be able to ensure that brokers, originators, and servicers play by the same rules regardless of their charter. It doesn't matter if you're a thrift, bank, finance company, ILC, or investment bank. If you want to be in the business of consumer finance, then you've got to play by the same rules as everybody else.

We recognize that the CFPB has a tough job. But fortunately, we have lots of tools in our toolkit – research, supervision, rulemaking, enforcement, and consumer education. Having the full range of tools means that we don't have to force a square policy peg into a round hole. We will strive to use each of these tools in the smartest way possible, matching problems to solutions.

Ultimately, our efforts will benefit the entire economy. We will help give families the confidence they need to borrow for a home or a child's education. We will help give our nation's financial institutions the confidence they need to innovate and compete. If we succeed in our mission, everybody wins.

As required by the Dodd-Frank Act, the CFPB prepared financial statements for fiscal year 2011. The Government Accountability Office (GAO) rendered an unqualified – or "clean" – audit opinion on the CFPB's financial statements. GAO noted no material weaknesses or significant deficiencies in CFPB's internal controls and cited no instances of noncompliance with laws and regulations.

I am proud of the CFPB's first Financial Report. It describes the fiscal year 2011 efforts to establish the CFPB, and the results we have achieved to date. I am even more proud to be a part of the CFPB team, whose dedicated public service is making the promise of our mission a reality.

Raj Date
Special Advisor to the Secretary of the Treasury
for the Consumer Financial Protection Bureau

MISSION

The Consumer Financial Protection Bureau is a *21st century agency* that helps 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 will achieve our mission through…

- data-driven analysis
- innovative use of technology
- valuing the best people and great teamwork.

I. Introduction

Beginning in 2007, the United States faced the most severe financial crisis since the Great Depression. Millions of Americans saw their home values drop, their savings shrink, their jobs eliminated, and their small businesses lose financing. Credit dried up, and countless consumer loans – many improperly made to begin with – went into default.

Many Americans took on loans that they did not fully understand and could not afford. Although some borrowers knowingly took on too much debt, many Americans who behaved responsibly were also lured into unaffordable loans by misleading promises of low payments. Honest lenders that resisted the pressure to sell complicated products had to compete with their less responsible competitors.

Even those who avoided the temptations of excessively risky credit were caught in its web. Those who never took out an unaffordable mortgage nonetheless saw the values of their homes plummet when neighbors lost homes in foreclosure. Those who used credit cards and home equity lines of credit judiciously saw across-the-board increases in interest rates on credit cards and contraction of outstanding lines of credit. Those who had saved regularly watched their retirement funds lose significant value. Cities and states cut back on services to make up for their own revenue losses. The cost of irresponsible lending has been and continues to be borne by tens of millions of American families.

In June 2009, President Obama proposed to address failures of consumer protection by establishing a new financial agency to focus directly on consumer protection. This new agency would heighten government accountability by consolidating in one place responsibilities that had been scattered across government. The agency would also have responsibility for supervising providers of consumer financial products and services that had not had regular federal oversight and for enforcing the consumer protection laws with respect to such providers. This agency would protect families from unfair, deceptive, and abusive financial practices. The President urged Congress to give the CFPB the same accountability and independence that the other banking agencies have and sufficient funding so it could ensure that financial companies would comply with consumer laws.

In July 2010, Congress passed and President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act. The law – often referred to as the Dodd-Frank Act – created the Bureau of Consumer Financial Protection (also known as the "Consumer Financial Protection Bureau" or the "CFPB"). Part of the purpose of creating the CFPB was to increase accountability in government by consolidating consumer financial protection authorities that had existed across seven different federal agencies into one. Instead of important consumer protection powers being scattered across the federal government, now a single entity would have the oversight authority to make sure consumer financial markets work for all consumers.

II. Establishment of the Consumer Financial Protection Bureau

One of the key elements of the Dodd-Frank Act was the creation of a new financial regulatory agency, the CFPB, which centralizes consumer protection authorities and increases accountability for the supervision and enforcement of laws governing consumer financial products and services. Specifically, the agency is tasked with protecting consumers from unfair, deceptive, and abusive financial practices by making the markets for consumer financial products and services work for American families.

The Dodd-Frank Act created the CFPB as an independent bureau within the Federal Reserve System. The CFPB is an Executive agency as defined in section 105 of Title 5, United States Code. Title X of the Dodd-Frank Act established the following goals for the CFPB:

- Ensure that consumers have timely and understandable information to make responsible decisions about financial transactions,
- Protect consumers from unfair, deceptive, or abusive acts or practices, and from discrimination,
- Reduce outdated, unnecessary, or overly burdensome regulations,
- Promote fair competition by enforcing the federal consumer financial laws consistently, and
- Encourage markets for consumer financial products and services that operate transparently and efficiently to facilitate access and innovation.

Under the Dodd-Frank Act, the Secretary of the Treasury is responsible for exercising the CFPB authorities until a Director of the Bureau is in place. On July 18, 2011 President Obama sent to the Senate a nomination for a Director of the CFPB. Until confirmed by the Senate, the day-to-day operations of the CFPB are being managed by the Special Advisor to the Secretary of the Treasury for the CFPB.

III. CFPB Stand-Up Actions and Status

CFPB leadership recognize that they have a unique and vital opportunity to create an organization with an innovative infrastructure, and accordingly, articulated a mission and vision and began establishing the infrastructure, tools and processes to attract, hire, develop and retain the human capital needed to build an agency responsible for protecting consumers of financial products and services. The tools needed by the CFPB to begin hiring, compensating, and managing employees using the CFPB's own statutory authorities under the Dodd-Frank Act were put in place and became operational in February 2011.

Vision

A consumer financial market place…

Where customers can see prices and risks up front and where they can easily make product comparisons;

in which no one can build a business model around unfair, deceptive, or abusive practices;

that works for American consumers, responsible providers and the economy as a whole

The CFPB has currently filled 25 of its key leadership positions with highly talented and experienced staff from the private, nonprofit, and public sectors. In addition, the CFPB has made considerable progress in recruiting, hiring, and orienting the workforce.

The CFPB's recruitment efforts have focused on filling vacancies throughout the country in support of its headquarters operations in Washington, D.C., and its regional satellite offices in Chicago, New York City, and San Francisco.

In addition, to ensure the successful stand-up of the Bureau, CFPB staff conducted reviews of "best practices" and "lessons learned" from the merger and stand-up of other federal agencies. The team also solicited input on stand-up needs and issues from other government agencies, private corporations, and the public. As a result of this process, staff used the following principles to guide the development and implementation of the CFPB's organization and human capital strategies:

- Focus on the CFPB's core principles and priorities (see below) to guide the organizational design and stand-up,
- Establish clear implementation goals and timelines that build momentum and demonstrate progress,
- Establish and implement a communication strategy to create shared expectations and report progress, and
- Build a "learning organization" that provides for the continuing development and advancement of the Bureau.

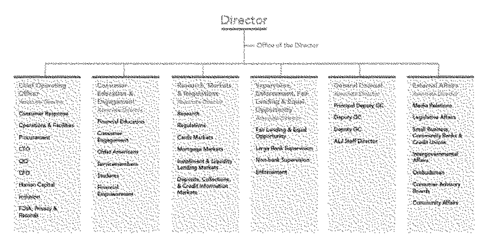
The CFPB has also implemented an initial workforce design strategy that identifies the human capital assets necessary to accomplish the CFPB's mission in line with the CFPB's vision and core organizational principles and priorities. This strategy has served to guide recruiting efforts to date and continues to serve as the CFPB's long-range workforce vision.

THE CFPB'S CORE ORGANIZATIONAL PRINCIPLES AND PRIORITIES

Engage the American public.
Ensure that federal consumer financial laws are administered consistently, efficiently, and effectively.
Help create a level playing field for community banks and credit unions to compete with large banks and non-depository financial companies.
Make the CFPB a data-driven agency by ensuring research and market analysis are at the core of all of its work.
Advance financial education opportunities for all Americans.
Continue an open and candid dialogue with Members of Congress.
Strengthen accountability within the CFPB.

Organization

One of the Bureau's top priorities has been to build an organization for success using a design that will provide the infrastructure the Bureau needs to meet its responsibilities. Late last calendar year, the CFPB began providing its draft organization chart to Members of Congress and the media. In early February 2011, the Bureau posted the chart to its newly launched website. In developing the CFPB's organizational structure, the Bureau has asked for comments and critiques from stakeholders across the spectrum. The CFPB organization chart as of September 30, 2011 is displayed below:



The Bureau currently includes six primary divisions:

- Consumer Education and Engagement
- Supervision, Enforcement, Fair Lending and Equal Opportunity
- Research, Markets, and Regulations
- Office of General Counsel
- External Affairs
- Office of Chief Operating Officer

A description of the functions and responsibilities of the each of the Divisions follows.

Consumer Education and Engagement

Provides, through a variety of initiatives and methods, information to consumers that will allow them to make decisions that are best for them. Consumer education is a central mission to the Bureau. The Bureau is developing targeted outreach to groups that face particular challenges, as required by the Dodd-Frank Act.

It includes the following offices:

Community Affairs – conducts outreach to consumer groups, civil rights groups, community organizations, and other organizations focused on traditionally underserved consumers and communities.

Consumer Engagement – creates engaging experiences for the American public to enable them to live better financial lives and for people interacting with the Bureau by developing platforms for participatory government.

Financial Education – serves as a resource for consumers who are looking to better understand how to make decisions in the financial services marketplace and provides access to tools and information that can help consumers make financial choices.

Older Americans – helps prevent financial abuse of seniors, promotes consumer education and consumer protection efforts, and develops initiatives to ensure appropriate tools are available to guide financial decision making for Americans 65 and over.

Servicemember Affairs – works in partnership with the Department of Defense to (1) help ensure that military families receive the financial education they need to make the best financial decisions for them; (2) monitor complaints from military families, and responses to those complaints; and (3) coordinate the efforts of federal and state agencies to improve consumer financial protection measures for military families.

Students – assesses and develops policy and educational solutions to address and prevent consumer financial protection issues of students.

Supervision, Enforcement, Fair Lending and Equal Opportunity

Ensures compliance with federal consumer financial laws by supervising market participants and bringing enforcement actions when appropriate.

It includes the following offices:

Bank Supervision – conducts examinations of the largest and most complex banks, thrifts, and credit unions in the country, as well as other depository institutions under the Bureau's jurisdiction. These efforts are closely coordinated with the Nonbank Supervision office.

Enforcement – initiates investigations and enforcement actions, where appropriate, to ensure that providers of consumer financial products and services are complying with the law and that such providers are held accountable when they fail to do so.

Fair Lending and Equal Opportunity – provides oversight and enforcement of fair lending laws to make certain that credit decisions are not based on race or any other prohibited factor. The office also engages in fair lending outreach and education.

Nonbank Supervision - conducts examinations of different types of nonbank consumer financial services companies, including nonbank affiliates of large depository institutions.

Research, Markets and Regulations

Responsible for understanding consumer financial markets and consumer behavior and for evaluating whether there is a need for regulation and the costs and benefits of potential or existing regulations. Before the CFPB acts, it will seek to be fully informed. The offices within this division are staffed with professionals selected for their strong analytical skills and subject matter expertise.

It includes the following offices:

Research – conducts research and rigorous policy evaluations and publishes findings on a variety of topics to support the CFPB's evidence-based policymaking and to develop a deeper understanding of consumer financial markets and household finances.

Market teams – provide real-time market intelligence, guidance, and analysis of their respective consumer markets. The market teams are Cards Markets, Mortgage Markets, Installment & Liquidity Lending Markets, and Deposits, Collections & Credit Information Markets.

Regulations – works to ensure that rulemaking is conducted in an informed, fair, and efficient manner in accordance with the law.

Office of General Counsel

Responsible for the CFPB's compliance with all applicable laws and provides advice to the Director and CFPB's divisions.

External Affairs

Responsible for ensuring that the CFPB maintains robust dialogue with various stakeholders who have an interest in its work in order to promote understanding, transparency, and accountability.

It includes the following offices:

Community Banks and Credit Unions - conducts outreach to smaller credit providers, especially community banks and credit unions.

Consumer Advisory Board - advises and consults with the Bureau in the exercise of its functions and provides information on emerging practices in the consumer financial products or services industry, including regional trends and concerns.

Intergovernmental Affairs - conducts outreach to municipal, state, and other government entities with coinciding concerns or initiatives.

Legislative Affairs - serves a liaison function with the Members of Congress and congressional staff, providing timely information on the Bureau's activities and responding to inquiries and concerns.

Media Relations - serves a liaison function with the media.

Ombudsman - focuses on problem resolution between the CFPB and regulated entities or other third parties.

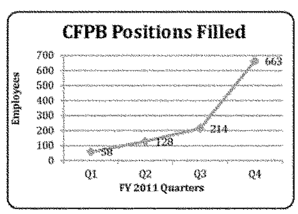
Office of Chief Operating Officer

Builds and sustains the CFPB's operational infrastructure to support the entire organization and includes the Offices of the Chief Financial Officer; Chief Information Officer; Chief Technology Officer; and Chief Human Capital Officer; Minority and Women Inclusion Office; Operations and Facilities; Procurement; and FOIA, Privacy and Records. This division also includes Consumer Response, which receives complaints and helps consumers find answers for questions about consumer financial products and services.

On-Board Status

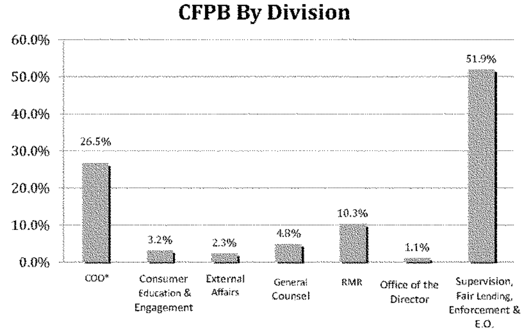
One of the key areas of focus in building the CFPB has been to identify the best qualified people to meet its immediate staffing needs. The CFPB has made significant strides by transferring[1] or hiring approximately 663 highly qualified personnel by September 30, 2011. This progress has been accomplished by taking many concurrent steps in the areas of policy development, recruitment activities, development of metrics, and on-boarding these many new employees, all within very compressed time frames.

Provided below is a chart that displays the dramatic quarterly growth of on-board positions filled for the CFPB during fiscal year 2011.



[1] The Dodd-Frank Act under Section 1064 provides for the transfer of certain employees from the Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, Office of Thrift Supervision, and the Department of Housing and Urban Development.

Provided below is a percentage breakout of CFPB total on-board staff by division as of September 30, 2011. As displayed in the chart, the CFPB's initial efforts to staff the bureau has placed a high priority on the Supervision, Enforcement, Fair Lending and Equal Opportunity functions -- 51.9% of total on-board staff – receiving the highest attention in filling CFPB regulatory and compliance expertise positions.



*The Office of the Chief Operating Officer (COO) displayed as 26.5% is composed of 12.5% for the Consumer Response Center and 14% for all other COO functions.

Design and Implement Payroll and Human Resources Systems

The Dodd-Frank Act did not give the CFPB direct-hire authority, and the CFPB was required to implement its own payroll and hiring system in order to begin hiring regulatory and compliance expertise – either from competitive hires or from transfer agencies. The CFPB launched a series of discussions and negotiations with the Federal Reserve System and with federal providers of payroll and human resource (HR) systems. The CFPB ultimately decided to implement an independent payroll and HR automated system separate from the systems used by the Federal Reserve.

Under the Dodd-Frank Act, the CFPB must establish a compensation program that provides compensation and benefits that, at a minimum, are comparable to the compensation and benefits being provided by the Board of Governors for the corresponding class of employees. All such compensation and benefits must be based on the terms and conditions set forth in the Federal Reserve Act. Accordingly, the CFPB undertook a complete compensation and classification analysis and developed a market-based classification and

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compensation system that supports its strategy of building a highly skilled, flexible, high-performing workforce and that attracts both individuals from outside of government as well as employees from the agencies transferring functions to the CFPB.

Additionally, the CFPB developed its own benefits program and implemented it on July 17, 2011. Pursuant to the Dodd-Frank Act, the CFPB has collaborated with the six transferring agencies[2] to establish procedures and systems that allow for employees transferring into the CFPB to retain appropriate benefits provided to them by their prior agency for a one-year period and to reimburse those agencies as required by the Dodd-Frank Act. The six agencies are the Department of Housing and Urban Development, Office of Thrift Supervision, Office of the Comptroller of the Currency, National Credit Union Administration, Federal Deposit Insurance Corporation, and the Federal Reserve Board of Governors and Federal Reserve System Banks.

IV. CFPB Actions, Performance and Results

The Dodd-Frank Act under section 1062 required the transfer date of the consumer financial protection functions from the seven prudential Federal agencies[3] to occur no later than July 21, 2011 unless Congress was notified. The Senior Advisor to the Secretary of the Treasury and CFPB management established as the primary performance goal for fiscal year 2011 the establishment and stand-up of the CFPB by the transfer date of July 21, 2011.[4]

On July 21, 2011 the CFPB achieved its goal and began its work to carry out its responsibilities and authorities to enforce the laws on credit cards, mortgages, student loans, prepaid cards, and other kinds of financial products and services. Some of the CFPB actions starting that day include:

- The CFPB sent introductory letters to the CEOs of the depository institutions – generally large banks and their affiliates – that are subject to CFPB supervision. These letters, which outline the agency's approach to supervision and examination, marked the beginning of CFPB's regular communications with the institutions it supervises. In addition, CFPB's Enforcement team was ready to begin enforcing federal consumer financial laws, when necessary.

- The CFPB's Consumer Response Center began accepting credit card complaints on its newly redesigned website, and through a toll-free number. CFPB also began referring distressed homeowners to housing counselors via the Homeowner's mortgage assistance hotline.

- The CFPB began publishing regulations and interim rules, examples of which include: a list of the regulations of the transferor agencies that will be enforceable by the CFPB; interim rules to create

[2] Under the Dodd-Frank Act, the functions and responsibilities for consumer financial protection laws were transferred to the CFPB from seven Federal agencies; however, the Federal Trade Commission was not required to transfer any employees to CFPB per Section 1061 (b) (A).
[3] Under the Dodd-Frank Act, authorities for consumer financial protection were transferred from the Board of Governors of the Federal Reserve System, Comptroller of the Currency, Office of Thrift Supervision, Federal Deposit Insurance Corporation, Federal Trade Commission, National Credit Union Administration, and the Department of Housing and Urban Development.
[4] The CFPB is preparing a strategic plan to help guide its future-years activities beginning in fiscal year 2012.

records and information procedures to implement the Privacy Act and the Freedom of Information Act, and to establish a process by which parties may seek testimony or records from the CFPB for use in litigation; and an interim rule concerning the CFPB's conduct of investigations of potential violations of any provision of federal consumer financial law.

In addition, CFPB began work on many initiatives prior to July 21, 2011, **including:**

- **Know Before You Owe** – In May, the CFPB launched the Know Before You Owe project, an effort to combine two federally required mortgage disclosures into a single, simpler form that makes the costs and risks of the loan clear and allows consumers to comparison shop for the best offer. The CFPB began testing two alternate prototype forms that are designed to be given to consumers who have just applied for a mortgage loan. This testing – which is nearing completion and involves one-on-one interviews with consumers, lenders, and brokers which – will precede and inform the CFPB's formal rulemaking process. The CFPB also has posted the prototypes on its website with an interactive tool to gather public input about the designs.

- **Transparency in Credit Cards** – Credit cards are the most commonly used form of consumer credit. Almost two out of three families now have at least one credit card, and almost half of all families with credit cards carry a balance. In February 2011, the CFPB held a conference on the first anniversary of when many provisions of the Credit Card Accountability Responsibility and Disclosure Act – the CARD Act – took effect. The CFPB's conference brought together industry representatives, consumer groups, academics, government experts, and others for a review of data on how the CARD Act, coupled with the recession and its aftermath, have affected supply, demand, and pricing within the credit card marketplace. The CFPB undertook a voluntary survey of the nine largest card issuers, representing approximately 90 percent of the market, and other studies also were conducted in connection with the conference.

  The CARD Act has pushed in the right direction. It has brought about significant reforms in both the pricing practices of card issuers and the information provided to consumers. Even so, there are a lot of moving parts in a credit card price, and there is still room for improvement in the transparency of this market. The CFPB's next challenge will be to further clarify price and risk and make it easier for consumers to make direct product comparisons.

  As part of the CFPB's commitment to transparency, the raw data from a consumer survey conducted by the CFPB in connection with the conference were made public on its website at: www.consumerfinance.gov

- **Report on Using Remittance History for Credit Scores and Remittance Exchange Rates** – Each year, consumers in the United States send tens of billions of dollars to family members, friends, businesses, and others abroad through remittance transfers – electronic transfers from U.S. senders to recipients in foreign countries. The CFPB issued a report on July 20, 2011 mandated by the Dodd-Frank Act, which analyzes two subjects related to remittance transfers: the transparency and disclosure to consumers of exchange rates used in remittance transfers, and the potential for using remittance histories to enhance the credit scores of consumers.

  The report finds that implementation of some of the Dodd-Frank Act's new requirements related to remittance transfers – including mandatory disclosures of the exchange rate used – could shed light on any need for additional exchange rate transparency measures. The CFPB also recommends to policy makers and other stakeholders that any additional transparency measures be evaluated and considered together with the range of mechanisms for increasing the competitiveness of the remittance transfer market, or promoting other consumer protection goals. The report further discusses the potential for remittance histories to inform credit scores, and describes planned CFPB research regarding the relationship between remittance histories and credit scores.

- **Report on Credit Scores** – CFPB issued a mandated report on July 19, 2011 examining the differences between credit scores sold to consumers and scores used by lenders to make credit decisions.

  The Dodd-Frank Act required the CFPB to study the differences between credit scores consumers purchase and those creditors use to make credit decisions. The CFPB's report covers the process of developing credit scoring models, why different scoring models may produce different scores for the same consumer, how different scoring models are used by creditors in the marketplace, what credit scores are available to consumers for purchase, and ways that differences between the scores provided to creditors and those provided to consumers may disadvantage consumers. A consumer unaware of the variety of credit scores available in the market place may purchase a score believing it to be his or her only credit score, when in fact there is no such single score.

  The report discusses the general lack of information about credit scoring. One survey shows that many consumers do not know that a credit score represents the risk of not repaying a loan. Furthermore, many consumers do not know that credit scores they buy may not use the same credit scoring models that are most widely used by lenders.

  As a followup to the report, the CFPB will obtain and analyze data that shed further light on differences in scores and the significance of related concerns. To help educate consumers, the CFPB also posted advice on its website about how to obtain and maintain a good credit score: http://www.consumerfinance.gov.

- **Larger Participants and Nonbank Supervision** – The Dodd-Frank Act gives the CFPB the job of supervising large banks, as well as some other types of financial companies, for compliance with federal consumer financial protection laws. While banks, thrifts, and credit unions have been subject to examinations by various federal regulators in the past, other types of companies providing consumer financial products and services have not. One of the goals of the new law is to better protect consumers by expanding this type of supervision to nonbank companies. The examination of nonbank companies will be a crucial piece of the CFPB's work. For the first time, many of these nonbank financial companies will be subject to federal oversight.

  Under the Act, the CFPB's nonbank supervision program will be able to look at companies of all sizes in the mortgage, payday lending, and private student lending markets. But for all other markets—like consumer installment loans, money transmitting, and debt collection—the CFPB generally can supervise only larger participants.

  The CFPB requested input on June 29, 2011 on how to define a "larger participant" through the rulemaking process. In order to collect input, CFPB published a Notice and Request for Comment (Notice). Public comments on the questions listed in the Notice will help the CFPB formulate a rule that helps the CFPB make the best use of its resources to protect American consumers.

Engaging the Public

One of the CFPB's top priorities is to communicate substantively and frequently across a wide range of industry and consumer group sectors. The CFPB aims to actively engage all stakeholders that could potentially be affected by the agency, with the understanding that there is much insight to be gained from varied perspectives that represent many distinct points of view.

The CFPB has traveled across the country to listen to and learn from the hopes, fears, and concerns of industry and consumer groups. As a result, the CFPB has collected ample information about how its work will affect various stakeholders, and suggestions from stakeholders have informed preparations in setting up the agency.

- **Community Banks and Credit Unions** – CFPB set a goal to reach out to small independent banks in all 50 states before July 21, 2011. By April 2011, the CFPB had reached its goal of speaking to bankers from every state. Further, CFPB officials delivered speeches at the Independent Community Bankers of America National Convention, the Credit Union National Association Governmental Affairs Conference, and at the National Association of Federal Credit Unions Congressional Caucus. A CFPB team has been dedicated to outreach to small financial service providers.

- **Trade Associations and Bank Executives** – CFPB has frequently met with banking executives and trade associations that represent both depository and non-depository institutions. The CFPB has spoken directly to many of the major trade organizations representing firms likely to be affected by its work and delivered speeches to the Financial Services Roundtable and at the U.S. Chamber of Commerce Fifth Annual Capital Market Summit.

- **Servicemembers and Military Families** – In January 2011, the CFPB made a key hire to establish its Office of Servicemember Affairs. The newly hired Assistant Director, Office of Servicemembers Affairs (OSA) understands – from personal experience as a military spouse and work at the Better Business Bureau Military Line – that men and women in the U.S. armed forces encounter unique financial issues.

  In January, the Assistant Director, OSA visited Joint Base San Antonio, Texas to speak with servicemembers and financial counselors about the unique financial circumstances and challenges that exist in military communities. In April, the Assistant Director traveled to Joint Base Myer-Henderson Hall in Virginia to meet with servicemembers and their families.

  The Assistant Director has visited many other military bases as well, talking about the financial challenges facing American men and women in uniform. The Assistant Director was the first CFPB staffer to testify before Congress when she appeared before the House Committee on Veterans Affairs and has also testified before a subcommittee of the Senate Committee on Homeland Security and Governmental Affairs, and has submitted testimony for the record to the Subcommittee on Federal Financial Management, Government Information, Federal Services and International Security U.S. Senate Committee on Homeland Security.

- **Consumer Response** – The Dodd-Frank Act directs the CFPB to facilitate the collection and monitoring of, and response to, consumer complaints regarding certain financial products and services. These complaints and consumers' inquiries will help the CFPB identify areas of concern and help CFPB in its supervision and other responsibilities.

  The CFPB is implementing the consumer response function gradually through a phased roll-out of functionality. The CFPB aims to build an efficient and effective consumer response system that is useful to American consumers, minimizes burden on financial institutions, and leverages the best of technology. A phased roll-out will enable proper consideration of the needs of consumers, the requirements of financial institutions, and the relevant operational constraints. In the initial phase, the CFPB will focus on taking complaints for credit cards, with other products to follow.

  Anticipating that many distressed homeowners would contact the CFPB soon after the launch of the Consumer Response function, the CFPB designed a process to connect these homeowners with a housing counselor via the Homeowner's HOPE™ Hotline, a housing counseling hotline available through the Department of the Treasury.

The CFPB is coordinating its approach with other regulators to prevent any gaps for consumers during this transition of responsibilities[3]. As the CFPB rolls out its full functionality, it plans to route or refer incoming complaints for other products to the prudential regulators or other appropriate agencies.

The CFPB is investing in a 21st-century IT infrastructure to ensure that its consumer response function is accessible, easy to use, and secure. To ensure broad access, the CFPB will provide a variety of contact channels, including the Internet, mail, fax, and a toll-free telephone number with English and Spanish language capabilities. For consumers, the CFPB is creating an integrated web and phone system to file and track complaints. The CFPB's website and call center will also provide answers to frequently asked questions regarding financial products. For credit card complaints, the CFPB is creating a web-based system that allows card issuers to log on, view, and respond to complaints online. Eventually, this system is expected to be used by providers of other financial products.

The CFPB has engaged and will continue to engage a broad range of stakeholders – including community banks, consumer advocates, industry groups, and others – to gather input on the complaint handling process. The CFPB has presented its complaint intake process and complaint handling system to the largest credit card issuers. The CFPB will be holding ongoing discussions with them regarding improvements to the system.

V. Enterprise Risk Management

Fiscal Year 2011

CFPB STATEMENT OF MANAGEMENT ASSURANCES

November 9, 2011

The management of the Consumer Financial Protection Bureau (CFPB) is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). Continuous monitoring and periodic evaluations provide the basis for the annual assessment and report on management's controls, as required by FMFIA. CFPB is leveraging the established OMB Circular A-123 and the FMFIA assessment methodologies to assist in assessing the applicable entity-wide controls, documenting the applicable processes, and identifying and testing the key controls. Based on the results of these ongoing evaluations, CFPB can provide reasonable assurance that internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations meet the objectives of FMFIA and no material weaknesses were found in the design or operation of the internal controls as of September 30, 2011.

As required by the Dodd-Frank Act, the CFPB is required to provide a management assertion as to the effectiveness of CFPB's internal control over financial reporting. CFPB management is responsible for establishing and maintaining effective internal control over financial reporting. CFPB conducted its assessment of the effectiveness of internal control over financial reporting based on the criteria established under 31 U.S.C. Sec. 3512(c). Based on the results of this evaluation, the CFPB can provide reasonable assurance that its internal control over financial reporting as of September 30, 2011 was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

As required by the Dodd-Frank Act, the CFPB is required to maintain financial management systems that comply substantially with Federal financial management systems requirements and applicable Federal accounting standards. The CFPB utilizes financial management systems that substantially comply with the requirements for Federal financial management systems and applicable Federal accounting standards.

Raj Date
Special Advisor to the Secretary of the Treasury
for the Consumer Financial Protection Bureau

Federal Managers' Financial Integrity Act

The CFPB was established as an independent bureau in the Federal Reserve System under the Dodd-Frank Act Section 1011 (a). As an independent, non-appropriated bureau, CFPB recognizes the importance of Federal laws associated with implementing effective enterprise risk management, including the Federal Managers' Financial Integrity Act. This includes ensuring that CFPB operations and programs are effective and efficient and that internal controls are sufficient to minimize exposure to waste and mismanagement.

In fiscal year 2011, CFPB performed an evaluation of its risks and systems of internal controls and employed an independent accounting firm to assist CFPB management in its evaluations. The results of those evaluations helped to support the CFPB's reasonable assurance of effective internal control.

The CFPB is committed to ensuring it has an effective risk management program in fiscal year 2012 and will take actions to implement all identified recommendations and concerns, and increase resources assigned to an office within the Office of the Chief Financial Officer – the Office of Audit and Internal Controls.

Federal Financial Management Systems Requirements

Section1017 (a) (4) (C) of the Dodd-Frank Act requires the CFPB to implement and maintain financial management systems that substantially comply with Federal financial management systems requirements and applicable Federal accounting standards. As discussed below in the section on Financial Management System Strategy, the CFPB has entered into an agreement with the Department of the Treasury's Bureau of Public Debt (BPD) for the cross-servicing of CFPB's core financial management system needs. As such, BPD has provided assurances to CFPB that its system is in compliance with the Federal Financial Management Improvement Act (FFMIA) whereby the system is substantially compliant with:

- Federal financial management system requirements,
- Applicable federal accounting standards, and
- The United States Standard General Ledger at the transaction level.

BPD has reported that its system substantially complies with the three requirements of FFMIA and recently completed a Statement on Standards for Attestation Engagement (SSAE) No. 16, Reporting on Controls at a Service Organization. The independent auditors opined in the SSAE-16 report that, in short, BPD's controls were suitably designed to provide reasonable assurance that control objectives would be achieved if customer agencies applied the complementary customer agency controls.

CFPB evaluated its internal controls over the processing of transactions between the CFPB and BPD. CFPB determined it has adequate complementary controls in place.

Financial Statement Audit and Report on Internal Control over Financial Reporting

Sections 1017 (a) (4) (B) and (D) of the Dodd-Frank Act require the CFPB to prepare and submit to GAO annual financial statements and an assertion of the effectiveness of the internal controls over financial reporting. Section 1017 (a) (5) (A) and (B) of the Dodd-Frank Act also require GAO to audit those financial statements and assertions and report their results to the bureau, Congress and the President. The CFPB prepared financial statements for the first full year of operation, fiscal year 2011.

GAO issued an unqualified audit opinion on CFPB's fiscal year 2011 financial statements GAO noted no material weaknesses or significant deficiencies in CFPB's internal controls and cited no instances of non-compliance with laws and regulations.

Financial Management Systems Strategy

CFPB recognized early on that as a new bureau it needed to leverage existing financial management resources, systems and information technology platforms when identifiable and available. Initially, all of CFPB's financial management transactions were processed through the Department of the Treasury's Departmental Offices. In fiscal year 2011, CFPB entered into a contract with the Department of the Treasury's Bureau of Public Debt (BPD) for the cross-servicing of a core financial management system that uses a commercial off-the-shelf core financial management system designed and configured to meet generally accepted accounting principles for Federal entities. In addition to the core financial management system, BPD provides additional services to CFPB, such as transactional processing, financial reporting, human resource services, procurement services, and travel services.

Further, CFPB established an IT Investment Review Board (IRB) as an executive advisory body providing the business and technology leadership to ensure all technology investment aligns with the CFPB mission and goals. The members of the IRB work with the CIO and the Technology Implementation Group to make informed recommendations and assist the CIO in making the proper investment decisions to ensure that CFPB's IT assets are managed as strategic business resources that support the mission of the bureau.

Federal Information Security Management Act

The Federal Information Security Management Act (FISMA) requires Federal agencies to develop, document, and implement an agency-wide program to provide security for the information and information systems that support the operations and assets of the agency. As discussed above, the CFPB has leveraged existing information technology and platforms by deploying a cloud-based infrastructure and entering into various cross-servicing agreements with the Department of the Treasury, Departmental Offices and BPD, and the Department of Agriculture, National Finance Center. As part of the independent performance audit of the operations and budget of the CFPB, which is discussed below, the auditors also reported that the CFPB has complied with key elements of the E-Government Act of 2002, including FISMA.

Improper Payments Elimination and Recovery Act

The Improper Payments Elimination and Recovery Act of 2011 require agencies to review their programs and activities annually to identify those susceptible to significant improper payments. During fiscal year 2011, the Office of Audit and Internal Control conducted such a review over four areas of payments – Purchase Card, Contract Payments and/or Invoices, Travel Card, and Claims and/or Vouchers. The CFPB's risk assessment process did not identify any programs susceptible to significant improper payments.

Independent Performance Audit of the Operations and Budget of the CFPB

The Dodd-Frank Act, amended by the Full-Year Continuing Appropriations Act, 2011 (12 USC 5496a), mandated that CFPB obtain an annual independent audit of the operations and budget of the Bureau. CFPB contracted for a fiscal year 2011 independent performance audit of the CFPB budget and several operating areas that were instrumental in implementing the Dodd-Frank Wall Street Reform and Consumer Financial Protection Act of 2010 and standing up the CFPB: Human Capital and Organizational Development, Consumer Response, Information Technology, and Communications and Transparency.

To evaluate CFPB's operations and performance in these five areas, the auditor's evaluation criteria were (1) compliance with legal requirements, (2) achievement of organizational goals, and (3) alignment with performance standards, best practices, and/or benchmarks. In its October 15 report, the auditors reported that CFPB has made significant progress towards achieving legal compliance, attaining organizational goals, and meeting performance standards.

Limitations of the Financial Statements

The principal financial statements contained in this report have been prepared to present the financial position and results of operations of the Consumer Financial Protection Bureau pursuant to the requirements of the Dodd-Frank Act Section 1017 (a) (4) (B). While the statements have been prepared from the books and records of the Consumer Financial Protection Bureau, in accordance with generally accepted accounting principles for the Federal government, and follows the general presentation guidance provided by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared using the same books and records.

The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity.

VI. Financial Analysis

How the CFPB is Funded

Under the Dodd-Frank Act, the CFPB is funded principally by transfers from the Board of Governors of the Federal Reserve System up to a limit set forth in the statute. The CFPB requests transfers from the Board of Governors in amounts that are reasonably necessary to carry out its mission, which funding is capped at a pre-set percentage of the total 2009 operating expenses of the Federal Reserve System, subject to an annual adjustment. Specifically, the CFPB fund transfers are capped as follows:

- **In fiscal year 2011 to 10 percent of these Federal Reserve System expenses (or approximately $498 million),**
- **In fiscal year 2012 to 11 percent of these expenses (or approximately $547.8 million),**
- **In fiscal year 2013 to 12 percent of these expenses (or approximately $597.6 million), and**
- **In fiscal year 2014 and beyond, the cap remains at 12 percent but will be adjusted for inflation.**

The Dodd-Frank Act requires the CFPB to maintain an account with the Federal Reserve – "Bureau of Consumer Financial Protection Fund" (Bureau Fund). Funds requested from the Board of Governors are transferred into the Bureau Fund. Bureau funds determined not to be needed to meet the current needs of the CFPB are invested in Treasury securities on the open market. Earnings from the investments are also deposited into this fund. During fiscal year 2011, five transfers totaling $161.8 million were received from the Board of Governors[5].

The Dodd-Frank Act explicitly provides that Bureau funds obtained by or transferred to the CFPB are not Government funds or appropriated funds.

The CFPB also collects filing fees from developers as part of the process regarding Interstate Land Settlements (ILS). The ILS program protects consumers from fraud and abuse in the sale or lease of land. In 1968, Congress enacted the Interstate Land Sales Full Disclosure Act, which is patterned after the Securities Law of 1933 and requires land developers to register subdivisions of 100 or more non-exempt lots and to provide each purchaser with a disclosure document called a Property Report. The Property Report contains relevant information about the subdivision and must be delivered to each purchaser before the signing of the

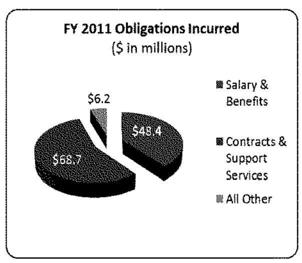
[5] In fiscal year 2010, one transfer for $18.4 million was received from the Board of Governors.

contract or agreement. On July 21, 2010, this program was transferred to the CFPB from the Department of Housing and Urban Development pursuant the Dodd-Frank Act. While CFPB continues to study the legal effects of the legislation with respect to the transfer of these functions under the Land Sales Act, and the collection of fees, the fees are currently being deposited into an account maintained by Treasury. The fees collected may be retained and are available until expended for the purpose of covering all or part of the costs that the Bureau incurs for ILS program operations.

Pursuant to the Dodd-Frank Act, the CFPB is also authorized to collect civil penalties against any person in any judicial or administrative action under Federal consumer financial laws. The Act also requires the CFPB to maintain a separate fund, known as the Consumer Financial Civil Penalty Fund (Civil Penalty Fund). Collections of civil penalties will be deposited into the Civil Penalty Fund, which is in the process of being established. CFPB did not collect any civil penalties during fiscal year 2011.

What the CFPB has Funded

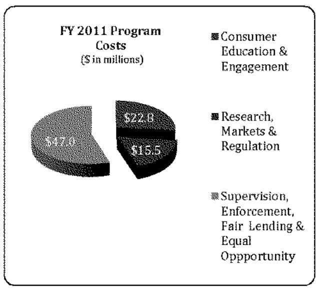
During fiscal year 2011, the CFPB was still growing; therefore, the majority of its obligations related to resources essential to standing up the CFPB, such as personnel, information technology, mission-specific and human capital support, and other general start-up activities. The CFPB incurred $123.3 million in obligations – $68.7 million in Contracts & Support Services, $48.4 million in Salary & Benefits, and $6.2 million in All Other – as displayed in the chart to the left:



Some of the larger funded items for the CFPB start-up activities included in the $68.7 million for Contracts and Support Services include:

- $18.6 million to the Department of the Treasury for various services such as, information and technology and human resource systems support and detailees,
- $6 million to the Bureau of the Public Debt for cross-servicing of various human resource and financial management services, such as core financial accounting, transaction processing, travel and payroll,
- $4.4 million to a contractor for human resource policies and assistance in developing salary and benefits packages consistent with the requirements of the Dodd-Frank Act, and,
- $4.3 million to a contractor for the development and maintenance of a Consumer Complaint System.

Net Costs of the CFPB's Operations



The Statement of Net Cost presents the CFPB gross and net cost for its three strategic missions: Consumer Education & Engagement; Research, Markets & Regulation; and, Supervision, Enforcement, Fair Lending & Equal Opportunity. Total CFPB net costs for fiscal year 2011 in these three programmatic categories are $85.3 million – $47 million for Supervision & Enforcement, Fair Lending and Equal Opportunity, $22.8 million for Consumer Education and Engagement, and $15.5 million for Research, Markets & Regulation – as displayed in the chart to the left. The majority of costs were incurred in Supervision and Enforcement, Fair Lending and Equal Opportunity including the start-up costs of the program and the majority of CFPB's personnel costs – 51.9% of all hires by year-end.

VII. Possible Future Risks and Uncertainties

Potential Funding Concerns and Potential Impact to Independence

The Dodd-Frank Act followed a long-established precedent in providing the CFPB with funding outside of the Congressional appropriations process. Congress has consistently provided for independent funding for bank supervisors to allow for long-term planning and the execution of complex initiatives and to ensure that banks are examined regularly and thoroughly for both safety and soundness and compliance with the law.

The CFPB has been tasked with supervising more entities than all other federal bank supervisors combined, including supervising the largest, most complex banks. Effective supervision that levels the playing field between bank and non-bank institutions will require dedicated and predictable resources, and independent examiners. Moreover, consumer compliance examinations for depository institutions with less than $10 billion in assets will continue to be conducted by prudential regulators and thus funded independently. Thus, consumer compliance examinations of community banks and large bank and non-bank institutions will all be funded independently.

Although Congress provided the CFPB with a source of funding outside the appropriations process, the CFPB is nonetheless the only bank supervisor with a statutory cap on its primary source of funding. If the Director were to determine that the non-appropriated funds to which it is entitled under the Act are insufficient to carry out its responsibilities, the Act provides the potential for CFPB to also obtain appropriated funds, up to a capped amount, in fiscal years 2011-2014. In accordance with the Act and appropriations law requirements, further action would be required on the part of the Director and Congress in order for CFPB to obtain such appropriated funds.

Financial Statements

Message from the Chief Financial Officer

During fiscal year 2011, the Office of the Chief Financial Officer played a major role in the growth and development of the Consumer Financial Protection Bureau (CFPB). The CFPB was established by the Dodd-Frank Act when it was enacted on July 21, 2010. Much of the work to establish CFPB as a new bureau occurred during fiscal year 2011. During this time, the agency grew from 58 employees in the first quarter to 663 employees at fiscal year-end. The rapid growth in employees and the associated offices required a significant level of effort to establish the necessary support structure of the agency. Some of the CFPB activities the Office of the Chief Financial Officer supported in fiscal year 2011 include:

- **Entered into Inter-agency Agreements with other federal agencies to obtain services in the areas of financial management, human resource, procurement, travel, and payroll;**
- Designed and developed CFPB's budget and internal control functions;
- Developed CFPB's operating plans;
- Prepared five fund request transfers from the Federal Reserve System totaling $161.8 million; and,
- Coordinated benefits payments for transferees.

As a new stand-up bureau, we recognize that much work remains to be done in fiscal year 2012. We will continue to work towards strengthening the Office of the Chief Financial Officer and continue to ensure we have sound fiscal policies and a strong internal control environment in place.

I am pleased to present the CFPB's first set of financial statements as an integral part of the fiscal year 2011 Financial Report. For fiscal year 2011, the Government Accountability Office rendered an unqualified audit opinion on CFPB's financial statements and noted no material weaknesses or significant deficiencies in CFPB's internal controls and cited no instances of non-compliance with laws and regulations.

Stephen Agostini
Chief Financial Officer
Consumer Financial Protection Bureau

Freddy Vélez
Acting Deputy Chief Financial Officer
Consumer Financial Protection Bureau

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CONSUMER FINANCIAL PROTECTION BUREAU
BALANCE SHEET
As of September 30, 2011
(In Dollars)

		2011
Assets:		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$	18,673,308
Investments (Note 3)		80,298,806
Total Intragovernmental		98,972,114
Cash, and Other Monetary Assets (Note 4)		332,021
Accounts Receivable		7,068
Property, Equipment, and Software, Net (Note 5)		1,770,214
Advances and Prepayments (Note 6)		14,689,107
Total Assets	$	115,770,524
Liabilities:		
Intragovernmental		
Accounts Payable	$	3,288,536
Other (Note 7)		1,151,377
Total Intragovernmental		4,439,913
Accounts Payable		5,728,159
Other (Note 7)		9,129,788
Total Liabilities	$	19,297,860
Net Position:		
Cumulative Results of Operations - Earmarked Funds	$	96,472,664
Total Net Position	$	96,472,664
Total Liabilities and Net Position	$	115,770,524

The accompanying notes are an integral part of these financial statements.

CONSUMER FINANCIAL PROTECTION BUREAU
STATEMENT OF NET COST
For the Fiscal Year Ended September 30, 2011
(In Dollars)

		2011
Program Costs:		
Consumer Education and Engagement (Including Response Center):		
Gross Costs	$	22,831,638
Less: Earned Revenue		-
Net Consumer Education and Engagement (Including Response Center)	$	22,831,638
Research, Markets, and Regulations:		
Gross Costs	$	15,485,938
Less: Earned Revenue		-
Net Research, Markets, and Regulations	$	15,485,938
Supervision, Enforcement, Fair Lending and Equal Opportunity:		
Gross Costs	$	47,011,018
Less: Earned Revenue		-
Net Supervision, Enforcement, Fair Lending and Equal Opportunity	$	47,011,018
Total Gross Program Costs	$	85,328,594
Less: Total Earned Revenues		-
Net Cost of Operations (Note 10)	$	85,328,594

The accompanying notes are an integral part of these financial statements.

CONSUMER FINANCIAL PROTECTION BUREAU
STATEMENT OF CHANGES IN NET POSITION
For the Fiscal Year Ended September 30, 2011
(In Dollars)

		2011
Cumulative Results of Operations:		
Beginning Balances (Note 11)	$	18,256,655
Budgetary Financing Sources:		
Nonexchange Revenue		161,847,142
Other		3,709
Other Financing Sources (Non-Exchange):		
Imputed Financing Sources		1,693,752
Total Financing Sources		163,544,603
Net Cost of Operations		(85,328,594)
Net Change		78,216,009
Cumulative Results of Operations	$	96,472,664
Net Position - Earmarked Funds	$	96,472,664

The accompanying notes are an integral part of these financial statements.

CONSUMER FINANCIAL PROTECTION BUREAU
STATEMENT OF BUDGETARY RESOURCES
For the Fiscal Year Ended September 30, 2011
(In Dollars)

		2011
Budgetary Resources:		
Unobligated Balance Brought Forward, October 1 (Note 11)	$	9,200,000
Funds Available for Obligation		161,849,662
Total Budgetary Resources	$	171,049,662
Status of Budgetary Resources:		
Obligations Incurred (Note 12)		
Direct	$	123,329,760
Unobligated Balance		
Exempt From Apportionment		47,719,902
Total Status of Budgetary Resources	$	171,049,662
Change in Obligated Balance:		
Obligated Balance, Net		
Unpaid Obligations, Brought Forward, October 1 (Note 11)	$	9,200,000
Total Unpaid Obligated Balance, Net		9,200,000
Obligations Incurred Net		123,329,760
Gross Outlays		(80,946,716)
Obligated Balance, Net, End of Period		
Unpaid Obligations		51,583,044
Total Unpaid Obligated Balance, Net, End of Period	$	51,583,044
Net Outlays:		
Gross Outlays	$	80,946,716
Net Outlays	$	80,946,716

The accompanying notes are an integral part of these financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Bureau of Consumer Financial Protection, known as the Consumer Financial Protection Bureau (CFPB), was established under the Dodd-Frank Wall Street Reform and Consumer Protection Act P.L.111-203 (Dodd-Frank Act) on July 21, 2010. CFPB was established as an independent bureau within the Federal Reserve System. The Bureau is an Executive agency as defined in section 105 of Title 5, United States Code.

The Dodd-Frank Act authorizes the CFPB to exercise its authorities to ensure that, with respect to consumer financial products and services:

a. Consumers are provided with timely and understandable information to make responsible decisions about financial transactions;
b. Consumers are protected from unfair, deceptive, or abusive acts and practices and from discrimination;
c. Outdated, unnecessary, or unduly burdensome regulations are regularly identified and addressed in order to reduce unwarranted regulatory burdens;
d. Federal consumer financial law is enforced consistently in order to promote fair competition; and
e. Markets for consumer financial products and services operate transparently and efficiently to facilitate access and innovation.

Under the Dodd-Frank Act, on the designated transfer date, July 21, 2011, certain authorities and functions of several agencies relating to Federal consumer financial law were transferred to the CFPB in order to accomplish the above objectives. These authorities were transferred from the Board of Governors of the Federal Reserve System (Board of Governors), Comptroller of the Currency (OCC), Office of Thrift Supervision (OTS), Federal Deposit Insurance Corporation (FDIC), Federal Trade Commission (FTC), National Credit Union Administration (NCUA), and the Department of Housing and Urban Development (HUD). In addition to these transferred authorities, the Dodd-Frank Act provided the CFPB with certain newly established federal consumer financial regulatory authorities.

To accomplish its mission, the CFPB is organized into six primary divisions/offices:

1. Consumer Education and Engagement

Provides, through a variety of initiatives and methods, information to consumers that will allow them to make decisions that are best for them. Consumer education is a central mission to the Bureau. The Bureau is developing targeted outreach to groups that face particular challenges, as required by the Dodd-Frank Act.

2. Supervision, Enforcement, Fair Lending and Equal Opportunity

Ensures compliance with federal consumer financial laws by supervising market participants and bringing enforcement actions when appropriate.

3. Research, Markets, and Regulations

Responsible for understanding consumer financial markets and consumer behavior, for evaluating whether there is a need for regulation, and for determining the costs and benefits of potential or existing regulations. Before the Bureau acts, it will seek to be fully informed. The offices within this division are staffed with professionals selected for their strong analytic skills and subject matter expertise.

4. Office of General Counsel

Responsible for the Bureau's compliance with all applicable laws and provides advice to the Director and the Bureau's divisions.

5. External Affairs

Ensures that the Bureau maintains robust dialogue with various stakeholders that have an interest in its work in order to promote understanding, transparency, and accountability.

6. Office of Chief Operating Officer

Builds and sustains the CFPB's operational infrastructure to support the entire organization.

The CFPB workforce is spread across the country with its headquarters in Washington, D.C. and regional satellite offices in Chicago, New York City, and San Francisco. The headquarters is temporarily spread across several locations within Washington, D.C., utilizing space rented through interagency agreements with the Department of the Treasury (Treasury). CFPB will eventually consolidate its headquarters into one building in Washington, D.C. The workforce in CFPB's regional offices is predominantly mobile and therefore minimal office and conference room space is used in the regions.

Additional information on the organizational structure and responsibilities of CFPB is available on CFPB's website at http://www.consumerfinance.gov/.

Under the Dodd-Frank Act, the Secretary of the Treasury is responsible for establishing the CFPB and exercising certain of its authorities until a Director of the CFPB is in place. On July 18, 2011 President Obama sent to the Senate a nomination for a Director of CFPB. The CFPB is still without a Director and continues to operate under the authority of the Secretary of the Treasury. The Bureau's day-to-day operations are managed by the Special Advisor to the Secretary of the Treasury for the Consumer Financial Protection Bureau.

B. Basis of Presentation

CFPB's principal statements were prepared from its official financial records and general ledger in conformity with accounting principles generally accepted in the United States and follows the general presentation guidance established by OMB Circular A-136, *Financial Reporting Requirements*, as revised. The financial statements are a requirement of the Dodd-Frank Act. The financial statements are in addition to the financial reports prepared by CFPB, pursuant to OMB directives, which are used to monitor and control budgetary resources. The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and the status and availability of budgetary resources of CFPB. The financial statements and associated notes are presented on a single year basis. This is the first full year of operation for the CFPB and therefore comparative statements are not presented.

The net cost of operations is presented by the three primary objectives of the Bureau – educate, enforce, and study – and is consistent with CFPB's organizational structure.

C. Basis of Accounting

Transactions are recorded on both an accrual accounting basis and a budgetary basis. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal requirements and controls over the use of federal funds. CFPB conforms to accounting principles generally accepted in the United States for federal entities as prescribed by the standards set forth by the Federal Accounting Standards Advisory Board (FASAB). FASAB is recognized by the American Institute of Certified Public Accountants as the body designated to establish generally accepted accounting principles for federal government entities. Certain assets, liabilities, earned revenues, and costs have been classified as intragovernmental throughout the financial statements and notes. Intragovernmental assets and liabilities are those due from or to other federal entities. Intragovernmental earned revenues are collections or accruals due from other federal entities. Intragovernmental costs are payments or accruals due to other federal entities.

CFPB has rights and ownership of all assets reported in these financial statements. CFPB does not possess any non-entity assets.

D. Funding Sources

Funding needed for carrying out the mission of CFPB is obtained primarily through transfers from the Board of Governors, interest earned on investments, and penalties and fees collected. The Dodd-Frank Act requires the CFPB to maintain an account with the Federal Reserve – "Bureau of Consumer Financial Protection Fund" (Bureau Fund). The Director of CFPB, or designee, requests transfers from the Board of Governors in amounts necessary to carry out the authorities and operations of the Bureau. The Board of Governors transfers the funds into the Bureau Fund, which is maintained at the Federal Reserve Bank of New York (FRBNY). Bureau funds determined not needed to meet the current needs of the Bureau are invested in Treasury securities on the open market. Earnings from the investments are also deposited into this fund. Going forward, CFPB anticipates requesting funds on a quarterly basis. The funds maintained by the FRBNY are reported in the financial statements and related notes and represent budget authority for CFPB.

The CFPB funding requests for the Bureau Fund are capped as follows:

> The amount that shall be transferred to the Bureau in each fiscal year shall not exceed a fixed percentage of the total operating expenses of the Federal Reserve System, subject to an annual inflation adjustment, as reported in the Annual Report, 2009, of the Board of Governors, equal to:
>
> 1. 10 percent of such expenses in fiscal year 2011,
> 2. 11 percent of such expenses in fiscal year 2012,
> 3. 12 percent of such expenses in fiscal year 2013, and in each year thereafter.

The Dodd-Frank Act explicitly provides that Bureau funds obtained by or transferred to CFPB are not Government funds or appropriated funds.

If the Director were to determine that the non-appropriated funds to which it is entitled under the Act are insufficient to carry out its responsibilities, the Act provides the potential for CFPB to also obtain appropriated funds, up to a capped amount, in fiscal years 2011-2014. In accordance with the Act and appropriations law requirements, further action would be required on the part of the Director and Congress in order for CFPB to obtain such appropriated funds.

The CFPB also collects filing fees from developers as part of the process regarding Interstate Land Settlements (ILS). The Interstate Land Settlements program protects consumers from fraud and abuse in the sale or lease of land. In 1968 Congress enacted the Interstate Land Sales Full Disclosure Act, which is patterned after the Securities Law of 1933 and requires land developers to register subdivisions of 100 or more non-exempt lots and to provide each purchaser with a disclosure document called a Property Report. The Property Report contains relevant information about the subdivision and must be delivered to each purchaser before the signing of the contract or agreement. On July 21, 2011, this program was transferred to the CFPB from HUD pursuant the Dodd-Frank Act. While CFPB continues to study the legal effects of the legislation with respect to the transfer of these functions under the Land Sales Act, and the collection of fees, the fees are currently being deposited into an account maintained by Treasury. The fees collected may be retained and are available until expended for the purpose of covering all or part of the costs that the Bureau incurs for ILS program operations.

Pursuant to the Dodd-Frank Act, the CFPB is also authorized to collect civil penalties against any person in any judicial or administrative action under Federal consumer financial laws. The Act also requires the CFPB to maintain a separate fund, known as the Consumer Financial Civil Penalty Fund (Civil Penalty Fund).

Collections of civil penalties will be deposited into the Civil Penalty Fund, which will be maintained by the FRBNY. The Civil Penalty Fund is in the process of being established. CFPB did not collect any civil penalties for fiscal year 2011.

CFPB also recognizes imputed financing sources. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. CFPB recognized imputed costs and financing sources in fiscal year 2011 as prescribed by accounting standards. CFPB recognizes as an imputed financing source the amount of pension expenses for OCC and the Office of Personnel Management (OPM) and post-retirement benefit expenses for OPM for current employees accrued on CFPB's behalf.

E. Use of Estimates

The Bureau has made certain estimates and assumptions relating to the reporting of assets, liabilities, revenues, expenses, and the disclosure of contingent liabilities to prepare these financial statements. Actual results could differ from these estimates. Significant transactions subject to estimates include costs regarding benefit plans for CFPB employees that are administered by the OPM, OCC, FDIC, and the Federal Reserve System and cost allocations among the programs on the Statement of Net Cost.

F. Earmarked Funds

FASAB's Statement of Federal Financial Accounting Standards (SFFAS) No. 27 *Identifying and Reporting Earmarked Funds* established certain disclosure requirements for funds defined as "earmarked." SFFAS No. 27 states that "earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes and must be accounted for separately from the Government's general revenues." The standard also presents three required criteria for an earmarked fund. Based on the standard's criteria, CFPB is an earmarked fund due to its primary funding sources being transfers from the Board of Governors, interest on investments, and fees from the ILS program.

G. Fund Balance with Treasury

The U.S. Treasury holds funds in the Treasury General Account for CFPB which are available to pay agency liabilities and finance authorized purchase obligations. Treasury processes cash receipts and disbursements on CFPB's behalf, such as fees collected from the ILS program. As discussed in Note 1.D. above, CFPB also maintains an account with the FRBNY known as the Bureau Fund. During the year, increases to the Bureau Fund are generally comprised of fund transfers from the Board of Governors and investment interest. These funds are available for transfer to CFPB's Fund balance with Treasury. CFPB's Fund Balance with Treasury is maintained in a special fund. A special fund is established where the law requires collections to be earmarked from a specified source to finance a particular program, and the law neither authorizes the fund to conduct a cycle of business-type operations (making it a revolving fund) nor designates it as a trust fund.

H. Investments

CFPB has the authority to invest the funds in the Bureau Fund account that are not required to meet the current needs of the Bureau. CFPB invests solely in U.S. Treasury securities purchased at a discount on the open market, which are normally held to maturity and carried at cost. CFPB selects investments with maturities suitable to its needs, currently three month Treasury bills. Investments are adjusted for discounts. In accordance with generally accepted accounting principles, the CFPB records the value of its investments in U.S. Treasury securities at cost and amortizes the discount on a straight-line basis over the term of the respective issues. Interest is credited to the Bureau Fund.

I. Accounts Receivable

Accounts receivable consists of amounts owed to CFPB by the public. An allowance for uncollectible accounts receivable from the public is established when either (1) management determines that collection is unlikely to occur after a review of outstanding accounts and the failure of all collection efforts, or (2) an account for which no allowance has been established is submitted to Treasury for collection, which takes place when it becomes 180 days delinquent.

J. Property, Equipment, and Software, Net

Property, Equipment, and Software is recorded at historical cost. It consists of tangible assets and software. Under CFPB's property management policy equipment acquisitions of $50 thousand or more are capitalized and depreciated using the straight-line method over the estimated useful life of the asset. Similarly, internal use software, software purchased or developed to facilitate the operation of an entity's programs, is capitalized for software of $750 thousand or more and depreciated using the straight-line method over the estimated useful life of the asset. Additionally, for bulk purchases of similar items, which individually do not meet the test to capitalize, the acquisition is capitalized and depreciated if the depreciated basis of the bulk purchase is $250 thousand or more. Applicable standard governmental guidelines regulate the disposal and convertibility of agency property and equipment. The useful life classifications for capitalized assets are as follows:

PP&E Category	Useful Lives (years)
Laptop/Desktop Computers	3
Internal Use Software	5
Mainframe Computer System	7
Servers	7
Telecommunications Equipment	7
Furniture	8
Other Equipment	10

A leasehold improvement's useful life is equal to the remaining lease term or the estimated useful life of the improvement, whichever is shorter. CFPB has no real property holdings or stewardship or heritage assets. Other property items, normal repairs and maintenance are charged to expense as incurred.

K. Advances and Prepaid Charges

Advances and prepayments may occur as a result of reimbursable agreements, subscriptions, payments to contractors and employees, and payments to entities administering benefit programs for CFPB employees. Payments made in advance of the receipt of goods and services are recorded as advances or prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

L. Liabilities

Liabilities represent the amount of monies likely to be paid by CFPB as a result of transactions or events that have already occurred. Liabilities may be intragovernmental (claims against the CFPB by other Federal agencies) or with the public (claims against CFPB by an entity or person that is not a Federal agency). However, no liability can be paid if there is no funding. Liabilities for which funds are not available, therefore, are classified as not covered by budgetary resources. There is no certainty that the funding will be received. Additionally, the Government, acting in its sovereign capacity, can abrogate liabilities. Liabilities not covered by budgetary resources on the Balance Sheet are equivalent to amounts reported as components not requiring or generating resources on the Reconciliation of Net Cost to Budget.

M. Annual, Sick, and Other Leave

Annual leave and credit hours earned by the Bureau's employees, but not yet used, are reported as accrued liabilities. The accrued balance is adjusted annually to current pay rates. The accrued leave, for which funding is not available, is recorded as an unfunded liability. Sick and other leave are expensed as taken.

N. Employee Benefits

CFPB employees are enrolled in various benefit programs – medical, vision, dental, long-term disability, and life insurance. Employees also have options regarding which benefit programs to enroll.

Benefits for employees transferred pursuant to the Dodd-Frank Act

The Dodd-Frank Act provided employees transferred from other agencies (Board of Governors, Federal Reserve Banks, OCC, OTS, FDIC, NCUA, and HUD) with the ability to continue participation in some of the transferring agencies' non-Title 5 benefit programs for a defined amount of time (one year from the CFPB transfer date of July 21, 2011). Title 5 of the U.S. Code outlines benefit programs for the majority of the Federal workforce, in which the programs are typically administered by OPM. The transferring agencies continue to administer the non-Title 5 benefit programs for those transferred employees. Upon conclusion of the defined period of time, the employees may enroll in non-Title 5 benefit programs sponsored by CFPB. For those employees participating in the transferring agencies' programs, CFPB reimburses the transferring agencies for the employer's contribution to the programs. CFPB may also reimburse the transferring agencies for administrative costs pursuant to memoranda of understanding with the transferring agencies. These costs are reflected as expenses in CFPB's financial statements.

Benefits for employees not transferred pursuant to the Dodd-Frank Act

Employees not transferred to the Bureau pursuant to the Dodd-Frank Act are enrolled in benefit programs administered by OPM and also have the option to enroll in non-Title 5 benefit programs sponsored by CFPB in addition to, or in lieu of, OPM programs. For those employees participating in OPM's benefit programs, CFPB records the employer's contribution to those programs. OPM records the liability and pays for these programs on behalf of all of the Federal agencies participating in the programs. For those employees participating in CFPB's non-Title 5 benefit programs, CFPB directly contracts with vendors to provide those services. The Bureau recognizes the employer's contributions for these benefits as the benefits are earned. All of these costs are reflected as expenses in CFPB's financial statements.

O. Pension Costs and Other Retirement Benefits

CFPB employees are enrolled in several retirement and pension programs and post-employment benefits in accordance with the authorities in the Dodd-Frank Act.

Employees transferred from the Federal Reserve, OCC, OTS, FDIC, and HUD

The Dodd-Frank Act allowed employees transferred from OCC, OTS, FDIC, and HUD, under the terms of the Act, to continue participating in the pension or retirement plans in which they were enrolled at their transferring agency or to affirmatively elect, from January 21, 2012 to January 20, 2013, to join the Federal Reserve System Retirement Plan and the Federal Reserve System Thrift Plan. Many transferee employees from these agencies are in the traditional Title 5 retirement plans (Federal Employee Retirement System (FERS), Civil Service Retirement System (CSRS), or CSRS Offset); however, a few transferees from OTS are in a non-Title 5 plan (i.e., Pentegra Defined Benefit Plan). Transferees from the Federal Reserve are allowed to remain in the Federal Reserve System retirement program or to affirmatively elect into the appropriate Title 5 retirement plan during that same timeframe. For those employees electing to enroll in an alternative retirement plan, the enrollment will become effective in January 2013.

CFPB does not report on its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any, is the responsibility of the Federal Reserve System, OCC, or OPM as the administrator of their respective plans. In all cases, CFPB pays any employer contributions required by the plans. Refer to the chart below for information on which agency administers each of the retirement plans for CFPB employees.

OCC, OTS, and FDIC also offered other agency-only savings plans to employees. Any transferees who participated in such plans are allowed to continue their participation as long as they remain enrolled in their current retirement plans. In such cases, CFPB pays any employer contributions. Employees who elect to enroll in the Federal Reserve retirement plan will not be allowed to continue their participation in either the Title 5 Thrift Savings Plan or OCC, OTS, and FDIC agency savings plans.

CFPB may also reimburse the transferring agencies for administrative costs pursuant to memoranda of understanding with the transferring agencies. These costs are reflected as expenses in CFPB's financial statements.

All other employees of CFPB

Employees hired with prior Title 5 Federal Retirement System coverage who are not transferees under the Dodd Frank Act are enrolled in the appropriate retirement programs administered by OPM – CSRS, CSRS Offset, or FERS. These employees also have the option, within one year of appointment, to enroll in the Federal Reserve System retirement plans. CFPB will begin providing employees the opportunity to enroll in the Federal Reserve retirement system plans beginning in November 2011. For those employees electing to enroll in the Federal Reserve System retirement plans, the enrollment will become effective at the beginning of the pay period following receipt of their written election decision. Employees that were hired from the private sector, with no previous coverage under a Title 5 retirement plan, are automatically enrolled in the Federal Reserve System's retirement plans. CFPB pays the employer's contribution into those plans.

Pension/Retirement Plans for CFPB Employees

Name	Administering Agency
Federal Reserve System Retirement Plan	Federal Reserve System
Federal Reserve System Thrift Plan	Federal Reserve System
Pension Enhancement Plan for Officers of the Board of Governors of the Federal Reserve System[1]	Federal Reserve System
Retirement Plan for Employees of the Federal Reserve System Benefits Equalization Plan[1]	Federal Reserve System
Retirement Plan for Employees of the Federal Reserve System Benefits Equalization Plan for Section 415 Excess Benefits[1]	Federal Reserve System
Thrift Plan for Employees of the Federal Reserve System Benefits Equalization Plan[1]	Federal Reserve System
Civil Service Retirement System (CSRS)	OPM
CSRS Offset	OPM
Federal Employees' Retirement System (FERS)	OPM
Thrift Savings Plan	Federal Retirement Thrift Investment Board
FDIC Savings Plan	FDIC
OCC 401(k)	OCC
OTS 401(k)	OCC
OTS Deferred Compensation Plan	OCC
Pentegra Defined Benefit Plan (OTS)	OCC (administration is through Pentegra)

[1] This retirement program does not have any CFPB participants for fiscal year 2011.

The Bureau does not have a separate pension or retirement plan distinct from the plans described above. CFPB expenses its contributions to the retirement plans of covered employees as the expenses are incurred. CFPB reported imputed (unfunded) costs with respect to retirement plans (OPM and OCC administered), health benefits and life insurance (OPM administered) pursuant to guidance received from OPM and OCC. These costs are paid by OPM and OCC and not by CFPB. Disclosure is intended to provide information regarding the full cost of CFPB's program in conformity with generally accepted accounting principles.

The Bureau recognizes the employer's contributions for the retirement plans administered by the Federal Reserve. The Bureau however is responsible for transferring the employer's and employee's contributions to the Federal Reserve. The FRBNY records the full costs and liability and pays for the retirement plans on behalf of the Federal Reserve System and CFPB.

P. Commitments and Contingencies

A commitment is a preliminary action that will ultimately result in an obligation to the U.S. government if carried through, such as purchase requisitions or unsigned contracts.

A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an entity that will ultimately be resolved when one or more future confirming events occur or fail to occur. The future confirming event or events are more likely than not to occur, with the exception of pending or threatened litigation and unasserted claims. For pending or threatened litigation and unasserted claims, the future confirming event or events are likely to occur. In accordance with Statement of Federal Financial Accounting Standards No. 5, *Accounting for Liabilities of the Federal Government*, contingent future outflows or other sacrifices of resources as a result of past transactions or events may be recognized, may be disclosed, or may not be reported at all, depending on the circumstances. Contingencies should be recognized as a liability when a past transaction or event has occurred, a future outflow or other sacrifice of resources is probable, and the related future outflow or sacrifice of resources is measurable. A contingent liability should be disclosed if any of the conditions for liability recognition are not met and there is a reasonable possibility that a loss or an additional loss may have been incurred. Disclosure should include the nature of the contingency and an estimate of the possible liability, an estimate of the range of the possible liability, or a statement that such an estimate cannot be made.

NOTE 2. FUND BALANCE WITH TREASURY

Fund Balance with Treasury account balances as of September 30, 2011, were as follows:

(In Dollars)		2011
Fund Balance:		
Special Fund	$	18,673,308
Total	$	18,673,308
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	$	47,719,902
Unavailable		-
Obligated Balance Not Yet Disbursed		51,583,044
Investments (at Cost) (See Note 3)		(80,297,617)
Cash Held in the Bureau Fund at the Federal Reserve (See Note 4)		(332,021)
Total	$	18,673,308

Unobligated Balance Available represents the amount of budget authority that can be used to enter into new obligations. This amount, or a portion thereof, may be administratively dedicated for specific purposes that have not yet been obligated. The Obligated Balance Not Yet Disbursed represents amounts designated for payment of goods and services ordered but not received or goods and services received but for which payment has not yet been made.

NOTE 3. INVESTMENTS

As discussed further in Note 4, the Board of Governors at the discretion of the CFPB can invest the portion of the Bureau Fund that is not, in the judgment of the Bureau, required to meet the current needs of the Bureau. When directed by CFPB, the FRBNY will utilize the funds available to purchase investments on the open market. CFPB only invests in three month U.S. Treasury bills. The market value is determined by the secondary U.S. Treasury market and represents the value an individual investor is willing to pay for these securities, as of September 30, 2011.

Investments as of September 30, 2011 consist of the following:

(In Dollars)	Cost	Amortization Method	Amortized (Premium) Discount	Investments Net	Market Value Disclosure
Intragovernmental Securities:					
Marketable	$80,297,617	Straight-Line	$ 1,189	$ 80,298,806	$ 80,297,603
Total	$80,297,617		$ 1,189	$ 80,298,806	$ 80,297,603

NOTE 4. CASH AND OTHER MONETARY ASSETS

CFPB has both cash and investments held outside of Treasury. When transfers are made from the Board of Governors to CFPB, the funds are deposited into an account held within the FRBNY referred to as the Bureau Fund. The account has a required minimum balance of $250,000 and any funds in excess of this minimum are invested in Treasury securities in increments of $100,000 by the FRBNY utilizing an automatic investment process. CFPB requests cash disbursement from the Bureau Fund to the CFPB's Fund Balance with Treasury based on projections of future expenditures.

Funds obtained by, transferred to, or credited to the Bureau Fund are immediately available to CFPB and under the control of the Director, and shall remain available until expended, to pay for the expenses of the Bureau in carrying out its duties and responsibilities. Funds obtained by or transferred to the Bureau Fund shall not be construed to be Government funds or appropriated monies. These funds are not subject to apportionment for purposes of chapter 15 Title 31, United States Code, or under any other authority.

Account balance as of September 30, 2011:

(In Dollars)	2011
Cash	
Cash Held in the Bureau Fund at the Federal Reserve	$ 332,021
Total Cash and Other Monetary Assets	$ 332,021

NOTE 5. PROPERTY, EQUIPMENT and SOFTWARE, NET

Schedule of Property, Equipment, and Software as of September 30, 2011:

Major Class (In Dollars)	Acquisition Cost	Accumulated Amortization/ Depreciation	Net Book Value
Equipment	$ 997,719	$ 108,490	$ 889,229
Internal Use Software	978,872	97,887	880,985
Total	$ 1,976,591	$ 206,377	$ 1,770,214

NOTE 6. ADVANCES AND PREPAYMENTS

Advances and Prepayment balance as of September 30, 2011 were as follows:

(In Dollars)	2011
With the Public	
Advances and Prepayments	$ 14,689,107
Total Public Advances and Prepayments	$ 14,689,107

The prepayment primarily represents a payment of $14.4 million to the Federal Reserve System for the Federal Reserve System retirement plans to cover the time in service for employees transferred to CFPB under Section 1064 of the Dodd-Frank Act who were previously covered by an OPM or OTS retirement plan. Pursuant to Section 1064 of the Dodd-Frank Act, employees transferred to CFPB may enroll in the Federal Reserve System Retirement Plan and Federal Reserve System Thrift Plan. If the transferred employee chooses to enroll in these plans, CFPB has to transfer to the Federal Reserve System Retirement Plan an amount determined by the Board of Governors in consultation with CFPB to reimburse the Federal Reserve System Retirement Plan for the costs of providing the transferred employees' benefits under this plan. The $14.4 million payment was based on a projection of CFPB employees likely to enroll in the Federal Reserve System Retirement Plan. A memorandum of understanding between the Board of Governors and the Bureau established that the Board of Governors would provide the Bureau a final cost estimate for this payment by September 30, 2014. This prepayment represents the amount agreed to by the Board of Governors and Bureau to fund the Federal Reserve Plan Trust until the final cost estimate is complete. The amount is calculated using actuarial assumptions. Other prepayments include subscriptions and other miscellaneous items.

NOTE 7. OTHER LIABILITIES

Other liabilities as of September 30, 2011 consist of the following:

(In Dollars)		Total
Intragovernmental Liabilities		
Payroll Taxes Payable	$	257,336
Benefits Payable		894,041
Total Intragovernmental Liabilities	$	1,151,377
With the Public		
Employee Withholdings	$	14,536
Employer Benefits Contributions		817,293
Accrued Funded Payroll		4,315,674
Unfunded Leave		3,982,285
Total Public Liabilities	$	9,129,788

All other liabilities are considered current liabilities.

NOTE 8. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources as of September 30, 2011 consists of unfunded leave of $3,982,285.

NOTE 9. COMMITMENTS AND CONTINGENCIES

As described in Note 6, CFPB is responsible for reimbursing the Federal Reserve Retirement Plan for certain costs related to employees, transferred to CFPB under Section 1064 of the Dodd Frank Act, that enroll in the Plan. As described in note 1.O. employees will be given the opportunity to elect to enroll into the Plan from January 21, 2012 to January 20, 2013, therefore the number of employees that will elect to enroll in the Plan is not known as of September 30, 2011. Consequently, a contingent liability and related expense are not recognized as of September 30, 2011, because the amount to be reimbursed is not measurable.

NOTE 10. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental costs and intragovernmental exchange revenue represent goods and services provided between two reporting entities within the Federal government, and are in contrast to those with non-federal entities (the public). Such costs and revenue are summarized as follows:

By Program

(In Dollars)		2011
Consumer Education and Engagement (Including Response Center)		
Intragovernmental Costs	$	9,947,744
Public Costs		12,883,894
Total Program Costs		22,831,638
Net Consumer Education and Engagement Cost	$	22,831,638
Research, Markets, and Regulations		
Intragovernmental Costs	$	6,747,223
Public Costs		8,738,715
Total Program Costs		15,485,938
Net Research, Markets, and Regulations Cost	$	15,485,938
Supervision, Enforcement, Fair Lending and Equal Opportunity		
Intragovernmental Costs	$	20,482,699
Public Costs		26,528,319
Total Program Costs		47,011,018
Net Supervision, Enforcement, Fair Lending and Equal Opportunity Cost	$	47,011,018
Total Intragovernmental Costs	$	37,177,666
Total Public Costs		48,150,928
Total Program Costs		85,328,594
Less: Total Public Earned Revenue		-
Total Program Net Cost	$	85,328,594

NOTE 11. BEGINNING BALANCES

CFPB was established on July 21, 2010 and had minimal activity in fiscal year 2010, which related primarily to an initial fund transfer received from the Federal Reserve Bank.

All amounts are for the period ended September 30, 2010:

(In Dollars)		2011
Funds Received from Federal Reserve	$	18,400,000
Operating Costs		(143,345)
Cumulative Results of Operations	$	18,256,655
Funds Available for Obligation	$	18,400,000
Obligations Incurred		(9,200,000)
Unobligated Balance	$	9,200,000

NOTE 12. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

All obligations incurred are characterized as Category C, Exempt from Apportionment (i.e. not apportioned), on the Statement of Budgetary Resources. Obligations incurred and reported in the Statement of Budgetary Resources in fiscal year 2011 consisted of the following:

(In Dollars)		2011
Direct Obligations, Category C	$	123,329,760
Total Obligations Incurred	$	123,329,760

NOTE 13. UNDELIVERED ORDERS AT THE END OF THE PERIOD

Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, states that the amount of budgetary resources obligated for undelivered orders at the end of the period should be disclosed. CFPB's Undelivered Orders represent obligated amounts designated for payment of goods and services ordered but not received.

Undelivered Orders as of September 30, 2011 were $36,267,469.

NOTE 14. RECONCILIATION OF NET COST TO BUDGET

CFPB has reconciled its budgetary obligations and non-budgetary resources available to its net cost of operations for the year ended September 30, 2011.

(In Dollars)	2011
Resources Used to Finance Activities:	
Budgetary Resources Obligated	
Obligations Incurred	$ 123,329,760
Less: Spending Authority From Offsetting Collections and Recoveries	-
Less: Offsetting Receipts	-
Net Obligations	123,329,760
Other Resources	
Imputed Financing From Costs Absorbed By Others	1,693,752
Total Resources Used to Finance Activities	125,023,512
Resources Used to Finance Items Not Part of the Net Cost of Operations:	
Change In Budgetary Resources Obligated For Goods, Services and Benefits Ordered But Not Yet Provided	(41,899,921)
Resources That Finance the Acquisition of Assets	(1,976,591)
Total Resources Used to Finance Items Not Part of Net Cost of Operations	(43,876,512)
Total Resources Used to Finance the Net Cost of Operations	81,147,000
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:	
Components Requiring or Generating Resources in Future Periods	
Increase In Annual Leave Liability	3,982,285
Components Not Requiring or Generating Resources	
Depreciation and Amortization	206,377
Other	(7,068)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources In The Current Period	4,181,594
Net Cost of Operations	$ 85,328,594

NOTE 15. PRESIDENT'S BUDGET

Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, requires explanations of material differences between amounts reported in the Statement of Budgetary Resources and the actual balances published in the Budget of the United States Government (President's Budget). However, the President's Budget that will include fiscal year 2011 actual budgetary execution information has not yet been published. Therefore the reconciliation of fiscal year 2011 balances will be reported next year since CFPB is a first-year entity.

Appendix I: Management's Report on Internal Control over Financial Reporting

Consumer Financial Protection Bureau

1801 L Street NW, Washington, DC 20036

November 9, 2011

Comptroller General of the United States
441 G Street, NW
Washington, DC 20548

Dear Mr. Dodaro,

As required by § 1017 of the Dodd-Frank Act, 12 U.S.C. § 5497(a)(4)(D), the Consumer Financial Protection Bureau (CFPB) provides this management assertion regarding the effectiveness of internal controls that apply to financial reporting by the CFPB using the standards established in section 3512(c) of Title 31, United States Code (commonly known as the Federal Managers' Financial Integrity Act).

The CFPB internal controls over financial reporting are processes implemented by those charged with governance, by management, and by other personnel. The objectives of the internal control are to provide reasonable assurance that transactions are 1) properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition and 2) executed in accordance with laws governing the use of budget authority and other laws that could have a direct and material effect on the financial statements.

CFPB management is responsible for establishing and maintaining effective internal controls over financial reporting. The CFPB conducted its assessment of the effectiveness of these internal controls based on the criteria required by the Dodd-Frank Act. Based on this evaluation, the CFPB can provide reasonable assurance that its internal controls over financial reporting as of September 30, 2011 were operating effectively and that no material weaknesses were found in the design or operation of these internal controls.

Raj Date
Special Advisor to the Secretary of the Treasury
for the Consumer Financial Protection Bureau

Stephen Agostini
Chief Financial Officer
Consumer Financial Protection Bureau

Freddy Velez
Acting Deputy Chief Financial Officer
Consumer Financial Protection Bureau

consumerfinance.gov

Appendix II: Comments from the Bureau of Consumer Financial Protection

Consumer Financial Protection Bureau

1801 L Street NW, Washington, DC 20036

November 9, 2011

Mr. Steven J. Sebastian
Director, Financial Management and Assurance
Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Sebastian,

I appreciate the opportunity to respond to the Government Accountability Office's (GAO) draft audit report titled, *Financial Audit: Bureau of Consumer Financial Protection's Fiscal Year 2011 Financial Statements (GAO-12-186)*, and want to thank you and your staff for your dedicated efforts and for working with us to meet the audit requirements in the short time available.

We are pleased that, in this first full fiscal year, GAO's auditors rendered an "unqualified" or "clean" audit opinion, which means they found that the CFPB financial statements are presented fairly, in all material respects, and in conformity with U.S. generally accepted accounting principles; that CFPB maintained, in all material respects, effective internal control over financial reporting; and that there were no instances of reportable noncompliance with laws and regulations tested by GAO.

This first year was challenging for the CFPB, and I am proud of how we have met that challenge. Our primary goal was the establishment and standing-up of CFPB operations one year after enactment of the Dodd-Frank Act. It took considerable effort to achieve this goal – from developing an organization structure, to hiring personnel, to establishing required support structures. Obtaining an unqualified audit opinion in CFPB's first full fiscal year is a true testament to the efforts of the CFPB management and staff.

In fiscal year 2012, the CFPB will continue to work to enhance our internal controls and ensure the reliability of CFPB's financial reporting, operating performance, and public confidence in the Bureau's work. The CFPB looks forward to working with GAO in future audits and truly appreciates GAO's work over the past fiscal year.

If you have any questions relating to this response, please contact Freddy Vélez, Acting Deputy Chief Financial Officer.

Raj Date
Special Advisor to the Secretary of the Treasury
for the Consumer Financial Protection Bureau

consumerfinance.gov

(196237)

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Congressional Relations	Ralph Dawn, Managing Director, dawnr@gao.gov, (202) 512-4400 U.S. Government Accountability Office, 441 G Street NW, Room 7125 Washington, DC 20548
Public Affairs	Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800 U.S. Government Accountability Office, 441 G Street NW, Room 7149 Washington, DC 20548

Testimony Before Congress by CFPB Officials

1. **March 16, 2011**: Elizabeth Warren before the House Financial Services Subcommittee on Financial Institutions and Consumer Credit
2. **April 12, 2011**: Holly Petraeus before the Senate Homeland Security & Governmental Affairs Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia
3. **May 24, 2011**: Elizabeth Warren before the House Oversight and Government Reform Subcommittee on TARP, Financial Services and Bailouts of Public and Private Programs
4. **July 7, 2011**: Raj Date before the House Financial Services Subcommittees on Financial Institutions and Consumer Credit and Oversight and Investigations
5. **July 13, 2011**: Kelly Cochran before the House Financial Services Subcommittee on Insurance, Housing and Community Opportunity
6. **July 14, 2011**: Elizabeth Warren before the House Oversight and Government Reform Committee
7. **July 28, 2011**: Dan Sokolov before the House Small Business Subcommittee on Investigations, Oversight and Regulations
8. **September 6, 2011**: Richard Cordray Nomination Hearing before the Senate Banking Committee
9. **November 2, 2011**: Raj Date before the House Financial Services Subcommittee on Financial Institutions and Consumer Credit
10. **November 3, 2011**: Holly Petraeus before the Senate Banking Committee
11. **November 15, 2011**: Skip Humphrey before the Senate Banking Subcommittee on Financial Institutions and Consumer Protection
12. **January 24, 2012:** Richard Cordray before the House Oversight and Government Reform Subcommittee on TARP, Financial Services and Bailouts of Public and Private Programs
13. **January 31, 2012**: Richard Cordray before the Senate Banking Committee
14. **February 15, 2012**: Richard Cordray before the House Financial Services Subcommittee on Oversight and Investigations

February 15, 2012
House Financial Services Subcommittee on Oversight and Investigations
Questions for the Record for Director Richard Cordray, Consumer Financial Protection Bureau

The Honorable Michael Grimm

Q: I would like to know specifically what CFPB is doing, either alone or in partnership with the DoEd, to advance its consumer protection function to ensure that families financing higher education costs are informed consumers through access to the necessary products, information and interactive tools required to make wise college financing decisions?

The Consumer Financial Protection Bureau has launched a series of initiatives to ensure that students and families financing higher education costs understand their options, and that private student loan borrowers have a place to turn when things don't go according to plan.

In partnership with the Department of Education, the CFPB released a draft "Financial Aid Shopping Sheet," which is a prototype of important financial aid information that colleges could provide to students and their families, including information about monthly debt payment levels after graduation. Tens of thousands of Americans viewed this shopping sheet. We shared feedback with the Department of Education to assist with their development of a model financial aid offer form.

The CFPB also launched a Student Debt Repayment Assistant, an interactive tool which thousands of Americans have already used to help navigate their repayment options on both their federal and private student loans.

While borrowers of federal student loans have had a single place to turn with complaints or questions, until recently, borrowers of private student loans have not. The Dodd-Frank Wall Street Reform and Consumer Protection Act establishes a Private Education Loan Ombudsman within the CFPB to assist borrowers with complaints regarding their private education loans. The Secretary of the Treasury designated Rohit Chopra to serve in this role.

The Private Education Loan Ombudsman signed a memorandum of understanding with the Department of Education to cooperate on assisting borrowers with student loan complaints. In early March, the CFPB began taking complaints from individual private student loan borrowers, including complaints related to taking out a private student loan, repaying the loan, or managing a loan that has gone into default and may have been referred to a debt collector.

The CFPB also published a Notice and Request for Information in the Federal Register to ask students, lenders, servicers, schools, and other members of the public to share their experiences with the private student loan market. The CFPB received thousands of comments from consumers, industry, and the higher education community, which will be analyzed as part of a report to Congress on the private student loan market, to be released later this summer. The report will include recommendations necessary to improve consumer protections for private education loan borrowers and to better enable federal regulators and the public to ascertain private educational lender compliance with federal consumer financial protection laws.

Office of the Comptroller of the Currency

FY 2013

President's Budget Submission

Table of Contents

Section 1 – Purpose

1A – Mission Statement

To assure the safety and soundness of, and compliance with laws and regulations, fair access to financial services, and fair treatment of customers by national banks and federal savings associations

1.1 – Resource Detail Table

Dollars in Thousands

	FY 2011 Actual/1		FY 2012 Estimated/2		FY 2013 Estimated/2		% Change FY 2012 to FY 2013	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
Budgetary Resources:								
Revenue/Offsetting Collections								
Assessments		$864,524		$967,400		$986,748		2.00%
Interest		$21,153		$16,800		$17,136		2.00%
Other Income		$9,828		$22,200		$22,644		2.00%
Total Revenue/Offsetting Collections		**$895,505**		**$1,006,400**		**$1,026,528**		**2.00%**
Unobligated balances, Start of year		$847,259		$1,163,000		$801,000		(31.13%)
Unobligated balance transferred		$245,034						
Total Budgetary Resources Available		**$1,987,798**		**$2,169,400**		**$1,827,528**		**(15.76%)**
Expenses/Obligations								
Supervise	2,740	$707,845	3,280	$1,052,200	3,345	$942,000	2.00%	(10.47%)
Regulate	334	$95,699	445	$142,800	454	$127,870	2.00%	(10.45%)
Charter	76	$21,450	97	$31,079	99	$27,830	2.00%	(10.45%)
Total Expenses/Obligations/3	**3,150**	**$824,994**	**3,822**	**$1,226,079**	**3,898**	**$1,097,700**	**2.00%**	**(10.47%)**
Net Results		**$1,162,804**		**$943,321**		**$729,828**		**(22.63%)**

(1) Effective July 21, 2011, the OCC assumed responsibility for regulating federal savings associations.
(2) FY 2012 and FY 2013 estimates include the cost of regulating the national banks and federal savings associations.
(3) Estimates of total budgetary obligations in FY 2012 do not match those presented in the President's Budget due to inclusion of the OTS Public Enterprise Fund, which was included in error.

1B – Mission Priorities and Context

The Office of the Comptroller of the Currency (OCC) was created by Congress to charter national banks, oversee a nationwide system of banking institutions, and ensure national banks are safe and sound, competitive and profitable, and capable of serving in the best possible manner the banking needs of their customers. Effective on July 21, 2011, Title III of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), transferred to OCC responsibility for the supervision of federal savings associations (thrifts) and rulemaking authority for all savings associations.

The OCC supervises 1,400 national bank charters and 48 federal branches of foreign banks in the United States with total assets of approximately $8.9 trillion as of September 30, 2011. Effective July 21, 2011, with the OCC/Office of Thrift Supervision (OTS) integration, the OCC assumed supervisory responsibility of 637 federal savings associations, which include 216 mutuals, with total assets of over $922 billion. The average size and complexity of the institutions in the national banking system continue to grow. This, combined with the OCC's supervision of federal savings associations and responsibility for the Home Owners' Loan Act, creates increasing and diverse challenges for the OCC.

The OCC has established four strategic goals outlined in its strategic plan that help support a strong economy for the American public: 1) A safe and sound system of national banks and federal savings associations; 2) Fair access to financial services and fair treatment of national bank and federal savings association customers; 3) A flexible legal and regulatory framework that enables national banks and federal savings associations to provide a full, competitive array of financial services consistent with statutory and prudential safety and soundness constraints; and 4) A competent, highly motivated, and diverse workforce that makes effective use of OCC resources. The OCC organizes its activities under three programs: 1) Supervise, 2) Regulate, and 3) Charter, to achieve its goals and objectives. Effective supervision, supported by a comprehensive regulatory framework, are the key tools the OCC uses to ensure that national banks and federal savings associations operate in a safe and sound manner and that they provide fair access to financial services and fair treatment of their customers. A robust chartering program allows new entry into the financial services sector while ensuring that such new entrants have the necessary capital, managerial, and risk management processes to conduct activities in a safe and sound manner.

The OCC's priorities focus on strengthening the resiliency of the institutions subject to its jurisdiction through our supervisory and regulatory programs and activities. A stronger and more resilient banking system directly supports the Department of the Treasury's (Treasury) strategic goals to: 1) Continue to repair and reform the financial system and support the recovery of the housing market; 2) Enhance U.S. competitiveness and promote international financial stability and balanced global growth; 3) Protect our national security through targeted financial actions; 4) Pursue comprehensive tax and fiscal reform; and 5) Manage the government's finances in a fiscally responsible manner.

Through on-site examinations, the OCC works to ensure that national banks and federal savings associations appropriately identify, account for, and follow prudent strategies for problem assets; and instill a strong corporate governance culture that fosters sound loan underwriting standards, properly aligned incentive compensation structures, and strong internal controls, risk management, and compliance functions. Other supervisory priorities will be identifying and resolving potential problem banks at the earliest possible stage; encouraging national banks and federal savings associations to meet the needs of creditworthy borrowers, including appropriate and effective residential mortgage modification programs; ensuring that institutions comply with the Community Reinvestment Act (CRA), the Bank Secrecy Act/Anti-Money Laundering (BSA/AML), and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act requirements and that they maintain strong controls and risk management processes for information security; and further enhancing the OCC's supervisory analytical tools.

Operations are funded primarily (approximately 97 percent) from semiannual assessments levied on national banks, and federal savings associations. Revenue from investments in Treasury securities and other income comprise the remaining three percent of the OCC's funding. The OCC does not receive congressional appropriations to fund any portion of its operations.

Supervisory Activities
The OCC has various ways to influence the banking system: 1) Policy guidance and regulations that set forth standards for sound banking practices; 2) On-site examinations and ongoing off-site monitoring that enable the OCC to assess compliance with those standards and to identify emerging risks or trends; and 3) A variety of supervisory and enforcement tools – ranging from matters requiring board's and management's attention to informal and formal enforcement actions – that are used to obtain corrective action to remedy weaknesses, deficiencies, or violations.

The OCC supervisory activities in FY 2011 centered on evaluating and strengthening the quality of banks' risk management to identify, measure, monitor, and control the build-up of risk, both on and off-balance sheet. A primary focus of on-site supervisory activities was the quality of banks' credit risk management practices, as evidenced by effective credit risk rating systems and problem loan identification, adequate loan loss reserves in light of deteriorating credit quality, and effective loan work-out strategies. The OCC continues to encourage lenders to work with creditworthy borrowers who may be facing financial difficulties. Other areas of emphasis were sound interest rate risk and liquidity risk management, with diversified funding sources and realistic contingency funding plans, and strengthening capital buffers to address further earnings pressures and asset quality deterioration. While assessing credit quality, adequacy of loan loss reserves, liquidity, capital, and risk management practices have been and continue to be the OCC's primary focus, the OCC is cognizant of the continuing need to address supervisory issues in the areas of fair lending, consumer protection, BSA/AML, and information security.

In addition to its ongoing supervisory activities, the OCC undertook the following initiatives in FY 2011:

- *Integration of OTS Supervisory Responsibilities:* Much of the OCC's activities during FY 2011 focused on ensuring a smooth transition. During fourth quarter of FY 2011, the integration of OTS staff was successfully completed and the supervision of federal savings associations was integrated into the OCC's bank supervision operations. The integration efforts are now focused on coordinating and consolidating the various rules and policies that apply to national banks and federal savings associations. As part of this effort, the OCC is undertaking a comprehensive, multi-phased review of the OCC and OTS regulations to eliminate duplication and reduce unnecessary regulatory burden.

- *Transfer of Functions to the Consumer Financial Protection Bureau (CFPB):* Pursuant to Section 1061 of the Dodd-Frank Act, effective July 21, 2011, the responsibility for certain consumer protection examination functions for institutions over $10 billion in assets was tranferred to the CFPB. The OCC worked closely with Treasury and CFPB staff to facilitate this transition of responsibilities and to support the creation of the CFPB.

- *Establishment of the Office of Minority and Women Inclusion (OMWI):* Pursuant to Section 342 of the Dodd-Frank Act, effective January 21, 2011, the OCC established the Office of Minority and Women Inclusion and appointed an executive director.

- *Supervisory and Enforcement Actions for Mortgage Foreclosure and Servicing Activities:* In the wake of the reported improprieties in the foreclosure processes used by several large mortgage servicers, in the Fall of 2010, the OCC initiated a horizontal, on-site review at the eight largest national bank mortgage servicers. On April 13, 2011, the OCC announced formal enforcement actions against these servicers and two third-party servicers for unsafe and unsound practices related to residential mortgage loan servicing and foreclosure processing. The enforcement actions, among other things, require the servicers to make significant improvements in practices for residential mortgage loan servicing and foreclosure processing. This process has two components—a coordinated claims process that will review cases based on borrowers' requests and a "look-back" review that will examine cases sampled by the independent consultants. For any financial injury that the reviews identify, the consent orders require financial remediation.

  In addition to these actions against specific mortgage servicers, the OCC is working with other federal regulators to develop a set of comprehensive and robust, nationally applicable mortgage servicing standards that would apply to all servicers. Work on this project will continue in FY 2012.

- *Implementation of* the *Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (S.A.F.E. Act) Registration Requirements:* The OCC led the interagency effort to implement the registration requirements of the S.A.F.E. Act. The Registry became operational for federal registrations in January 2011. The OCC worked with the CFPB to ensure a smooth transition of responsibility for the software development contract effective with the CFPB transition date.

- *Quarterly Mortgage Metrics Reporting:* The OCC's quarterly report covers approximately 63 percent of all first-lien mortgages in the United States, representing $5.7 trillion in outstanding balances. The Dodd-Frank Act amended Section 104 of the Helping Families Save Their Homes Act of 2009, which requires the OCC to provide Mortgage Metrics data to Congress separately for each state. The OCC began providing this required state-by-state information with the fourth quarter 2010 report, issued in March 2011.

- *Enhanced Real Estate Appraisals and Evaluations:* In December 2010, the OCC and other federal financial regulators issued final supervisory guidance on sound practices by financial institutions for real estate appraisals and evaluations. The agencies' guidelines emphasize the importance of institutions maintaining strong internal controls to ensure reliable appraisals and evaluations. The guidelines also remind institutions of the need to monitor and periodically update valuations of collateral for existing real estate loans and for transactions, such as modifications and workouts, according to the guidelines.

- *Enhanced Practices for Sound Risk Model Management:* Banks routinely use models for a broad range of activities, including underwriting credit; valuing exposures, instruments, and positions; measuring risk; managing and safeguarding client assets; and determining capital and reserve adequacy. To address observed weaknesses and strengthen practices, in April 2011, the OCC and Federal Reserve Board (FRB) of Governors issued *Supervisory Guidance on Model Risk Management*. This guidance articulates the elements of a sound program for effective management of risks that arise when using quantitative models in bank decision making. It also provides guidance to OCC examining personnel and financial institutions on prudent model risk management policies, procedures, practices, and standards.

- *Enhanced Practices for Customer Authentication in Internet Banking Environment:* Financial institutions and their customers are subject to increasingly sophisticated attacks on the security of their financial data and transactions. In June 2011, the OCC and other federal financial regulators issued supplemental guidance to the industry on authentication practices for Internet banking transactions. The guidance updates the agencies' expectations regarding customer authentication, layered security, or other controls in the increasingly hostile online environment.

- *Effective Counterparty Risk Management:* Counterparty Credit Risk (CCR) arises in derivative transactions and is the risk that the counterparty to a transaction could default or deteriorate in creditworthiness before the final settlement of a transaction's cash flows. The financial crisis revealed weaknesses in CCR management at many banks. In response to these weaknesses, the OCC and other federal banking agencies issued guidance in July 2011 to set forth expectations for effective CCR management. The guidance stresses the importance of sound corporate governance and also covers risk management and measurement issues to effectively identify and control these risk exposures.

Enforcement Activities

As needed, the OCC uses its enforcement authority to address safety and soundness violations and noncompliance with laws and regulations. In addition to the enforcement actions for mortgage foreclosure and servicing activities described previously, the OCC and OTS issued 184 enforcement actions against financial institutions and 240 enforcement actions against individuals in FY 2011. Significant actions included:

- A settlement with Woodforest National Bank, The Woodlands, Texas, that required the bank to pay approximately $32 million in reimbursement to consumers who were harmed by the bank's overdraft program, plus a Civil Money Penalty (CMP) of $1 million. The bank agreed to change its overdraft program in order to correct any violations of law. The OCC concluded that the bank engaged in unfair or deceptive practices that violated the Federal Trade Commission (FTC) Act. Specifically, the bank assessed excessive amounts of overdraft fees and improperly assessed recurring fees, or "continuous overdraft fees" against certain consumers.

- A Formal Agreement against Bank of America, N.A., Charlotte, North Carolina, requiring payment of restitution plus prejudgment interest ($9.2 million to 38 municipalities and non-profit organizations) and Formal Agreement against JPMorgan Chase requiring payment of restitution plus prejudgment interest ($13 million to 48 such counterparties) and CMP of $22 million in connection with a scheme to rig bids and fix prices in the sale of derivative products to municipalities. Settlement also resulted in multi-million dollar global settlements with the Department of Justice, Internal Revenue Service, Securities and Exchange Commission, FRB and 25 State Attorneys General.

- A Cease and Desist Order against HSBC Bank USA, N.A., McLean, Virginia, for violating the Bank Secrecy Act, concurrent with a Board of Governors of the Federal Reserve System Cease and Desist Order upon Consent with the bank's parent company, HSBC North America Holdings, Inc.

- Assessment of CMPs against Zions First National Bank, Salt Lake City, Utah and Pacific National Bank, Miami, Florida for unrelated violations of the Bank Secrecy Act and USA PATRIOT Act.

- Assessment of a CMP against JPMorgan Chase Bank, N.A., related to the marketing and sale of a credit protection product by Chase Auto Finance, a division of the Bank. The OCC found that Chase Auto used written scripts together with oral high-pressure sales tactics that included statements which were materially false, deceptive or otherwise misleading in violation of the FTC Act. The bank took remedial actions to correct violations of law and/or other deficient practices, including distributing nearly $25 million to affected customers.

Regulatory Activities
The OCC devoted a significant amount of resources in FY 2011 to regulatory activities relating to implementation of the Dodd-Frank Act, including preparation of studies, interagency consultation, issuance of rulemaking proposals, and support of the Acting Comptroller's participation on the Financial Stability Oversight Council.

The OCC's strategic objectives emphasize regulatory oversight practices that support national banks' and federal savings association's ability to compete while maintaining safety and soundness. During FY 2011, the OCC issued legal interpretations allowing its regulated institutions to support the value of foreclosed properties and contribute to community economic stability. The OCC will continue its legal work of analysis and interpretation of national bank powers and authorities during FY 2012. This work is being carried forward to include the federal savings association industry.

Charter Activities
In FY 2011, the OCC issued 1,382 corporate licensing decisions, with a 97 percent on time rate. In order to address potential safety and soundness problems before they arise, the OCC may impose conditions upon bank transaction approvals covering, for example, capital and liquidity arrangements and deviations from business plans. In FY 2011, the OCC continued to experience a significant share of applications involving resolution of problem financial institutions.

FY 2012 and 2013 Priorities
A major focus of the OCC's supervisory, regulatory, and administrative programs in FY 2012 and 2013 will be implementing applicable provisions of the Dodd-Frank Act and the enhanced capital framework under Basel III. Work will also continue to fully integrate the applicable regulatory, supervisory policy and examination platforms for national banks and federal savings associations and to ensure that these institutions comply with applicable new statutory and regulatory requirements. Priorities and activities include the following:

- Conduct examinations based on the risk profile of individual national banks and federal savings associations to ensure they are safe and sound, sufficiently capitalized, and comply with consumer protection laws and regulations[1];

- Assess the adequacy of national banks and federal savings associations credit, liquidity, internal controls, compliance, and corporate governance processes and require corrective action when deficiencies or undue risk concentrations are found;

- Continue to monitor and assess the effectiveness of national bank and federal savings association mortgage servicers' loan modification and foreclosure actions, including needed actions to improve the corporate governance of their processes;

- Resolve problem national banks and federal savings associations situations effectively by identifying problems at the earliest possible stage, clearly communicating concerns and expectations to bank management through appropriate enforcement actions, and ensuring timely follow-up on needed corrective actions;

- Strengthen the credit culture across the national banking system and federal savings associations to ensure prudent underwriting standards are maintained;

- Develop and implement policies to ensure that national banks and federal savings associations establish and maintain incentive compensation policies that are consistent with principles of safety and soundness and do not encourage imprudent risk-taking;

- Work with other domestic and international supervisors to implement stronger capital and liquidity requirements and more robust risk management standards for large financial institutions;

- Enhance the OCC's ability to anticipate, identify, and respond to build-ups in risk and emerging issues through improved supervisory analytical tools, stress testing, and market intelligence capabilities;
- Combat fraud and money laundering, and protect the integrity of the financial system through national banks' and federal savings associations' compliance with the BSA/AML, USA PATRIOT Act laws and regulations;

- Work with Treasury and other federal financial regulators to implement the Dodd-Frank Act;

- Continue to support a competitive national banking and federal savings association system through entry of new charters, other bank and federal savings association structure

[1] Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Consumer Financial Protection Bureau was given the authority to supervise and examine insured depository institutions with total assets over $10 billion for compliance with federal consumer financial laws. The OCC will continue to conduct examinations to assess compliance with consumer protection issues for national banks and federal savings associations with $10 billion or less in total assets, and to examine all national banks and federal savings associations for compliance with the Bank Secrecy Act, flood insurance regulations, and the Community Reinvestment Act.

transactions, and expansion of national bank and federal savings association services and products in a safe and sound manner; and

- Maintain a highly skilled and experienced workforce by continuing efforts to identify and develop the next generation of bank supervision leadership, strengthen the breadth and depth of examiner specialty skills, and recruit and retain entry-level examiners.

Industry Outlook
The OCC and the national banking and federal savings association industry continue to operate in a highly challenging environment. While economic conditions are expected to improve in FY 2012, many institutions will continue to have significant volumes of troubled loans and borrowers that will consume resources and, for some, strain earnings and capital. In addition, the shadow inventory of distressed residential properties will continue to strain the housing market recovery. Geopolitical uncertainties and volatility in commodity prices may elevate and amplify risk exposures in the system.

National banks and federal savings associations will face heightened compliance, reputation, and strategic risks as a result of significant changes in the statutory, regulatory, and accounting requirements for various bank products, services, and transaction structures. National banks and federal savings associations will need to successfully integrate these changes into their operations and it is likely that some of these changes will foster fundamental shifts in some national banks' and federal savings associations' business models and strategic plans.

To address these challenges, the OCC will need to conduct ongoing assessments of emerging risks and the underlying condition of national banks and federal savings associations, and to prioritize and allocate resources to the areas and institutions of highest risk.

National banks and federal savings associations have endured several years of disruption to financial markets, a crisis in the mortgage sector, and now a slow recovery from a long and deep recession. The long-term trend of national bank and federal savings association consolidation is likely to continue. If national bank and federal savings association assets continue to grow at the rate of nominal Gross Domestic Product (GDP), and if GDP growth returns to its historical average over the next five years, assets could grow in the way shown in Table A which follows. In this table, estimates for the number of institutions and for share of assets at banks over $10 billion in size are based on an assumption of a continuation of trends experienced between 2000 and 2010. Trust companies and foreign branch offices are excluded from the projections because compared to national banks and federal savings associations, their growth is less closely linked to underlying economic trends.

Table A

Estimated Change	Number of Institutions		Assets	Share of Total System Assets in Institutions with Assets >$10 Billion	
	OCC Banks	OCC Thrifts	All OCC-Supervised	2010	90.5%
2010 to 2015	-23%	-15%	+28%	2015e	94.0%

e = estimated

Loan demand has been growing more slowly than usual for an economic recovery, in part because the economy as a whole has been growing much slower than as is usual after a recession. The combination of recession and financial crisis has already caused widespread deleveraging among both households and firms, cutting into the demand for loans. Although business capital spending continues to improve, banks have not seen much increase in commercial loan demand, as many firms have accumulated cash reserves, and even medium-size firms can now borrow long-term at low rates in bond markets. Most expect these trends to continue, limiting the pace of bank lending and asset growth.

Large national banks and federal savings associations will continue to dominate the industry. Financial institutions with over $10 billion in assets now account for over 90 percent of system assets. This share has been increasing, and the trend is expected to continue. There are 64 OCC-supervised institutions of this size that exist now; most observers expect this number to fall as consolidation continues.

Credit losses rose sharply during the financial crisis and recession, but are now receding for most loan categories. To shore up their positions in the aftermath of the crisis, many banks raised additional capital. The result is a stronger banking system than existed two years ago. Risks to the system include continued problems in the credit markets, and a slower than normal economic recovery, which could lead to lower than expected growth in revenues.

Section 2 – Budget Adjustments and Appropriation Language

2.2 – Operating Levels Table

Dollars in Thousands

Office of Comptroller of the Currency	FY 2011 Actual/1	FY 2012 Estimated/2/3	FY 2013 Estimated/2
FTE	3,150	3,822	3,898
Object Classification			
11.1 - Full-time permanent	$382,144	$472,904	$493,086
11.3 - Other than full-time permanent	9,508	12,030	12,545
11.5 - Other personnel compensation	2,729	2,750	2,867
11.9 Personnel Compensation (Total)	**$394,381**	**$487,684**	**$508,498**
12.0 - Personnel benefits	173,529	302,027	229,027
13.0 - Benefits for former personnel	263	195	195
21.0 - Travel and transportation of persons	48,165	65,062	68,285
22.0 - Transportation of things	2,214	3,790	2,186
23.1 - Rental payments to GSA	2,705	2,773	3,650
23.2 - Rental payments to others	38,511	49,845	65,611
23.3 - Communication, utilities, and misc charges	8,297	12,607	16,594
24.0 - Printing and reproduction	745	862	800
25.1 - Advisory and assistance services	30,334	42,148	40,158
25.2 - Other services	16,600	24,083	22,946
25.3 - Other purchases of goods and services from Govt. accounts	9,599	13,485	12,848
25.4 - Operation and maintenance of facilities	5,204	16,969	16,168
25.7 - Operation and maintenance of equip	59,646	73,055	69,607
26.0 - Supplies and materials	7,786	8,928	9,103
31.0 - Equipment	18,917	32,801	21,841
32.0 - Land and structures	7,896	89,535	9,953
42.0 - Insurance claims and indemnities	202	230	230
Total Budget Authority	**$824,994**	**$1,226,079**	**$1,097,700**
Budget Activities:			
Supervise	707,845	1,052,200	942,000
Regulate	95,699	142,800	127,870
Charter	21,450	31,079	27,830
Total Budget Authority	**$824,994**	**$1,226,079**	**$1,097,700**

(1) Effective July 21, 2011, the OCC assumed responsibility for regulating federal savings associations.
(2) FY 2012 and FY 2013 estimates include the cost of regulating the national banks and federal savings associations.
(3) FY 2012 budget estimate contains one-time costs attributable to the Dodd-Frank Act.

2B – Appropriations Language and Explanation of Changes
The OCC receives no appropriations from Congress.

2C – Legislative Proposals
The OCC has no legislative proposals.

Section 3 – Budget and Performance Report and Plan

3A – Supervise
($1,052,200,000 from reimbursable resources):
An effective supervision program is the cornerstone of the OCC's activities that support its strategic goals. Specifically, the Supervise program consists of ongoing supervision and enforcement activities that directly support the OCC's strategic goals to 1) ensure that each national bank and federal savings association is operating in a safe and sound manner and is complying with applicable laws, rules, and regulations relative to the financial institution and the customers and communities it serves, and 2) provide fair access to financial services and fair treatment of customers. Assessing the condition and risk management practices of national banks and federal savings associations, and requiring corrective actions when weaknesses are found, directly supports Treasury's goal of repairing and reforming the financial system.

The Supervise program includes national bank and federal savings association examinations and enforcement activities; resolution of disputes through the national bank and federal savings association appeals process; ongoing monitoring of national banks and federal savings associations; and analysis of systemic risks and market trends in the national banking system or groups of national banks and federal savings associations, the financial services industry, and the economic and regulatory environment.

The goal owner for this budget activity is the Acting Comptroller of the Currency, John Walsh.

Description of Performance:
Percentage of National Banks and Federal Savings Associations with Composite CAMELS Rating of 1 or 2
The composite CAMELS (**C**apital adequacy, **A**sset quality, **M**anagement, **E**arnings, **L**iquidity, and **S**ensitivity to market risk) rating reflects the overall condition of a bank or savings association. Bank regulatory agencies use the Uniform Financial Institutions Rating System, CAMELS, to provide a general framework for evaluating all significant financial, operational, and compliance factors inherent in a national bank or federal savings association. The rating scale is 1 through 5 of which 1 is the highest rating granted. These CAMELS ratings are assigned at the completion of every supervisory cycle or when there is a significant event leading to a change in CAMELS.

The OCC has established a target outcome measure that 90 percent of the institutions under its supervision have a composite CAMELS rating of 1 or 2. Such a rating is consistent with the strategic goal of a safe and sound banking system, that banks maintain adequate capital and liquidity and have strong risk management practices. For FY 2011, 75 percent of national banks earned composite CAMELS ratings of either 1 or 2. Beginning with FY 2012, federal savings associations will be included in the performance measure. The increase in the number of national banks with less favorable composite CAMELS ratings is not unexpected at this stage of the credit cycle and reflects impaired asset quality and earnings that is affecting many institutions. Degradation in CAMELS can also reflect weaknesses in risk management systems that need corrective action. Consistent with Treasury's goal of repairing and reforming the financial system and supporting the recovery of the housing market, the OCC has instructed bank examiners to identify and seek corrective action at an earlier stage to address potential problems or weaknesses. The OCC's primary focus is to ensure that CAMELS ratings are an accurate reflection of each institution's current financial position and thus the OCC would not take action to prematurely restore a favorable CAMELS rating even though the current distribution of ratings is below the target. As national bank or federal savings association performance and asset quality improves and directed corrective actions are implemented, the OCC expects CAMELS ratings to gradually improve.

Percentage of National Banks and Federal Savings Associations that are considered Well Capitalized

The Federal Deposit Insurance Act established a system that classifies insured depository institutions into five categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized) based on their capital levels relative to their risks. The OCC has established a target outcome measure that 95 percent of national banks and federal savings associations will meet or exceed the well capitalized threshold. Beginning in FY 2012, federal savings associations will be included in the performance measure.

The economic environment and resulting increase in problem assets placed a strain on some banks' capital buffers that has resulted in levels below the OCCs' target performance measure. The OCC works closely with problem national banks and federal savings associations to develop rehabilitation plans. Such plans typically include directives to improve or restore capital levels. These efforts, combined with a more stable operating environment, have resulted in improvement in this performance goal since FY 2009. For FY 2011, 93 percent of national banks were classified as well capitalized. Beginning in FY 2012, federal savings associations will be included in the performance measure.

More broadly, the OCC is working with other regulators both domestically and internationally to strengthen capital standards and improve credit risk management practices. These actions mean that the standards for meeting the "well capitalized" threshold will become higher and may require some national banks and federal savings associations to further strengthen their capital bases. To help prepare financial institutions to meet these higher standards, the OCC and other federal regulators will publish proposed changes for notice and comment and will likely propose that the higher standards be phased in over a period of time.

Percentage of National Banks and Federal Savings Associations with Consumer Compliance Rating of 1 or 2

To ensure fair access to financial services and fair treatment of national bank and federal savings association customers, the OCC evaluates an institution's compliance with consumer laws and regulations. Bank regulatory agencies use the Uniform Financial Institutions Rating System, Interagency Consumer Compliance Rating, to provide a general framework for evaluating significant consumer compliance factors inherent in an institution. Each institution is assigned a consumer compliance rating based on an evaluation of its present compliance with consumer protection and civil rights statutes and regulations, and the adequacy of its operating systems designed to ensure continuing compliance. Ratings are on a scale of 1 through 5 of which 1 is the highest rating granted. National banks and federal savings associations continue to show strong compliance with consumer protection regulations with 94 percent of national banks earning a consumer compliance rating of either 1 or 2 for FY 2011. Under the Dodd-Frank Act, this rating will now change to those institutions with total assets of no more than $10 billion for which the OCC has enforcement and supervisory authority. Beginning in FY 2012 federal savings associations will be included in the performance measure and the target for FY 2012 and 2013 will remain unchanged at 94 percent.

Rehabilitated National Banks and Federal Savings Associations as a percentage of problem of National Banks and Federal Savings Associations One Year Ago
Problem national banks and federal savings associations ultimately can reach a point at which rehabilitation is no longer feasible. The OCC's early identification and intervention with problem financial institutions can lead to a successful remediation. For FY 2011, 22 percent of national banks with composite CAMELS ratings of 3, 4, or 5 one year ago have improved their ratings to either 1 or 2 this year. As with the other measures, this target has been adversely affected by the underlying economic conditions facing the banking industry and is below the OCC's target of 40 percent. The number of serious problem financial institutions, where successful resolution is more difficult, has increased. In addition, the sharp contraction in certain segments of the economy, including the real estate sector, has resulted in a more rapid deterioration in some institutions' financial condition. Under the Dodd-Frank Act, the OCC assumed responsibility on July 21, 2011 for the supervision of federal savings associations. Federal savings associations will be incorporated into this measure in the future.

As has been previously noted, the OCC is taking a number of steps through its Supervise and Regulate programs to repair and make national banks and federal savings associations more resilient to financial stresses and to identify and obtain corrective action at an earlier stage, when problems can be most successfully addressed. These efforts include heightened capital and liquidity standards and increased emphasis on the need for stress testing, designed to provide financial institutions with stronger capital buffers to withstand unforeseen events. These are multi-year efforts that will continue in FY 2012. The OCC is also updating its guidance and strengthening its expectations with regard to credit concentrations. Such concentrations were a major contributing factor to many, if not most of the recent problem national banks reflected in this measure. As these efforts progress and the operating condition for the financial sector improves, this performance measure is likely to improve to the target level.

Total OCC Costs Relative to Every $100,000 in National Bank and Federal Savings Association Assets Regulated
Beginning in FY 2006, the OCC implemented a performance measure that reflects the efficiency of its operations while meeting the increasing supervisory demands of a growing and more complex national banking system.

The OCC costs are those reported as total program costs on the annual audited Statement of Net Cost. National bank and federal savings association assets are those reported quarterly by national banks and federal savings associations (effective March 2012) on the Reports of Condition and Income. Total national bank and federal savings association assets represent the growth and complexity of the financial institutions under the jurisdiction of the OCC. This measure supports the OCC's strategic goal of efficient use of agency resources. The OCC's ability to control its costs while ensuring the safety and soundness of national banks and federal savings associations benefits all national bank and federal savings association customers. The OCC plans to retain this target threshold for FY 2012 and 2013 and will continue its efforts to ensure that resources are used prudently and that programs are carried out in a cost effective manner. In FY 2011, the OCC expended $8.49 per $100,000 in national bank assets regulated compared to the target of $9.22. Beginning in FY 2012, federal savings associations will be included in the performance measure.

3.1.1 – Supervise Budget and Performance Report and Plan

Dollars in Thousands

Supervise Budget Activity Resource Level	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual/1	FY 2012 Estimate/2	FY 2013 Estimate/2
Reimbursable Resources	$471,882	$528,622	$565,921	$597,859	$618,254	$707,845	$1,052,200	$942,000
Total Resources	**$471,882**	**$528,622**	**$565,921**	**$597,859**	**$618,254**	**$707,845**	**$1,052,200**	**$942,000**
Budget Activity Total	**$471,882**	**$528,622**	**$565,921**	**$597,859**	**$618,254**	**$707,845**	**$1,052,200**	**$942,000**

Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual/3	FY 2012 Target/4	FY 2013 Target/4
Percentage of National Banks and Federal Savings Associations with Composite CAMELS Rating of 1 or 2	95.0	96.0	92.0	82.0	70.0	75.0	90.0	90.0
Percentage of National Banks and Federal Savings Associations that are considered Well Capitalized	99.0	99.0	99.0	86.0	90.0	93.0	95.0	95.0
Percentage of National Banks and Federal Savings Associations with Consumer Compliance Rating of 1 or 2	94.0	97.0	97.0	97.0	95.0	94.0	94.0	94.0
Rehabilitated National Banks and Federal Savings Associations as a percentage of problem of National Banks and Federal Savings Associations One Year Ago (CAMEL 3, 4, or 5)	46.0	52.0	47.0	29.0	23.0	22.0	40.0	40.0
Total OCC Costs Relative to Every $100,000 in National Bank and Federal Savings Association Assets Regulated ($)	8.57	8.89	8.39	8.81	9.28	8.49	9.22	9.22

Key: DISC - Discontinued and B – Baseline

(1) Effective July 21, 2011, the OCC assumed responsibility for regulating federal savings associations.
(2) FY 2012 and FY 2013 estimates include the cost of regulating the national banks and federal savings associations.
(3) FY 2011 actual data through September 30, 2011 does not include the federal savings associations.
(4) FY 2012 and FY 2013 targets are subject to revision based on the impact of integrating OTS functions relating to federal savings associations into the OCC and the transfer of designated OCC functions into the CFPB.

3B – Regulate
($142,800,000 from reimbursable resources):
The Regulate program supports the OCC's strategic goals of 1) assuring the safety and soundness of institutions subject to its jurisdiction; 2) fair access to financial services and fair treatment of national bank and federal savings association customers; and 3) a flexible legal and regulatory framework. Specifically, the Regulate program consists of ongoing activities that result in the establishment of regulations, policies, operating guidance, and interpretations of general applicability to national banks and federal savings associations. These regulations, policies, and interpretations may establish system-wide standards, define acceptable national banking and federal savings association practices, provide guidance on risks and responsibilities facing national banks and federal savings associations, or prohibit (or restrict) national banking or federal savings association practices deemed to be imprudent or unsafe. They also establish standards for ensuring fair access to financial services and fair treatment of national bank and federal savings association customers. This program includes the establishment of examination policies and handbooks; interpretations in administrative, judicial, and congressional proceedings; and establishing the applicable legal and supervisory framework for new financial services and products.

Specific activities undertaken in FY 2011 as part of this program were described earlier and included the issuance of various supervisory guidance on real estate appraisals, risk model management, Internet Banking, and Counterparty Credit Risk Management. Significant resources were also spent on various Dodd-Frank rulemakings, including those pursuant to section 171(b) regarding minimum risk-based capital requirements; section 742(c)(2) related to certain off-exchange foreign currency transactions with retail customers; section 939A pertaining to removing the reliance on credit ratings; section 956 pertaining to incentive-based compensation arrangements; section 941 pertaining to risk retention requirements and associated minimum underwriting standards for asset securitizations; and sections 731 and 764 related to capital requirements and margin requirements on certain swap transactions. In FY 2012 and 2013, the OCC will continue to support operations of the FSOC and issue Dodd-Frank rulemakings, as well as complete the comprehensive integration of OTS rules into the OCC regulatory structure. This effort will be accomplished through a robust internal project management system and consultative and joint rulemaking processes with other regulatory entities.

The goal owner for this budget activity is the Acting Comptroller of the Currency, John Walsh.

3.1.2 – Regulate Budget and Performance Report and Plan

Dollars in Thousands

Regulate Budget Activity Resource Level	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual/1	FY 2012 Estimate/2	FY 2013 Estimate/2
Reimbursable Resources	$70,992	$91,296	$87,583	$94,511	$97,735	$95,699	$142,800	$127,870
Total Resources	**$70,992**	**$91,296**	**$87,583**	**$94,511**	**$97,735**	**$95,699**	**$142,800**	**$127,800**
Budget Activity Total	**$70,992**	**$91,296**	**$87,583**	**$94,511**	**$97,735**	**$95,699**	**$142,800**	**$127,870**

(1) Effective July 21, 2011, the OCC assumed responsibility for regulating federal savings associations.
(2) FY 2012 and FY 2013 estimates include the cost of regulating the national banks and federal savings associations.

3C – Charter

($31,079,000 from reimbursable resources):

The Charter program consists of ongoing activities that result in the chartering of national banks and federal savings associations and the evaluation of the permissibility of structures and activities of national banks and federal savings associations and their subsidiaries. This includes the review and approval of new national bank and federal savings association charters, federal branches and agencies, mergers, acquisitions, conversions, business combinations, corporate reorganizations, changes in control, operating subsidiaries, branches, relocations, and subordinated debt issuances. By supporting the entry of new products and institutions into the financial system in a manner consistent with safety and soundness, the Charter program supports the OCC's strategic goals of assuring safety and soundness while allowing national banks and federal savings associations to offer a full competitive array of financial services.

The goal owner for this budget activity is the Acting Comptroller of the Currency, John Walsh.

Description of Performance:

Percentage of Licensing Applications and Notices Completed within Established Time Frames

The OCC's timely and effective approval of corporate applications contributes to the nation's economy by enabling national banks and federal savings associations to complete various corporate transactions and introduce new financial products and services. Delays in providing prompt decisions on applications and notices can deprive a bank or federal savings association of a competitive or business opportunity, create business uncertainties, or diminish financial results. Time frames have been established for completing each type of application and notice. For FY 2011, the OCC completed 97 percent of national bank applications and notices within the time frame. The OCC will continue to meet its Charter program goals by providing staff training, coordination between charter and supervisory staff on safety and soundness and compliance matters, issuance of updated procedures, and maintaining an emphasis on accessibility and early consultation with national bank and federal savings association organizers and others proposing national bank and federal savings association structure changes.

3.1.2 – Charter Budget and Performance Report and Plan

Dollars in Thousands

Charter Budget Activity Resource Level	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual/1	FY 2012 Estimate/2	FY 2013 Estimate/2
Reimbursable Resources	$13,952	$18,515	$20,212	$23,628	$24,434	$21,450	$31,079	$27,830
Total Resources	**$13,952**	**$18,515**	**$20,212**	**$23,628**	**$24,434**	**$21,450**	**$31,079**	**$27,830**
Budget Activity Total	**$13,952**	**$18,515**	**$20,212**	**$23,628**	**$24,434**	**$21,450**	**$31,079**	**$27,830**

Measure	FY 2006 Actual	FY 2007 Actual	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual/3	FY 2012 Target/4	FY 2013 Target/4
Percentage of Licensing Applications and Notices Completed within Established Timeframes	94.0	96.0	95.0	95.0	96.0	97.0	95.0	95.0

Key: DISC - Discontinued and B – Baseline

(1) Effective July 21, 2011, the OCC assumed responsibility for regulating federal savings associations.
(2) FY 2012 and FY 2013 estimates include the cost of regulating the national banks and federal savings associations.
(3) FY 2011 actual data through September 30, 2011 does not include the federal savings associations.
(4) FY 2012 and FY 2013 targets are subject to revision based on the impact of integrating OTS functions relating to federal savings associations into the OCC and the transfer of designated OCC functions into the CFPB.

Detailed information about each performance measure, including definition, verification and validation is available.

Section 4 – Supplemental Information

4A – Capital Investment Strategy

The OCC's Information Technology (IT) strategic plan aligns information technology initiatives and investments to the OCC's core mission. In addition, the plan addresses key legislative requirements for the integration of the OCC with the OTS, including both the integration of OTS applications and capabilities and disposition of redundant or end-of-lifecycle applications, capabilities, and services.

The IT strategic plan is implemented through the budget formulation process and the Capital Planning and Investment Control (CPIC) process. These processes ensure that all IT investments are aligned with the OCC's mission, goals, objectives, and target enterprise architecture before a project is funded. The capital planning process reviews and prioritizes detailed business cases to promote technology reuse, to capitalize on enterprise opportunities, and to reduce redundant and obsolete capabilities and services. Investment evaluation control actions ensure that the OCC IT strategy has adequate funding and staff resources to address IT investment priorities, and considers risk mitigation strategies for IT investments that are not meeting stated cost, time, and performance goals. Performance metrics are linked to the delivery, alignment, and achievement of the OCC strategic program objectives. Cost effectiveness for each investment is evaluated through regular benchmarking studies, featuring peer group organizations. Key metrics used to evaluate infrastructure include availability, reliability, utilization, defects, and customer satisfaction.

FY 2012 and 2013 Plans

The OCC has three major IT initiatives in FY 2012 and 2013.

Mainframes & Servers Support Services (MSSS)

The MSSS supports the OCC's mainframe computer operations and maintenance (O&M). Support services include data center systems O&M, mainframe and server O&M, and disaster recovery testing.

As part of this initiative, the OCC is consolidating and relocating the data center infrastructure to a third-party co-location facility commencing in FY 2012, with an anticipated completion in FY 2013. Based upon detailed alternatives analysis conducted in FY 2011, it was determined that the OCC's main data center, located in Landover, MD, cannot meet the capacity requirements for growth forecasts. Relocation of the OCC's data center will provide the OCC with access to basic facilities and environmental services (floor space, power cooling, network and physical security) while supporting mandates for data center consolidation from Treasury and the Office of Management and Budget (OMB). The facility will provide redundant services and capabilities and can be managed remotely by the OCC infrastructure and operations staff with minimal new technology or process enhancements.

Telecommunications Services and Support (TSS)

The TSS includes telecommunications wide area network and local area network infrastructure. Remote access to the OCC systems is facilitated via a virtual private network, dial-in, and cellular wireless access using two-factor authentication. This investment also includes messaging services supporting highly mobile bank examiners and the OCC staff.

End User Services and Support (EUSS)
The EUSS includes help desk/customer service support, personal computer hardware and software O&M, desktop engineering and image management, and asset management.

A summary of capital investment resources, including major information technology and non-technology investments is available.

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