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

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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.

Accomplishments
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**

[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.

<u>Strategies</u>
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.

<u>Results</u>
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: <u>Consumer Education and Engagement/Consumer Response</u>

<u>Budget Activity</u>
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

<u>Measures</u>

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: <u>Research, Markets and Regulations</u>

<u>Budget Activity</u>

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

<u>Measures</u>

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.

<u>Strategies</u>
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.

<u>Results</u>
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

U.S. Government Accountability Office GAO 90 YEARS 1921-2011 ACCOUNTABILITY ★ INTEGRITY ★ RELIABILITY

GAO-12-186

GAO
Accountability * Integrity * Reliability

Highlights

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

November 2011

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

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

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.

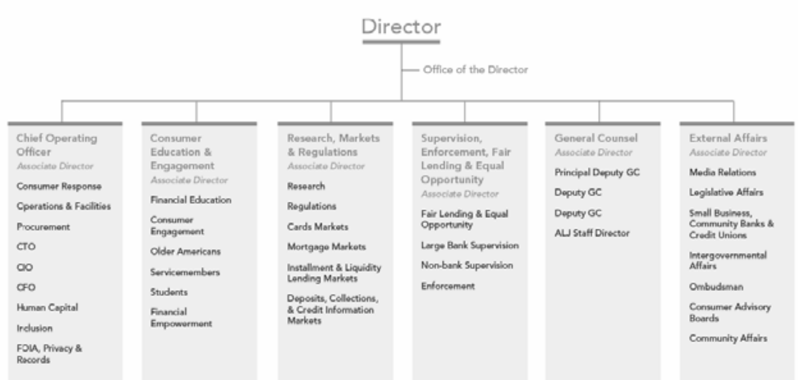
The CFPB has also implemented an initial workforce design strategy that identifies the human capital assets necessary to accomplish the CFPB's mission in line with the CFPB's vision and core organizational principles and priorities. This strategy has served to guide recruiting efforts to date and continues 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:



9 CFPB FINANCIAL REPORT – FISCAL YEAR 2011

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.

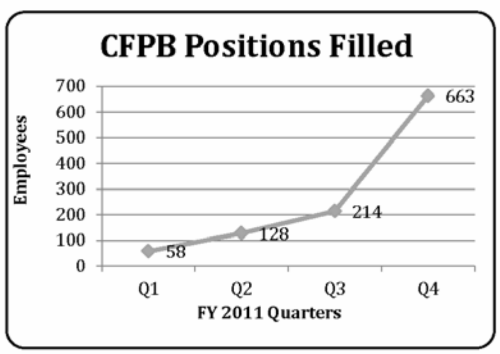
Office of Chief Operating Officer

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

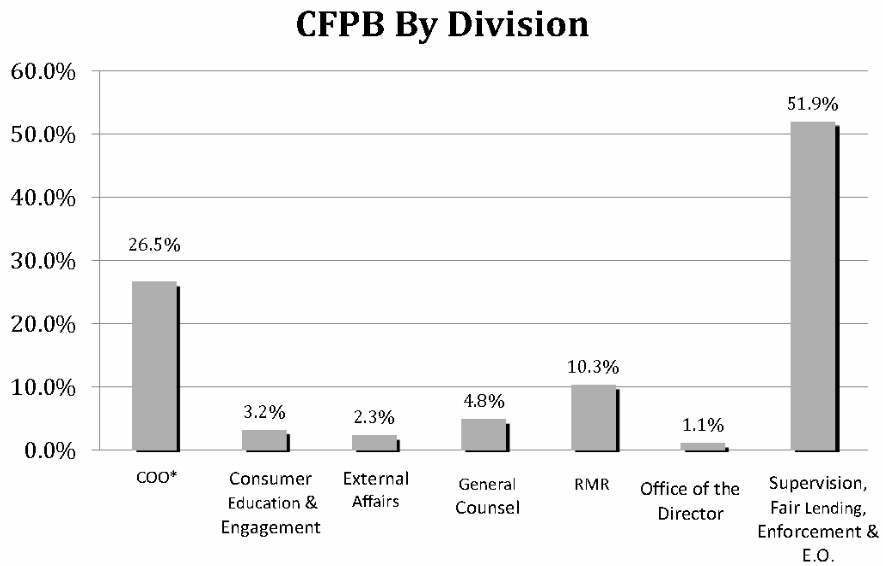
One of the key areas of focus in building the CFPB has been to identify the best qualified people to meet its immediate staffing needs. The CFPB has made significant strides by transferring[1] or hiring approximately 663 highly qualified personnel by September 30, 2011. This progress has been accomplished 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 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

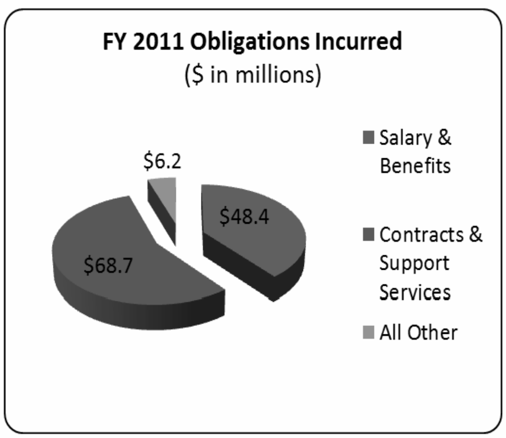
[5] In fiscal year 2010, one transfer for $18.4 million was received from the Board of Governors.

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

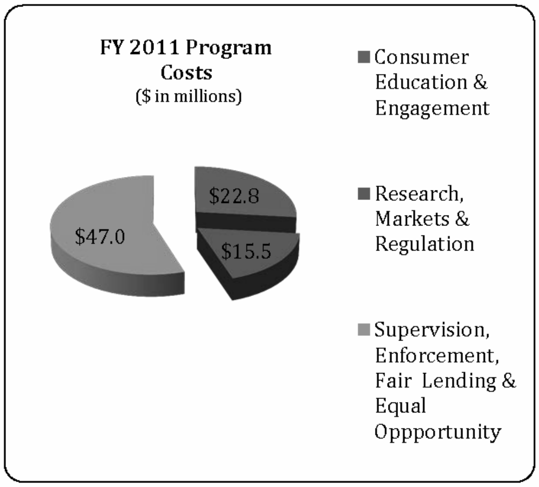
During fiscal year 2011, the CFPB was still growing; therefore, the majority of its obligations related to resources essential to standing up the CFPB, such as personnel, information technology, mission-specific and human capital support, and other general start-up activities. The CFPB incurred $123.3 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.

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

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.

29 CFPB FINANCIAL REPORT – FISCAL YEAR 2011

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.

31 CFPB FINANCIAL REPORT – FISCAL YEAR 2011

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. <u>Consumer Education and Engagement</u>

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. <u>Supervision, Enforcement, Fair Lending and Equal Opportunity</u>

Ensures compliance with federal consumer financial laws by supervising market participants and bringing enforcement actions when appropriate.

3. <u>Research, Markets, and Regulations</u>

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. <u>Office of General Counsel</u>

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 J. Agostini

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

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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