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Semi-Annual Report of The Consumer Financial Protection Bureau

July 21 - December 31, 2011

Consumer Financial Protection Bureau

Message from Richard Cordray

DIRECTOR OF THE CFPB

On July 21, 2011, the Consumer Financial Protection Bureau began operations as the country's first federal agency focused on protecting American consumers. I am proud to state in this Inaugural Semiannual Report to Congress that the Bureau is well on its way to doing just that.

Consumer finance is an important part of American life. Financial products and services are used not only to help achieve the American Dream but to help us live our daily lives. Student loans, mortgages, and credit cards – these are all products that help us move forward and live more conveniently. But as we saw in the run-up to the 2008 financial crisis, these kinds of products can also get consumers and the larger economy into trouble. The 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act created the Bureau to make sure that consumers are protected and businesses operate in a fair and competitive market. American consumers and the honest businesses that serve them deserve this transparent and honest environment.

Before the Dodd-Frank Act, responsibility for administering and enforcing federal consumer financial laws was scattered across seven different federal agencies. Now consumers can look to just one agency. We do not take this responsibility lightly. We are working hard to make costs and risks clear, to level the playing field in consumer financial products and services, and to enforce consumer financial laws.

In our first six months, under the leadership of Raj Date, the Special Advisor to the Secretary of the Treasury, we made great progress in building the agency. We began examining the country's largest banks. We started several Know Before You Owe campaigns to encourage transparency in key credit markets. And, among many other things, we started consumer education campaigns, began taking and resolving mortgage and credit card complaints from consumers, and launched offices dedicated to older Americans, students, and service members.

Throughout all of our hard work, we have been motivated by the needs of the American consumer. From our website's "Tell Your Story" feature to our toll-free phone number to our trips across the country to talk to consumers and industry, we are making every effort to be both accessible and transparent to the American public. We also take seriously the important role that Congress plays in overseeing our work. That is why we put so much effort into reports like this one. And that is why we have testified before Congress 12 times so far, with more to come. We understand that this open communication is critical for us to learn and do the best job we can.

We realize the road ahead is long. This year will be important for us as we expand our work on behalf of all Americans. We look forward to the challenge and we hope that our federal and state government colleagues, our friends in industry, and the public join to help us deliver on Congress's vision that we stand on the side of consumers to improve their daily lives.

Sincerely,

Richard Cordray

Director Cordray with Deputy Director Raj Date, who served as Special Advisor to the Secretary of the Treasury on the CFPB during the first six months of the Bureau's operation.

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Executive Summary

The Consumer Financial Protection Bureau ("CFPB" or "Bureau") is the nation's first federal agency focused solely on consumer financial protection. Previously, seven different federal agencies were responsible for consumer financial protection.[1] Rulemaking, supervision, and enforcement authorities were divided inefficiently across these agencies. Gaps in oversight resulted in practices that hurt consumers, responsible companies, and the economy as a whole.

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") created the CFPB on the premise that a focused, accountable agency should be responsible for consumer financial protection. Congress vested the CFPB with authority under more than a dozen consumer protection laws to write rules, supervise financial services companies, and enforce the law.[2]

In fulfillment of its statutory responsibility and its commitment to accountability, the CFPB is pleased to present its inaugural Semi-Annual Report to the President and Congress. This report summarizes the CFPB's activities and accomplishments over the period from its launch on July 21 through December 31, 2011 and provides information required by the Dodd-Frank Act.[3]

The Dodd-Frank Act defines five objectives for the CFPB:

- to ensure that consumers have timely and understandable information to make responsible decisions about financial transactions;
- to protect consumers from unfair, deceptive, or abusive acts or practices, and from discrimination;
- to reduce outdated, unnecessary, or unduly burdensome regulations;
- to promote fair competition by consistent enforcement of the consumer protection laws in the Bureau's jurisdiction; and
- to encourage markets for consumer financial products and services that operate transparently and efficiently and to facilitate access and innovation.[4]

Since opening its doors, the CFPB has advanced toward these goals and has laid the foundation of a great institution.

[1] The agencies which previously administered statutes transferred to the Bureau are the Board of Governors of the Federal Reserve System ("Federal Reserve"), Department of Housing and Urban Development ("HUD"), Federal Deposit Insurance Corporation ("FDIC"), Federal Trade Commission ("FTC"), National Credit Union Administration ("NCUA"), Office of Comptroller of the Currency ("OCC"), and Office of Thrift Supervision ("OTS").

[2] These statutes include, among others, the Alternative Mortgage Transaction Parity Act of 1982 (12 U.S.C. 3801 et seq.); the Equal Credit Opportunity Act (15 U.S.C. 1691 et seq.) ("ECOA"); certain portions of the Fair Credit Reporting Act (15 U.S.C. 1681 et seq.); the Home Mortgage Disclosure Act of 1975 (12 U.S.C. 2801 et seq.) ("HMDA"); the Home Ownership and Equity Protection Act of 1994 (15 U.S.C. 1601); the Real Estate Settlement Procedures Act of 1974 (12 U.S.C. 2601 et seq.); the Secure and Fair Enforcement for Mortgage Licensing Act (12 U.S.C. 5101 et seq.); and the Truth in Lending Act (15 U.S.C. 1601 et seq.).

[3] Future reports will cover six-month increments beginning January 1st and July 1st. Appendix A provides a guide to the Bureau's response to the reporting requirements of Section 1016(c) of the Dodd-Frank Act.

[4] Dodd-Frank Act, Public Law 111-203, Section 1021(b).

DELIVERING FOR AMERICAN CONSUMERS

In its first six months, the CFPB has taken significant steps to make consumer financial markets work better for consumers and responsible companies by:

- resolving consumer complaints about credit cards and mortgages;
- launching a supervision program that will promote compliance with consumer protection laws in the Bureau's jurisdiction by financial companies of all kinds;
- evaluating and developing disclosures that make the costs and risks of financial products easier for consumers to understand;
- working to implement statutory protections for consumers who rely on consumer financial products, such as mortgages;
- launching the Bureau's website – ConsumerFinance.gov – and using it to engage the public in a range of projects;
- creating several ways in which individuals can alert the CFPB about potential violations of consumer protection laws in the Bureau's jurisdiction; and
- improving information about the structure of consumer financial markets and consumer behavior through practical market intelligence and independent research.

BUILDING A GREAT INSTITUTION

All of this has taken place while the CFPB has been in full start-up mode – literally building the Bureau team by team.

No standup work has been more important than hiring the CFPB's staff. The CFPB team now consists of more than 750 employees across the country, including more than 230 who transferred from federal banking regulators and other agencies. Examiners, economists, lawyers, and experts in finance, technology, and outreach have come to the Bureau from across the country. They bring substantial experience from regulatory and law enforcement agencies, financial services companies, and a range of nonprofit organizations. The expertise, diversity of perspective, and sheer energy of this team are the Bureau's most important asset.

Additionally, the Bureau has worked to build an infrastructure that will continue to promote transparency, accountability, and fairness. That includes:

- launching statutorily required offices for Community Affairs, Consumer Response, Fair Lending & Equal Opportunity, Financial Education, Older Americans, Minority and Women Inclusion, Research, and Servicemember Affairs;[5]
- recruiting highly qualified personnel and promoting diversity in the CFPB's workforce and among its contractors;

[5] Dodd-Frank Act, Public Law 111-203, Section 1013.

- working toward signing memoranda of understanding with federal banking regulators and other agencies to establish protocols for information sharing, coordination, and where appropriate the conduct of "simultaneous" supervisory activities;

- defining procedures to promote fair enforcement of the law, such as the Bureau's Notice and Opportunity to Respond and Advise ("NORA") Policy;

- designing an ethics program to promote public confidence in the integrity and impartiality of the Bureau's employees;

- establishing a financial management infrastructure with effective internal controls; and

- building a 21st Century information technology infrastructure to ensure that supervisory activity was not interrupted upon transfer, that consumers and industry have an easy-to-use and trusted system for handling consumer complaints, and that allows the Bureau to build innovative online products rapidly.

NEXT STEPS

On January 4, 2012, President Barack Obama appointed Richard Cordray as the CFPB's Director. Since then, the Bureau has launched its nonbank supervision program; issued regulations governing certain international money transfers; and announced the formation of the Repeat Offenders Against Military ("ROAM") Database to track scams that target the military community. The CFPB also held its first field hearing in Birmingham, Alabama to gather information on payday lending from consumers and officials from industry, advocacy groups, and government agencies.

This report marks the Bureau's beginning. Over the next six months, the pace of the Bureau's efforts to make consumer financial markets work better will intensify. Visit the CFPB's website (consumerfinance.gov) and check in on the CFPB's work over the coming months.

The Bureau's Structure

The CFPB's structure brings diverse professional perspectives to bear on the challenges of understanding the marketplace for consumer financial products and services. The Bureau's six primary divisions feature talented teams of examiners, economists, lawyers, and policy analysts who have experience working for consumers and industry in the public, private, and non-profit sectors. These divisions include:

CONSUMER EDUCATION AND ENGAGEMENT

Engaging consumers and enabling them to take control of their financial lives are top priorities for the CFPB. The Bureau aims to provide consumers with the information they need when they need it, so that they can achieve their own financial goals.

The Consumer Education and Engagement Division has six offices:

Financial Education provides consumers with information to help them make informed financial decisions, studies effective practices for improving the financial capability of consumers, and promotes innovative strategies in the field of financial education.

Consumer Engagement encourages the public to participate in the CFPB's work and develops programs to help consumers make informed financial decisions through the CFPB's website, social media, and other tools.

Older Americans helps improve financial literacy among Americans aged 62 years and over and helps protect them from financial fraud and exploitation through outreach, education, and targeted initiatives.

Servicemember Affairs educates servicemembers, veterans, retirees, and their families about financial products and services, assists Consumer Response in addressing complaints from servicemembers, coordinates state and federal efforts to protect military consumers, and informs the Bureau's staff about the unique experiences of military members and their families.

Students increases awareness about the impact of financial decisions associated with various educational programs and other financial products and identifies policy and marketplace issues with a special impact on students.

Financial Empowerment enhances access to and knowledge of financial products and services among lower-income consumers and promotes opportunities for asset creation among working families and new entrants to banking.

RESEARCH, MARKETS AND REGULATIONS

The Research, Markets and Regulations Division leads the Bureau's efforts to articulate an informed perspective about current issues in consumer financial markets. This division includes the following groups:

Research investigates an array of topics related to consumer financial markets and publishes findings to improve information available to market participants and to inform the Bureau's work. Research also evaluates benefits and costs of potential and existing regulations.

The **Markets** teams – Mortgages; Cards; Installment and Liquidity Lending Markets; and Deposits, Collections and Credit Information – provide practical market intelligence and monitoring to Bureau colleagues and to the public.

Regulations ensures that rules implementing the consumer protection laws under the Bureau's authority are issued and interpreted in an informed, fair, and efficient manner in accordance with the law.

SUPERVISION, ENFORCEMENT, AND FAIR LENDING & EQUAL OPPORTUNITY

The CFPB's Supervision, Enforcement, and Fair Lending & Equal Opportunity Division promotes compliance with consumer financial protection laws under the Bureau's authority.

Supervision monitors bank and nonbank providers of consumer financial products and services for compliance with the applicable consumer protection laws.

Enforcement investigates potential violations of laws in the Bureau's jurisdiction, pursues appropriate enforcement actions against those who violate these laws, and supports consumer protection enforcement nationwide.

Fair Lending & Equal Opportunity leads the Bureau's efforts to ensure fair, equitable, and nondiscriminatory access to credit for individuals and communities through supervisory oversight and enforcement of federal fair lending laws, outreach, education, and engagement.

CHIEF OPERATING OFFICER

This division sustains the CFPB's operational infrastructure to support the Bureau's growth and enable its success. This division includes a budget and finance team to oversee the Bureau's financial planning and management; a procurement team to oversee the Bureau's contracts with outside contractors and service providers; a Human Capital office that recruits, hires, and works to retain highly qualified personnel across the Bureau; a records office that manages the Bureau's compliance with the Freedom of Information Act, the Privacy Act, and other laws; and an operations team that manages the CFPB's physical plant. In addition, this Division includes three teams whose work directly touches the public:

Consumer Response addresses consumer complaints, provides consumers with information, and connects them with additional resources where appropriate. Consumer Response's about issues confronting consumers in the marketplace helps inform many aspects of the Bureau's work.

The Office of Minority and Women Inclusion ("OMWI") ensures that a commitment to inclusion informs the Bureau's work, that the Bureau promotes opportunities for underrepresented populations in its hiring and contracting, and that the Bureau fulfills its mandate to assess the diversity practices of the companies that it supervises.

Technology and Innovation ("T&I") develops online products that help inform consumers, track consumer complaints, and make critical data available to the public. T&I maintains a 21st-century data infrastructure in support of the Bureau's mission.

EXTERNAL AFFAIRS

The Bureau's External Affairs Division maintains robust and steady dialogue with stakeholders of all kinds. This ensures that the perspective of consumers, industry, advocacy groups, state and federal officials, and other stakeholders shape the Bureau's work, and in turn that these groups have the latest information about the CFPB and its work.

This division has five offices:

> **Small Business, Community Banks and Credit Unions** conducts outreach to small businesses and smaller credit providers, especially community banks and credit unions.
>
> **Community Affairs** keeps the Bureau connected to consumer advocacy, faith-based, fair lending, civil rights, and other nonprofit groups
>
> **Intergovernmental Affairs** conducts outreach to municipal, state, and other government entities.
>
> **Legislative Affairs** serves as a liaison to Members of Congress and congressional staff.
>
> **Media Relations** serves as a liaison to local, regional, and national media.

The CFPB will also create a Consumer Advisory Board comprised of a range of external stakeholders. That board will consult with the Bureau about the exercise of its functions and provide information on emerging practices in consumer financial markets, including regional trends and concerns.

GENERAL COUNSEL

This office is responsible for the Bureau's interpretation of and compliance with all applicable laws, advises the Director and the Bureau's divisions, and defends the Bureau against legal actions by outside parties. This team also administers the Bureau's ethics program to promote public confidence in the integrity and impartiality of the Bureau's employees.

The CFPB's creation of offices for Community Affairs, Consumer Response, Fair Lending & Equal Opportunity, Financial Education, Older Americans, OMWI, Research, and Servicemember Affairs satisfied requirements of the Dodd-Frank Act.[6] The Dodd-Frank Act also required appointment of a Private Education Loan Ombudsman to monitor the resolution of private student lending complaints and an Ombudsman who will help resolve consumer and industry complaints about the Bureau's supervisory and enforcement processes.[7] Both of these Ombudsman have been appointed.

[6] Dodd-Frank Act, Public Law 111-203, Section 1013.

[7] *Ibid; Dodd-Frank Act, Public Law 111-203, Section 1035(a).*

ORGANIZATIONAL CHART

Delivering for American Consumers

The Dodd-Frank Act vested the CFPB with responsibility for implementing and promoting compliance with more than a dozen federal consumer protection laws. Since July 21, 2011, the Bureau has begun to improve the information available to consumers, respond to consumer complaints about credit cards and mortgages, supervise certain large banks and mortgage servicers, and engage consumers, industry, and other stakeholders in these efforts.

KNOW BEFORE YOU OWE

Over the past year, the CFPB has worked to make the costs and risks of financial products easier to understand. This is the heart of the Bureau's signature campaign – Know Before You Owe.

Consumers expect to be held responsible for their purchases and debts. But they deserve to be able to make a choice about what products and services to use based on a fair presentation of the costs, risks, and benefits of those offerings. This kind of transparency encourages personal responsibility and smart decision-making. The CFPB has published prototype forms for mortgages, student loans, and credit cards that are designed to make important information easier to find.

Know Before You Owe also shows that the Bureau is intent on engaging the public in its work in innovative ways. During each project, the CFPB invited the public – consumers, the financial services industry, and advocates – to comment on draft forms.

Finally, these projects demonstrate how the CFPB team approaches problem-solving. Each project resulted from a truly interdisciplinary effort that spanned the entire Bureau – from regulations attorneys and product experts to community affairs and technology specialists. This type of innovation results from the CFPB's investment in expertise drawn from diverse professional points of view.

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consumerfinance.gov received over 220,000 unique pageviews for *Know Before You Owe*

MORTGAGES

Buying a home is a process with many important decisions – not least of which is figuring out what kind of mortgage makes sense today and over time. This process is not always as easy as it could be. The federally-required forms that companies give after receiving a mortgage application contain a lot of information, but in too many instances homebuyers have trouble finding what they need to understand how much a particular mortgages costs and how its costs might change over time.

The Dodd-Frank Act amended federal statutes governing mortgage loans, including the Truth in Lending Act ("TILA") and the Real Estate Settlement Procedures Act ("RESPA"). Those amendments require that by July 21, 2012, the CFPB propose integrated disclosures and accompanying rules for mortgage loans that satisfy the requirements of both TILA and RESPA.[8]

[8] Dodd-Frank Act, Public Law 111-203, Sections 1032(f), 1098, 1100A.

The integrated disclosures are meant to provide information that will make the terms of mortgages more transparent to consumers and make it easier for industry to comply with various federal laws. Consumers will receive the first disclosure shortly after applying for a mortgage. While consumers now receive seven pages of information, the Bureau has developed a three-page prototype form that is designed to make it easier to understand the loan before consumers make a commitment.

The second disclosure focuses on the transaction's closing. It will confirm key terms – like the loan amount and interest rate – and provide a detailed record of the closing costs that the consumer will pay. The draft forms would reduce the page length of affected federal disclosures by up to 50 percent, making the closing process easier for both consumers and industry. Testing of the closing document is ongoing.

Over seven rounds of testing, the Bureau received through its website approximately 27,000 individual comments providing feedback on the prototype mortgage forms. Roughly half of these comments were provided by consumers and half by industry.

STUDENT LOANS

Financial aid offers from colleges and universities are a critical step in the education financing process for both federal and private student loans. But today offers that students receive often fail to make basic information clear – for example, how much of a particular aid offer is made up of loans that need to be paid back and how much comes from grants that do not.

The Higher Education Opportunity Act of 2008 required the Secretary of Education to develop a model financial aid offer format to help students and their parents make informed decisions about how to finance postsecondary educational expenses.[9] This shared mission to improve the shopping process made the CFPB and the Department of Education natural partners in a Know Before You Owe project on student loans.

[9] Public Law 110-315, Section 484.

In October, the agencies released a suggested financial aid "shopping sheet" that presents important financial aid information – such as estimated monthly payment levels after leaving school – in a standardized, easy-to-read format. The "shopping sheet" is intended to give students and their families a better chance to make an informed decision about financial aid.

CREDIT CARDS

Credit cards are among the most frequently used consumer financial products. And yet their most basic terms are often set forth in long and complicated agreements that few consumers read. To spark a conversation about improving credit card agreements, the CFPB released a prototype in December. That agreement is written in plain language, and it makes the prices, risks, and terms of a particular card more visible.

The Bureau is testing the prototype with the Pentagon Federal Credit Union, which has about 350,000 credit card customers. Once again, the CFPB invited the public to weigh in on the prototype on its website and has received more than 7,500 comments since December.

Responding to Consumers

Consumer Response – the team that receives complaints directly from consumers – began taking credit card complaints on July 21, 2011, and mortgage complaints on December 1, 2011.[10] The CFPB expects to handle consumer complaints with respect to all products and services within its authority by the end of 2012.

The CFPB's phased-in approach to taking complaints has allowed Consumer Response to improve its intake processes, enhance automated communication with companies, and ensure the system's ease-of-use and effectiveness for consumers. The CFPB aims to provide services that are trusted by consumers and companies alike.

Even as Consumer Response expands its capacity, consumers may still contact the CFPB about products beyond credit cards and mortgages. The Bureau answers those inquiries and refers consumers to an appropriate regulator or to additional resources where appropriate.

The Bureau also created a "Tell Your Story" feature on its website that gives consumers the opportunity to share their experiences – positive or negative – with consumer financial products and services. These submissions, like formal complaints, are reviewed by staff to help the Bureau understand current issues in the financial marketplace.

HOW THE CFPB HANDLES COMPLAINTS

The CFPB collects complaints on its website and by telephone, mail, email, fax, and by referral from other agencies. The CFPB's U.S.-based contact centers handle calls with little to no wait times. Cutting-edge technology makes the process more efficient and user-friendly for consumers and companies. The CFPB's toll-free telephone number provides services to consumers in 191 languages, and the Bureau provides services for hearing- and speech-impaired consumers. For companies, the CFPB provides a secure email address for communicating directly with dedicated staff about technical issues.

Consumer Response screens all complaints submitted by consumers based on several criteria, including whether they involve matters within the Bureau's primary enforcement authority, are complete, or duplicate prior submissions by the same consumer. Screened complaints are sent via a secure web portal to the appropriate company.[11] The company reviews the information, communicates with the consumer as appropriate, and determines what action to take in response. The company reports back to the consumer and the CFPB how it has responded and the CFPB invites the consumer to review the response. The CFPB prioritizes review and investigation of complaints where the company fails to provide a timely response or where the consumer disputes the response.[12] Throughout this process, Consumer Response is supported by Bureau colleagues – like the Markets and Regulations teams, Servicemember Affairs, and Fair Lending – who lend subject matter expertise and help monitor complaints involving certain groups.

[10] This section presents an overview of CFPB's Consumer Response activities since beginning operations. The Bureau published a more detailed report on the first three months of Consumer Response's credit card complaint data. It is available on consumerfinance.gov.

Additionally, as required by the Dodd-Frank Act, Consumer Response will file a separate Congressional report on its operations on or before March 31, 2012. Dodd-Frank Act, Public Law 111-203, Section 1013(C).

[11] If a particular complaint does not involve a product or market that is within the Bureau's jurisdiction or one currently being handled by the Bureau, Consumer Response refers them to the appropriate regulator.

[12] Companies are required to provide the CFPB with a timely response consistent with the requirement s of the Dodd-Frank Act. The CFPB initially requested that companies respond within 10 calendar days, but increased the requested response time to 15 calendar days with the addition of mortgages on December 1, 2011. See Dodd-Frank Act, Public Law 111-203, Section 1034(b).

Throughout this process, a consumer can log onto the CFPB's secure "consumer portal" available on the Bureau's website or call the toll-free number to receive status updates, provide additional information, and review responses provided to the consumer by the company.

RESULTS

How Complaints Reach the CFPB

Between July 21 and December 31, 2011, the CFPB received 13,210 consumer complaints, including 9,307 credit card complaints and 2,326 mortgage complaints.[13]

Since the Bureau began accepting complaints, 44.0 percent of all complaints have been submitted through the Bureau's website and 14.7 percent via telephone calls. Referrals from other regulators accounted for 34.9 percent of all complaints received. The rest were submitted by mail, email, and fax.

The tables presented below show complaints by type, actions taken, company response, and consumer review of company responses.[14]

[13] Consumer complaints are submissions that express dissatisfaction with, or communicate suspicion of wrongful conduct by, an identifiable entity related to a consumer's personal experience with a financial product or service. This analysis excludes multiple complaints submitted by a given consumer on the same issue and whistleblower tips.

[14] Percentages in tables may not sum to 100 percent due to rounding,

Table 1: Most Common Credit Card Complaints Reported by Consumers

	#	%
Billing disputes	1,278	13.7%
Identity theft / Fraud / Embezzlement	1,014	10.9%
APR or interest rate	950	10.2%
Other	854	9.2%
Closing / Cancelling account	478	5.1%
Credit reporting	437	4.7%
Credit card payment / Debt protection	383	4.1%
Collection practices	378	4.1%
Late Fee	364	3.9%
Other Fee	334	3.6%
CREDIT CARD COMPLAINTS IN TOP 10 TYPES	6,470	69.5%

Consumers’ Credit Card Complaints

Table 1 shows the most common types of credit card complaints that the CFPB has received as reported by consumers. Over 69 percent of all complaints submitted through December 31, 2011, fell into these 10 categories.

The Bureau’s early experience suggests that consumers are interpreting what these categories mean differently – for example, one consumer might choose billing dispute to categorize a problem that another would categorize as an interest rate issue. To improve the reliability of these data, the Bureau may revise the options over time to promote consistent categorization of complaints.

Table 2: Types of Mortgage Complaints Reported by Consumers

	#	%
Applying for the loan (Application, originator, mortgage broker)	235	10.1%
Receiving a credit offer (Credit decision/Underwriting)	65	2.8%
Signing the agreement (Settlement process and costs)	96	4.1%
Making payments (Loan servicing, payments, escrow accounts)	501	21.5%
Problems when you are unable to pay (Loan modification, collection, foreclosure)	889	38.2%
Other	540	23.2%
TOTAL COMPLAINTS	2,326	100.0%

Consumers’ Mortgage Complaints

Table 2 shows the types of mortgage complaints that the Bureau has received, as reported by consumers.

How Companies Respond to Consumer Complaints

Approximately 9,885 or 75 percent of all complaints received between July 21 and December 31, 2011, have been sent to companies for review and response.[15] Table 3 shows how companies responded to these complaints.

Responses include a description of any steps taken or that will be taken in response to the complaint, communications received from the consumer in response to any steps taken, and any follow up actions or planned follow up actions in further response to the complaint as well as a categorization of the response. Beginning December 1, 2011, response category options included "Closed with relief," "Closed without relief," "In progress," and other administrative options. Relief is defined as objective, measurable, and verifiable monetary value to the consumer as a direct result of the steps taken or will be taken in response to the complaint. Where a company responds "Closed with relief," additional space is provided to describe that relief and to assign an estimated dollar amount.[16]

Companies have responded to 88.1 percent of the complaints sent to them. Companies report closing over 55 percent of complaints with relief and approximately 31 percent without relief.

[15] The remaining complaints have been referred to other regulatory agencies (10.9 percent), found to be incomplete (5.4 percent), or are pending with the consumer or the CFPB (4.7 percent and 4.2 percent, respectively).

[16] The CFPB initially asked companies to categorize their response as "Full resolution provided," "Partial resolution provided," "No resolution provided," or another administrative option. While companies' responses under the initial categorizations were maintained, for operational and reporting purposes responses categorized as "Full resolution provided," or "Partial resolution provided" are considered a subset of "Closed with relief" and responses categorized as "No resolution provided" are considered a subset of "Closed without relief."

Table 3: How Companies Have Responded to Consumer Complaints

	All		Credit Card		Mortgage	
	#	%	#	%	#	%
Company reported closed with relief	5,476	55.4%	4,785	64.1%	306	18.6%
Company reported closed without relief	3,028	30.6%	2,069	27.7%	768	46.7%
Company provided administrative response	203	2.1%	112	1.5%	71	4.3%
Company reviewing	1,178	11.9%	497	6.7%	498	30.3%
TOTAL COMPLAINTS SENT TO COMPANY	9,885	100.0%	7,463	100.0%	1,643	100.0%

Consumer Review

Once the company responds, the CFPB provides this response to the consumer for review. Where the company responds "Closed with relief" or "Closed without relief," consumers are given the option to dispute the response.[17] Complaints with disputed company responses are among those prioritized for investigation. Table 4 shows how consumers responded to the 7,349 complaints where they were given the option to dispute that companies report as closed or where full or partial resolution was reported. Consumers are asked to notify the CFPB within 30 days if they want to dispute a company's response. Nearly 40 percent of such consumers did not dispute the responses provided. Approximately 13 percent of consumers have disputed the responses provided. The rest are pending with the consumer.

[17] Initially consumers were given the option to dispute responses from companies that indicated a resolution had been provided. Consumers were not offered an option to dispute responses indicating that no resolution had been provided. With the shift to closure categories, consumers are given the option to dispute both responses with and without relief.

Table 4: Consumer Review of Company Responses

	All		Credit Card		Mortgage	
	#	%	#	%	#	%
Pending consumer review of company's reported resolution	3,488	47.5%	2,400	41.3%	809	77.4%
Consumer did not dispute company's reported resolution	2,910	39.6%	2,681	46.1%	76	7.3%
Consumer disputed company's reported resolution	951	12.9%	734	12.6%	160	15.3%
TOTAL COMPLAINTS SENT TO COMPANY	7,349	100.0%	5,815	100.0%	1,045	100.0%

"I want to thank you for your help on my issue, you helped me resolve it and in fact the resolution is pretty much everything [I] had hoped for..."

Warren from Maryland

Leveling the Playing Field

The CFPB's work is based on the principle that companies offering a particular consumer finance product or service should be supervised in the same way and that consumers should receive the protections afforded them by federal law regardless of where they obtain the product or service.

RULEMAKING

Since the Bureau's launch, its rulemaking activities have focused on two main areas: implementing protections required by the Dodd-Frank Act and streamlining inherited regulations.[18]

[18] Additional information regarding individual rulemaking projects is available in the CFPB's semi-annual regulatory agenda, which is posted on the website of the Office of Information and Regulatory Affairs. http://www.reginfo.gov/public/jsp/eAgenda/StaticContent/201110/Statement_3170.html

IMPLEMENTING STATUTORY PROTECTIONS

The Dodd-Frank Act requires the CFPB to develop regulations to address deep flaws in the mortgage market that the financial crisis revealed. The CFPB is in the process of finalizing certain proposed rules issued by the Federal Reserve. These rules include, among other things, regulations defining lenders' obligations to assess borrowers' ability to repay mortgage loans, including certain protections from liability for "qualified mortgages."

Patrice Ficklin, Asst. Director for Fair Lending & Equal Opportunity, and Stephen Stetson from Alabama Arise particpate in a roundtable on payday lending in Birmingham, Alabama January 19, 2012

The CFPB is also developing proposed regulations to implement other provisions of the Dodd-Frank Act focused on the mortgage market. These regulations will address a variety of origination and servicing practices, including disclosure requirements, loan originator compensation and anti-steering rules, data reporting requirements, restrictions on high-cost loans, and other servicing practices. In addition, the Bureau is participating in interagency processes to consider mortgage servicing standards and to propose various regulations concerning appraisals.

Many of these requirements have statutory deadlines and will become self-executing in January 2013 unless the Bureau issues implementing regulations. Accordingly, the Regulations office has made these rulemakings a priority, so that the CFPB will deliver the consumer protections that Congress intended and provide clarity and certainty to the market regarding their nature and scope.

On July 2011, the CFPB published an interim final rule to implement amendments to the Alternative Mortgage Transaction Parity Act ("AMTPA").[19] This interim final rule clarifies the circumstances under which companies may make alternative mortgage transactions pursuant to AMTPA in states that would otherwise prohibit such transactions. The CFPB expects to publish final regulations to implement the Dodd-Frank Act's amendments to AMTPA based on comments from the public.

In January 2012, the Bureau issued regulations governing certain international money transfers (remittances) pursuant to the Electronic Fund Transfer Act.

STREAMLINING INHERITED REGULATIONS

As one of its statutory objectives, the CFPB must "reduce unwarranted regulatory burden" by identifying and addressing "outdated, unnecessary, or unduly burdensome regulations."[20] The Bureau has undertaken the following projects to serve these goals:

Restatement of Inherited Regulations

The Dodd-Frank Act transferred to the CFPB rulemaking authority under more than a dozen consumer protection laws previously held by other agencies. The CFPB republished the regulations it inherited – a necessary step when one agency takes over rulemaking authority from another. On July 21, 2011, the CFPB published a list of implementing regulations previously issued by other agencies that the CFPB will enforce,[21] and in December 2011, republished these regulations as CFPB rules with certain technical and conforming changes.[22]

Targeted Review of Inherited Regulations

In December 2011, the CFPB sought input from the public on how to streamline existing regulations implementing federal consumer financial laws.[23] The Bureau requested recommendations and data to help identify and prioritize opportunities to simplify, update, or eliminate regulatory requirements. The public can comment on these issues through early March. The Bureau will consider comments received from the public and assess opportunities to streamline existing regulations.

SUPERVISION

The CFPB's Supervision program aims to monitor how companies' current business practices comply with consumer protection laws under the Bureau's jurisdiction, to detect emerging risks in the consumer financial marketplace, and to articulate consistent expectations about compliance.

[19] 76 Fed. Reg. 44226; see also Dodd-Frank Act, Public Law 111-203, Section 1083.

[20] Dodd-Frank Act, Public Law 111-203, Section 1021(b).

[21] 76 Fed. Reg. 43569. See also Dodd-Frank Act, Public Law 111-203, Section 1063(i).

[22] The regulations implement certain portions of the Fair Credit Reporting Act; certain portions of the Gramm-Leach-Bliley Act, the Secure and Fair Enforcement for Mortgage Licensing Act, ECOA, the Fair Debt Collection Practices Act, the Truth in Savings Act, the Interstate Land Sales and Full Disclosure Act, the Consumer Leasing Act, certain portions of the Electronic Fund Transfer Act, section 43(c) of the Federal Deposit Insurance Act, HMDA, RESPA, TILA, and section 626 of the Omnibus Appropriations Act of 2009. The restated regulations have consolidated multiple versions of the regulations under those statutes where rulemaking authority was previously split across multiple agencies.

[23] 76 Fed. Reg. 75825.

SCOPE

The CFPB's supervision program has two parts that operate under common procedures and share staff. The large bank supervision program began operations in July and focuses on compliance at banks, thrifts, and credit unions with assets over $10 billion, their affiliates, and certain service providers.

The CFPB is also the first federal agency required to implement a supervision program over nonbank providers of consumer financial products and services – certain financial services companies without a bank, thrift, or credit union charter. There are thousands of such nonbanks – mortgage lenders and brokers, credit bureaus, payday lenders, and more – and they affect millions of Americans each year. The CFPB launched its nonbank supervision program in January 2012.

Over the past year, the CFPB has invested in building its supervision program and launched examinations of certain large banks and mortgage servicers.

INITIAL SUPERVISION ACTIVITIES

Since July 21, 2011, the CFPB's large bank supervision program has focused on understanding the products and services offered by institutions in its jurisdiction, including how each ensures compliance with consumer protection laws and regulations. It has also begun several examinations in conjunction with activity previously scheduled by the institutions' prudential regulators. The CFPB's Supervision staff has worked closely with other federal and state banking and other regulatory agencies with institutions in the Bureau's jurisdiction to learn from their experience and to coordinate examination activities. As part of these activities, the CFPB has begun assessing the policies and practices of certain mortgage servicing companies, including their default servicing practices like loan modification and foreclosure.

SUPERVISION AND EXAMINATION MANUAL

On October 13, 2011, the Bureau issued the first version of its *Supervision and Examination Manual*.[24] This manual instructs CFPB's examiners on how to determine if providers of consumer financial products and services are complying with federal consumer financial laws; how to assess whether companies appropriately monitor their own compliance; and how to identify risks to consumers in these markets. Examination manual and supervision processes will be revised over time based on experiences in the field and comments from industry and other stakeholders.

[24] The *Supervision and Examination Manual* is available on consumerfinance.gov.

ADDITIONAL EXAMINATION PROCEDURES

In October 2011, the CFPB released its *Mortgage Servicing Examination Procedures*,[25] a module of the *Supervision and Examination Manual*. The Mortgage Servicing Examination Procedures describes the Bureau's approach to identifying key risks to consumers in servicing operations, such as improper foreclosure practices and inaccurate payment processing, the types of information that the Bureau's examiners will gather to evaluate

[25] The *Mortgage Servicing Examination Procedures* are available on consumerfinance.gov.

mortgage servicers' policies and procedures, and how examiners will assess whether servicers are in compliance with applicable laws.

In January 2012, the CFPB issued two additional modules to its supervision manual regarding Mortgage Origination and Short-Term, Small-Dollar Lending Examination Procedures.[26]

[26] The updates on Mortgage Origination and Short-Term, Small-Dollar Lending Procedures are available on consumerfinance.gov.

RECRUITING & TRAINING

The CFPB has assembled a diverse and highly-qualified group of examiners. The Bureau's field staff includes examiners from the prudential regulators, state banking agencies, and industry. The Bureau's examiners are being trained to supervise banks and nonbanks. Training examiners to work in both sectors will help to ensure consistent oversight across both sectors and increase the CFPB's flexibility in allocating resources across the country. Examiners report to regional management in offices in New York, Chicago, San Francisco, and Washington, D.C.

ENFORCEMENT

The CFPB aims to consistently enforce the consumer protection laws in the Bureau's jurisdiction and to support consumer protection efforts nationwide by investigating potential violations independently and in conjunction with other state and federal law enforcement agencies.

CONDUCTING INVESTIGATIONS

Since the CFPB's launch, Enforcement has been conducting investigations identified by CFPB staff or transferred by the prudential regulators and HUD. Further detail regarding these and other ongoing investigations will not generally be made public by the Bureau until such time that a public enforcement action is filed.

JOINT TASK FORCE ON FORECLOSURE SCAMS

In December 2011, the CFPB, the Office of the Special Inspector General for the Troubled Asset Relief Program ("SIGTARP"), and the U.S. Department of the Treasury ("Treasury") announced the creation of a joint task force to combat scams targeted at homeowners seeking to apply for the Home Affordable Modification Program ("HAMP"), a foreclosure prevention program administered by Treasury. This joint task force aims to protect taxpayers by investigating and shutting down these scams and by providing education programs to vulnerable homeowners.

WHISTLEBLOWER HOTLINE

In December 2011, the CFPB announced several ways in which individuals can alert the Bureau about potential violations of federal consumer financial laws. Current or former employees, contractors and vendors, and competitor companies may submit information or tips. People who submit tips may request confidentiality or even remain anonymous to the extent permitted by law.

FAIR LENDING

The CFPB's Fair Lending and Equal Opportunity office leads the Bureau's efforts to ensure fair, equitable and nondiscriminatory access to credit for individuals and communities. Fair Lending can use many tools to work toward this goal – from supervision and enforcement to research and outreach.[27] Specifically, the Bureau is working to fulfill its fair lending mission in the following ways:

[27] This section provides an overview of the Bureau's fair lending activities. Additional information on topics addressed here will be provided in subsequent reports.

SUPERVISION

Fair Lending is providing guidance and support to the Bureau's supervision staff as they begin to assess fair lending compliance by companies in the Bureau's jurisdiction. Fair Lending staff is coordinating with the prudential regulators regarding their fair lending analyses and prior examinations of supervised institutions.

ENFORCEMENT

The Bureau's Fair Lending and Enforcement offices have begun investigating fair lending matters, including those transferred from the prudential regulators. In addition, the offices are engaging in early-stage research to identify new investigations. Further detail regarding these and other ongoing investigations will not be made public by the Bureau until such time that a public enforcement action is filed.

RULEMAKING

In conjunction with CFPB's Rulemaking office, Fair Lending has begun planning for several rulemakings mandated by the Dodd-Frank Act, including those regarding collection and reporting of small, minority- and women-owned business loan data under ECOA and reporting of additional data fields for all companies required to report under HMDA.

OUTREACH

To educate consumers and companies about fair lending compliance, Fair Lending staff has met with industry trade organizations, individual consumers, and financial institutions of all sizes, as well as national and grassroots consumer and civil rights groups.

CONSUMER RESPONSE

Fair Lending provides legal and analytical support to Consumer Response to ensure effective investigation of discrimination complaints.

Educating and Engaging Consumers

Listening to and learning from consumers is central to all that the CFPB does. This work – done by all staff, but lead by the Bureau's Consumer Education and Engagement Division and Community Affairs office – connects the Bureau to the real experiences of consumers across the country. Conversations with consumers – wherever they occur – also provide the CFPB an opportunity to provide them with the information and tools that they need, so that they can achieve their own financial goals.

EDUCATION & ENGAGEMENT

The Bureau is reaching out to consumers all over the country – through CFPB events, conferences, social media, and more.

Over 50 cities visited by senior staff since July 21

Since July 2011, the CFPB has engaged in over 250 meetings, roundtables, and other events with a wide range of nonprofit groups that work directly with consumers. CFPB's senior staff has visited more than 50 cities since July 21, 2011, including some of the communities that have been hardest-hit by the financial crisis. CFPB staff has also held town halls in Philadelphia, Pa.; St Paul, Minn., and Cleveland, Ohio in conjunction with significant policy announcements or speeches.

In December 2011, Servicemember Affairs hosted a Financial Fitness Forum in Washington, D.C. to raise awareness regarding consumer financial practices and services tailored to military personnel and their families. To prepare, the Bureau published a Notice and Request for Information on these issues.[28]

[28] 76 Fed. Reg. 54998

Since launching the CFPB's website in February 2011, Consumer Engagement has used the blog to engage the public in the Bureau's daily work – for example, by inviting the public to comment on prototype disclosures as part of the Know Before You Owe campaign and webcasting some of the CFPB's major events. Additionally, the Bureau has posted information designed to address topics of widespread concern – such as what to do when falling behind on a mortgage – and the specific needs of military families, older Americans, and students.

In October 2011, the Bureau launched an online Student Debt Repayment Assistant tool for the Bureau's website. The tool helps students understand their loan repayment options. There have been more than 30,000 unique pageviews of tool since its launch.

Older Americans is conducting a series of outreach meetings around the country with its core constituency, key public officials, financial institutions, industry, advocates, and other stakeholders. This included roundtables with consumer groups, service providers, and law enforcement in Maine, Massachusetts, Minnesota, New York, Florida, and California.

Servicemember Affairs staff visited 15 military bases in the past year. Those visits include listening to servicemembers and their leaders about the financial challenges that they face, observing financial education training, and providing educational materials.

Servicemember Affairs raised awareness about the acute financial impact that servicemembers face when they receive Permanent Change of Station ("PCS") orders and are required to move. Given the difficult conditions in the housing market, PCS orders may force military families to sell homes at a significant loss. Treasury responded by making it easier for families in this situation to qualify for loan modifications. Fannie Mae and Freddie Mac have also recognized PCS moves as a qualified hardship for purposes of consideration of a loan modification.

The CFPB's Private Education Loan Ombudsman will work with institutions of higher education, lenders, and other participants in the private education loan programs to address challenges in the student lending marketplace. The Ombudsman will coordinate with the Department of Education to help resolve complaints from borrowers of private education loans and will submit a report to Congress later this year.

In January 2012, the CFPB held a field hearing in Birmingham, Alabama to gather information on the payday lending market. Consumers, as well as officials from payday lenders, advocacy groups, and government agencies, shared their insight into how payday loans work for consumers.

In 2012, the CFPB will set up a Consumer Advisory Board to provide a formal mechanism for consulting with a range of external stakeholders about the Bureau's work and emerging practices in consumer financial markets, including regional trends and concerns.

Evidence-Based Analysis

Understanding how consumer financial markets work, the avenues for innovation in financial products and services, and the potential for risk to consumers is a core component of the CFPB's mission. The Bureau's aim is to ground all of its work – from writing rules and litigating enforcement actions to its outreach and financial literacy efforts – in the realities of the marketplace and the complexities of consumer behavior.

To do this, the Bureau has invested in its capacity to understand market dynamics, to assess risks to consumers, and to study the structure and efficiency of consumer financial markets and the nature of consumer behavior in these markets.

To build a foundation for rigorous analysis, the Bureau is acquiring detailed data in a number of areas, including mortgages, credit cards, and credit bureau reports. In every case, the Bureau will strictly respect privacy laws and considerations.

The CFPB's efforts to improve the information available to policymakers and market participants have already begun.

In July, the Bureau published two required reports:[29]

- **Remittances**

  The CFPB 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. The CFPB also obtained additional data to evaluate the predictive value of using remittance history in credit scoring and will produce a second report on this subject.

- **Credit Scores**

  The Bureau examined the differences between credit scores sold to consumers and scores used by lenders to make credit decisions.

Additionally, the CFPB's Research and Markets teams are collaborating with their colleagues from the Students and Older Americans offices to prepare required reports on private student lending and reverse mortgages, and provide recommendations on best practices concerning financial advisors who work with older Americans.[30]

As part of Financial Education's efforts to understand effective financial education practices, the CFPB began a pilot program that will evaluate certain programs in the field and publish the results to help inform and advance the field of financial literacy.

[29] Dodd-Frank Act, Public Law 111-203, Sections 1073(e) and 1078(a), respectively. Both reports are available on consumerfinance.gov.

[30] Dodd-Frank Act, Public Law 111-203, Sections 1077, 1076(a), 1013(g)(3)(C).

The CFPB has also hosted three research-oriented conferences designed to promote discussion of regulatory issues related to consumer finance among academics, consumer advocates, industry representatives, and public officials.

- In December 2010, the CFPB hosted a symposium to inform its work on the integrated TILA-RESPA disclosures for mortgages. The event addressed effective practices for communicating information about mortgages and research on how disclosures affect consumer behavior.

- In February 2011, the Bureau 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.

- In October 2011, CFPB hosted a symposium focused on new research on sustainable mortgages and access to credit. Panelists discussed the relationship between lending standards and default risks, policy options to affect access to credit, and approaches to improving data on mortgage lending.

Building a Great Institution

The CFPB has grown from a handful of early arrivals in the summer of 2010 to over 750 employees nationwide. This growth has been matched by sustained effort to implement policies to govern the Bureau's activities, launch important relationships, and create a transparent culture that allows the American people see how their agency is doing. Taken together, these efforts mark an important investment in building an agency that can deliver the consumer protections guaranteed by federal law.

DEFINING THE BUREAU'S POLICIES AND PROCEDURES

As part of its implementation work, the Bureau has implemented several important policies and procedures, including:

COORDINATION OF REGULATORY ANALYSES, INTERAGENCY CONSULTATION & SMALL BUSINESS REGULATORY ENFORCEMENT FAIRNESS ACT PANELS

The CFPB has prepared to implement various requirements under the Dodd-Frank Act concerning analysis of certain benefits, costs, and impacts of the CFPB rules; consultation with prudential regulators and other appropriate agencies over the course of a rulemaking; and consultation with small regulated entities prior to proposing certain rules as required under the Small Business Regulatory Enforcement Fairness Act of 1996. Staff has studied and consulted with other federal agencies that have similar obligations.

NOTICE AND OPPORTUNITY TO RESPOND AND ADVISE ("NORA") POLICY

In November 2011, the CFPB outlined plans to provide advance notice of potential enforcement actions to individuals and companies under investigation. The NORA process begins with the Bureau explaining to individuals or companies that evidence gathered by the CFPB indicates they have violated consumer financial protection laws. Recipients of a NORA notice can then respond in writing before a final decision is made to begin legal action. Although the NORA notice is not required by law, it reflects the CFPB's commitment to fundamental fairness in the exercise of its enforcement authority. The decision to give notice in any particular case is discretionary and will depend on factors such as whether prompt action is needed.

PROCEDURES FOR ENFORCEMENT INVESTIGATIONS AND ADJUDICATION

In July 2011, the CFPB adopted Rules Relating to Investigations and Rules of Practice for Adjudication Proceedings as interim final rules and anticipates finalizing these rules after consideration of public comments. The CFPB's Rules Relating to Investigations include procedures for investigating whether persons engaged in conduct that violates federal consumer protection laws enforced by the CFPB. The CFPB's Rules of Practice for Adjudication Proceedings set forth the rules for conducting adjudication proceedings to ensure or enforce compliance with these laws.

DISCLOSURE OF RECORDS AND INFORMATION

Also in July, the CFPB adopted an interim final rule establishing procedures for the public to obtain information from the CFPB under the Freedom of Information Act, the Privacy Act of 1974, and in legal proceedings. The rule establishes CFPB's procedures regarding the confidential treatment of information obtained from persons during supervisory or other regulatory activity. The CFPB anticipates finalizing the rule after consideration of public comments.

Over the next six months, the CFPB will continue to issue rules necessary to launch required functions:

ESTABLISHING THE SCOPE OF THE NONBANK SUPERVISION PROGRAM

"Larger Participants"

The Dodd-Frank Act requires that the CFPB supervise all nonbanks in the residential mortgage, private education lending, and payday lending markets. The nonbank supervision program will also apply to nonbanks that are "larger participants" in other markets, as defined by a forthcoming rule. In June 2011, the CFPB formally sought public comments on how to define a "larger participant"[31] and held a series of roundtable discussions with industry, consumer and civil rights groups, and state regulatory agencies and associations. The Bureau is reviewing the more than 10,400 comments on that topic and will soon propose its initial "larger participants" rule.

[31] 76 Fed. Reg. 38059.

Procedural Rules

Under the Dodd-Frank Act, the CFPB may also supervise any nonbank that it determines is engaging or has engaged in conduct that poses risks to consumers with regard to consumer financial products or services.[32] The CFPB will publish rules setting out procedural guidelines for implementation of this provision in the next few months.

[32] Dodd-Frank Act, Public Law 111-203, Section 1024(a)(1)(C).

ETHICS

The CFPB is establishing a model government ethics program that fosters high ethical standards and maintains the public's confidence that Bureau employees conduct their duties with integrity and impartiality. Key components include: pre-employment ethics review of candidates for executive positions, including a review of financial interests; comprehensive, interactive ethics training for every new CFPB employee, including specialized training for executives and examiners; development of supplemental ethics regulations tailored to the Bureau's mission, taking into account the nuanced ethics issues facing regulators; and implementation of an online electronic filing system for generating, tracking, reviewing and monitoring completion of financial disclosure forms.

INVESTING IN PARTNERSHIPS

The CFPB is committed to collaborating with local, state and federal partners and groups representing consumers, industry, and a wide array of other stakeholders. These partnerships will allow the CFPB to share information about emerging risks to consumers, coordinate and leverage resources, and promote innovative strategies in consumer protection and education. Over the past year, the Bureau has begun establishing these important relationships in a variety of contexts.

The CFPB has pursued efforts to establish Memoranda of Understanding ("MOU") with each of the prudential regulators, federal law enforcement agencies, state agencies, and various industry or self-regulatory organizations. These agreements establish a framework for sharing information about institutions within the Bureau's authority, coordinating activities and the use of resources, and promoting best practices. In the case of the prudential regulators, the MOUs will also establish protocols for conducting "simultaneous" examinations so that the burden of the Bureau's supervisory activities on companies can be reduced as the Dodd-Frank Act requires.

In April 2011, the Bureau signed a Joint Statement of Principles with the National Association of Attorneys General. Under this agreement, the CFPB and state attorneys general will work together to share information, data, and analysis; develop joint training programs; and, where appropriate, support each other through joint or coordinated investigations and coordinated enforcement actions

In early July, the CFPB's Servicemember Affairs and Enforcement offices and Judge Advocates General of all the service branches signed a Joint Statement of Principles to ensure that the CFPB can help protect military families from illegal practices.

Servicemember Affairs also established a working agreement with the Department of Veterans Affairs to refer military families to one-on-one foreclosure prevention assistance.

In October 2011, the CFPB's Private Education Loan Ombudsman entered into an MOU with the Department of Education to share information about private student loan complaints.

The CFPB Director serves as the Vice-Chair of the Financial Literacy and Education Commission ("FLEC"), which is developing a national strategy for financial education. Senior staff from Financial Education works with the representatives of 22 other member federal agencies to enhance financial literacy efforts and avoid duplication.

In January 2012, the CFPB announced a joint effort with state Attorneys General and the Department of Defense to track companies and individuals who repeatedly target servicemembers, veterans, and their families. The Repeat Offenders Against Military ("ROAM") Database will provide centralized information to local, state and federal law enforcement agencies to support their work investigate and stop financial scams against the military. The CFPB and its partners will continue to encourage agencies across the nation to share information to support this project.[33]

[33] Agencies that wish to contribute information to the ROAM database or request information should email the Bureau at ROAMDatabases@cfpb.gov.

OPEN GOVERNMENT

Transparency is not just a key element of the CFPB's vision for consumer financial markets. Openness about what the Bureau is doing and how it operates is also an essential ingredient in how the CFPB is being built. The CFPB has taken these steps to makes its operations transparent to the public:

- Leadership Calendars

  The Bureau published the daily calendars of Elizabeth Warren and Raj Date, each of whom served as Special Advisor to the Secretary of the Treasury on the Consumer Financial Protection Bureau, on its website. Director Rich Cordray's daily calendar will also be published on the website.

- Budget Updates

  The CFPB publishes quarterly budget updates on its website to provide a snapshot of how the Bureau's resources are being used.

- Reports

  The CFPB has published reports on its implementation activities and an interim report on the first three months of Consumer Response's credit card complaint data.

- Congressional Oversight

  In 2001, the Bureau's senior staff testified 11 times before Congressional committees.[34] The CFPB publishes written testimony submitted as part of those appearances on its website.[35]

[34] Appendix B contains a complete list of Congressional appearances by CFPB staff.

[35] Written testimony can be found on consumerfinance.gov

BUDGET

HOW THE CFPB IS FUNDED

The CFPB is funded principally by transfers from the Federal Reserve System, up to limits set forth in the Dodd-Frank Act. The Director of the CFPB requests transfers from the Federal Reserve in amounts that are reasonably necessary to carry out the Bureau's mission. Annual funding from the Federal Reserve System is capped at a fixed percentage of the total 2009 operating expenses of the Federal Reserve System, equal to:

- 10 percent of these Federal Reserve System expenses (or approximately $498 million) in fiscal year ("FY") 2011;
- 11 percent of these expenses (or approximately $547.8 million) in FY 2012; and
- 12 percent of these expenses (or approximately $597.6 million) in FY 2013 and each year thereafter, subject to annual inflation adjustments.

During fiscal year 2011, the CFPB requested transfers from the Federal Reserve totaling $161.8 million to fund implementation activities to launch operations and to continue to build operating capacity.[36]

These funds are held in an account for the Bureau at the Federal Reserve Bank of New York. Bureau funds that are not funding current needs of the CFPB are invested in Treasury securities on the open market. Earnings from those investments are also deposited into the Bureau's account.

If the authorized transfers from the Federal Reserve are not sufficient in fiscal years 2010-2014, the CFPB can ask Congress for up to $200 million, subject to the appropriations process. The CFPB did not request an appropriation in FY 2011 and does not plan on doing so in FY 2012 or FY 2013.

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 CFPB maintains a separate account for these funds at the Federal Reserve Bank of New York. The CFPB did not collect any civil penalties in FY 2011.

[36] More detailed information on CFPB's budget is available in the Bureau's Annual Financial Report and FY 2013 Budget Justification. To facilitate oversight, CFPB's Financial Report for Fiscal Year 2011 is attached as an appendix to this report. It is also available on consumerfinance.gov.

The Bureau's FY 2013 Budget Justification will be available on the Bureau's website following the release of the President's FY 2013 Budget.

AUDITED FINANCIAL REPORT FOR FISCAL YEAR 2011

In November 2011, the CFPB issued its first Financial Report, including financial statements for fiscal year 2011 that were audited by the Government Accountability Office ("GAO") in accordance with generally accepted government accounting standards. The GAO's audit report concluded that the CFPB's fiscal year 2011 financial statements are fairly presented in all material respects. The GAO also concluded that the CFPB had effective internal control over financial reporting as of September 30, 2011, and found no reportable instances of noncompliance with the laws and regulations it tested.

KEY CFPB EXPENDITURES IN FISCAL YEAR 2011

During fiscal year 2011, the majority of CFPB spending was related to essential, one-time costs related to standing up the Bureau, such as information technology and mission-specific and human capital support. The CFPB incurred $123.3 million in obligations, including $68.7 million in contract and support services, $48.4 million in salary and benefits, and $6.2 million in other expenses.

Implementation Activities

The Bureau's significant start-up expenditures in fiscal year 2011 include:

- $18.6 million to Treasury for various administrative support services, including information technology and human resource support, office space, and detailees;
- $6.7 million to Treasury's Office of the Comptroller of Currency for office space and support services for complaint processing;
- $6 million to Treasury's 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 capital policies and assistance in developing salary and benefits packages consistent with statutory requirements;
- $4.3 million to an information technology contractor for project management support services; and
- $4.3 million to a contractor for the development of Consumer Response.

Members of the CFPB team.

Recruiting and Hiring

Over the past year, the CFPB has focused on recruiting and hiring the most highly qualified individuals. These efforts have focused on filling vacancies at its headquarters in Washington, D.C., and in its examiner workforce which is distributed across the country and organized by regions focused on satellite offices in Chicago, New York City, and San Francisco.

The $48.4 million that the CFPB spent on salary and benefits in fiscal year 2011 supported approximately 660 employees who were onboard by the end of September 2011. By the end of December 2011, the Bureau had 757 employees. In addition to competitive hires, these include approximately 230 highly qualified regulators, researchers, lawyers, and market practitioners who transferred from the consumer protection divisions of the prudential regulators and other agencies.

Figure 1: CFPB Positions Filled through December 31, 2011

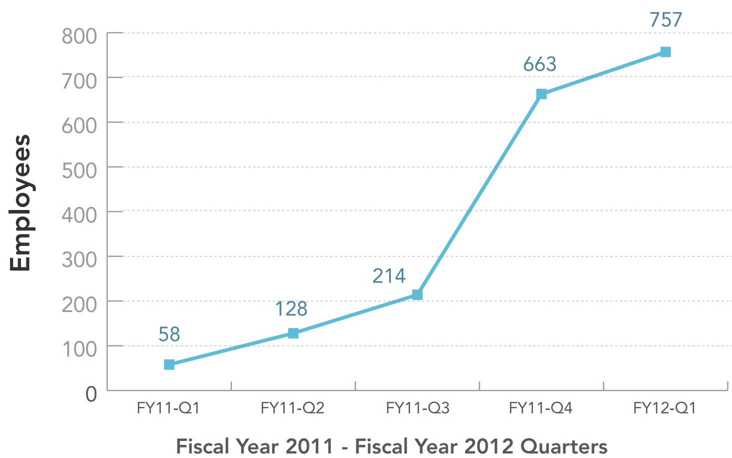


Figure 1 displays the quarterly growth of on-board positions filled for the CFPB through December 31, 2011

DIVERSITY[37]

Diversity has been a cornerstone of the Bureau's foundation, its programs, and its contracting since its establishment. In January 2012, the Bureau formally established an Office of Minority and Women Inclusion ("OMWI") to ensure that inclusion continues to inform its work. OMWI will focus on developing and refining standards for:

- equal employment opportunity, workforce diversity, and inclusion at all levels of the agency;
- increased participation of minority-owned and women-owned businesses in the CFPB's programs and contracts; and
- assessing the diversity policies and practices of companies that the CFPB supervises.

The CFPB has met with representatives from FIRREA agencies[38] and other stakeholders to assess how to structure and staff OMWI and to identify best practices for promoting hiring and contracting diversity.

[37] This section presents an overview of the Bureau's effort to promote diversity across its workforce and contractor support community. A more complete analysis will be presented in the Bureau's required annual Human Capital report, which will be published later in 2012.

In July 2011, the Bureau published a report on its goals for recruitment and retention, training and workforce development, and workforce flexibilities. That report is available on consumerfinance.gov.

[38] These agencies include OCC, OTS, FDIC, NCUA, the Commodity Futures Trading Commission, the Securities and Exchange Commission, and the Federal Reserve. See 12 U.S.C. § 1833b and 15 U.S.C. § 78d.

DIVERSITY IN THE CFPB'S WORKFORCE

As of December 31, 2011, CFPB had 757 employees onboard, approximately half of the Bureau's anticipated staffing level. The CFPB's workforce is 47 percent women and 53 percent men. Over 30 percent of the CFPB workforce is comprised of minorities, including approximately 19 percent of the Bureau's employees who self-identified as African-American, 7 percent as Asian, and 5 percent as Hispanic.

Figure 2: Bureau-wide gender and minority statistics to FIRREA benchmarks by pay band

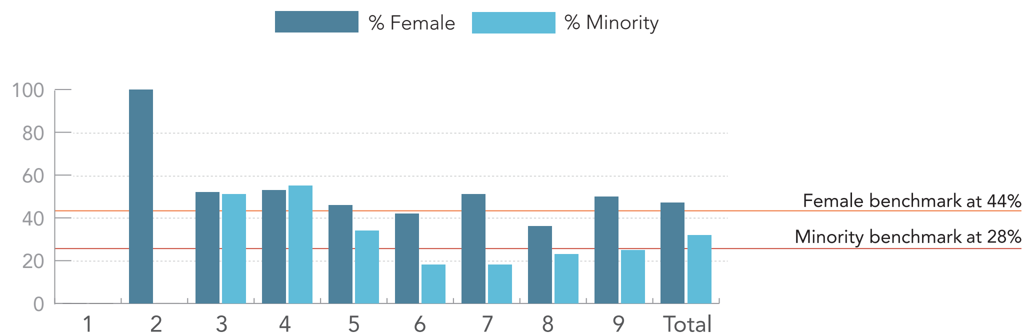


Figure 2 compares the CFPB's workforce to the FIRREA community with respect to diversity by gender, race, and national origin. Figure 2 shows that the CFPB has a relatively even distribution of women and minorities across pay bands. The CFPB workforce has more women in pay bands 3, 4, and 7 than FIRREA counterparts represented by the green line in Figure 2. Women also account for approximately 37 percent of pay bands 8 and 9, the pay bands that contain the CFPB's senior leadership positions. The Bureau's workforce has more minorities overall than the FIRREA agencies, and this is especially pronounced in pay bands 3, 4, and 5 as represented by the blue line below.

The overall variation of salary compensation across pay bands within CFPB with respect to gender is 0.2 percent. Finally, the comparable gap between pay for minority and non-minority populations is 0.6 percent.

OMWI'S ROLE AT THE CFPB

Now that it has been established, OMWI will help all parts of the Bureau bring diverse perspectives to bear on its work and promote inclusive hiring and contracting practices.

Recruitment

As the CFPB continues to grow, OMWI will work with the federal OMWI community, local and national media, and other stakeholders to develop awareness of existing opportunities at the Bureau to promote the opportunities for women and minorities in its workforce and to diversify its applicant pool. In addition to promoting diverse applicant pools for immediate openings, OMWI will work with the Bureau's Human Capital office to develop long-term plans that focus on active participation at recruitment and outreach events for all levels of candidates. The aim is to continually support the capacity to attract diverse applicants for any job openings that may arise.

The CFPB is taking the following steps to create a pipeline of diverse candidates:

- targeted recruiting at colleges and graduate schools;
- creating an Employee Referral Program for hard-to-fill positions that that fosters contacts among underrepresented populations;
- forming strategic alliances and partnerships with organizations that serve underrepresented populations;
- developing a recruiting tool kit to provide each of CFPB's teams with tips for reaching diverse candidate pools;
- creating a recruitment website that reflects best practices for promoting diverse applicant pools; and
- utilizing social media and other technological tools to attract diverse talent.

Regulatory Oversight

Under the Dodd-Frank Act, OMWI must assess and monitor the diversity policies and practices of the companies that the CFPB supervises. OMWI will continue to the Bureau's efforts to define procedures for conducting this oversight.

DIVERSIFYING PROCUREMENT PARTICIPANTS

The CFPB has also worked to promote diversity among the companies that compete to receive its contracts. The Bureau's Procurement office is currently measuring obligations for certain small business contracts awarded to minority-owned small disadvantaged businesses and women-owned small businesses against goals based on the percentage of total dollars spent or obligated on contract actions.[39] As shown in Figure 3, in fiscal year 2011, the CFPB exceeded an initial goal of awarding at least 5 percent of its contracting dollars to minority owned small disadvantaged businesses and women owned small businesses.[40] In fiscal year 2011, 21.82 percent of CFPB contract dollars went to small disadvantaged businesses. Of that amount, 76 percent or roughly $5.5 million was awarded to certified 8(a) firms. Additionally, 6.57 percent of contract dollars went to woman-owned small businesses.[41]

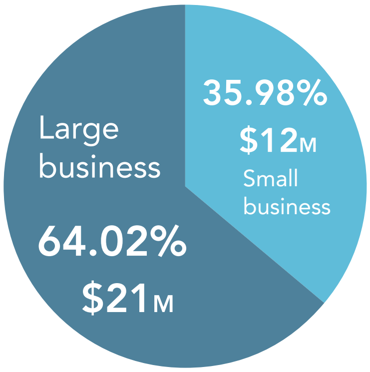
[39] Note that obligations are measured for contract awards valued above $3,000.

[40] The Bureau's goals for fiscal year 2011 were set by Treasury. Going forward, the CFPB's OMWI will help determine appropriate targets.

[41] Results from first quarter of fiscal year 2012 have not yet been validated.

FY11 Socioeconomic Obligations

FY11 Total Obligations



	Obligated dollars
Small disadvantaged business	$7.2M
Woman owned small business	$2.2M
Service disabled veteran owned small business	$1.3M
Other small business	$0.7M
HubZone small business	$0.6M

Going forward, the CFPB's Procurement office will work with OMWI to research and develop further strategies to increase the levels at which minority and women owned enterprises – both large and small – participate in the CFPB's contracting opportunities. OMWI will also develop procedures to promote opportunities for fair inclusion of women and minorities within the population of contractor staff and, as applicable, subcontractor staff in accordance with the Dodd-Frank Act.

Shopping Challenges

Promoting markets in which consumers can shop effectively for financial products and services is central to the CFPB's mission. When the costs, risks, and other key features of financial products are transparent, consumers may be able to compare products and choose the best one for them.

SCOPE

This report represents a set of preliminary observations about opportunities and challenges that consumers face when shopping for mortgages, credit cards, and student loans.

The Bureau aims to develop better data and evidence over time about consumers' shopping patterns and behaviors, and the ways that market structure and sales practices may shape these patterns.

This report focuses on consumers' ability to shop for loans based on price terms – for example, interest rates and fees – since that has been the focus of several of our most important projects in the last year. It also discusses consumers' ability to shop on monthly payment or total obligation.

Consumers may consider other factors, including product features, convenience, quality of service, and, in some cases, providers' financial stability. Future reports may consider those factors, as well as fair lending issues that may limit some consumers' ability to shop.

OVERVIEW

The U.S. consumer financial services market offers consumers a wide variety of credit, payments, and deposit products. Within any given product category, there are typically a wide array of features and terms, giving rise to a large number of potential combinations from which consumers can make a choice. In this kind of marketplace, shopping can help consumers find a product that meets their specific needs.

The market also contains a lot of information about certain elements of product prices. For example, those consumers who have Internet access – and it is important to bear in mind that many do not[42] – can readily use common websites to find certain rate information on mortgage loans or auto loans for borrowers with strong credit histories. Many consumers receive several credit card offers each month quoting them interest rates based on their credit histories.

[42] For example, Pew reports that 22 percent of adults and 58 percent of seniors do not have Internet access. Pew Internet & American Life Project, "Demographics of Internet Users" http://www.pewinternet.org/Trend-Data/Whos-Online.aspx

In this environment, consumers who want to shop on price still face many challenges:

Nonstandard information. The Truth in Lending Act standardized how rates are stated when consumers borrow money. Lenders must quote an annual percentage rate ("APR"). For many types of products, however, disclosures of fees are not standardized and information about fees is not readily available. For example, the presentation of fees for checking accounts and prepaid cards is not standardized and cannot be easily checked on websites or elsewhere.

Price can be complex. Consumer financial products can have such a wide variety of rates and fees that consumers have difficulty getting a clear sense of how much the product will cost. Determining which rates and fees will apply in certain circumstances often depends on a complicated set of legal rules about when different charges apply. In this context, disclosures mandated by government can simplify the price but only to a degree.

Price can depend on future behavior. The actual price to an individual consumer may depend on how the consumer ultimately uses a product, which can be difficult for the consumer to predict when they choose one offer over another. Consider the credit card, the most common consumer credit product. The actual cost of using a particular card depends on when consumers borrow, whether they make a purchase or take a cash advance, how much they borrow, and when and how much they pay back. Similarly, the actual cost of a checking account depends on the amount and timing of the consumer's deposits and withdrawals.

A consumer may have a hard time predicting these patterns, let alone determining how different patterns translate to different costs. Marketing materials may emphasize the cost for the consumer who uses the product in the most favorable way. Mandatory disclosures can help draw attention to a product's cost under less favorable circumstances. But, sometimes pricing is so complex that it cannot be reduced to an easy-to-understand disclosure, and that is when shopping may be most difficult.

Price can depend on credit quality. Risk-based pricing is the practice of charging higher prices for consumers whose credit history or lack of credit history indicates that these consumers are more likely to have trouble repaying the loan. For some credit products, risk-based pricing may make it possible for some lenders to expand access to credit and may make the allocation of credit more efficient. Risk-based pricing of credit products may make shopping harder, particularly for borrowers with weaker credit histories or borrowers who are uncertain about the strength of their credit history. For some credit products, risk-based pricing may make it possible for some lenders to expand access to credit and may make the allocation of credit more efficient.

Risk-based pricing can make it more difficult for consumers to obtain accurate price information when they are shopping. The lender does not determine the exact price it will charge a particular consumer until the lender has reviewed information about the borrower, known as underwriting the loan. The lowest-risk borrowers – assuming that they can correctly self-identify – may be able to rely on prices quoted in advertising, but higher-risk borrowers cannot assume that they will be able to obtain a loan at the advertised price. Such borrowers may not obtain an accurate price quote until after they have invested time and effort, and sometimes until after they have paid a fee to apply for a loan.

MORTGAGES

In 2010, approximately 7.8 million consumers took out a mortgage loan to purchase a house or refinance an existing loan.[43] Limited available evidence about consumers' shopping behavior suggests that consumers do not, or perhaps in some cases cannot, obtain information about mortgage products from more than a small number of lenders. Surveys conducted before the financial crisis suggest that roughly 20 to 30 percent of mortgage borrowers contacted only one lender, a similar fraction considered two lenders, and about half contacted three or more lenders.[44] Some studies estimate many consumers could see significant savings if they shopped more.[45] This evidence suggests that borrowers find the time and effort of additional shopping to be quite costly, underestimate the potential value from shopping, or both.

[43] Inside Mortgage Finance, "Mortgage Market Statistical Annual," 2010.

[44] Jinkook Lee and Jeanne M. Hogarth, "Consumer information search for home mortgages: who, what, how much, and what else?," Financial Services Review 9, 2000, 277–93; James M. Lacko and Janis K. Pappalardo, "The Effect of Mortgage Broker Compensation Disclosures on Consumers and Competition: A Controlled Experiment," Federal Trade Commission Bureau of Economics Staff Report, Feb. 2004 http://www.ftc.gov/be/workshops/mortgage/articles/lackopappalardo2004.pdf

[45] Susan E. Woodward and Robert E. Hall, "Diagnosing Consumer Confusion and Sub-Optimal Shopping Effort: Theory and Mortgage-Market Evidence," NBER Working Paper No. 16007, May 2010 http://www.nber.org/papers/w16007

Several factors contribute to this phenomenon:

Timing. Consumers who are seeking a mortgage to purchase a home (as opposed to refinancing an existing mortgage) ordinarily face time pressure to complete the purchase. This pressure may lead consumers to shop less for a mortgage because they undervalue the benefits of comparison shopping and lack the time to do it.

Pricing complexity. Since the crisis in 2008, certain types of particularly complex mortgages have become much less common. Thus, on the whole, the array of available mortgage products has likely become simpler. Furthermore, although adjustable rate mortgages are still available, most consumers seem focused on fixed-rate, fixed-payment mortgage loans for a variety of reasons, including the low interest-rate environment. In 2010, these loans comprised over 90 percent of mortgage originations, or $1.4 trillion, compared to 52 percent and 55 percent respectively in 2005-2006.[46] If this reflects an increase in the number of borrowers that consider only fixed-rate, fixed-payment loans, then comparison shopping is likely easier for such consumers, all other things being equal.

[46] About 9 percent were adjustable-rate, fully-amortizing mortgages; interest-only loans were less than 1 percent. Inside Mortgage Finance, "Mortgage Market Statistical Annual," 2010.

But shopping even for relatively simple products – such as fixed-rate, fixed-payment mortgages – involves complex decisions. For example, these products often offer a trade-off between interest rates and discount points. Studies offer some evidence that many consumers struggle to understand this relationship.[47] Even for the consumer who understands discount points, comparing offers with different combinations of rate, points, and fees can be difficult.

[47] Susan E. Woodward, "A Study of Closing Costs for FHA Mortgages," May 2008, at 57-58 http://www.huduser.org/portal/publications/hsgfin/fha_closing_cost.html

James M. Lacko and Janis K. Pappalardo, "Improving Consumer Mortgage Disclosures An Empirical Assessment of Current and Prototype Disclosure Forms," Federal Trade Commission Bureau of Economics Staff Report, Jun. 2007, at 30 http://www.ftc.gov/os/2007/06/P025505MortgageDisclosureReport.pdf

Lacko and Pappalardo, 2004 at 50.

Pricing variability and volatility. The interest rate on a mortgage, as on other credit products, will vary from consumer to consumer based upon the consumer's creditworthiness. In addition, mortgage rates can fluctuate daily based on secondary market supply and demand. Thus, a consumer can more effectively comparison shop if the consumer can efficiently obtain customized, firm rate quotes from more than one lender. However, obtaining firm rate quotes from more than one lender requires the consumer's time and effort to provide information to multiple lenders.

Moreover, even firm rate quotes are contingent on circumstances that may be difficult for the borrower to predict or control. If, for example, the appraised value of the home is lower than anticipated,[48] the lender usually reserves the right to charge a higher rate. Consumers have no ready way of anticipating how different lenders will respond to such a change in circumstances. In the case of a home purchase transaction, shopping after a change in circumstance may be impractical as the closing date will likely be near.

[48] Leonard Nakamura, "How Much is That Home Really Worth? Appraisal Bias and House-Price Uncertainty," Business Review, Q1 2010, 11-22 http://www.phil.frb.org/research-and-data/publications/business-review/2010/q1/brq110_home-worth-appraisal-bias.pdf

Third Parties. Consumers may seek to save time by turning to a mortgage broker to shop for the consumer or by using a third-party website. Mortgage brokers can offer a consumer loans from multiple lenders, potentially helping consumers to find a better deal than they would find on their own. Brokers also can offer the consumer advice and expertise. However, brokers generally do not have a legal obligation to represent the best interests of the consumer.[49] Third-party websites aggregate price quotes from multiple lenders and serve as an additional mortgage shopping channel, but the selection and placement of products within a site's list may be influenced by placement fees paid by the retail lender or mortgage broker.

[49] Until recently, a broker could present a consumer with a loan that provides the broker a higher commission but was not necessarily the best loan for the consumer. New rules adopted by the Federal Reserve Board prohibit a mortgage broker (or a loan officer) from steering a consumer to a loan that is not in the consumer's best interest to increase the broker's compensation. They also prohibit a mortgage broker (or a loan officer) from receiving compensation based on the terms or conditions of a loan. The Dodd-Frank Act included related provisions addressing mortgage originator compensation, and the Bureau will be issuing rules to implement these provisions.

Whether the consumer shops through a broker or a web site, the consumer faces the challenges discussed above. For example, rates quoted by brokers or web sites may not accurately reflect the actual rates and terms a consumer will receive after the lender has considered (underwritten) their application.

Complexity of Disclosures. Mandatory federal disclosures are meant to make shopping easier. RESPA requires lenders to disclose detailed information on closing costs shortly after application. This disclosure is known as the Good Faith Estimate ("GFE"). TILA requires lenders to state different information regarding loan costs, including an APR that takes into account interest, points, and certain one-time fees to create a single rate. But the APR's usefulness for purposes of comparing prices across loans is limited for various reasons. For example, the APR includes only certain types of fees and excludes others. The interaction between the RESPA and TILA disclosures has long been recognized as inefficient and confusing for consumers and industry. There is also evidence that many consumers find it difficult to read, understand, and use the required disclosures.

As discussed more fully above in the "Know Before You Owe" section, the Bureau is overhauling these disclosures on the basis of extensive testing with consumers and will propose new disclosures for public comment in July.

CREDIT CARDS

The credit card is one of the most common consumer financial products in the U.S. As many as three-fourths of households have a credit card, and many have more than one.[50] Nearly 514 million credit cards were in circulation as of December 31, 2010.[51] Credit cards provide consumers with convenience, serving as a substitute for cash and checks and providing ready access to credit.[52]

In 2010, consumers opened 39.0 million new bank credit card accounts and 34.3 million retail accounts, a significant proportion of which were retail credit cards.[53] It is unclear the extent to which consumers shop before applying for a new credit card. In January 2011, the CFPB commissioned a survey among consumers who currently hold a bank credit card. In that survey, 13 percent reported that they had applied for a bank credit card in the preceding twelve months, and of those, 30 percent reported that they had compared several different cards. However, because the number of respondents who had applied for a credit card was small, information about the shopping behavior in this survey must be used with caution.

Consumers who desire to shop for a credit card face several challenges.

Pricing Complexity. Credit card terms can be complex and hard to follow, making the total cost of using the card difficult to understand or predict and comparison with other cards even more challenging. Different transactions – such as cash advances, balance transfers, and purchases – may be subject to different APRs. And while APRs are communicated in percentages, various fees may be communicated in dollar terms, percentage terms, or a mix of dollar and percentage terms.

Consumers also face complex trade-offs. For example, promotional periods differ in length and cover different types of transactions. Consumers may seek to weigh the benefit of a longer or shorter introductory period against the benefit of a higher or lower "go to" APR. Additionally, some credit cards come with an annual fee. Consumers may seek to weigh a card with a fee and a lower APR against a card without a fee and higher APR. Some cards have rewards programs. Products with rewards may have different APRs or fees than products without rewards.

To make these various tradeoffs accurately, consumers must predict their propensity to carry a balance from month to month, foresee their spending and payment patterns, evaluate their rewards redemption preferences, and anticipate their need and appetite for cash advances. With so many moving parts, consumers may struggle to make value-maximizing decisions.

Information limitations. The introductory and "go to" APR on a credit card generally depend on the consumer's riskiness as assessed by the issuer based on pricing methods that are not public. This can make it more difficult for consumers to compare prices across products or to evaluate the competitiveness of a particular offer. Most issuers' websites, for example, display APRs in broad ranges (e.g., from 12.99 percent to 20.99 percent) based on credit quality segments. Thus, a consumer is left to guess what the ultimate price might be. Further, consumers who apply for credit cards are generally assigned a higher APR than the rate offered to customers identified by the issuer. While this does imply a potential penalty for consumers who shop actively, it may reflect genuinely higher risk profiles of consumers who actively seek credit.

[50] Brian Bucks, Arthur Kennickell, Traci Mach, and Kevin Moore, "Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances", Feb. 2009, at A46 http://federalreserve.gov/econresdata/scf/files/2007_scf09.pdf

[51] The Nilson Report, Issue 965, Feb. 2011, at 8. This report refers to bankcards associated with the major payment networks (Visa, MC, Amex, and Discover).

[52] Thomas A. Durkin, "Credit Cards: Use and Consumer Attitudes, 1970 – 2000," Federal Reserve Bulletin, Sep. 2000, at 624 - http://www.federalreserve.gov/pubs/bulletin/2000/0900lead.pdf

[53] Experian-Oliver Wyman Market Intelligence Report: Bank Card Report, Q3 2011; Experian-Oliver Wyman Market Intelligence Report: Retail Report, Q3 2011.

Mail offers provide many consumers a steady flow of information about rates available to those consumers from the large, national card issuers. In the first three quarters of 2011, 60 percent of households received credit card mail solicitations,[54] and the average solicited household received five solicitations per month. Seventy-six percent of those solicitations contained a "pre-screened" price offer, that is, a specific price based on the fact that the consumer satisfied certain credit criteria specified by the card issuer.[55] Under the Fair Credit Reporting Act, these offers must be "firm offers," which means that if the consumer returns the application the consumer will receive the offered price unless the consumer no longer meets credit criteria established by the issuer at the time of the solicitation. Thus, consumers who are "in the market" for a new credit card and who receive and retain multiple pre-screened offers from different issuers can compare those offers. But many households – 40 percent in the first three quarters of 2011 – do not receive mail solicitations. Moreover, mail solicitations are dominated by the large national issuers whereas consumers may wish to shop more broadly.

[54] Synovate Mail Monitor, "Direct Mail Landscape," Q1-Q3 2011. Synovate maintains a consumer panel and obtains from these panelists on a monthly basis all credit card solicitations received during the month.

[55] *ibid.*

Consumers are also solicited in person at bank branches and retail points of sale or by phone. In those settings, the consumer may be less likely to see or understand key price terms or to have compared different offerings before submitting an application.

Third Parties. Instead of visiting multiple issuers' websites or branches, consumers sometimes use an "aggregator" (i.e., a third-party website that contains information on multiple products from multiple issuers). Third-party sites may narrow a consumer's search by providing a list of products that meet certain consumer-defined parameters, such as low-interest, cash rewards, travel rewards, etc. But the selection and placement of products within that list may be influenced by placement fees paid by card issuers. Additionally, third-party sites quote the same ranges of rates the consumer would find on the issuers' web sites, not a specific rate.

Disclosure limitations. For consumers who have received and are evaluating mail solicitations, certain key terms will be disclosed in a standardized format. However, not all of the material terms are necessarily disclosed in solicitations. For example, credit lines vary across credit cards and these are not disclosed until after the consumer has applied for and obtained the card. Similarly, many of the key elements of rewards products are not disclosed until the consumer has obtained the card.

As discussed above, the CFPB has developed a draft prototype of a simplified credit card agreement that spells out the terms for the consumer and provides the appropriate legal protections to the issuer.

STUDENT LOANS

Student loans are a significant portion of household debt, second only to mortgages. Total outstanding student loan debt is estimated at $865 billion.[56] And over the past decade, total student loan borrowing has increased 57 percent per full-time enrolled student.[57] A likely factor in the increase is the rising cost of tuition and fees at colleges and universities.[58]

[56] Quarterly Report on Household Debt and Credit, Federal Reserve Bank of New York http://www.newyorkfed.org/research/national_economy/householdcredit/DistrictReport_Q32011.pdf

[57] College Board, "Trends in Student Aid," 2011.

[58] Tuition and fees at public colleges have increased by an average of 5.6 percent per year above the rate of general inflation. College Board, "Trends in College Costs," 2011, at Figure 4.

Students who need help in paying for post-secondary education can fund their educations with a mix of loans, grants, and tax benefits. Loans, however, make up 47 percent of the money students receive.[59] Of loans outstanding in 2011, approximately 90 percent are federally-supplied and 10 percent are from private sector lenders.[60] Originations of private student loans have been declining, from a ten-year high of $22 billion in 2007 to $6 billion in 2010.[61]

For many students, before shopping for loans they first must choose between two or more schools, each with different costs and financial aid packages. Students may seek to compare the cost of different schools in terms of the total debt the student will have upon graduating or the total monthly debt burden the student will have. These figures depend, in substantial part, on tuition, room, and board, which can vary. For a given cost, the debt burden from a particular financial aid package depends on a number of factors, including most importantly the amount of any institutional grants available to the student (e.g., scholarships) and, potentially, the availability of any school-subsidized sources of borrowing.

Prospective students and their families may have difficulties comparing their financing options across different educational institutions. After application and acceptance to a particular institution, potential students typically receive financial aid award letters. Financial aid letters detail the cost of attendance and aid packages. But these award letters typically do not clearly distinguish between gift aid and loan aid, do not fully inform students of their projected debt burden to complete several years of education, and typically do not estimate the future monthly payments to retire such debt. Additionally, the format and language of financial aid award letters are not standard across institutions.

Students who have selected a school and who need to borrow to finance the cost face an initial decision of whether to utilize federal loans or private loans. Students who use only federal loans do not need to worry about shopping for the best rate because federal law sets the rates. Rates and other terms may vary, however, between different types of federal loan programs. And, for students who need to (or elect to) resort to private loans, the terms and conditions of private student loans vary considerably across providers, so shopping could pay high returns. But comparing quotes from private lenders is challenging for several reasons.

Pricing variability. Students generally do not have significant credit histories and thus it is difficult to assess the creditworthiness of a student borrower. However, most private loans require a co-signer – typically the student's parents or other close relatives – and the rate the consumer will pay will depend upon the creditworthiness of the co-signers. The lender will typically not commit to a specific rate until after underwriting and approving the loan, which requires an investment of time and effort by the applicant and the loan co-signer. Obtaining a rate quote may also entail some delay, because federal Truth in Lending rules require that once a lender has approved an education borrower and quoted a rate, that quote must be binding on the lender for 30 days.[62] Lenders are therefore reluctant to communicate an approved rate until all conditions of loan approval have been fully satisfied.

[59] College Board, "Trends in Student Aid," 2011.

[60] Based on reported volumes under servicing from Student Loan Servicer's Alliance, plus publicly reported portfolios of private loans held by large financial institutions not part of SLSA. These reported volumes are approximately equal to, but cannot be directly attributed to, Department of Education public reports on federal loan volumes. Outstanding federal loans cannot be publicly verified, in part because not all large servicers of federal direct loans report their volumes publicly.

[61] College Board, "Trends in Student Aid," 2011, at 10.

[62] 12 CFR § 226.48(c).

Information availability. Most students who obtain private loans appear to learn about them from the colleges and universities they are considering. Some schools provide students a list of "preferred lenders." To prevent schools from improperly steering students to lenders, a lender may not make payments to a school in connection with private education loans. In addition, under Department of Education rules, a school that recommends a lender must maintain a "preferred lender list" with at least two unaffiliated lender options and must provide students with an explanation of the competitive methodology by which the list was compiled.

Students can also find private lenders through other sources such as the Internet. As with other credit products, there are third-party web sites which aggregate information from different lenders. However, the information these sites display may be influenced by placement fees paid by the various lenders.

Regardless of whether the student identifies the lender through the college, by doing an Internet search, by using a third-party website, or through other means, the student will still find it difficult to obtain reliable information as to the interest rate available to the student until the student has completed the application process.

As discussed more fully above in the "Know Before You Owe" section, the CFPB is working with the Department of Education to improve students' ability to compare financial aid packages based on factors such as total debt burden and monthly debt payment. As discussed more fully above, the agencies have published a prototype shopping sheet and are gathering comments from the public.

Statutory Reporting Requirements

This appendix provides a guide to the Bureau's response to the reporting requirements of Section 1016(c) of the Dodd-Frank Act.

Section 1016(c)(3) requires "a list of significant rules and orders adopted by the Bureau, as well as other significant initiatives conducted by the Bureau, during the preceding year and the plan of the Bureau for rules, orders or other initiatives to be undertaken during the upcoming period."

In 2011, the Bureau adopted the following significant rules and orders and conducted the following significant initiatives:

1. AMTPA interim final rule;
2. TILA-RESPA mortgage disclosure integration project;
3. restatement of inherited regulations via interim final rules;
4. interim final rules defining procedures for investigations, rules of practice for adjudication proceedings, and procedures for disclosure of records and information;
5. Notice and Request for Comment regarding defining "larger participants" in certain markets;
6. studies on remittances and credit scores;
7. targeted review of inherited regulations;
8. issued the Bureau's Supervision and Examination Manual; and
9. Notice and Opportunity to Respond and Advise ("NORA") policy.

In January 2012, the Bureau published regulations concerning remittance transfers. In the next six months, the Bureau plans the following rules, orders, and other initiatives:

1. Final rules defining lenders' obligations to asses borrowers' ability to repay mortgage loans, including certain protections from liability for "qualified mortgages;"

2. proposed integrated disclosures and accompanying rules for mortgage loans that satisfy the requirements of both TILA and RESPA;

3. proposed rules to implement provisions of the Dodd-Frank Act regarding the mortgage market, including origination and servicing practices, including loan originator compensation rules, data reporting requirements, restrictions on high-cost loans, maintenance of escrow accounts, and other servicing practices;

4. convening of panels to consult with small regulated entities prior to proposing certain rules as required under the Small Business Regulatory Enforcement Fairness Act of 1996;

5. participation in interagency processes to consider mortgage servicing standards and to propose various regulations concerning appraisals;

6. propose initial rules to define the scope of the Bureau's nonbank supervision program;

7. final regulations based on certain interim final rules issued since July 21st, including those that establish procedures for investigations and rules of practice for adjudication proceedings among others;

8. supplemental ethics regulations for the CFPB's employees;

9. required studies on private student loans and, reverse mortgages and provide recommendations on best practices concerning financial advisors who work with older Americans;

10. continued expansion of the Bureau's capacity to handle consumer complaints with respect to all products and services within its authority by the end of 2012;

11. a pilot program to evaluate certain financial education programs in the field; and

12. required reports on various aspects of the Bureau's work and operations, including reports on Consumer Response, Financial Education, Fair Lending, and Human Capital among others.

Section 1016(c)(5) requires "a list, with a brief statement of the issues, of the public supervisory and enforcement actions to which the Bureau was a party during the preceding year." The Bureau has been a party to no such actions during the preceding year.

Section 1016(c)(6) requires a report on "the actions taken regarding rules, orders and supervisory actions with respect to covered persons which are not credit unions or depository institutions." In 2011, the Bureau has taken the following actions with respect to such companies:

1. AMTPA interim final rule

2. Restatement of inherited regulations via interim final rules

3. Advance Notice of Proposed Rulemaking regarding defining "larger participants" in certain markets

Section 1016(c)(7) requires that the CFPB assess "significant actions" by state attorneys general or state regulators relating to consumer protection laws in the Bureau's jurisdiction. To date, the Bureau is not aware of any action brought by a state attorney general or state regulator since July 21, 2011 that relates significantly to such law.

In addition, the sections of this report identified below respond to further requirements of Section 1016(c):

Statutory Subsection	Reporting Requirement	Section	Page	Dodd-Frank Requirements For Additional Reporting
1	a discussion of the significant problems faced by consumers in shopping for or obtaining consumer financial products or services	Shopping Challenges	40-47	–
2	a justification of the Bureau's budget request for the previous year	Building a Great Institution – Budge	34-36	1017
4	an analysis of complaints about consumer financial products or services that the Bureau has received and collected in its central database on complaints during the preceding year	Delivering for American Consumers – Responding to Consumers	16-20	1013(b)(3)(C)
8	an analysis of the Bureau's efforts of to fulfill its fair lending mission	Delivering for American Consumers – Fair Lending	25	1013(c)(2)(d), 1085(1), 1094
9	an analysis of the Bureau's efforts to increase workforce and contracting diversity consistent with the procedures established by OMWI	Building a Great Institution – Diversity	36-39	1067(b)

APPENDIX B

Congressional Testimony

In 2011, senior CFPB staff testified before Congress on the following occasions:

- **March 16, 2011**: Elizabeth Warren before the House Financial Services Subcommittee on Financial Institutions and Consumer Credit
- **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
- **May 24, 2011**: Elizabeth Warren before the House Oversight and Government Reform Subcommittee on TARP, Financial Services and Bailouts of Public and Private Programs
- **July 7, 2011**: Raj Date before the House Financial Services Subcommittees on Financial Institutions and Consumer Credit and Oversight and Investigations
- **July 13, 2011**: Kelly Cochran before the House Financial Services Subcommittee on Insurance, Housing and Community Opportunity
- **July 14, 2011**: Elizabeth Warren before the House Oversight and Government Reform Committee
- **July 28, 2011**: Dan Sokolov before the House Small Business Subcommittee on Investigations, Oversight and Regulations
- **September 6, 2011**: Richard Cordray Nomination Hearing before the Senate Banking Committee
- **November 2, 2011**: Raj Date before the House Financial Services Subcommittee on Financial Institutions and Consumer Credit
- **November 3, 2011**: Holly Petraeus before the Senate Banking Committee
- **November 15, 2011**: Skip Humphrey before the Senate Banking Subcommittee on Financial Institutions and Consumer Protection

Written testimony submitted in connection with these appearances can be found on consumerfinance.gov.

APPENDIX C

Fiscal Year 2011 Financial Report

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. Further, the report describes the fiscal year 2011 efforts to establish the CFPB, and the results we have achieved to date.

View the full report at http://www.consumerfinance.gov/report/financial-report-fy2011/

APPENDIX D

Defined Terms

Defined Terms	
AMTPA	The Alternative Mortgage Transaction Parity Act
APR	Annual percentage rate
Bureau	The Consumer Financial Protection Bureau
CFPB	The Consumer Financial Protection Bureau
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act
ECOA	The Equal Credit Opportunity Act
Federal Reserve	The Board of Governors of the Federal Reserve System
FDIC	The Federal Deposit Insurance Corporation
FIRREA	The Financial Institutions Reform, Recovery, and Enforcement Act
FLEC	Financial Literacy and Education Commission
FTC	The Federal Trade Commission
FY	Fiscal year
GAO	Government Accountability Office
GFE	Good faith estimate
HAMP	Home Affordable Modification Program
HMDA	The Home Mortgage Disclosure Act
HUD	The Department of Housing and Urban Development
MOU	Memorandum of understanding
NCUA	The National Credit Union Administration
NORA	Notice and opportunity to respond
OCC	The Office of Comptroller of the Currency
OMWI	Office of Minority and Women Inclusion
OTS	The Office of Thrift Supervision
PCS	Permanent change of station
RESPA	The Real Estate Settlement Procedures Act
ROAM	The Repeat Offenders Against Military Database
SIGTARP	Special Inspector General for the Troubled Asset Relief Program
T&I	Technology and Innovation
TILA	The Truth in Lending Act
Treasury	The Department of the Treasury