

Testimony of Richard Cordray
Director, Consumer Financial Protection Bureau
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Chairman Johnson, Ranking Member Shelby, and members of the Committee, thank you for the opportunity to testify today as part of this panel of my colleagues. As the Director of the Consumer Financial Protection Bureau, I am committed to being accountable to you for how we carry out the laws that Congress enacted, and we are always happy to have the chance to discuss our work with you. This is the 18th time that the Bureau has testified before either the House or the Senate, and I am pleased to be here with you again today. My testimony will focus on the areas that you specified in the letter inviting me to testify at this hearing.

To begin with, you asked about our Bank Supervision program. Since certain supervisory powers were transferred to us in July of 2011, and even before that time, we have been focused on recruiting and hiring the best team we could find to carry out our role in supervising financial institutions with a singular focus on consumer protection. We are blessed with great talent: Steve Antonakes, the former Superintendent of Banks in Massachusetts, heads up our Bank Supervision team; Peggy Twohig, formerly the Associate Director of the Division of Financial Practices at the FTC, heads up our Nonbank Supervision team. Our examiners evaluate products, services, policies, and practices to ensure compliance with Federal consumer financial laws, and to address any harm to consumers that may be resulting from violations of those laws. If a company is not complying with the law, we may seek corrective actions to strengthen its programs and processes, redress violations, and remediate any harm consumers may have suffered.

We have met with many supervised institutions to obtain a better understanding of how they operate and how they approach compliance. We have been engaged with our prudential and state regulator partners to ensure open lines of communication and information sharing. As the law contemplates, we have been coordinating the logistics of simultaneous examinations with our fellow agencies to reduce compliance burden for financial institutions. The Bureau has recruited and hired examiners all across the country, reporting through our four regional offices – covering the Northeast, Southeast, Midwest, and West. We have commenced examination work in all four regions. For the largest and most complex banks and credit unions in the country, the Bureau is implementing a year-round supervision program customized to address the consumer protection risk profile of the organization. For other companies that we supervise, we are conducting periodic examinations and other reviews as appropriate.

To ensure that our work is transparent, we published our Examination Manual, along with other examination procedures covering particular products and services. In order to implement a consistent approach, CFPB examiners examine both banks and nonbanks, and use the same examination procedures for the same products and services. That means the mortgage servicing procedures that we published last October cover both bank and nonbank mortgage servicers, and

the mortgage origination procedures we published in January guide our examiners reviewing bank and nonbank originators. Likewise, our short-term, small-dollar lending procedures will be used to examine payday loans made by nonbanks and deposit advance products offered by banks, because these products have many of the same characteristics. As such, they should be reviewed using a consistent set of procedures. Consistency, however, does not dictate complete uniformity in supervisory expectations. Large, complex entities may well have different compliance oversight and management systems than much smaller entities or those offering a more limited number of products and services.

Our responsibility under the law, which is unique among the federal regulators, is to accomplish evenhanded and reasonable oversight of both banks and nonbank institutions that compete in the consumer finance markets. Last July, we assumed authority to supervise depository institutions with assets of more than \$10 billion, and their affiliates, for compliance with federal consumer financial laws. In January of this year, with the appointment of a Director, we rolled out our nonbank supervision program, starting with nonbank mortgage originators, mortgage servicers, and payday lenders. There are tens of thousands of nonbank firms, and their products affect virtually every American. For example, according to studies and industry sources, nonbank lenders originated almost 2 million mortgages in 2010, nearly 20 million consumers used payday loans, over 30 million people are being pursued by debt collectors, and roughly 200 million Americans rely on credit reporting agencies to report their credit histories accurately.

When considering whether and how to supervise particular nonbanks, the Dodd-Frank Act requires the CFPB to consider several relevant factors, including the nonbank's volume of business, the risks to consumers created by the provision of products and services, and the extent of state oversight. Through our oversight, we are working to level the playing field and make sure these businesses are being held accountable for their actions. We are now considering finalizing a regulation to allow us to examine the larger participants in the debt collection and credit reporting industries, and others will follow as we develop our Nonbank Supervision program. A market in which all competing firms play by the same rules will be of special benefit to community banks, which may operate in similar product markets as nonbank entities.

On Monday, the CFPB and the prudential regulators released a Memorandum of Understanding that clarifies how the agencies will coordinate their supervisory activities, consistent with the Dodd-Frank Act. This MOU establishes arrangements for coordination and cooperation, to minimize unnecessary regulatory burden, avoid unnecessary duplication of effort, and decrease the risk of conflicting supervisory directives.

We welcome feedback on our supervision program from each of you, and from consumer groups, industry participants, and members of the public. We have an email address on our website, CFPB_Supervision@CFPB.gov, where anyone can submit comments on our exam procedures.

Second, among the topics you identified to be addressed at this hearing is my statutory role on the Financial Stability Oversight Council. As you know, in the Dodd-Frank Act the Congress

designated the Director of the CFPB to serve as one of the ten voting members of the FSOC. The U.S. consumer finance marketplace represents over \$20 trillion in loans and deposits, and hence is central to the stability of domestic and global capital markets. We are pleased to participate in that capacity, and to bring a consumer-facing focus to our work on that body.

Because we share the responsibility of regulating financial institutions with many of our fellow members of the FSOC, our mutual participation is helpful to our efforts to coordinate with one another so as to reduce overall regulatory burden and to maintain a collaborative approach to the work we do together. Frequent and sustained interactions among fellow regulators are essential for each of us to fulfill our obligations and improve the effectiveness of our joint oversight of the financial system. The work we are doing together on the FSOC also helps lift our perspective out of the day-to-day work each of us is doing so as to develop a broader vantage point on the various factors that pose larger risks to the entire financial system taken in the aggregate. I have found this to be valuable as we work together to build a sound and vibrant financial system that protects consumers, supports responsible providers, and helps safeguard the broader economy against systemic risk.

Third, you also indicated that my testimony should address how our statutory obligations affect our regulation of community banks. As you know, the Consumer Bureau generally does not examine any banks with less than \$10 billion in assets and does not enforce the law against any such banks, which remain subject to their existing prudential regulator in those respects. We do have the authority to adopt regulations that can affect community banks as well as larger financial institutions, and in this regard we understand it is important for us to coordinate closely with my colleagues on this panel, who will continue to examine and enforce various regulations that we formulate. For this reason, we are creating a consultative rulemaking process with the other agencies to ensure that we develop rules that are consistent with the objectives and obligations of the prudential regulators and other agencies. We have already convened meetings to work cooperatively on issues like overdraft protection and mortgage servicing, and we are consulting with them as we devise the various mandated rules on the mortgage market that Congress has directed us to complete by early next year.

In this respect, it is critical to keep in mind that Congress created the Consumer Financial Protection Bureau in response to the greatest financial crisis since the Great Depression. The United States learned – or relearned – a hard lesson in that crisis: unregulated or poorly regulated markets destabilize the economy and undermine the general welfare. Over-regulation can indeed stifle entrepreneurship, but under-regulation can also lead to terribly anti-business results. The most mortal threat to many banks, thrifts, and credit unions in our lifetime was dramatically posed by the extreme credit crunch and freezing-up of the financial markets in 2008. In their wake, the ensuing financial meltdown and the enduring consequences of the deep recession continue to dog our economy, particularly the housing market, now four years later and counting.

What will be very helpful to community banks around the country is our new mandate to oversee and regularize the practices of nonbank financial institutions that often compete in the same markets. We hear much favorable comment from the community banks about this important

task. We saw with the meltdown in the mortgage market how a partial and incomplete regulatory scheme was doomed to fail. Banks, thrifts, and credit unions were subject to explicit oversight, whereas many other mortgage market participants, such as lenders and brokers and originators, were held to little or no standards of accountability at all. The competitive pressure fostered by this regime stimulated a race to the bottom to capture market share. Regulatory arbitrage through charter choice placed further pressures on the system that impeded its effectiveness. The result was a kind of Gresham's Law for financial regulation: the bad practices drove out the good.

I have heard stories from many community bankers who refused to make ill-considered loans to prospective customers, only to see those people go down the street and get that very loan from someone else who did not uphold the same standards. That other lender often required no documentation of income or assets, engaged in no form of recognizable underwriting, but still managed to sell those bad loans into the secondary market. There they were bundled into securities that eventually crashed the entire financial system and with it the broader economy.

Consistent application of consumer financial laws will promote safety and soundness of supervised entities. Over the next year, the Bureau is required to adopt new mortgage rules that protect consumers. These include a new statutory requirement that lenders make a good faith and reasonable determination that borrowers have the ability to repay a residential mortgage loan. Similarly, ensuring that consumers receive required disclosures to help them understand financial products and make informed decisions will help prevent some of the problems we saw in the run-up to the crisis. Other rules are intended to return to sound underwriting standards and sound customer service – the kind of practices that are traditional at our good community banks.

As we develop these initiatives, we know that one size does not fit all. Where it makes sense to treat smaller institutions differently from larger institutions, we have pledged to consider doing so. We also want our regulations to be more accessible, and to find ways to work with institutions to implement regulations successfully and in ways that will help minimize the burdens of properly complying with the law. To ensure that our rulemaking process is transparent and that we have the benefit of informed comments from a wide variety of stakeholders and the public, the Bureau's regulatory agenda and proposed rules are published on our website at www.ConsumerFinance.gov/regulation. We are implementing small business review panels on several of our mortgage rules, and find the input from small providers to be helpful in calibrating our proposals.

As we think about systemic risks to the financial system, I would note that the financial world that today's consumers are navigating has become more complex in recent years. The failure to navigate that world successfully can lead to poor choices being made, especially about life-changing decisions that people may confront only once or twice in their lifetimes. When decisions like how to finance an education or a home purchase do not work out well, that can spell disaster for entire families and alter the trajectory of people's opportunities. When this is happening on a large scale, the resulting dislocation can become a trigger for instability, given the trillions of dollars that are represented by loans and deposits in consumer finance markets.

Clear and accurate disclosures benefit the public and the markets by driving competition based on informed customer choice. We have launched several “Know Before You Owe” projects, all of which are pushing to make costs and risks clear up front for consumers. Our signature “Know Before You Owe” mortgage project is focused on simplifying and streamlining the conflicting mortgage forms that reflected no functional need or reality other than the fact that multiple government agencies were involved. These forms have been confusing homebuyers and burdening industry for many years – an all-too-common occurrence in the realm of consumer finance – and we are taking head-on the responsibility to effect meaningful change in this area.

We are eager to explore alternatives to compulsory regulations where we can make alternatives work. We are collaborating with the industry on a new approach to credit card disclosures. We released a prototype credit card contract that is significantly shorter and clearer than current credit card agreements. We tried to keep the prototype simple and written in plain language to make it accessible to as many consumers as possible. This prototype is now being piloted at the Pentagon Federal Credit Union, and we are spurring similar efforts by other leading financial institutions. More and more of them appear to be recognizing the value for their customers in consumer-friendly information that is more accessible. We wholeheartedly agree.

By working closely with the Department of Education, we have also created a “Financial Aid Shopping Sheet.” The Shopping Sheet presents young people and their families with a uniform, easy-to-understand explanation of the total cost of post-secondary education and the available options for financing it. We followed that by launching the “Financial Aid Comparison Shopper.” The Comparison Shopper builds on the Shopping Sheet by helping students to compare – in an online, side-by-side format – information about the cost of different schools and how their decisions will affect the level of debt they can expect to incur.

We see financial education and disclosure as a way to help close the gap between consumers’ financial capability and where they need to be to navigate consumer finance markets successfully. We can close that gap in two distinct ways: by striving to elevate people’s capacity to handle personal finance matters, and by reducing unnecessary complexity in the information provided in that marketplace. And we are actively pursuing both approaches. The work we do in our specialty offices prescribed by Congress, such as our Office of Servicemember Affairs, Office of Older Americans, and Student Loan Ombudsman, also is crucial to understanding and meeting the particular needs of consumers who deserve protection across the country and – as pertains to servicemembers – around the globe.

When I became Director of the Consumer Bureau at the beginning of the year, I barely knew my colleagues on this panel. Now, five months later, from our work together in various roles on various bodies such as FSOC, I have come to know and respect them all. Our team is glad to be working with their teams – and with the members of this committee – to strengthen and support a sound and vibrant financial system that serves both the interests of consumers and the long-term foundations of the American economy. I am happy to answer any questions you may have.