DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

January 31, 2011

The Honorable Randy Neugebauer
U.S. House of Representatives
Washington, DC 20515

Dear Representative Neugebauer:

I very much enjoyed our January 4th meeting. I appreciate the care with which you have examined our efforts to stand up the Consumer Financial Protection Bureau (CFPB or Bureau). I have benefitted from your thoughts about CFPB, dating back to July 2009, when you asked me important and meaningful questions the first time I testified to the House Financial Services Committee about the new Bureau. I welcome the opportunity to keep you updated on our efforts at any time, and I hope you will call on me if I can be useful.

This letter responds to your January 18th letter. We have made every effort to be responsive, and, in some cases, to provide more information than you have requested. If you have any follow-up questions, I would be happy to meet for further discussions. Also, I have attached a letter from the Treasury and Federal Reserve Board of Governors Inspectors General on the stand-up of the CFPB in the hope that it might be another helpful resource for you. I look forward to continuing our productive dialogue.

Organizational Structure

Since the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the CFPB implementation team has been hard at work designing an organizational structure for the Bureau. In early January, we shared with you a draft organization chart. Attached to this letter is an updated version. This effort is a work in progress, and we will continue to refine the organizational design in the coming months.

In designing the Bureau's structure, we realize that we do not have a monopoly on good ideas. From the start, the CFPB implementation team has solicited input from a variety of people in the private sector, the academic world, and government service. I have discussed the structure of the Bureau with CEOs of trillion-dollar financial institutions and with CEOs of much smaller community banks and credit unions. I have also spoken at length about the organizational structure with members of Congress, with community groups, and with financial regulators. It is difficult to build a strong organization on a weak foundation, and we recognize the critical importance of getting this right. Beginning with the launch of the new CFPB website in early

February, we will also post online future updates of this draft organization chart in order to promote transparency and to increase the opportunities for more public feedback.

The operating draft of the CFPB organization chart includes six primary divisions: Consumer Engagement and Education; Supervision and Enforcement; Research, Markets, and Regulations; General Counsel; External Affairs; and Chief Operating Officer. The CFPB organizational chart is designed: 1) to engage with consumers in everything we do; 2) to enforce consumer financial laws efficiently and effectively; 3) to help create a level playing field for large banks, community banks and credit unions, and non-depository financial institutions; 4) to make CFPB a data-driven agency by making research and market analysis core to all of its work; 5) to advance financial education opportunities for all Americans; 6) to continue an open and candid dialogue with members of Congress; and 7) to create accountability within the CFPB—accountability necessary to accomplish its statutory mandate.

As currently envisioned, the responsibilities of the six divisions are as follows:

1. The Consumer Engagement and Education division will provide, through a variety of initiatives and methods, information to consumers that will allow them to make the decisions that are best for them. Consumer education will be a central mission of the Bureau, developing basic research that will advance work in the field and providing a platform for creative educational initiatives from others. This division will also focus on the accessibility of everything we do, making our work as open to the public as possible. We are developing targeted outreach to groups that face particular challenges. The division will include the following CFPB offices: 1) financial education; 2) consumer engagement; 3) older Americans; 4) servicemembers; 5) students; and 6) community affairs.
2. The Supervision and Enforcement division will ensure compliance with federal consumer financial laws by supervising market participants and bringing enforcement actions when appropriate. The division will include an enforcement office and two separate—but tightly coordinated—offices for ongoing supervision of large banks and of non-banks. It will also include an office of fair lending.
3. The Research, Markets, and Regulations division will be responsible for understanding consumer financial markets and consumer behavior and for evaluating whether there is a need for regulation. Before we act, we want to be as fully informed as possible. There will be five market-facing offices: card markets, mortgage markets, installment lending, deposit and payment markets, and credit information markets. Each section will be staffed with a combination of people from different backgrounds, and each will have the capacity to collect and analyze data. The five market-facing offices will be supplemented in their work by a research team, which can engage in more extensive data development and cross-market analysis, and a rule-writing team.
4. The Office of General Counsel will be responsible for the Bureau's compliance with all applicable laws and will provide legal advice to the Director and the Bureau's divisions.

5. The External Affairs division will ensure that the Bureau maintains robust dialogue with the various stakeholders that have an interest in its work in order to promote transparency and accountability. As required by statute, there will be a consumer advisory board and an ombudsman, both of which will be located in this division. This division will also include the following CFPB offices: 1) legislative affairs; 2) media relations; 3) small financial institutions; and 4) inter-governmental affairs.
6. The Chief Operating Officer (COO) will build and sustain CFPB's operational infrastructure to support the entire organization. This division will include the following CFPB offices: 1) consumer response center; 2) operations and facilities management; 3) procurement; 4) chief information officer; 5) chief financial officer; 6) human capital; 7) inclusion; and 8) records and privacy.

As part of the CFPB start up, we have been working for several months on a comprehensive workforce planning effort to determine the size and scope of various offices and divisions within the organization. That process includes the development of position descriptions for all the positions across the organization. We are working hard to complete the descriptions, and we would be happy to stay in touch with your office on our progress and to share information relevant to your questions once completed.

Budget and Personnel

The CFPB implementation team is currently developing staffing and budget projections for FY 2011 and FY 2012. Estimates will be provided in the President's Budget of the United States Government, Fiscal Year 2012 and supporting materials, which are slated for release in February. In accordance with OMB Circular A-11, Treasury is not permitted to release information included in the President's Budget until the Budget has been submitted to the Congress. Once we are permitted to do so, of course, we will provide your office with the relevant information.

Building a team of dedicated, experienced, and top-notch personnel is a critical priority for the Bureau, and that effort will be instrumental to its success at understanding consumer financial markets and fulfilling our statutory responsibilities. Currently, the CFPB implementation team within Treasury has approximately 140 members, which includes Treasury employees who devote their full time or a majority of their time to CFPB implementation and detailees from Treasury bureaus or other federal and state agencies. Their salaries correspond to the General Schedule (grades 7 – 15), Senior Executive Schedule, or the grade/salary systems used by the detailees' home agencies.

We expect that the Bureau's ranks will grow by several hundred over the course of the year. The Bureau's hiring needs span a range of areas, including bank and non-bank supervision and enforcement; market analysis; consumer response; economic research and quantitative analysis; legal; information technology; human capital; budget, accounting, and finance; and procurement. Currently, we are hard at work building the CFPB pay and compensation system, which will allow employees to be hired directly into the Bureau.

In addition to hiring, the CFPB implementation team is also in the process of coordinating with six federal agencies with respect to the transfer of personnel to the consumer bureau as described in section 1064 of the Dodd-Frank Act. Under the Act, transfers may occur up to 90 days after the transfer date, and transferred personnel will receive certain protections with respect to pay, status, and benefits.

The talents and experience of CFPB implementation team members can be illustrated by some examples of our early hires:

- Steve Antonakes, the former Commissioner of Banks in Massachusetts, is leading the depository supervision team;
- Leonard Chanin, currently deputy director of the Federal Reserve Board's Division of Consumer and Community Affairs, will head the regulations team;
- Richard Cordray, the former Attorney General of Ohio, is leading enforcement;
- Raj Date, the former Chairman and Executive Director of the Cambridge Winter Center, is senior advisor to me and is working to stand up our Research, Markets, and Regulations team;
- Len Kennedy, the former General Counsel of Sprint Nextel Corporation, is General Counsel;
- Holly Petraeus, a top financial educator for military families, is establishing the Office of Servicemember Affairs; and
- Peggy Twohig, a 17-year veteran of the Federal Trade Commission, is leading the nonbank supervision team.

With respect to my role, President Obama appointed me as Assistant to the President, and I have been asked to provide advice on the selection of a nominee to be the first Director of the CFPB. Secretary Geithner appointed me Special Advisor to the Secretary on the CFPB, and in that role I work closely with him in the stand-up of the CFPB. Like other senior Treasury officials, I am glad to provide Congressional testimony so that Congress and the public are informed about our efforts to build this new agency.

Accountability and Oversight

The central idea that animated the creation of the CFPB was the need to increase accountability by consolidating core consumer financial protections that were scattered across the federal government. Under the old system, seven different federal agencies were responsible for consumer financial protection, but none viewed consumer financial protection as their top priority—and none was sufficiently accountable either to the Congress or the American people for getting the job done.

Congress took important steps in the Dodd-Frank Act to ensure the accountability of the new Bureau. The Dodd-Frank Act requires that:

- the Director testify before and report to Congress twice each year regarding the CFPB's activities;

- the CFPB report to Congress each year to justify its budget from the previous year and to report on the CFPB's financial operating plans and forecasts and its financial condition;
- the CFPB submit to the Office of Management and Budget its financial operating plans and forecasts and quarterly financial reports;
- the GAO conduct an audit each year of the Bureau's expenditures and submit a report to Congress;
- the CFPB carefully assess the impact of its actions by way of various internal process requirements; and
- the CFPB perform interagency consultations on proposed regulations.

The Dodd-Frank Act also allows the prudential regulators and other agencies sitting on the Financial Stability Oversight Council to review regulations advanced by the CFPB and, in some cases, to reject the Bureau's regulations. This is a process without parallel in the federal government.

Of course, like other rule-makers in the federal government, the new Bureau is subject to the Administrative Procedures Act. Also like other rule-makers, it is subject to court review to be certain that it operates only within the authority granted by Congress. And, like all other rule-makers, the Bureau's regulations can be overruled by Congress. These steps and procedures are extensive, and they will provide both sunlight and accountability in the Bureau's operations. I believe that they will be critical to ensuring both that the CFPB fulfills the important responsibilities Congress vested in it and that it remains accountable to the American people.

I should add one last note on this subject: Until a few months ago, I worked for the Congress, serving as chair of an oversight panel on TARP. During that time, I routinely met with members of Congress and their staffs on oversight issues, and I share your view about the importance of accountability and oversight. I would very much like to continue discussing this topic with you in our future meetings.

Outreach

As you know, I have traveled around the country in recent months to talk to a broad range of people—from individual consumers, to active-duty members of the military, to bank CEOs. I am committed to making the process of building this new Bureau interactive and transparent. To this end, I post my appointment calendar online on a regular basis so the public can see with whom I am talking and from whom I am learning. I also follow Treasury's Dodd-Frank transparency policy by releasing information about meetings with outside groups relating to CFPB implementation. In addition, I am always seeking additional ways to engage individuals, businesses, and groups on this exciting and important project.

I have found particularly beneficial the time I have spent on Capitol Hill. Since my September appointment, I have met with dozens of members of Congress to provide briefings on the CFPB stand-up and to listen closely to their concerns. In the past four months, I have had more than 50 one-on-one conversations with members about the Bureau. I plan to continue this outreach and to do everything I can to build a continuing and lasting relationship between the Bureau and Congress.

I have also found my meetings with community banks particularly beneficial. To date, I have talked with community bankers from 25 states. This includes my most recent trip to San Antonio to meet with the Independent Bankers Association of Texas, shortly after you and I last met.[1] At these meetings, I have listened more than I have talked, and I have heard a great deal about duplicative and complicated paperwork, the high cost of regulatory compliance, and how difficult it can be to get a clear answer on what is or is not required by a particular regulation. These conversations—starting from my first day in my current role when I met with community bankers from Oklahoma, to the calls I had last Friday with community bankers from Colorado, Georgia, Michigan, and New Mexico—have been enormously informative.

As mentioned in your letter, I have also met with a number of executives representing large financial institutions. I have met with more than a dozen CEOs and also with the key trade associations that represent them. In those meetings, I have discussed how the central aim of the Bureau, both with respect to rulemaking and more generally to enforcement and financial education, is to make consumer financial markets work better for the American public. Above all, I have discussed transparency, highlighting the importance of ensuring that consumers get the information they need to make the financial decisions they believe are best for them. The CFPB is pushing for markets in which prices are clear up front, risks are plainly visible, and nothing is buried in fine print. Personal responsibility is of course critical, but I have laid out how I believe transparency not only makes comparison shopping easier, but also can spur—not hinder—innovation and competition. In markets that work best, lenders have a real incentive to produce financial products and services that are attractive to customers instead of producing ever-more-complicated agreements with more hidden fees and surprises.

In these meetings thus far, I've received various indications that some financial service providers strongly support simplification. Many of the executives I have met with have acknowledged substantial problems in consumer financial services, and they have indicated that they are in favor of moving consumer financial markets toward short, easy-to-read agreements. Several have expressed their interest in working with the new Bureau to advance a robust market that produces real competition. Instead of pushing back on the Bureau's plans, many of those I have spoken with have pushed us to move forward as quickly as we can.

Integrity in Public Service

A primary objective in establishing the CFPB is to promote a culture committed to the highest standards of public service and integrity. We are developing an infrastructure capable of sustaining that culture. Our infrastructure must also attract individuals who are determined to protect the public trust and who have the skills and experience needed to fulfill the important responsibilities that Congress has vested in the Bureau, including assessing the burdens, utility, and effectiveness of regulations.

The CFPB implementation team adheres to federal law and Treasury policy concerning disclosure by new appointees of financial interests that could either create actual or potential

[1] While in Texas earlier this month, I also visited Lackland Air Force Base with Holly Petraeus to hold a town hall meeting with military families and a roundtable discussion with various professionals who work with them on financial matters.

financial conflicts of interest or raise concerns about impartiality. In accordance with government-wide ethics standards, certain employees are required to file financial disclosure reports and potential financial conflicts of interests are addressed as appropriate, such as through recusal or divestiture. Additionally, we are in the process of reviewing whether supplemental ethics regulations may be appropriate for the CFPB. To inform our process, the implementation team is reviewing supplemental ethics regulations in place at other regulatory agencies and drawing from the experiences of Congress in developing and policing rules of ethical conduct.

Rulemaking

While the Bureau does not currently have authority to prescribe substantive regulations, the implementation team has begun laying the groundwork in order to be prepared to receive rulemaking authority on the transfer date. As part of this effort, we have been monitoring regulatory activity by the Federal Reserve Board of Governors, the Federal Trade Commission, and the Department of Housing and Urban Development concerning areas over which CFPB will assume responsibility upon the transfer date. We also have been coordinating with the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision on topics that relate to the CFPB's statutory mission. We have ongoing discussions with these agencies to understand their pending regulatory activity, to help avoid potential overlapping or conflicting rulemakings, and to coordinate a smooth transition to the Bureau. Additionally, the CFPB implementation team has had discussions with the Office of Financial Research on issues relating to the development of information technology and human capital resources.

I share your concern for promoting consistent regulation and minimizing implementation burdens, and I believe that the Bureau's continuing dialogue with these agencies is imperative during this transition period. Interagency coordination will also be essential after the transition period.

In addition, in some cases, it will fall to the CFPB to deal directly with duplication. Our first initiative provides a good example: We have already begun working on the necessary changes to combine complicated mortgage disclosure forms separately mandated by the Truth in Lending Act and Real Estate Settlement Procedures Act. The forms are routinely described as needlessly complicated and duplicative. With the support of small banks, credit unions, mortgage brokers, and large banks, we are working to reduce these forms into a single, readable document that would be easier for consumers to understand and cheaper for lenders to execute.

The CFPB implementation team is also preparing to be able to carry out the requirements of the Dodd-Frank Act to assess the expected impact of its rules on small financial service providers. Before proposing certain rules, the Bureau will convene panels that draw on expertise from small entities and government agencies with deep knowledge of small businesses. These panels will be part of the CFPB's ongoing efforts to assess the effectiveness and impact of its regulations. We have already embraced the spirit of the required outreach and begun our work informally. Earlier this month, I traveled to Maine to participate in a series of meetings with Senator Snowe that focused on this issue.[2] As you know, Senator Snowe authored the amendment in Dodd-Frank regarding small business impact panels, and she has been a key source of advice and help around this issue. The trips I have taken, including my recent trip to Maine, have helped us understand more about the issues facing community banks, credit unions, and small businesses and to incorporate their perspectives as we collect data, shape our agenda, and consider changes to the regulatory structure—all long in advance of any formal rulemaking.

Because this will be a data-driven agency, the impact of any rules on the millions of Americans who use particular consumer financial products and services and on the many providers of those services will always be foremost in our minds. Our efforts will concentrate on the importance of making prices and risks clear up front and making it easy for consumers to compare one product with those offered by three or four competitors. In other words, this agency is focused on making sure that consumers have the information they need so that markets will work for them. We believe that, over time, fully functioning and transparent markets will provide consumers with the maximum range of financial products and services at the lowest possible prices—and provide the opportunity for competitors who provide real value to consumers to flourish.

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Again, I sincerely appreciate your thoughts and good counsel regarding the task ahead of us. Building this new Bureau is exciting, but challenging. I hope we can work together on behalf of the millions of American families, large banks, community banks, credit unions, and investors who are counting on us to build a strong, independent, effective, and fair Bureau that makes consumer credit markets work for everyone.

Sincerely,

Elizabeth Warren

[2] More information about my meetings in Maine with Senator Snowe are available on her website: http://snowe.senate.gov/public/index.cfm?FuseAction=PressRoom.PressReleases&ContentRecord_id=7c22e3a2-be90-1a11-7d75-7d6d14e5ae71

Cc: The Honorable Spencer Bachus, Chairman
Committee on Financial Services

The Honorable Shelley Moore-Capito, Chairwoman
Subcommittee on Financial Institutions

The Honorable Timothy F. Geithner, Secretary of the Treasury

The Honorable Robert Bauer, Counsel to the President

Mr. Eric M. Thorson
Inspector General, Department of the Treasury

Ms. Elizabeth A. Coleman
Inspector General, Board of Governors of the Federal Reserve System