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# Prepared remarks by Richard Cordray at a Consumer Advisory Board meeting

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**Prepared Remarks by Richard Cordray**
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**Consumer Advisory Board Meeting**

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Good morning and thank you for coming to our first meeting of the year with our Consumer Advisory Board. We very much appreciate the insights and expertise of the Board, which is critical to our efforts to improve how consumer financial markets work for the American people.

Since we first became an independent agency, the Consumer Bureau has been focused on the financial issues that are common to the everyday lives of most Americans. We were born out of the recent financial crisis, and our work is still in its early stages. But as the American economy recovers, we want consumers to be able to look ahead with hope and resilience. We want them to know they now have a new agency standing on their side and looking out for their interests, to help restore their confidence in the consumer financial marketplace.

When America was confronted with the worst financial crisis since the Great Depression, many families felt helpless in the face of falling home prices and diminished retirement savings. They were shaken in their deeply held belief that they could work hard, behave responsibly, and get ahead in life. The pathway to opportunity seemed murky and elusive.

In the aftermath of the crisis, this country had to make a new beginning. At the Consumer Bureau, we are part of that fresh start. We are addressing key problems in the consumer finance markets, one by one. For the largest single consumer financial market – the mortgage market, worth trillions of dollars – we have adopted sweeping new rules to ensure that the excesses and irresponsible practices that helped precipitate our nation's financial calamity cannot be repeated.

In the credit card market, we are implementing and overseeing the extensive positive changes that Congress made in the CARD Act. For consumers who have been deceived by credit card companies, we have worked closely with our fellow regulators to put $425 million back in their pockets so far.

In the student loan market, we have teamed up with the Department of Education to create products like the Financial Aid Shopping Sheet, which helps students understand how best to manage increasing levels of student loan debt.

We also are developing and delivering powerful new tools for all consumers. For consumers who have felt disempowered by the convoluted rhetoric around many financial products, we have harnessed the power of technology to deliver clear information through our Ask CFPB tool, which is an interactive database of nearly 1,000 answers to common consumer questions.

Perhaps the most direct example of addressing problems in the consumer finance markets is our consumer response function. To date, we have addressed complaints from more than 130,000 consumers about specific problems they experienced with consumer financial products, ranging from improper charges on credit cards to mortgage payments that were wrongly applied. Through our consumer response operation, we have helped return millions of dollars to consumers and solved problems that had been frustrating them for months or even years.

We also have begun to fulfill our pledge of transparency around the work we are doing – the kind of transparency that will unleash human creativity to address issues in new and unexpected ways. We are presenting information to the public about our Consumer Complaint Database, which sheds new light on where customer service is falling short and how it can be improved. We are building a National Mortgage Database that will allow researchers to track the long-term performance of this critical marketplace for consumer credit in ways not possible before.

We are experimenting with new methods of broadening public participation and heightening our accessibility in our rulemaking process. We have embarked on unprecedented efforts to assist industry in implementing our new rules. Our goal is to reduce the compliance burdens of implementation and help us better understand how to write practical rules that deliver value for consumers. We have launched Project Catalyst, an initiative to foster innovation and the growth of consumer-friendly products and services. We have sought out partnerships to help us engage consumers and help them address the challenges they face in managing the ways and means of their lives.

Along with these initiatives, we are responding to an explicit challenge that Congress laid down for us by attacking the unique problems that confront special populations of consumers. In addition to our work with students, Assistant Director Skip Humphrey and his team have targeted the financial exploitation of older Americans. They are working to help seniors get sound information and advice about their retirement finances.

We have also become fierce advocates for servicemembers, veterans, and their families. Assistant Director Holly Petraeus and her dedicated team have identified and are resolving distinctive issues that affect our men and women in uniform. They have secured changes in mortgage programs to take account of permanent-change-of-station orders. They have also empowered servicemembers and veterans to make more informed decisions about how to use their benefits under the GI Bill for the 21st Century. And they have highlighted how consumer debt can adversely affect security clearances.

So these are the kinds of issues that the Consumer Bureau is already addressing on behalf of 313 million American consumers. Of course, there is much more to be done on each of these points, and we are determined to continue making progress. But today I want to take a step back from our daily work to offer a vantage point on some of the broader practices and dynamics that we have found across multiple consumer financial markets.

These problems warrant everyone's attention as we concentrate on how to eliminate obstacles and open the pathway to opportunity for all Americans. We want people to be able to move forward as they best see fit – perhaps by owning a home, saving for retirement, or paying for further education. In particular, I will describe four classes of problems that the Consumer Bureau will continue to focus on as we pursue our mission.

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The first class of problems is the deceptive and misleading marketing of consumer financial products and services. As consumers pursue their goals in life, they learn the importance of making sound financial decisions. Some do research so they can better compare products and try to figure out what best suits their needs. Others turn to a provider they think they can trust. But if the costs and risks are misrepresented, then consumers are no longer in control and they may be disabled from making careful choices.

Sometimes the problem that consumers face is not out-and-out misrepresentation, but instead that critical product information is presented to them in a manner they cannot readily understand and compare. Such information may be buried in pages of fine print or written in language that requires an advanced degree to decipher. Various providers may describe the same fee very differently, which makes comparisons numbingly difficult. Often, consumers need to have key terms highlighted so the most important risks will stand out and can be more easily comprehended.

Indeed, the Consumer Bureau has an important role to play as a trusted source that can provide clear, reliable information in a timely way. Our signature "Know Before You Owe" efforts in mortgages, credit cards, and student loans are designed to streamline and inform the choices people make about borrowing money. We also can help consumers think about risks that may not be apparent on the face of the product, such as the risk of a student failing to complete school or being unable to secure a job with sufficient income to repay a student loan. We are currently developing financial education modules, such as "Paying for College" and "Owning a Home," that will provide this kind of broad perspective around the kinds of large life choices that many consumers may face in the course of a lifetime.

Our remittance rule is built on new disclosures to be provided to consumers before they pay any money. In the mortgage context, we have proposed a rule to require new consumer-friendly disclosures using model forms developed through extensive consumer testing. In the credit card and student loan contexts, we are working with industry to encourage testing and voluntary adoption of new ways to provide clearer information. By insisting on making the actual prices and risks clearer to consumers, we are in position to put people back in charge of the choices they make among their available consumer financial options.

But there are times when making informed decisions is nearly impossible for consumers because the information provided is misleading or inaccurate or the information is deliberately withheld. These kinds of practices take many different forms, but what they have in common is that they harm consumers. In some instances, we can address these issues by regulation. In other instances, however, more regulation may not be the answer because the law is already in place and is simply being disregarded.

The new financial reform law makes it illegal to engage in unfair, deceptive, or abusive acts or practices in connection with consumer financial products or services, and directs us to enforce this prohibition. More generally, we are charged with the duty of ensuring fair, transparent, and competitive markets. We recognize that a key to protecting consumers is strong and vigilant enforcement.

The possibilities here for injuring consumers are almost limitless. Maybe a customer service representative provided misleading information. Maybe consumers were told only about the benefits of a product and not about any of the limitations or risky features. Maybe important information about rates or fees was hidden or obscured. Or maybe consumers were told that they would have the chance to consider the matter further, and later found they were already signed up and charged for a service without ever giving their actual consent.

As noted earlier, this past year we worked with our fellow regulators to take several enforcement actions against credit card companies that deceived and misled consumers in these ways. In some cases, they also targeted economically vulnerable consumers – those with low credit scores and low credit limits. We detailed the problems with these practices, secured relief for those who were wronged, provided guidance for obtaining refunds, imposed penalties to deter such activity in the future, and signaled our concerns to other market participants as a way to press them to clean up any similar practices.

In the same vein, we took on mortgage relief scams that were operating in multiple states. The perpetrators of these scams pretend to seek relief for consumers, but really take their money and do little or nothing to help them. In these cases, we have been addressing the misconduct by getting immediate court orders, freezing assets, and shutting down the fraudulent operations. Through this enforcement work and our work on disclosures, we are enabling consumers to make more informed and responsible financial decisions. And we are rooting out the deceptive and misleading marketing that all too often plagues our consumer financial markets.

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Another problem that can cause consumers to veer off the pathway to opportunity is the existence of debt traps – products that trigger a cycle of debt whose substantial costs over time can disrupt the precarious balance of people's financial lives.

The tell-tale sign of such products is that their success is based on a substantial percentage of users rolling over their debts on a recurring basis. In other words, the borrower has to come back for more money pay period after pay period – thereby generating the high fee income necessary to make the economics of the product work and perhaps to subsidize other products. The cycle of debt is essential to the business model. Often these products are marketed as short-term solutions to an emergency need, obscuring the risks inherent in terms that can make a tough situation even more difficult.

For consumers in a financial jam with nowhere to turn, they may think their only option is to use such a product. At first glance, the fees may seem small compared to the need for quick cash. But when the payment comes due, or when repayment is automatically taken from their next deposit into their accounts, consumers may not have enough money to repay the shortfall and still meet their living expenses. So they need to borrow again to avoid defaulting and to keep making ends meet.

For a considerable number of consumers, the fees will pile up and leave them worse off. As I noted before, the economics of the product are premised on this very fact. Depending on the precise terms and conditions of such products, they can greatly harm some consumers rather than helping them. We have been analyzing these situations and determining how to deploy our various tools to best protect consumers while preserving access to responsible credit.

There is an obvious demand for short-term credit products, which can be helpful for consumers who use them responsibly and which are structured to facilitate repayment. We want to make sure that consumers can get the credit they need without jeopardizing or undermining their finances. Debt traps should not be part of their financial futures.

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Another problem that consumers face on the pathway to opportunity is that in certain important markets – such as debt collection, loan servicing, and credit reporting – they are unable to choose their provider of financial products or services. When people cannot "vote with their feet," their clout is limited, even though these products and services can have a profound influence on their lives. When a market's central focus is on the nature of the financial relationship between two businesses, consumers can become collateral damage to the dynamics that actually drive the economics of such markets.

Take, for example, the market for debt collection. When a consumer does not pay back a debt, the creditor may decide to sell it to or contract with a debt collector to secure payment of what is still owed. Once this occurs, the paying business relationship has shifted; it now lies between the debt collector and the creditor, not the consumer and the creditor. This can lead to mistreatment of the consumer, who becomes, in effect, a kind of "bystander" to the new business relationship. In this situation, creditors may have little reason to ensure that debt collectors treat consumers fairly and appropriately or that they maintain and use accurate information. Given this dysfunctional dynamic, there is little wonder that debt collection has proven to be one of the most common sources of complaints in the realm of consumer finance.

The same phenomenon is found in other markets as well. Mortgage servicing involves a relationship between the owner of the mortgage – perhaps the original lender, or someone who later bought the loan rights, or even an investor in some form of security backed by the original loan – and a third party tasked with processing the payments and pay-outs made to administer the loan.

The servicer is hired by the mortgage holder, not by the borrower. As a result, the financial incentives governing the servicer's conduct and activities are once again outside the consumer's control. Unpleasant surprises, constant runarounds, and mistreatment stemming from a lack of investment in customer service are examples of unacceptable practices that have been harming consumers for almost a decade now.

The same problematic incentive structure can be found in student loan servicing or any loan servicing market, of course; mortgage servicing is simply the most well-known example. Many consumers seek to negotiate for a more affordable payment plan on their loan obligations, only to find themselves stymied, even when a modification would make sense for all concerned. We have seen the impact this has had for so many homeowners, and we are looking to take steps that may address the same kinds of problems for student loan borrowers.

The credit reporting industry is another market in which consumers can become largely incidental to a business relationship between others. Here, the paying business relationship lies between the credit reporting firm and a third party that is interested in evaluating the risks of offering credit to consumers. The credit reporting firm has to balance its clients' needs for accurate information with their desire to keep costs low. The levels and types of inaccuracies that the purchasers of credit reports are willing to tolerate get resolved in the marketplace.

What is quite clear, however, is that consumers have no real say in such decisions and their interests are an afterthought at best. From the perspective of the credit reporting firm and its clients, inaccurate reports may be no more than a statistic or an error rate. But for individual consumers whose reports are incorrect, the damage done to their lives can be severe and lasting.

Without consumer choice, a key element of market discipline is lacking. The result is to permit or even facilitate a distinct indifference to the interests of individual consumers. At the Bureau, we are taking on this problem by highlighting troublesome practices and working to fix them. At the same time, we recognize that careful rules and effective oversight (through supervision and enforcement) are needed if we are going to correct the kinds of market failures that subordinate the interests of individual consumers. We are strongly committed to shouldering our important responsibility to protect consumers in these particular markets.

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A final and persistent problem that can hijack consumers on the pathway to opportunity is the evil of discrimination. For some people, the greatest challenges they face do not come from deceptive materials, debt traps, or market structures, but rather are rooted in something much more basic – unequal, invidious treatment based on characteristics such as race or gender or other bases prohibited by law.

The statistics show very clearly that communities of color were hit especially hard during the financial crisis. All Americans saw drops in their household wealth, but African-Americans and Hispanics experienced the steepest drops. This inequity is compounded by unequal access to responsible credit, which makes it difficult or even impossible to achieve their financial goals.

When consumers and lenders sit down to discuss loans, consumers are often unaware what options may or should be available to them. If a rate or a price is quoted, they do not know whether that quote accurately depicts their actual position in the loan market. There are no posted prices. Interest rates can and do vary based on the characteristics of the borrower. Lenders whose policies provide incentives for brokers or loan officers to negotiate higher rates have often been shown to result in African-American and Hispanic borrowers paying more for mortgages and auto loans.

We made it clear last year that – like the other banking regulators and the Justice Department – we will pursue discrimination in consumer financial markets based on disparate impact as well as on intentional violations. From the perspective of a consumer disadvantaged by policies that have a discriminatory effect, it makes no practical difference whether a lender consciously intended to discriminate. Every consumer, regardless of race, gender, or other characteristics protected by federal law, should have equal access to credit and an equal chance to pursue the pathway to opportunity.

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In our brief tenure thus far, the Consumer Financial Protection Bureau has been active on many fronts to protect American consumers. As we continue to build up the capacity of this new agency, those efforts will continue unabated over the coming year. But it is also important for us to reflect on what we find to be the more fundamental problems and challenges endemic to consumer financial markets, so that we can understand and address them more effectively.

There is no question that the pathway to opportunity for many consumers was badly damaged by the recent financial crisis. As our economy and our society recover more fully, we are committed to smoothing their pathway in a great many ways, such as by addressing deceptive practices, debt traps, structural roadblocks, and discrimination. We are also committed to educating consumers and providing them with the kind of trustworthy and helpful information they need to make responsible financial decisions.

We stand, as always, steadfastly on the side of American consumers as we work to improve their daily lives. For hundreds of years, people have come to this country from all over the world in search of economic opportunity. They have endured great hardships to do so. The least we can offer is our very best work to fulfill this promise for our generation as well. Thank you.