

CFO update for the second quarter of fiscal year 2014

JANUARY 1 – MARCH 31, 2014

Issued: May 15, 2014

Bureau Fund

In the second quarter of fiscal year 2014 that ended on March 31, 2014, the Consumer Financial Protection Bureau (CFPB) spent approximately \$297 million (including commitments and obligations)¹ to carry out the authorities of the Bureau under federal consumer financial laws. Approximately \$126 million was spent on employee compensation and benefits for the 1,385 CFPB employees employed by the end of the quarter.

In addition to payroll expenses, the largest obligations for the quarter were related to contractual services. Obligations of \$1 million and over made during the first quarter to both non-governmental vendors and governmental agencies included:

- \$10.4 million for maintaining ongoing operations of CFPB's consumer contact center and enhancements to the case management database;
- \$8.2 million for technical litigation support services and products provided through an interagency agreement with the Department of Justice;
- \$3.1 million for exercising a one year option period on an occupancy agreement with the Federal Housing Finance Agency;
- \$3.0 million for a services contract to collect anonymous data from credit card issuers. This data, which excludes any direct identifiers in order to maintain the anonymity and protect the privacy of consumers, is used to monitor conditions in consumer credit markets, to study credit card industry dynamics, to evaluate compliance with consumer laws, and to analyze other issues in support of the Bureau's supervision, research, and monitoring missions;
- \$1.9 million for web development, design and programming support services;
- \$1.7 million to provide internal control support services to enhance the effectiveness of internal controls over financial reporting;
- \$1.7 million for architectural and engineering services for CFPB's headquarters office building;
- \$1.4 million for network switches and infrastructure to support wireless internet and video infrastructure for CFPB's headquarters building;
- \$1.3 million for network engineering and operations support;
- \$1.2 million for facility operation and maintenance costs for CFPB's headquarters building, and;
- \$1.1 million for building consumer-focused research studies; for engaging and communicating with the public to achieve the agency's mission; and designing digital consumer experiences that are comprehensive and effective.

Table 1 and Table 2 categorize cumulative CFPB spending by expense category and division/program area through the second quarter of FY 2014:

Table 1: Fiscal Year 2014 spending by expense category thru Q2 of FY 2014:

| Expense Category | Fiscal Year 2014 |
|--|-------------------------|
| Personnel Compensation | 86,231,000 |
| Benefit Compensation | 39,462,000 |
| Travel | 8,591,000 |
| Transportation of Things | 58,000 |
| Rents, Communications, Utilities & Misc. | 4,182,000 |
| Printing and Reproduction | 403,000 |
| Other Contractual Services | 130,226,000 |
| Supplies & Materials | 2,488,000 |
| Equipment | 25,245,000 |
| Land and Structures | 3,000 |
| Interest and Dividends | 0 |
| Total (as of 3/31/14) | \$296,889,000 |

Table 2: Fiscal Year 2014 spending by division/program thru Q2 of FY 2014:

| Division/Program Area | Fiscal Year 2014 |
|--|-------------------------|
| Office of the Director | 1,868,000 |
| Chief Operating Officer | 66,821,000 |
| Consumer Education & Engagement | 11,253,000 |
| Research, Markets & Regulations | 19,083,000 |
| Supervision, Enforcement, Fair Lending | 74,462,000 |
| Legal Division | 6,170,000 |
| External Affairs | 3,134,000 |
| Other Programs ² | 1,309,000 |
| Centralized Services ³ | 112,789,000 |
| Total (as of 3/31/14) | \$296,889,000 |

FY 2014 Funds Transfers Received from the Federal Reserve

The CFPB is funded principally by transfers from the Federal Reserve System, up to the limits set forth in the Dodd-Frank Act. Funding from the Federal Reserve System for fiscal year 2014 is capped at \$608 million. As of March 31 2014, the CFPB received the following transfers for FY 2014:

| | |
|----------|------------------|
| \$181.0M | October 15, 2013 |
| \$126.3M | January 16, 2014 |

Civil Penalty Fund

The Dodd-Frank Act authorizes the CFPB to retain for specified purposes civil penalties it obtains in judicial and administrative actions under federal consumer financial laws. The CFPB is authorized to use these funds for payments to victims of activities for which civil penalties have been imposed, and may also use the funds for consumer education and financial literacy programs to the extent that such victims cannot be located or payments to them are otherwise not practicable. As directed by the Dodd-Frank Act, the CFPB maintains a separate account for these funds at the Federal Reserve Bank of New York.

Civil Penalty Funds Collected in FY 2014:

Table: FY 2014 Q1 – Q2 Civil Penalty Fund Deposits

| Defendant Name | Civil Penalty Collected | Collection Date |
|--|-------------------------|-------------------|
| Washington Federal | \$34,000 | October 11, 2013 |
| Mortgage Master, Inc. | \$425,000 | October 15, 2013 |
| Castle & Cooke Mortgage, LLC | \$4,000,000 | November 13, 2013 |
| Cash America International, Inc. | \$5,000,000 | November 25, 2013 |
| Meracord LLC ⁴ | \$555,000 | November 26, 2013 |
| Republic Mortgage Insurance Company | \$100,000 | December 5, 2013 |
| American Express Bank, FSB | \$2,000,000 | December 23, 2013 |
| American Express Centurion Bank | \$3,600,000 | December 23, 2013 |
| American Express Travel Related Services Company, Inc. | \$4,000,000 | December 23, 2013 |
| Ally | \$18,000,000 | December 30, 2013 |
| Fidelity Mortgage Corporation | \$54,000 | January 21, 2014 |
| 1 st Alliance Lending, LLC | \$83,000 | March 5, 2014 |

In the first quarter of FY 2014, the CFPB collected a total of \$37.7 million in civil penalties from ten defendants. In the second quarter of FY 2014, the CFPB collected a total of \$137,000 in civil penalties from two defendants.

Civil Penalty Funds Allocated in FY 2014:

Period 2 Allocation: April 1, 2013 – September 30, 2013

On November 29, 2013, the Bureau made its second allocation from the Civil Penalty Fund. As of September 30, 2013, the Civil Penalty Fund contained an unallocated balance of \$56.1 million. This amount was available for allocation pursuant to 12 C.F.R. § 1075.105(c).

During Period 2, final orders in Bureau enforcement actions imposed civil penalties in seven cases. Under the Civil Penalty Fund rule, the victims of the violations for which the civil penalties were imposed in these cases are eligible to receive payment from the Civil Penalty Fund to compensate their uncompensated harm.⁵

Of those seven cases, the Civil Penalty Fund Administrator determined that one case did not have a class of victims with uncompensated harm that is compensable from the Civil Penalty Fund, and that two cases included classes of victims with uncompensated harm that is compensable from the Civil Penalty Fund. As of the time of the allocation, the Fund Administrator did not have sufficient information to determine whether classes of victims in the remaining four cases had “compensable harm” or “uncompensated harm” as defined by the Civil Penalty Fund Rule.

The two cases with classes of victims with uncompensated harm that is compensable from the Civil Penalty Fund were American Debt Settlement Solutions, Inc. (ADSS) and National Legal Help Center (NLHC). Specifically, the ADSS victims had \$499,248 in uncompensated harm, and the NLHC victims had \$2.1 million in uncompensated harm.

The Bureau allocated \$499,248 to two classes of victims in ADSS and \$2.1 million to the NLHC class of victims, enough to compensate fully those victim classes’ uncompensated harm. No funds were allocated to consumer education and financial literacy programs.

Period 2 Allocation Summary:

Victim Compensation: \$2,557,231

- *American Debt Settlement Solutions, Inc.*
 - *Victim Classes Allocation: \$499,248*
- *National Legal Help Center*
 - *Victim Class Allocation: \$2,057,983**

Consumer Education and Financial Literacy Programs: \$0

Total Allocation: \$2,557,231

*Note: A previously published version of “CFO update for the second quarter of fiscal year 2014” erroneously listed the allocation for the NLHC victim class as \$1,057,983.

The remaining unallocated Civil Penalty Fund balance remains available for future allocation. Civil penalties collected on or after October 1, 2013 were deposited in the Fund. The amount in the Fund as of March 31, 2014 will be available for allocation following the conclusion of Period 3 in accordance with 12 C.F.R. § 1075.105(c).

For additional information on CFPB's Civil Penalty Fund, see <http://www.consumerfinance.gov/budget/civil-penalty-fund/>.

Bureau-Administered Redress

Dodd-Frank Act section 1055 authorizes a court in a judicial action, or the CFPB in an administrative proceeding, to grant any appropriate legal or equitable relief for a violation of Federal consumer financial law. Such relief may include redress for victims of the violations, including refunds, restitution, and damages. Relief that is intended to compensate victims is treated as fiduciary funds and deposited into the "Legal or Equitable Relief Fund" established at the Department of the Treasury.

In the first quarter of FY 2014, the Bureau collected \$9.2M in Bureau-Administered Redress funds from Castle and Cooke Mortgage, LLC. Those funds will be distributed to eligible victims in that case in accordance with the terms of the settlement agreement.

For additional information on CFPB's Bureau-Administered Redress program, see <http://www.consumerfinance.gov/budget/civil-penalty-fund/>

- ¹ Definitions. For the purpose of this update, this amount includes both obligations and commitments. An *obligation* is a transaction or agreement that creates a legal liability and obligates the government to pay for goods and services ordered or received. A *commitment* is a reservation of funds in anticipation of a future obligation.
- ² Other Programs includes the costs of the Office of Ombudsman, Administrative Law Judges, and other CFPB programs.
- ³ Centralized services include the cost of certain administrative and operational services provided centrally to other Divisions (e.g., building space, utilities, and IT-related equipment and services) in support of all strategic goals.
- ⁴ Meracord agreed to pay a \$1.38M in civil penalty according to a four-year payment schedule.
- ⁵ Victims' compensable harm is determined by looking to the terms of the relevant court or administrative order. If the amount of a victim's compensable harm cannot be determined based on the terms of the relevant order, the victim's compensable harm generally will be his or her out-of-pocket losses that resulted from the violation. To determine the amount of a victim's uncompensated harm, the Bureau will take the victim's total compensable harm, and subtract out any compensation that the victim has received—or is reasonably expected to receive—for that harm.