Prepared Remarks of CFPB Director Richard Cordray at the Federal Reserve Bank of Chicago

I am glad to be with you today and to have the chance to reflect further on some of the changes that have followed the most damaging and frightening financial crisis of our lifetimes. As we all know, the effects of that crisis were severe and widespread. For the first time in decades, many people saw their housing values decline. Millions lost their jobs and millions lost their homes. Most Americans saw their life savings shrink, and although the stock markets have recovered, many households did not. A considerable number of people will work much longer before they can retire because of the damage that was done.

A century ago, it took the public exposure of filth in the meatpacking industry to prompt passage of the Pure Food and Drug Act. Almost a half-century ago, it took the discovery that safety was taking a backseat to comfort in the auto industry to establish the National Highway Traffic Safety Administration. In just the past few years, it took the financial crisis and the ensuing Great Recession to bring to life the Consumer Financial Protection Bureau. Our mission at the Bureau is to reach for a "new normal" in the consumer financial marketplace and we seek some fairly basic things. We seek to hold financial companies accountable for being up front about the costs and risks of their products. We intend to ensure that predatory lending does not set consumers up to fail. And we are working to see that throughout the financial marketplace consumers are treated fairly and with the dignity and respect they deserve.

The Dodd-Frank Act imposed two particular changes in financial regulation with the advent of the new Consumer Bureau. First, there is no longer a sharp divide between chartered banks and other nonbank firms when it comes to federal oversight for compliance with consumer financial law. Whatever you think about government regulation, it cannot work in a piecemeal or patchwork manner, by having a system that addresses some competitors while leaving others alone. The most glaring example is the race to the bottom with underwriting standards in the mortgage market, which caused the entire financial system to teeter on the brink of collapse. Evenhanded oversight of all industry players, not only across the mortgage market but across all consumer financial markets, is a better and more enduring formula for economic stability.

Second, banking regulation based on attention to the safety and soundness of the institution itself is now separated from regulation based on protection of its customers. The supervision authority of the new Consumer Bureau requires a focus on compliance with consumer financial law and on whether people are being subjected to unfair, deceptive, or abusive acts and practices. Yet as we are seeing more and more, banking regulators do not regard these two foci as being at odds with one another. Certainly when we take the long-term view, no bank can remain safe and sound if it mistreats its

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customers over time. To borrow a phrase from Alexis de Tocqueville, it is "self-interest properly understood" that squarely links the lasting success of the institution with the well-being, satisfaction, and retention of its customers and the corresponding ability to attract more business and more consumers in the future.

Speaking in this city during the Great Depression, Joseph Kennedy defended the establishment of the Securities and Exchange Commission by declaring that "Our system of government was founded to encourage, not to limit, the expansion of honest business; not to prosecute honest business but to defend it." Every milestone in regulatory history, including the creation of the SEC and the Federal Reserve itself, met with considerable opposition at the outset. Ultimately, however, the critics often became champions. I firmly believe that our new Consumer Financial Protection Bureau will also one day be championed by the financial industry as well as consumers, because accountability creates a better marketplace for all who take part in it.

So let me tell you what we expect in this new era of accountability, and what the companies we oversee can expect from us.

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Since we opened our doors for business in July 2011, we have not only built a new agency from the ground up, but we have also addressed hundreds of thousands of individual consumer problems. We have pursued companies that have taken advantage of people and held them to account for treating consumers unfairly, deceptively, and abusively in violation of the law. We have put in place new rules to bring landmark changes to the multi-trillion-dollar mortgage market, so that it works better for consumers and responsible providers. This will help safeguard the economy and help prevent future financial crises. These changes are helping to instill a new compliance culture, premised on the notion that if a company does not show accountability to its customers, then it will have to be accountable to us.

Our authority extends to all consumer finance markets, including mortgages, credit cards, auto loans, student loans, bank account products, payday loans, credit reporting, debt collection, money transfers, other consumer loans, and more. We have regulatory oversight for all banks, thrifts, and credit unions with assets over $10 billion, as well as their affiliates, regardless of who issued their charter. On a combined basis, these large institutions account for $10 trillion in assets, or nearly three-quarters of the nation's banking market. In addition, thousands of nonbank firms that operate in these same markets are now subject to the Bureau's supervisory, enforcement, and regulatory jurisdiction.

We have been charged by Congress to assure that the markets for all of these consumer financial products are fair, transparent, and competitive. We expect a marketplace where companies are honest and clear so that consumers know the key terms and conditions of financial products up front, including pricing. We expect a marketplace where quality customer service is standard. And we expect a marketplace where financial products are designed to help consumers, not harm them.

As former Solicitor General Charles Fried has aptly observed, "Lying, cheating, and stealing are not traditional American virtues." At the Consumer Bureau, we believe they never have been and they never should be. Instead, we see candor, responsibility, and accountability as distinct American virtues.

When consumers have the ability to compare between two financial products with knowledge of the true costs, actual benefits, and real risks, they will generally be better able to make decisions they can live with over time. And informed decision-making allows American consumers to drive the market toward products and services that meet genuine consumer preferences.

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A certain professor once noted that just as companies are not allowed to sell faulty toasters to consumers that may endanger their lives, neither should they be allowed to sell faulty mortgages to consumers that may endanger their financial futures. Business should succeed by enabling their customers to succeed. That means making sure that consumers can afford the debt over the life of the loan. It means that the deal consumers sign up for is the deal they actually receive. And it means not structuring a product so that the lender can succeed regardless of whether the consumer fails. Predatory lending practices are unacceptable and they will not be tolerated.

Consumers are also entitled to the fundamental tenets of good customer service. Companies should be responsive to customers who seek to communicate with them. Companies should fix errors when they occur. They should process documents properly rather than lose them repeatedly. They should not lie to consumers. They should not ambush people with unexpected fees or penalties. These kinds of problems create unfairness and harm for consumers. Good customer service should be a straightforward relationship. It should not be marred by constant runarounds or unwelcome surprises that the consumer could not anticipate.

These are all common-sense principles of good business practice. They are principles of long standing, and we will hold companies accountable for achieving them.

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But what does it really mean to “hold a company accountable” for achieving these principles? We need to continue to think more deeply about what will motivate and drive actual behavior in compliance with consumer financial law. Let me offer three examples of how accountability affects participants in the financial marketplace.

First, we are utilizing both our supervisory authority and our enforcement authority to press for compliance with the law. These authorities are significantly different in their historical roots and their practical operation. But they also share basic similarities in their goals and objectives. It is most definitely the case, for example, that when we take either an enforcement action or a supervisory action, we are deciding what backward-looking relief the company itself should be affording to consumers who were harmed. Likewise, through either approach we are deciding what forward-looking relief should be imposed to change the company’s business practices so as to comply with the law. We can get to the same results via each of these tools, and we have been finding that together they can effectuate a great deal of change.

Indeed, so far our enforcement actions – both on our own and working with our various federal and state partners – are providing more than $3.5 billion in relief to consumers. In each of these instances, the monetary relief provided to past and current consumers was supplemented by prospective injunctive-style relief. This relief is aimed at protecting future consumers, who should never have to suffer the same treatment because the company is being compelled to change its practices. In some cases, we also imposed civil money penalties as a means of deterring such violations. Many of our most significant enforcement actions have occurred after the initial work was done by examination teams that identified violations and laid groundwork that was later taken up, developed, and completed by our enforcement teams. Other matters may have begun and proceeded as enforcement investigations, prompted by some source of information that gave rise to an inquiry leading to determinations of legal violations. Our supervisory personnel would have some visibility and input into that process as well.

Alongside our enforcement efforts, we have established a risk-based supervision program based on consumer financial protection for the largest banks and, in a historic first at the federal level, for a significant number of nonbank financial firms. This program is providing a more level playing field for those who compete in consumer financial markets, regardless of corporate charter or other legal forms. A conscious focus

on consumer compliance management is now tending to converge across the bank/nonbank divide. And that is the right way to look at things from the consumer perspective also – it should not and typically does not matter to individual consumers whether they are being mistreated by a chartered entity such as a bank, a credit union, or a thrift, or instead by any kind of nonbank corporation, partnership, or other type of venture. Without regard to these organizational niceties, we are now in position to hold any and all of these entities accountable for their conduct that harms consumers.

In addition, we have taken pains to signal other actors in the marketplace about the precise nature of matters we have addressed at a particular entity, regardless of whether we act by enforcement or supervision. In our enforcement actions, we have issued fairly detailed orders that make plain what the problem was and what was done to remedy it. In supervisory actions, by contrast, matters are handled in a confidential manner by established tradition. Nonetheless, we have made it a point to publish periodic documents known as "Supervisory Highlights," which describe problems and remedial actions to the rest of the market without identifying the underlying institutions. By these means, we intend and expect to gain an important deterrent effect and to provide a road map to companies that will foster industry-wide compliance on legal issues more immediately.

Second, we have also reflected in various settings that a company only acts through individuals – both decision-makers and those who carry out decisions. This is nothing new. It accords with time-honored principles of law, including those governing relationships between the corporation and its employees and agents, principles of vicarious liability, and the concept of piercing the corporate veil. These determinations must be handled in a measured manner, but if treated properly they can achieve just and effective results in more fully redressing legal violations. The issues should not devolve into mere technical arguments about corporate form and structure; instead they must represent the more straightforward concept of accountability.

In other words, there are legitimate occasions where it is appropriate to pursue not only the company that was a party to the consumer's transaction, but also individuals who were decision-makers or actors relevant to that transaction. And so the Consumer Bureau has sued not only companies but also their executives in cases where we are authorized to do so. Under the law, this includes not only a provider of consumer financial products or services, but also, in certain cases, anyone with "managerial responsibility" or who "materially participates in conduct of [its] affairs." We have named such individuals as parties in a variety of cases, and they have been required to finance restitution to consumers and submit to injunctive relief. Individuals have also been barred, sometimes permanently, from offering certain kinds of financial products or services. And they have been referred to the Justice Department for criminal prosecution in appropriate instances. The right response depends on the circumstances, and different thresholds may apply to each of these accountability measures, which are important supplements to simply imposing all legal responsibility on the corporate entity itself.

Third, we have indicated that a company may bear responsibility for the conduct of someone other than the company itself when a third party is acting as its agent or in concert with it or at its direction. In particular, we have made it clear both that service providers can also be liable for violations of the consumer financial laws, and conversely that banks and other financial firms can be liable for violations by their service providers. The term "service provider" is defined broadly in our statute, and it opens up accountability for persons or firms closely connected to the transactions that occur between consumers and a bank or other financial firm. This is important because the web of relationships in the financial marketplace can be obscure and may not be at all transparent to consumers. The complexities might tend to deflect or deter accountability by a multiplication of actors or the convoluted structures of corporate

entities. People who do not understand what company they are really dealing with will find it hard to assign proper responsibility to those who may be mistreating them.

Just over two years ago, we published a bulletin making it clear that banks and other financial firms are required "to oversee their business relationships with service providers in a manner that ensures compliance with federal consumer financial law." We noted many sensible reasons why a company might choose to utilize a service provider, such as outsourcing to address resource constraints, to obtain expertise not otherwise available, or to develop or market products or services. We made clear, however, that it would not be a proper purpose to engage a service provider in order to evade accountability, and that companies remain responsible for having "an effective process for managing the risks of service provider relationships." Other regulatory agencies have spoken to this same point over the years as well.

We have since enforced the law and examined entities in connection with such areas as marketing credit card add-on products, managing loan servicing relationships, engaging debt collectors, and making use of payment processors. Whether an institution organizes its affairs so as to act directly, or instead deputizes someone to act on its behalf, should not matter for its legal accountability. Indeed, consumers are especially vulnerable where they cannot select their own service providers and instead are at the mercy of selections made by another. They lose the leverage and control over their financial choices that comes from being able to "vote with their feet" and hence to exit a relationship they may find unsatisfactory. Holding parties accountable in these situations for violations of law that harm consumers is thus all the more important.

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All of this accountability, ultimately, is about improving the consumer experience. And the best way to know if companies are being accountable to their customers is to hear it straight from the horse's mouth. The Consumer Bureau has organized itself around a central precept of paying close attention to what consumers themselves tell us. Ultimately, for every sound business it is the customers who provide the essential information about what to fix, when to fix it, and how to fix it. In the olden days, the mantra for good businesses was that "the customer is always right." That was never literally true, but it reflected a steadfast attitude and an abiding frame of mind. And for our new agency, it is consumers themselves who are our customers.

Indeed, we are influenced and motivated by powerful personal narratives – from the general "Tell Your Story" function we set up when we first opened our doors to the consumer complaints that continue to stream in by the tens of thousands every month. These complaints cover a wide range of financial products and services. Each perceived grievance is a chance for us to get a better handle on something that is troubling a consumer and seek to address it successfully. That may mean getting some or all of the consumer's money back. It may mean fixing or clearing up a mistake or some other kind of problem. It may mean getting an explanation that the frustrated consumer was never able to receive before, or stopping some kind of harassing mistreatment.

So it feels great to be able to help individual people. And this is important, because if you are a trillion-dollar bank – and we have four in this country – or even a multi-billion-dollar bank, it becomes increasingly difficult to manage or even understand your customers at such a high level. A good customer service department can play a helpful role, to ward off mass hostility from customers who are poorly served or to intervene to save the customer relationship. But for the most part, banks at this level deal in metrics and processes much more than in any kind of traditional relationship banking. It is awfully hard to be George Bailey when you are overseeing multiple product lines with assets of $50 billion or more.

But there is another aspect of a strong focus on customer service that I want to highlight

here. From an analytical perspective, some might deride consumer complaints as mere anecdotes. And it is certainly true that not every complaint makes out an actual violation of the law. But the aggregation of individual data points begins to create a broader pattern yielding more meaningful data. Thus far, we have received more than 350,000 complaints from consumers, and we have worked directly with companies to address these complaints appropriately.

At this heavier volume, notably, is where some magic begins to occur. We can compare it to individual pixels of color, which alone may yield little that is informative, but grouped together by the thousands become a discernible picture that may even be seen in crisp HD format. We have found that the pattern of consumer complaints makes a difference by informing our work and helping us identify and prioritize problems. We know that if we hear about a particular problem from 50 consumers, it likely looms larger than if we hear from two. We know that if we begin to see a disturbing trend, in real time, we should consider allocating some of our limited resources to investigate it. And we also are sharing information with our state and local partners to provide color and emphasis on issues affecting their constituents.

So each consumer's voice counts and the chorus of many voices can change practices at these large financial companies. We have made it clear that we will send our examiner teams inside companies to investigate and, where appropriate, to fix such systemic problems, and we can use our enforcement teams to investigate, clean up, and deter possible violations of the laws. Companies, in turn, are learning from and responding to our approach. More and more of them are overhauling their customer service departments not only to resolve individual grievances, but to analyze, understand, and address the patterns in those grievances. They can see where customers are speaking up about how they perceive themselves to be treated unfairly. This is leading the best institutions to recognize and initiate their own consumer compliance activities, even before we might need to take any action ourselves. We applaud every institution that is adopting this approach, and we see it as a basic foundation of effective consumer financial protection.

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Let me conclude by saying that good regulation is not about impeding market forces; it is about channeling those forces to make the marketplace work better. Good regulation supports strong markets that are more likely to deliver value to consumers over time.

The Consumer Financial Protection Bureau now has taken a permanent place in American consumer finance. I am proud to serve as its first director alongside an exceptionally talented, creative, and committed team. It is a team that is wholly dedicated to the laudable task of protecting people in the financial marketplace, where they often need to have someone standing on their side. We will march steadily forward to help usher in this "new normal" of essential accountability, and we are glad to join with everyone who is likewise determined to work with us to achieve this goal.

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The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit consumerfinance.gov.