Financial Report of the Consumer Financial Protection Bureau

Fiscal Year 2012

Consumer Financial Protection Bureau

Mission

The Consumer Financial Protection Bureau is a *21st century agency* that helps consumer financial 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.

We will achieve our mission through …

- data-driven analysis
- innovative use of technology
- valuing the best people and great teamwork.

Vision

A consumer financial market place…

Where consumers can see prices and risks up front and where they can easily make product comparisons;

in which no one can build a business model around unfair, deceptive, or abusive practices;

that works for American consumers, responsible providers and the economy as a whole.

Values

Our mission begins with service to the consumer and our country. We serve our colleagues by listening to one another and by sharing our collective knowledge and experience.

Fostering leadership and collaboration at all levels is at the core of our success. We believe in investing in the growth of our colleagues and in creating an organization that is accountable to the American people.

Our organization embraces new ideas and technology. We are focused on continuously improving, learning and pushing ourselves to be great.

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Message from the Director of the Consumer Financial Protection Bureau

Congress created the Consumer Financial Protection Bureau (CFPB) in the wake of the worst financial crisis since the Great Depression and made us the nation's first federal agency focused solely on protecting consumers in the financial marketplace.

One of our most significant responsibilities has been to address problems in the mortgage market. During fiscal year 2012, we proposed rules aimed at providing clearer rules of the road, which will be finalized by January of 2013. Further, for the first time, we have the authority to supervise both banks and nonbank firms engaged in the mortgage market to assure that the rules are being applied evenhandedly. We are working to make the mortgage market, and other consumer financial markets, more fair, transparent, and accountable.

We are using all of the tools available to us, including both supervision and enforcement, to make financial markets work better for consumers.

Exemplary enforcement actions were taken in fiscal year 2012. Over the past several months, the Bureau partnered with the Office of the Comptroller of the Currency (OCC) and then with the Federal Deposit Insurance Corporation (FDIC) to announce enforcement actions against two credit card issuers charged with using deceptive marketing tactics to pressure or mislead consumers into paying for credit card add-on products. The collective results were to put $350 million back in the pockets of five and a half million consumers, along with assessing $74 million in penalties as a deterrent to such activities in the future. The CFPB accompanied the final consent decrees with a bulletin to provide industry-wide guidance on the types of deceptive marketing practices that violate Federal consumer law.

For over a year now, we have been accepting consumer complaints. In fiscal year 2012, we received over 74,000 complaints on a variety of financial products such as mortgages, credit cards, bank accounts, auto loans, student loans, and other consumer loans. Once a consumer contacts us, we work with both the consumer and his or her financial institution to help resolve the issue. For many consumers, we are able to get some financial relief. For others, we often can secure other kinds of meaningful relief, such as clearing up errors, correcting misinformation on credit reports, and providing timely advice on how to address particular issues.

Our consumer education work is designed to give people access to better financial information. This Spring, we launched "Ask CFPB," an online database that gives consumers carefully considered answers to their frequently asked consumer finance questions, laid out in plain language. "Ask CFPB" now covers an assortment of financial topics, and we are continuing to add more questions and answers in response to suggestions from the public.

We are committed not only to fulfilling our statutory responsibilities, but to delivering value to American consumers. This means being accountable and using our resources wisely and carefully. While our budget is small relative to other banking agencies, our mission is critical – to make life better for American consumers. They deserve a consumer financial system that actually works. Accomplishing our mission will take time. But we are making progress.

As required by the Dodd-Frank Act, the CFPB prepared comparative financial statements for fiscal years 2012 and 2011. The Government Accountability Office (GAO) rendered an unqualified audit opinion on the

CFPB's financial statements. GAO noted no material weaknesses or significant deficiencies in the CFPB's internal control and cited no instances of noncompliance with laws and regulations.

I am very proud of the assessment of the CFPB's operations contained in this report. It reflects the hard work of many of our employees who perform at the highest caliber and with a dedicated commitment to public service.

Sincerely,

Richard Cordray

Richard Cordray

PART A

Management's Discussion and Analysis

I. CFPB at a Glance

Overview of the Consumer Financial Protection Bureau

The Bureau of Consumer Financial Protection, known as the Consumer Financial Protection Bureau (CFPB), was established on July 21, 2010 under Title X of the Dodd-Frank Wall Street Reform and Consumer Protection Act Public Law No. 111-203 (Dodd-Frank Act). The CFPB was established as an independent bureau within the Federal Reserve System. The Bureau is an Executive agency as defined in Section 105 of Title 5, United States Code.

The Dodd-Frank Act authorizes the CFPB to exercise its authorities to ensure that, with respect to consumer financial products and services:

a. Consumers are provided with timely and understandable information to make responsible decisions about financial transactions;
b. Consumers are protected from unfair, deceptive, or abusive acts and practices and from discrimination;
c. Outdated, unnecessary, or unduly burdensome regulations are regularly identified and addressed in order to reduce unwarranted regulatory burdens;
d. Federal consumer financial law is enforced consistently in order to promote fair competition; and
e. Markets for consumer financial products and services operate transparently and efficiently to facilitate access and innovation.

Under the Dodd-Frank Act, on the designated transfer date, July 21, 2011, certain authorities and functions of several agencies relating to Federal consumer financial law were transferred to the CFPB in order to accomplish the above objectives. These authorities were transferred from the Board of Governors of the Federal Reserve System (Board of Governors), Office of the Comptroller of the Currency (OCC), Office of Thrift Supervision (OTS), Federal Deposit Insurance Corporation (FDIC), National Credit Union Administration (NCUA), and the Department of Housing and Urban Development (HUD). In addition, Congress vested the Bureau with authority to enforce in certain circumstances the Federal Trade Commission's Telemarketing Sales Rule and its rules under the Federal Trade Commission Act, although the Federal Trade Commission retains full authority over these rules. The Dodd-Frank Act also provided the CFPB with certain other Federal consumer financial regulatory authorities in addition to these authorities.

Organization Structure

Under the Dodd-Frank Act, the Secretary of the Treasury was responsible for establishing the CFPB and performing certain functions of the Bureau until a Director of the CFPB was put in place. The Bureau's day-to-day operations were managed by the Special Advisor to the Secretary of the Treasury for the Consumer Financial Protection Bureau until January 4, 2012, when President Obama appointed Richard Cordray as the first Director of the CFPB.

To accomplish its mission, the CFPB is organized into six primary divisions/offices:

1. <u>Consumer Education and Engagement</u>
   Provides, through a variety of initiatives and methods, information to consumers that will allow them to make decisions that are best for them. Consumer education is a central mission to the Bureau. The Bureau is developing targeted outreach to groups that face particular challenges, as required by the Dodd-Frank Act.

2. <u>Supervision, Enforcement, Fair Lending and Equal Opportunity</u>
   Ensures compliance with Federal consumer financial laws by supervising market participants and bringing enforcement actions when appropriate.

3. <u>Research, Markets and Regulations</u>
   Responsible for understanding consumer financial markets and consumer behavior, for evaluating whether there is a need for regulation, and for determining the costs and benefits of potential or existing regulations.

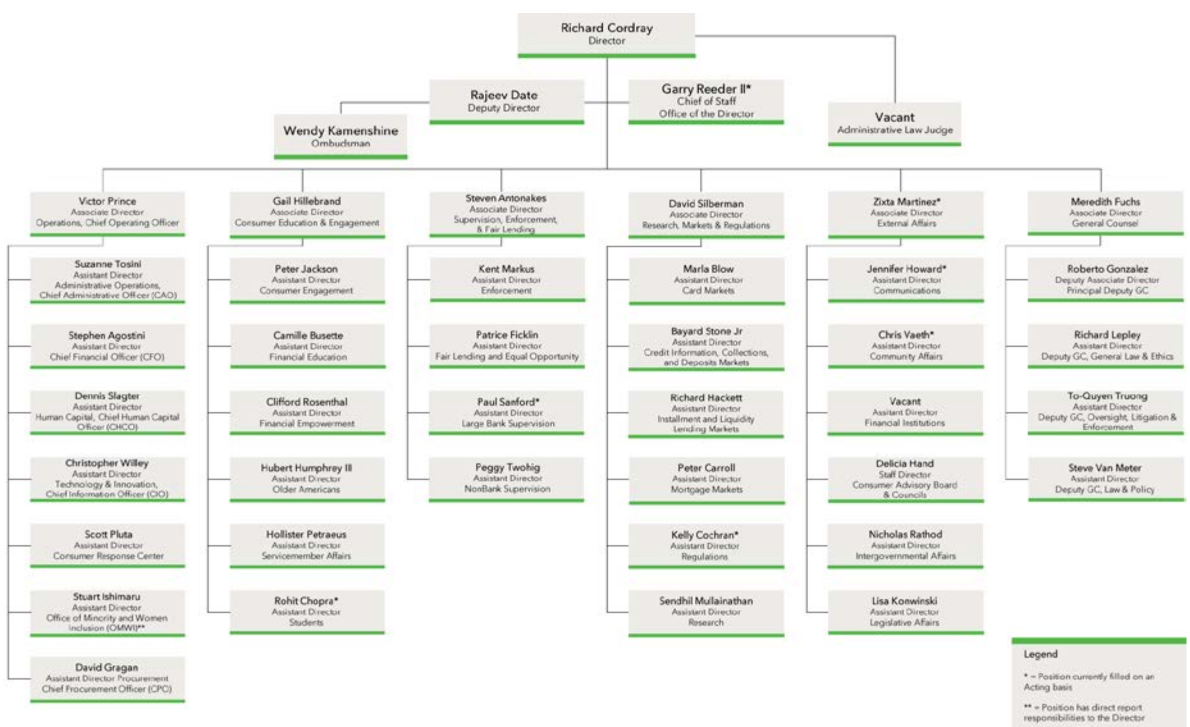
4. <u>Legal Division</u>
   Responsible for the Bureau's compliance with all applicable laws and provides advice to the Director and the Bureau's divisions.

5. <u>External Affairs</u>
   Manages the Bureau's relationships with external stakeholders and ensures that the Bureau maintains robust dialogue with interested stakeholders to promote understanding, transparency, and accountability.

6. <u>Operations, Chief Operating Officer</u>
   Builds and sustains the CFPB's operational infrastructure to support the entire organization.

The CFPB workforce is spread across the country with its headquarters in Washington, D.C. and regional satellite offices in Chicago, New York City, and San Francisco. The headquarters is temporarily spread across several locations within Washington, D.C., utilizing space pursuant to interagency agreements with the Department of the Treasury (Treasury), the OCC, and the Federal Housing Finance Agency (FHFA). The CFPB plans to eventually consolidate its headquarters into one building in Washington, D.C. The workforce in the CFPB's regional offices is predominantly mobile and therefore minimal office and conference room space is used in most of the regions.

Additional information on the organizational structure and responsibilities of the CFPB is available on CFPB's website at http://www.consumerfinance.gov/.



Advisory Groups

During fiscal year 2012, the CFPB began augmenting the information it collects by establishing four independent groups to provide consultation and advice to the Director on a range of issues within the CFPB's authority. Specifically, the CFPB has formally chartered the following four advisory groups:

- **Consumer Advisory Board –** Through a public process, the Bureau invited external experts, industry representatives, consumers, community leaders, and advocates to nominate individuals to serve as members of this advisory group. The Consumer Advisory Board (CAB) is a group of experts on consumer protection, consumer financial products or services, community development, fair lending, civil rights, underserved communities, and communities that have been significantly impacted by higher priced mortgage loans. They are a source of market intelligence and expertise, and also advise and consult on federal consumer finance issues. The CAB informs the Director about emerging practices or trends in the consumer finance industry, and shares analysis and recommendations. Members are charged with identifying and assessing the impact of emerging products, practices, or services on consumers and other market participants.

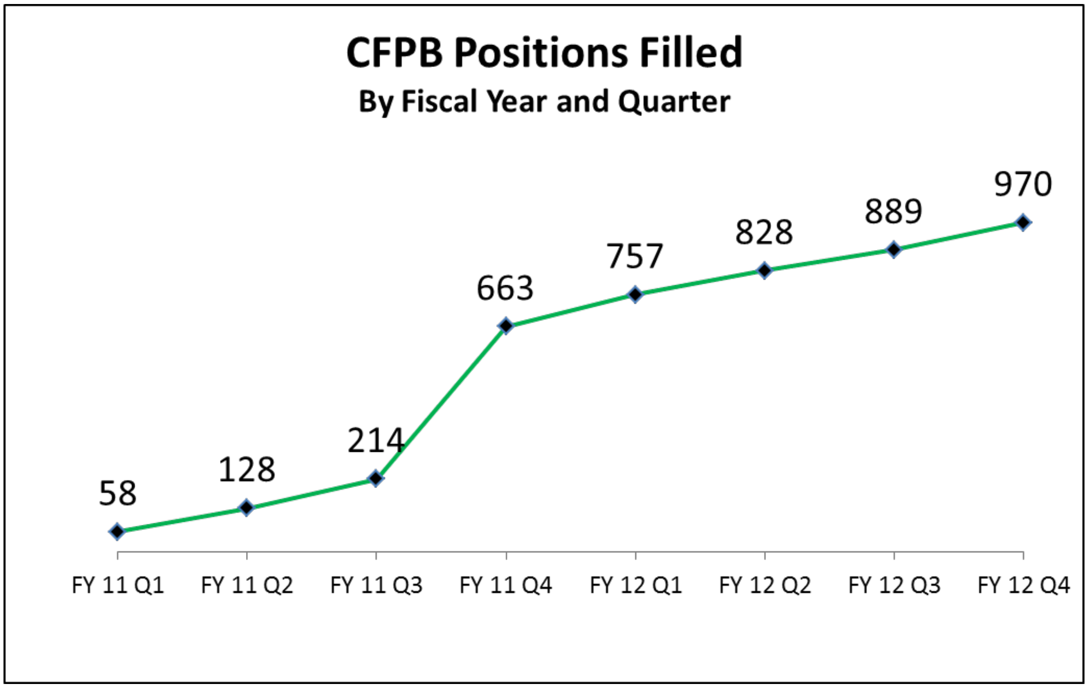
- **Community Bank Advisory Council –** The Community Bank Advisory Council (CBAC) advises on the market impact of consumer financial products or services, specifically from the unique perspectives of community banks. Members share information, analysis, and recommendations to better inform the CFPB's policy development, rulemaking, and engagement work.

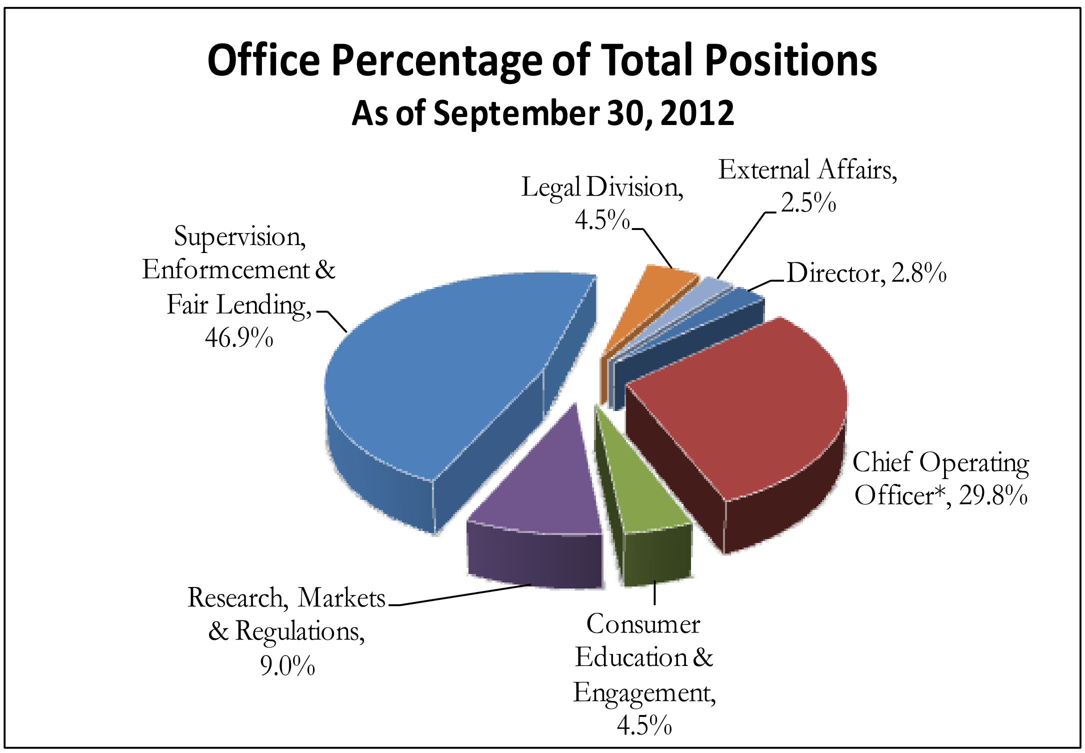
- **Credit Union Advisory Council –** The Credit Union Advisory Council (CUAC) advises on the market impact of consumer financial products or services, specifically from the unique perspectives of credit unions. Members share information, analysis, and recommendations to better inform the CFPB's policy development, rulemaking, and engagement work.

- **Academic Research Council –** The Academic Research Council (ARC) was established to assist the CFPB with research, analysis, and reports on topics relating to CFPB's mission, including developments in markets for consumer financial products and services, consumer awareness, and consumer behavior. The Council is made up of scholars with relevant methodological and subject matter expertise. The Council advises the CFPB on research methodologies, data collection, and analytic strategies, and provides feedback about research and strategic planning.

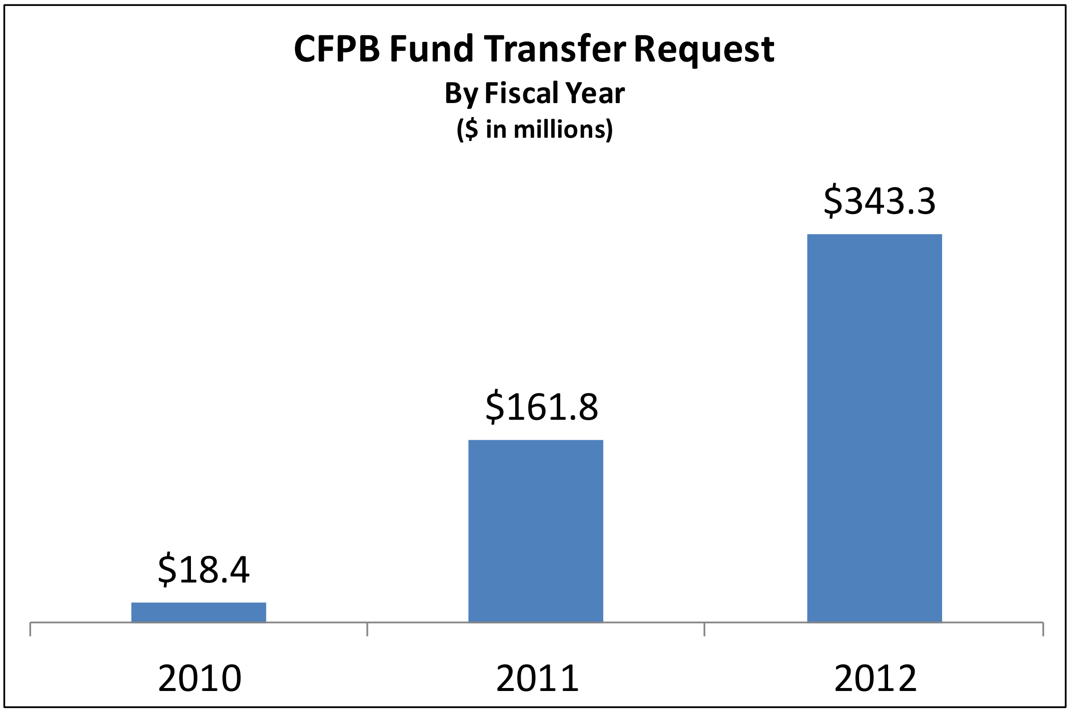
Growth of the CFPB

Since its inception the CFPB has grown in the number of employees and the corresponding funding needed to carry out its duties and responsibilities. At the end of fiscal year 2012, the CFPB was still below the full employment levels and funding it estimates for its steady state in future years. Our growth to date has been relatively steady and consistent. The charts below provide a historical depiction of the growth for employees and funding levels.





*The Office of the Chief Operating Officer (COO) displayed as 29.8 % is composed of 12.2% for the Consumer Response Center and 17.6% for all other COO functions.


CFPB Fund Transfer Request
By Fiscal Year
($ in millions)
$18.4
$161.8
$343.3
2010
2011
2012

II. CFPB Performance and Results

This section provides a summary of the CFPB's key performance outcomes as well as selected accomplishments that it has achieved this past fiscal year (FY). This marks only the beginning of the Bureau's work on behalf of consumers and providers of financial products and services.

Build a Great Institution – The Bureau continues to build its operational capacity. As it does so, it must ensure that its internal infrastructure – ranging from its human capital operations to its technology and data infrastructure – will be able to support its work now and in the future. Key priorities in support of this goal include:

- Recruiting the most qualified employees;
- Building out supervision and enforcement capabilities;
- Coordinating with federal and state agencies;
- Making necessary investments in technology, data infrastructure and facilities;
- Expanding the Bureau's capacity to handle complaints for the full range of consumer financial products and services; and
- Building efficient and effective management processes.

Deliver Tangible Value – The Dodd-Frank Act endowed the Bureau with wide-ranging policy tools, and the Bureau must coordinate the use of those tools in a way to promote a consumer financial marketplace that works for consumers, responsible providers, and the economy as a whole. Key priorities in support of this goal include:

- Monitoring and enforcing compliance with the Federal consumer financial laws through supervision in order to protect consumers from illegal acts or practices;
- Protecting honest businesses from competitors who use unscrupulous practices to gain an unfair advantage by using enforcement authority to address violations of Federal consumer financial laws;
- Promoting fair lending compliance and education by working with Federal agencies, state regulators, private industry, and fair lending, civil rights, and consumer and community advocates;
- Engaging consumers in a timely way through innovative initiatives to educate them about financial issues and use consumer input, including consumer complaint and inquiry data, to identify needed policy changes with particular impact on students, older Americans, service members, and low-income and economically vulnerable consumers;
- Addressing challenges in the mortgage market and evaluating potential policy problems in a range of consumer finance markets;
- Simplifying or updating regulations that have become unnecessary, outdated, overly burdensome, or are otherwise unduly difficult to understand and comply with;

- Producing original research to improve understanding of consumer behavior and market operations and practices to support the CFPB's policymaking and the general functioning of the market;

- Monitoring various consumer financial markets for emerging risks, technological advances, and other important developments; and

- Issuing rules that promote a fair, transparent, and competitive marketplace for consumer financial products and services after proper consideration of benefits and costs.

Supervision, Enforcement, and Fair Lending and Equal Opportunity

The CFPB's Supervision, Enforcement, and Fair Lending and Equal Opportunity Division oversees depository and non-depository institutions for compliance with the Federal consumer financial laws and brings enforcement actions against those institutions, where appropriate, in order to protect consumers from illegal acts or practices and to protect honest businesses from unscrupulous competitors. The division is comprised of the following offices:

- The Offices of Large Bank and Nonbank Supervision are responsible for supervisory oversight of both depository institutions and nonbanks, ensuring compliance with Federal consumer financial law at supervised entities.

- The Office of Enforcement investigates potential violations of Federal consumer financial laws and, where appropriate, pursues enforcement actions against those who violate these laws.

- The Office of Fair Lending and Equal Opportunity leads the Bureau's efforts to ensure fair, equitable, and nondiscriminatory access to credit for both individuals and communities through supervisory oversight and enforcement of federal fair lending laws, and outreach to civil rights, community, and industry groups.

<u>Strategies</u>

In fiscal year 2012, the CFPB continued to build its supervision, enforcement, and fair lending capacity. It expanded this capacity by issuing required rulemakings to support supervisory activities, refining its supervision and enforcement policies and procedures, establishing a framework for supervisory coordination with Federal and state regulators, and extending the reach of its supervisory and enforcement activities as capacity increased. This effort has been and will continue to be accomplished through strategic investments in staff recruiting and training, technology, internal processes such as project management, quality control and other operations infrastructure; and partnerships with Federal and state regulators and law enforcement agencies.

<u>Results</u>

Examples of key accomplishments in support of supervision, fair lending, and enforcement activities include:

- **Started on-site examinations.** The examination staff began on-site supervision activities at the largest depository institutions, and also began examination of numerous other institutions in each of the Bureau's four regions.

- **Launched nonbank supervision program.** The CFPB has launched its nonbank supervision program, the first federal program to supervise nonbank providers of consumer financial products and services. The CFPB commenced examinations of mortgage originators, mortgage servicers and payday lenders. This work is done in addition to CFPB's supervision of depository institutions.

- **Released the Supervision and Examination Manual.** To fulfill its statutory mandate to assess compliance with the Federal consumer financial laws, the CFPB released the first edition of the CFPB Supervision and Examination Manual, which outlines the Bureau's policies and procedures for supervising entities that offer consumer financial products or services. The manual includes a separate section on policies and procedures for supervising mortgage servicers, among other things. The CFPB will soon issue the second version.

- **Federal Financial Institutions Examination Council**. The Director of the CFPB is a member of the Federal Financial Institutions Examination Council (FFIEC), a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of insured depository institutions. Additionally, employees of the CFPB actively participate in nine FFIEC task forces, committees, and working groups. The CFPB currently provides leadership for the FFIEC's Consumer Compliance Task Force.

- **Enforcement Procedures and Investigations**. The CFPB has issued final rules setting forth its rules of investigation and adjudication, as well as the process for states to notify the CFPB of certain pending actions. In addition, the Bureau has established a process for handling tips from whistleblowers and for providing subjects of an investigation with notice and an opportunity to respond prior to the commencement of formal enforcement proceedings. Working collaboratively with supervision, fair lending and other Bureau staff, the Office of Enforcement has been investigating potential violations of Federal consumer financial laws in matters transferred from the prudential regulators and matters commenced by its own staff.

- **Enforcement Actions**. Pursuant to the Dodd-Frank Act, the CFPB has the authority to enter into consent orders and take action against institutions engaging in unfair, deceptive, or abusive practices or other violations of Federal consumer financial laws. During fiscal year 2012, the CFPB, working with two other prudential regulators (OCC and FDIC), entered into two separate consent orders resulting in restitution to victims and the payment of civil monetary penalties.

  In the first case resolved in July 2012, as a result of an examination regarding its credit card marketing practices the institution agreed to:

  - cease and desist deceptive marketing practices,
  - directly complete repayment and compensation to 2 million harmed individuals in the amount of approximately $140 million, and
  - pay a civil monetary penalty to the CFPB in the amount of $25 million.

  In the second case resolved in September 2012, as the result of an investigation into its telemarketing and sales tactics associated with credit card add on products, the institution agreed to:

  - cease and desist deceptive marketing practices,
  - directly pay $200 million in restitution, refunds and credits to 3.5 million harmed individuals, and
  - pay a civil monetary penalty to the CFPB in the amount of $7 million.

- **Fair Lending Procedures and Examinations.** The CFPB has started fair lending exams of supervised institutions and is working on several fair lending investigations transferred from other agencies. As part of the Bureau's Supervision and Examination Manual, the CFPB released policies and procedures for examinations involving fair lending laws, including the Equal Credit Opportunity Act (ECOA) and the Home Mortgage Disclosure Act.

- **Guidance to Supervised Entities.** The CFPB issued bulletins that provide supervised entities with guidance on a variety of issues. These include:

  - Marketing of Credit Card Add-on Products;
  - Confidentiality protections that are provided to entities during the examination process;
  - The CFPB's expectation that supervised entities will oversee their business relationships with service providers in a manner that ensures compliance with Federal consumer financial laws;
  - The CFPB's commitment to enforce ECOA and recognize the disparate impact doctrine; and
  - Clarification that under the Secure and Fair Enforcement for Mortgage Licensing Act (SAFE Act) a state may grant a transitional loan originator license to an individual who holds a valid loan originator license from another state.

Consumer Education and Engagement, and Coordination with the Office of Consumer Response

The Consumer Education and Engagement Division (CEE) and the Office of Consumer Response strive to enhance the ability of consumers to make financial decisions consistent with their personal financial goals. For the four special population offices, this work involves a combination of policy, program, and visibility initiatives. These offices also serve as a conduit for information from the field into the Bureau and an internal expert voice on the particular issues impacting these populations.

CEE has the following six offices:

- The Office of Servicemember Affairs works to improve consumer financial protection measures for servicemembers and their families. This involves partnering with the Department of Defense to ensure that servicemembers and their families receive financial education that is relevant to their specific needs, monitoring complaints submitted by servicemembers and their families to Consumer Response and escalating certain complaints for expedited resolution, and coordinating efforts of Federal and state agencies on financial issues related to servicemembers and their families.

- The Office of Students works to enhance students' ability to make financial decisions. That includes providing information and tools to help students understand the risk from student loans and other financial products, identifying policy and marketplace issues with special impact on students and providing escalation for expedited resolution of complaints submitted by private student loan borrowers to Consumer Response.

- The Office for Older Americans helps improve financial literacy among Americans that are 62 years old and over and protect them against illegal acts and practices through outreach, education and specific initiatives.

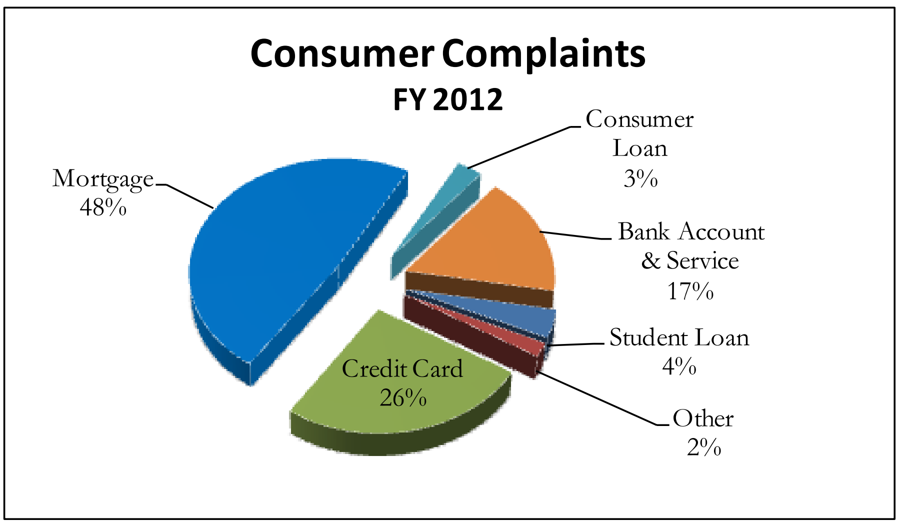
- The Office of Consumer Engagement creates an interactive, informative relationship between consumers and the Bureau to link consumers to information targeted to particular types of financial decisions and to use consumer input to help inform the Bureau's policymaking.

- The Office of Financial Education educates and empowers consumers to make better-informed financial decisions through a variety of activities, including determining the most effective financial education practices, providing access to tools and information relevant to making particular financial choices, and enhancing access to services to improve financial literacy.

- The Office of Financial Empowerment works to promote access to products and services that will help low-income and economically vulnerable consumers achieve financial stability and enhance opportunities to build assets.

The Office of Consumer Response is within the Operations, Chief Operating Officer Division. In accordance with statutory requirements, it handles consumer complaints relating to consumer financial products and services. Consumer Response screens these complaints based on several criteria, including whether the complaint is complete, and whether it is a duplicate of a prior submission by the same consumer. Screened complaints are sent via a secure web portal to the appropriate company. The company reviews the information, communicates with the consumer as needed, and determines what action to take in response. The Bureau then invites the consumer to review the response. Consumer Response prioritizes for review and investigates complaints in which the consumer disputes the response or where companies fail to provide a timely response.

During fiscal year 2012, the CFPB received approximately 74,100 consumer complaints. The distribution of consumer complaints by product is shown below.



Strategies

In fiscal year 2012, the CFPB continued to engage the public through outreach and events; education and engagement initiatives, including new financial education campaigns and the development of informational tools; and developing and disseminating timely and targeted information about specific financial decisions, with a particular focus on students, older Americans, servicemembers, and low-income and economically vulnerable consumers.

The CFPB is continuing to build the capacity of the Consumer Response function in order to handle consumer complaints and inquiries about consumer financial products and services under its authority.

Results

The CFPB has launched a variety of offices to provide assistance and information to consumers. The Bureau strives to provide individualized help to consumers based on their specific issues with financial products and services, and it works to improve financial literacy and capability – amongst the public as a whole and consumers who traditionally face particular challenges in the financial markets:

- **Outreach.** The CFPB has hosted dozens of roundtables and meetings at its offices in Washington, D.C. The External Affairs Division's Office of Community Affairs and subject-matter teams have included hundreds of policy experts and advocates and community leaders in various meeting and discussion formats to discuss mortgage issues, credit cards, payday loans, student loans, checking accounts and overdraft fees, prepaid cards, credit reporting and scoring, debt collection, remittances, the CFPB's definition of "larger participants" in nonbank markets, and the CFPB's approach to complaint handling, research, financial education, and new media.

  Over the past year, consumers have shared with the CFPB their experiences – positive and negative – with financial products and services. Consumers have the opportunity to provide the CFPB with such feedback through a variety of forums, including, among others, the "Tell Your Story" feature of the CFPB's website, roundtables, town halls, and field hearings. This feedback is key to understanding the challenges consumers face in obtaining financial products and services they need. The stories consumers have shared with the Bureau through the "Tell Your Story" feature of the CFPB's website cover a wide range of financial products and services, providing snapshots of consumers' day-to-day experiences in the marketplace. Consumers' stories are reviewed by Consumer Response staff and further the Bureau's understanding of current issues in the financial marketplace.

  In addition to "Tell Your Story," consumers have opportunities to voice concerns and share their experiences in person. Consumers have participated in large Bureau-sponsored public events, including town halls and field hearings focused on particular consumer finance issues, in Detroit, Michigan; Birmingham, Alabama; New York City; and Durham, North Carolina. Combined, these events have drawn thousands of participants, many of whom have shared their experiences – positive and negative – with mortgages, student loans, credit cards, payday loans, checking accounts, prepaid cards, consumer reporting, and other consumer financial products and services.

  Reaching out to consumers is essential to the work of this Division. Over the past year, the Division's Offices have engaged with different groups across the country through more than 649 listening sessions, town halls and roundtables, visits to military installations, and other stakeholder events. These and other opportunities to hear directly from consumers about their financial needs, aspirations, and experiences help inform all of the Bureau's work. Through this outreach work, the CFPB has connected to more than 9,245 stakeholder organizations that were involved in these events. As a 21st-century agency, the Consumer Engagement office has focused on bringing financial decision-making tools and information to consumers through an accessible online format. Over the past year, a steadily increasing number of consumers took advantage of these offerings. The Bureau's website received more than 5 million unique views in the past year. The CFPB estimates that more than 3,750,000 of those were to areas of the website providing consumer tools, information, and assistance.

  The Division supports one of the CFPB's signature campaigns, *Know Before You Owe*, which has begun to make the costs and risks of financial products and services easier to understand. Although consumers expect to be held responsible for their purchases and debts, they also deserve to be able to make informed choices based on long-term costs and risks of those products and services. *Know Before You Owe* encourages personal responsibility and smart decision-making through fair and effective representations of the key elements of the costs and risks of financial products and services. In 2011, the Bureau published prototype forms, tools, and contracts for mortgages, student loans, and credit cards that are designed to make important information easier to find.

In March, the Bureau released "Ask CFPB", an interactive online tool that helps consumers find clear, unbiased answers to their financial questions. "Ask CFPB" currently contains more than 900 easy-to-read, plain-language entries written by the Bureau's subject-matter experts. Consumers can view entries organized by "most helpful," "most viewed," or "recently updated." Entries cover credit cards, mortgages, student loans, debt collection, prepaid cards, auto loans, bank accounts and services, and credit report scores. The content in "Ask CFPB" mirrors the content our call center representatives use to answer consumers' questions when taking complaints on these products and services.

- **Servicemembers and Military Families.** The CFPB's Office of Servicemember Affairs (OSA) conducted 72 outreach events in fiscal year 2012 delivering consumer financial education information to more than 30,220 military and veteran consumers. This figure includes reaching out to servicemembers where they live and work, by visiting 37 military installations/National Guard units and participating in 18 town halls and 28 roundtable discussions with senior military leaders since October 2011.

  At these outreach events, OSA leadership and staff listened to servicemembers discuss the financial challenges they face, observed financial education training, and provided educational materials. In addition to the military units/installations visited, OSA participated in 35 outreach events sponsored by external organizations seeking additional educational information about the Office and the CFPB. By incorporating the use of digital and social media channels into the delivery methodology for consumer financial education, OSA reached an additional 3.8 million consumers.

  OSA used "Military Saves Week" in February 2012 as an opportunity to distribute a video message to military units about the importance of saving for goals. Also in February 2012, Assistant Director Holly Petraeus received a request from Pentagon officials asking OSA to assist in the creation of financial-planning materials for all servicemembers leaving the military, an often-difficult time of transition when such materials are particularly useful. Experts from throughout the CFPB worked with OSA to provide content for the DoD curricula. The feedback during the user testing period ranked the financial education module as the most popular activity during the week-long transition training workshop.

- **Students.** The Office of Students recently entered the second phase of its *Know Before You Owe: Student Loans* project by releasing a beta version of a financial aid comparison tool for public comment. This online tool is designed to help students and families make better-informed decisions about student loans. The beta version drew upon publicly available data provided by government statistical agencies, including information on more than 7,500 schools and institutions, including vocational schools and community, state, and private colleges. The tool also included a "Military Benefits Calculator" that can estimate education benefits for servicemembers, veterans, and their families. The calculator includes military tuition assistance and Post-9/11 GI Bill benefits.

  In March, the Bureau began to accept complaints from the public on student loans. The CFPB's Student Loan Ombudsman works with Consumer Response, the U.S. Department of Education, and institutions of higher education, lenders, and others to assist borrowers with complaints on private education loans and to address challenges in the student lending marketplace. The Student Loan Ombudsman will submit a report to Congress later this year. In preparation for this report, the Bureau published a Notice and Request for Information (RFI) in June to collect comments on the nature of private student loan complaints received by institutions of higher education, state agencies, industry, nonprofit organizations, and other interested parties.

- **Financial Education and Consumer Engagement.** The CFPB, through its Offices of Financial Education and Consumer Engagement, began developing educational content for its website, including content for the knowledge base system to provide consumers with an interactive question and answer platform. Also through the Office of Financial Education, the CFPB began work on a pilot program that will evaluate certain financial education programs in the field, provide feedback about the results to other program providers, and help inform and advance the field of financial literacy. Consumer Education and Engagement leadership spoke to community financial education and service providers at a variety of forums.

- **Older Americans.** The Division of Consumer Education and Engagement's Office for Older Americans has continued its outreach efforts around the country with its core constituency, key public officials, financial institutions, industry, advocates, and other stakeholders – including 107 events with more than 4,600 participants since October 2011. The Office's outreach work is helping to raise awareness of growing consumer financial challenges faced by older Americans and to bring various interests together to develop solutions on the local, state, and national level. To assist with this work, the Office issued an RFI about elder financial exploitation and other issues impacting seniors in June 2012. The Office also worked with the CFPB's Research, Markets and Regulations Division to issue a report and consumer guide about reverse mortgages, a loan product sold to homeowners aged 62 and older.

- **Consumer Complaints.** Collecting, investigating, and responding to consumer complaints are integral parts of the CFPB's work, as Congress set forth in the Dodd-Frank Act. The Bureau's Office of Consumer Response hears directly from consumers about the challenges they face in the marketplace, brings their concerns to the attention of companies, and assists in addressing their complaints. The CFPB began Consumer Response operations on July 21, 2011, accepting consumer complaints about credit cards. Consumer Response began handling mortgage complaints on December 1, 2011, and it began accepting complaints about bank accounts and services, private student loans, and consumer loans on March 1, 2012. Over the next year, the CFPB expects to handle consumer complaints on other products and services under its authority.

  The CFPB accepts complaints through its website and by telephone, mail, email, fax, and referral. Consumers file complaints on the Bureau's website using complaint forms tailored to specific products, and can also log on to a secure consumer portal to check the status of a complaint and review a company's response. While on the website consumers can chat with a live agent to receive help completing a complaint form. Consumers can also call the Bureau's toll-free number to ask questions, file a complaint, check the status of a complaint, and more. The CFPB's U.S.-based contact centers provide services to consumers in more than 180 languages and to hearing- and speech-impaired consumers. Cutting-edge technology, including secure company and consumer portals, makes the process efficient and user-friendly for consumers and companies. For companies, the CFPB provides secure channels for communicating directly with dedicated staff about technical issues.

  Information about consumer complaints is now available to the public, following the CFPB's launch of a public Consumer Complaint Database on June 19, 2012. The database is populated by credit card complaints received by the CFPB on and after June 1, 2012, and contains certain individual complaint-level data collected by the CFPB, including the type of complaint, the date of submission, the consumer's zip code, and the company that the complaint concerns. The database also includes information about the actions taken on a complaint – whether the company's response was timely, how the company responded, and whether the consumer disputed the company's response. The database does not include confidential information about consumers' identities.

Research, Markets and Regulations

The Research, Markets and Regulations (RMR) Division is responsible for monitoring consumer financial markets; improving understanding of consumer behavior and evaluating the benefits and costs of possible policy initiatives; as well as implementing the Federal consumer financial laws through regulations, in coordination with the other parts of the Bureau where appropriate. Before the Bureau acts on its own initiative, it carefully gathers evidence about particular practices, products or trends from a wide variety of sources. The offices within this division are staffed with professionals selected for their strong analytic skills and subject matter expertise. The division includes the following offices:

- The Research Office supports policy, supervision, enforcement, fair lending, and education functions of the Bureau with data analysis, conducts empirical research to shed new light on consumer behavior and market operations and practices, and evaluates benefits and costs of potential regulations.

- The Markets Teams provide the Bureau's other operating divisions with current market intelligence and analysis about major consumer financial markets. There are four market teams: Card and Payments; Deposits, Cash, Collections, and Credit Reporting; Installment and Liquidity Lending; and Mortgage.

- The Regulations Office works, in coordination with other parts of the Bureau, to ensure that rules implementing the Federal consumer financial laws are issued and interpreted in an informed, fair and efficient manner in accordance with the law.

<u>Strategies</u>

In fiscal year 2012, the CFPB continued to acquire the data necessary to properly monitor the mortgage and credit card markets for emerging risks, technological advances and other important developments, and to provide support to other functions within the Bureau.

The Bureau will continue to produce original research in key areas related to consumer financial products and services, including consumer behavior and decision-making, the impact of regulation, and incentives for firms and consumers. These reports will improve understanding of consumer behavior and market operations and practices to support the CFPB's policymaking.

<u>Results</u>

Accomplishments in support of market monitoring include:

- **Established a process for collecting mortgage data.** The CFPB reached a memorandum of understanding with other regulatory agencies to continue the collection and processing of Home Mortgage Disclosure Act data. This loan-level mortgage data will inform the CFPB's understanding of the mortgage market and bolster the CFPB's fair lending oversight. In addition, the Bureau has entered into an agreement with the FHFA to jointly create the first nationally representative database of all residential mortgages, including first and second liens and home equity lines. This National Mortgage Database will create a unique and robust tool for monitoring developments in the mortgage market.

- **Establish a process for monitoring consumer credit experience.** The CFPB completed a procurement through which it will create a nationally-representative, deidentified, Consumer Credit Panel with 10-years of information at the trade line level. Information on the panel will be updated quarterly and new records will be added to the panel to maintain its representativeness. This database will provide a unique tool to study consumers' experience with various types of credit.

Key reports and regulations include:

- **Report on Reverse Mortgages –** In June 2012, the CFPB published a report on reverse mortgages as required by the Dodd-Frank Act. The report identified and quantified important trends with respect to reverse mortgages, including the fact that consumers are taking out these mortgages at younger ages, are drawing a lump sum to pay off existing debt rather than using the mortgage for ongoing living expenses, and increasingly failing to pay their taxes and insurance which puts them in default. The report also identified challenges consumers face in understanding the risks associated with a reverse mortgage and deceptive marketing practices that are victimizing some consumers. As a follow-up to the report, the CFPB issued a request for information to gather more information on some targeted issues identified in the report.

- **Report on Private Student Lending –** In July 2012, the CFPB delivered to Congress, in collaboration with the Department of Education, a report called for by the Dodd-Frank Act with respect to private student lending. To prepare this report, the Bureau assembled a unique dataset consisting of deidentified and anonymized records from the largest student lenders. Using this data, the Bureau was able to identify how private student loan underwriting changed during the credit bubble that preceded the mortgage crisis, and the adverse impact that those developments have had on borrowers. The report contains recommendations to Congress from the Bureau and from the Secretary of Education on ways to address the fallout from the student lending bubble as well as ways to prevent a recurrence of these problems.

- **Report on Credit Scores –** In September 2012, the Bureau issued a follow-up to its initial report on the differences between "educational" credit scores sold to consumers and the scores sold to and used by lenders. Drawing on a dataset it assembled from each of the three major credit bureaus, the report compares the relative ranking of consumers in educational scores and scores sold to lenders. The report finds that for approximately 20% of consumers there are material variations between the two types of scores, which could lead consumers who rely on the educational score to misapprehend their credit worthiness when shopping for credit.

- **Regulations –** As contemplated by the Dodd-Frank Act, the CFPB is in the process of issuing a comprehensive set of regulations to address deep flaws in the mortgage market that were revealed by the financial crisis. After months of preparation and outreach, including conducting several small business review panels, the Bureau issued proposed rules this past summer to address the following topics:

    - Streamlining and integrating federal mortgage disclosures to make it easier for consumers who have applied for a mortgage loan to understand the terms of the transaction and to facilitate compliance by lenders and other financial services providers.
    - Addressing widespread problems in the mortgage servicing industry by implementing Dodd-Frank Act requirements regarding periodic statements, force-placed insurance, prompt crediting of payments, responses to requests for pay-off amounts, and error resolutions. In addition, the Bureau proposed basic requirements to ensure that servicers maintain reasonable information management systems, reach out early to work with borrowers who are having trouble paying their loans, and consider applications for loss mitigation alternatives before completing a foreclosure.

- Refining existing rules regarding the compensation and qualification of mortgage loan originators, including brokers and loan officers, as well as simplifying the structure of upfront points and fees on certain loans.
- Implementing Dodd-Frank Act amendments to existing rules governing high cost mortgage loans to apply the requirements to a broader group of mortgages and to increase consumer protections.
- Ensuring that consumers receive a copy of the appraisals conducted in connection with their mortgage loan applications.

In addition to these proposed rules, the Bureau issued an Advanced Notice of Proposed Rulemaking (ANPR) in May 2012 with respect to general purpose reloadable prepaid cards. This is one of the fastest growing segments of the payments market, but is generally excluded from coverage under the regulations implementing the Electronic Fund Transfer Act. The Bureau's ANPR sought comments on a number of issues that the Bureau will consider in a contemplated rulemaking in fiscal year 2013.

The Bureau also launched in fiscal year 2012 an inquiry into payday lending issues and a separate and related inquiry into issues involving overdraft of checking accounts.

The Bureau is also working to implement other Dodd-Frank Act protections. In 2012, the Bureau issued new rules governing foreign money transfers (remittances), which prior to the Dodd-Frank Act had been largely excluded from Federal consumer financial protection laws. Those rules, including new disclosures and error resolution procedures, will take effect in February 2013. The Bureau also issued a supplemental rule on remittances in August 2012 to address certain issues on which it had sought additional public comment, in advance of the February 2013 implementation date. The Bureau is working with industry to provide guidance in advance of the effective date.

Further, the Bureau is working with consumer and industry stakeholders on interpreting and streamlining regulations to implement existing Federal consumer financial protection laws. These regulations were issued previously by other Federal financial services regulators and transferred to the Bureau in July 2011. In 2012, the Bureau issued interpretive guidance on a variety of topics, including interpretation of regulations concerning mortgage loan originator compensation, licensing requirements for loan originators under the SAFE Act, and reaffirmation of the legal doctrine of disparate impact under fair lending law. In addition, the Bureau has been exploring possible initiatives to update, modify, or eliminate inherited regulatory requirements that may be outdated, unduly burdensome, or unnecessary. In response to a request for information, the Bureau received two rounds of comments from stakeholders. The Bureau is in the process of determining what actions to take in fiscal year 2013 as a result of the recommendations received.

Verification and Validation of Performance Data

As the CFPB collects baseline data for its measures in fiscal year 2012, and develops additional measures to report on in the future, the Bureau will strive to ensure that the information reported in performance documents and the processes used to develop that information is complete and reliable. As an example of existing validation and verification processes, the Bureau is subject to an annual independent audit of operations and budget pursuant to Section 1573 of the Department of Defense and Full-Year Continuing Appropriations Act, 2011, which includes a review of the CFPB's performance-based budgeting processes.

The CFPB has posted for public comment its Draft Strategic Plan for 2013 through 2018 on the CFPB website. Additional information on the CFPB's performance and the Final Strategic Plan will be posted online at www.consumerfinance.gov.

III. Management Assurances and Audit Results

Fiscal Year 2012

CFPB STATEMENT OF MANAGEMENT ASSURANCES

November 8, 2012

The management of the Consumer Financial Protection Bureau (CFPB) is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). Continuous monitoring and periodic evaluations provide the basis for the annual assessment and report on management's controls, as required by FMFIA. The CFPB is leveraging the established OMB Circular A-123 and the FMFIA assessment methodologies to assist in assessing the applicable entity-wide controls, documenting the applicable processes, and identifying and testing the key controls. Based on the results of these ongoing evaluations, the CFPB can provide reasonable assurance that internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations meet the objectives of FMFIA, and no material weaknesses were found in the design or operation of the internal controls as of September 30, 2012.

As required by the Dodd-Frank Act, the CFPB is required to provide a management assertion as to the effectiveness of the CFPB's internal control over financial reporting. The CFPB management is responsible for establishing and maintaining effective internal control over financial reporting. The CFPB conducted its assessment of the effectiveness of internal control over financial reporting based on the criteria established under 31 U.S.C. Sec. 3512(c) and applicable sections of OMB Circular A-123. Based on the results of this evaluation, the CFPB can provide reasonable assurance that its internal control over financial reporting as of September 30, 2012 was operating effectively and no material weaknesses were found in the design or operation of the internal control over financial reporting.

As required by the Dodd-Frank Act, the CFPB is required to maintain financial management systems that comply substantially with Federal financial management systems requirements and applicable Federal accounting standards. The CFPB utilizes financial management systems that substantially comply with the requirements for Federal financial management systems and applicable Federal accounting standards.

Richard Cordray

Richard Cordray
Director of the Consumer Financial Protection Bureau

Federal Managers' Financial Integrity Act

The CFPB was established as an independent bureau in the Federal Reserve System under Section 1011(a) of the Dodd-Frank Act. The CFPB recognizes the importance of Federal laws associated with implementing effective enterprise risk management, including the Federal Managers' Financial Integrity Act. This includes ensuring that the CFPB operations and programs are effective and efficient and that internal controls are sufficient to minimize exposure to waste and mismanagement.

In fiscal year 2012, the CFPB performed an evaluation of its risks and system of internal control and employed an independent accounting firm to assist CFPB management in its evaluations. The results of those evaluations helped to support the CFPB's reasonable assurance of effective internal control over the efficiency of operations, compliance with laws and regulations, and financial reporting with no material weaknesses or significant deficiencies.

The CFPB is committed to continuously enhancing and improving its system of internal control and realizing more effective and efficient ways to accomplish our mission. As a result the CFPB has identified several areas in which to focus over the next fiscal year: a more robust asset management system, further collaboration regarding potential risks to the Bureau and its mission, more robust documentation surrounding policies and procedures, enhanced IT security programs, and supplementary payroll reconciliation and coordination with our shared service providers. Below is additional information on these areas of improvement.

- **Asset Management –** The Bureau is developing a more centralized and formalized process to inventory, track, capitalize, dispose, transfer and record fixed assets.

- **External Risk Assessment –** There are many ways in which the Bureau identifies, prioritizes, and addresses risk; we perform risk management and reporting activities within individual offices and divisions and through Bureau-wide governance structures. The Bureau is working to enhance these activities to include a more formal process for comparing, prioritizing and tracking resolution of significant Bureau risks.

- **Policies and Procedures –** Since obtaining full authorities as an independent Federal entity in January 2012, the Bureau made considerable progress in developing key policies and procedures to carry out its mission. Indeed, the Bureau proactively adopted some crucial policies and procedures even before that date, based on certain delegations of authority from the Treasury Department. Management will continue the process of fully documenting and approving policies and procedures for important business, operational and program functions.

- **Information Technology –** Currently, IT systems that support the Bureau's financial activities and processes are provided by third party service providers, such as Bureau of Public Debt - Administrative Resource Center (BPD-ARC), National Finance Center (NFC), and Department of the Treasury, Departmental Offices. The Bureau has reviewed the Statements on Standards for Attestation Engagements (SSAE) No. 16 reports (BPD-ARC and NFC) and the Treasury's Assistant Secretary for Information Systems and Chief Information Officer's Statement of Unqualified Assurance of Achievement of Management Control Objectives. Based on these reviews, we have determined that internal controls are operating effectively to provide reasonable assurance of substantial compliance with federal financial management systems requirements and applicable federal accounting standards. As the Bureau's IT infrastructure continues to mature and as we move toward IT independence, we will continue to enhance our own policies and procedures relating to security management, application security, and user access.

- **Human Capital and Payroll –** During FY 2012 we identified opportunities and implemented procedures to strengthen controls around payroll and benefits reconciliations.

Federal Financial Management Systems Requirements

Section 1017(a)(4)(C) of the Dodd-Frank Act requires the CFPB to implement and maintain financial management systems that substantially comply with Federal financial management systems requirements and applicable Federal accounting standards. As discussed below in the section on Financial Management System Strategy, the CFPB has entered into an agreement with the BPD-ARC for the cross-servicing of the CFPB's core financial management system needs. As such, BPD has provided assurances to the CFPB that its system is in compliance with the Federal Financial Management Improvement Act (FFMIA) whereby the system is substantially compliant with:

- Federal financial management system requirements,
- Applicable federal accounting standards, and
- The United States Standard General Ledger at the transaction level.

BPD has reported that its system substantially complies with the three requirements of FFMIA and recently completed a Statement on Standards for Attestation Engagement (SSAE) No. 16, Reporting on Controls at a Service Organization. The independent auditors opined in the SSAE-16 report that, in short, BPD's controls were suitably designed and operating effectively to provide reasonable assurance that control objectives would be achieved if customer agencies applied the complementary customer agency controls.

The CFPB evaluated its internal controls over the processing of transactions between the CFPB and BPD. The CFPB has determined it has adequate complementary controls in place.

Financial Statement Audit and Report on Internal Control over Financial Reporting

Sections 1017(a)(4)(B) and (D) of the Dodd-Frank Act require the CFPB to prepare and submit to GAO annual financial statements and an assertion of the effectiveness of the internal control over financial reporting. Section 1017(a)(5)(A) and (B) of the Dodd-Frank Act also require GAO to audit those financial statements and report their results to the Bureau, Congress and the President. The CFPB prepared comparative financial statements for the first time for fiscal years 2012 and 2011.

GAO issued an unqualified audit opinion on the CFPB's fiscal years 2012 and 2011 financial statements. GAO noted no material weaknesses or significant deficiencies in the CFPB's internal controls and cited no instances of non-compliance with laws and regulations. Further, GAO opinioned that the CFPB maintained in all material respects effective internal control over financial reporting as of September 30, 2012 and September 30, 2011.

Financial Management Systems Strategy

The CFPB recognized early on that as a new bureau it needed to leverage existing financial management resources, systems and information technology platforms when identifiable and available. Initially, all of the CFPB's financial management transactions were processed through the Department of the Treasury's Departmental Offices. Subsequently, the CFPB has maintained a contract with the BPD for the cross-servicing of a core financial management system that uses a commercial off-the-shelf core financial management system designed and configured to meet generally accepted accounting principles for Federal entities. In addition to the core financial management system, BPD provides additional services to the CFPB, such as transactional processing, financial reporting, human resource services, procurement services, and travel services.

Further, the CFPB established an Investment Review Board (IRB) as an executive advisory body responsible for ensuring that all business and technology investment decisions align with the CFPB mission, vision, strategic goals and initiatives, and program management best practices, and achieve the maximum return on investment. The IRB is chaired by the Chief Financial Officer (CFO). All investments over $500,000 are reviewed by the IRB, unless waived by the Chair. The Chair may require IRB review of investments less than $500,000 if the investment is deemed significant for any reason.

Federal Information Security Management Act

The Federal Information Security Management Act (FISMA) requires Federal agencies to develop, document, and implement an agency-wide program to provide security for the information and information systems that support the operations and assets of the agency. The CFPB has leveraged existing information technology and platforms by entering into various cross-servicing agreements with the Department of the Treasury's, Departmental Offices and BPD, and the Department of Agriculture's NFC. As the CFPB continues to mature, so does the information security program that was established in accordance with FISMA as based on the FISMA implementation guidance by the National Institute of Standards and Technology. The CFPB is in substantial compliance with FISMA as a result of its development and refinement of a cyber security program as well as its review of third party service organization.

Improper Payments

The Improper Payments Elimination and Recovery Act of 2011 requires agencies to review their programs and activities annually to identify those susceptible to significant improper payments. While the CFPB's Bureau Fund is not subject to the Act, in the interest of being consistent with government best practices, during fiscal year 2012, the Office of the Chief Financial Officer conducted such a review of four areas of payments – Purchase Card, Contract Payments and/or Invoices, Travel Card, and Claims and/or Vouchers. The CFPB's risk assessment process did not identify any programs susceptible to significant improper payments.

Independent Performance Audit of the Operations and Budget of the CFPB

The Dodd-Frank Act, amended by the Full-Year Continuing Appropriations Act, 2011 (12 U.S.C. § 5496a), mandates that the CFPB obtain an annual independent audit of the operations and budget of the Bureau. The CFPB contracted for a fiscal year 2012 independent performance audit of the following key areas of operations: (1) Privacy Programs, Policies and Processes; (2) Travel Systems and Services; and (3) Budget. The independent auditor identified 3 performance issues of which CFPB management has determined that none of the issues rose to the level of a material weakness.

The independent auditor evaluated the CFPB's corrective actions to address the fiscal year 2011 results in the following areas of operations: (1) Communications and Transparency; (2) Consumer Response; (3) Human Capital and Organizational Development; (4) Information Technology; and (5) The CFPB Budget. The independent auditor found that CFPB management made significant progress towards implementing enhancements resulting in the closure of over 88 percent of the recommendations made.

Limitations of the Financial Statements

The principal financial statements contained in this report have been prepared to present the financial position and results of operations of the CFPB pursuant to the requirements of the Dodd-Frank Act Section

1017 (a) (4) (B). While the statements have been prepared from the books and records of the Consumer Financial Protection Bureau, in accordance with generally accepted accounting principles for the Federal government, and follow the general presentation guidance provided by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared using the same books and records.

The statements should be read with the understanding that they are for a component of the United States Government, a sovereign entity.

IV. Financial Analysis

How the CFPB is Funded

Under the Dodd-Frank Act, the CFPB is funded principally by transfers from the Board of Governors of the Federal Reserve System up to a limit set forth in the statute. The CFPB requests transfers from the Board of Governors in amounts that are reasonably necessary to carry out its mission. Funding is capped at a pre-set percentage of the total 2009 operating expenses of the Federal Reserve System, subject to an annual adjustment. Specifically, the CFPB fund transfers are capped as follows:

- In fiscal year 2011, up to 10 percent of these Federal Reserve System expenses (or approximately $498 million),
- In fiscal year 2012, up to 11 percent of these expenses (or approximately $547.8 million),
- In fiscal year 2013, up to 12 percent of these expenses (or approximately $597.6 million), and
- In fiscal year 2014 and beyond, the cap remains at 12 percent but will be adjusted for inflation.

The Dodd-Frank Act requires the CFPB to maintain an account with the Federal Reserve – "Bureau of Consumer Financial Protection Fund" (Bureau Fund). Funds requested from the Board of Governors are transferred into the Bureau Fund. Bureau funds determined not to be needed to meet the current needs of the CFPB are invested in Treasury securities on the open market. Earnings from the investments are also deposited into this fund. During fiscal year 2012, four transfers totaling $343.3 million were received from the Board of Governors.

The Dodd-Frank Act explicitly provides that Bureau funds obtained by or transferred to the CFPB are not Government funds or appropriated funds.

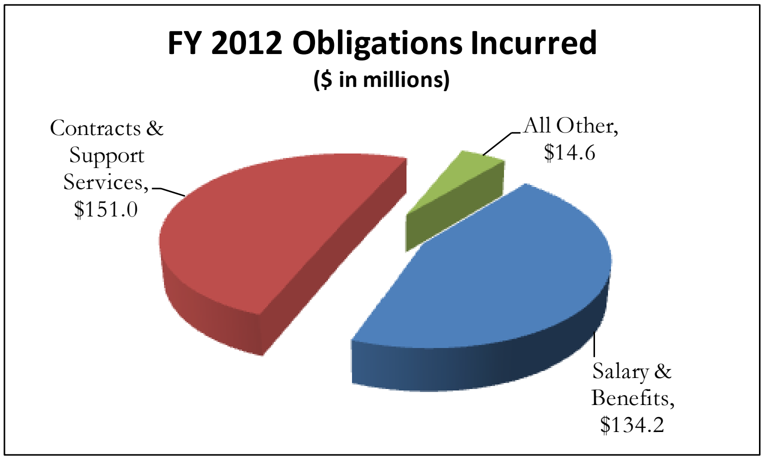
In addition, under the provisions of the Dodd-Frank Act, Section 1017(d), the CFPB established a Consumer Financial Civil Penalty Fund (CPF) at the FRBNY. The Bureau is authorized to collect civil penalties against any person in any judicial or administrative action under Federal consumer financial laws. On July 17, 2012, the Director approved the CFPB Civil Penalty Fund Governance Board Charter to oversee the CPF. The executive advisory board is responsible for ensuring that CPF funds are administered in a manner that is consistent with the law. During fiscal year 2012, the CFPB negotiated $340 million in redress payments made directly to harmed victims. Additionally, the CFPB received $32 million from civil penalty settlements.

Finally, during fiscal year 2012, the CFPB collected approximately $156,760 in filing fees pursuant to the Interstate Land Sales Full Disclosure Act of 1968. The fees were deposited into an account maintained by the Department of the Treasury, and they may be retained and are available until expended for the purpose of covering all or part of the costs that the Bureau incurs to operate the Interstate Land Sales program.

What the CFPB has Funded

The CFPB continued its efforts to fully establish the Bureau during fiscal year 2012; therefore, many of its obligations related to resources essential to operations and activities such as personnel, information technology, mission-specific and human capital support, and other general start-up activities. The CFPB incurred $299.8 million in obligations – $151 million in Contracts & Support Services, $134.2 million in Salary & Benefits, and $14.6 million in All Other – as displayed in the chart to the left:

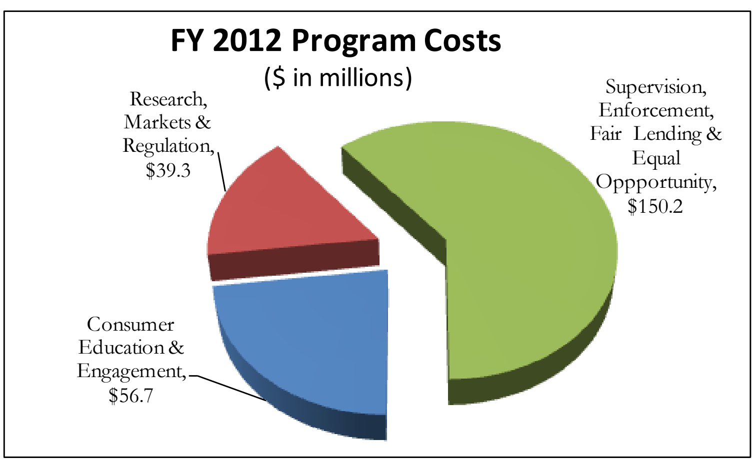
Some of the larger funded items for the CFPB's fiscal year 2012 activities included in the $151 million for Contracts and Support Services include:



- $19.8 million to the Department of the Treasury, Departmental Offices for various services such as information technology and human resource systems support;
- $14.2 million in occupancy agreements with other Federal agencies;
- $7.6 million to the Bureau of the Public Debt for cross-servicing of various human resource and financial management services, such as core financial accounting, transaction processing and reporting, travel and payroll; and
- $8.4 million for support of the Office of Consumer Response.

Net Costs of the CFPB's Operations

The Statement of Net Cost presents the CFPB net cost for its three strategic missions: Consumer Education & Engagement; Research, Markets & Regulation; and, Supervision, Enforcement, Fair Lending and Equal Opportunity. Total CFPB net costs for fiscal year 2012 in these three programmatic categories are $246.2 million – $150.2 million for Supervision, Enforcement, Fair Lending and Equal Opportunity, $56.7 million for Consumer Education and Engagement, and $39.3 million for Research, Markets & Regulation – as displayed in the chart to the left of this page.



V. Possible Future Risks and Uncertainties

Potential Funding Concerns and Impact to the Bureau's Future Independence

The Congress, in implementing the Dodd-Frank Act, followed a long-established precedent in providing the CFPB with funding outside of the congressional appropriations process to ensure full independence as the Bureau supervises and regulates providers of consumer financial products and services and protects the financial consumers. Congress has consistently provided for independent funding for bank supervisors to allow for long-term planning and the execution of complex initiatives and to ensure that banks are examined regularly and thoroughly for compliance with the law.

The CFPB has been tasked with supervising more entities than all other Federal bank supervisors combined, including supervising the largest, most complex banks. Effective supervision that assures a level playing field between bank and non-bank institutions requires dedicated and predictable resources, and independent examiners.

Although Congress provided the CFPB with a source of funding outside the appropriations process, the CFPB is nonetheless the only bank supervisor with a statutory cap on its primary source of funding. If the Director were to determine that the non-appropriated funds to which it is entitled under the Act are insufficient to carry out its responsibilities, Section 1017 (e) of the Dodd-Frank Act authorizes the CFPB to also obtain appropriated funds through fiscal year 2014, up to a capped amount and subject to apportionment. In accordance with the Dodd-Frank Act and appropriations law requirements, further action would be required on the part of the Director and Congress in order for the CFPB to obtain such appropriated funds. These additional funds would be subject to apportionment under section 1517 of Title 31, United States Code, and restrictions that generally apply to the use of appropriated funds in Title 31, United States Code, and other laws.

Possible Future Impact on Financial Services Environment

It is anticipated that markets in both U.S. and foreign financial services sectors will evolve to address different and ever-changing implications based on their programs, unique business mixes, and organizational structures. These future external challenges must be monitored, as they will impact the work of the CFPB in protecting financial consumers and addressing a continually changing financial environment.

PART B

Financial Statements and Note Disclosures

I. Message from the Chief Financial Officer

During fiscal year 2012, the Office of the Chief Financial Officer (OCFO) had a significant role in supporting the continued growth and maturity of the Consumer Financial Protection Bureau (CFPB). In only its second fiscal year of operation, the CFPB has required significantly increased staff and resources to carry out the increased authorities and responsibilities gained with the appointment of its Director in January of 2012.

Since October 1, 2011, the Bureau's on-board personnel grew from 663 to 970 personnel, and our obligations increased from $123.3 million in fiscal year 2011 to $299.8 million in fiscal year 2012. The OCFO has taken many actions to improve financial operations at the CFPB, including management reporting, internal controls and other actions to help build the CFPB's infrastructure for the future and to accommodate the rapid growth in employees, monetary resources and the increased activities that support the CFPB's mission. Some of the significant activities undertaken by the OCFO in fiscal year 2012 included:

- Developing and implementing a Senior Management Council to oversee internal control activities;
- Expanding the Investment Review Board and process for authorizing major business and technology investments resulting in the implementation of the Consumer Response complaint database, "Ask CFPB", Student Debt Repayment Assistant and other interactive website tools for consumers;
- Assisting in the development and implementation of a Civil Penalty Fund Governance Board, and the Civil Penalty Fund in accordance with the Dodd-Frank Act; and
- Entering into interagency agreements with other federal agencies to obtain services in the areas of financial management, human resources, procurement, travel, and payroll.

The CFPB continues to grow toward its steady-state level of operations. We recognize that much work still remains to be done in future fiscal years for us to become a fully mature agency. In support of those efforts, we will continue to work towards strengthening the OCFO operations and activities and continue to ensure that we have sound fiscal policies and a strong internal control environment in place to identify efficiencies and ensure effectiveness, and to guard against fraud, waste, abuse and mismanagement.

I am pleased to present the CFPB's second set of financial statements as an integral part of the fiscal year 2012 Financial Report. For fiscal year 2012, the Government Accountability Office rendered an unqualified audit opinion on the CFPB's financial statements and noted no material weaknesses or significant deficiencies in the CFPB's internal controls and cited no instances of non-compliance with laws and regulations.

Stephen J. Agostini

Stephen J. Agostini

II. Government Accountability Office Auditor's Report

GAO
Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

Independent Auditor's Report

To the Director of the Bureau of Consumer Financial Protection

In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act[1] and the Full-Year Continuing Appropriations Act, 2011,[2] we are responsible for conducting annual audits of the financial statements of the Bureau of Consumer Financial Protection, known as the Consumer Financial Protection Bureau (CFPB). In our audit of CFPB's fiscal years 2012 and 2011 financial statements, we found

- the financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- CFPB maintained, in all material respects, effective internal control over financial reporting as of September 30, 2012; and
- no reportable noncompliance in fiscal year 2012 with laws and regulations we tested.

The following sections discuss in more detail (1) these conclusions; (2) required supplementary information and other information included with the financial statements; (3) our audit objectives, scope, and methodology; and (4) CFPB's comments on a draft of this report.

Opinion on Financial Statements

CFPB's financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, CFPB's assets, liabilities, and net position as of September 30, 2012 and 2011, and its net costs, changes in net position, and budgetary resources for the fiscal years then ended.

Opinion on Internal Control

CFPB maintained, in all material respects, effective internal control over financial reporting as of September 30, 2012, that provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements would be prevented or detected and corrected on a timely basis. Our

[1]Pub. L. No. 111-203, § 1017(a)(5), 124 Stat. 1376, 1976–1977 (2010), *codified at* 12 U.S.C. § 5497(a)(5).

[2]Pub. L. No. 112-10, § 1573(a), 125 Stat. 38, 138 (2011), *codified at* 12 U.S.C. § 5496a.

opinion on internal control is based on criteria established under 31 U.S.C. § 3512 (c), commonly known as the Federal Managers' Financial Integrity Act of 1982 (FMFIA), and applicable sections of the Office of Management and Budget Circular No. A-123, Management's Responsibility for Internal Control.

During fiscal year 2012, CFPB made progress but did not yet complete all actions necessary to fully resolve internal control deficiencies[3] related to CFPB's documented accounting policies, procedures, and information security management that we identified during our prior year audit. During our fiscal year 2012 audit, we identified additional deficiencies in CFPB's implementation of its policies, procedures, and controls over CFPB's information security. We do not consider the remaining deficiencies from our fiscal year 2011 financial audit, and the new deficiencies found during our fiscal year 2012 audit, individually or collectively to constitute material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant CFPB management's attention. We have communicated these matters to CFPB management and, where appropriate, will report on them separately.

Compliance with Laws and Regulations

Our tests of CFPB's compliance with selected provisions of laws and regulations for fiscal year 2012 disclosed no instances of noncompliance that would be reportable under U.S. generally accepted government auditing standards. The objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Required Supplementary Information

U.S. generally accepted accounting principles require that required supplementary information (RSI) be presented to supplement the financial statements.[4] This information, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board (FASAB) who considers it to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

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[3]A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

[4]RSI is comprised of "Management's Discussion and Analysis" that is included with the financial statements.

Other Information

CFPB's other information[5] contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or RSI. Our audit was conducted for the purpose of forming an opinion on CFPB's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Objectives, Scope, and Methodology

CFPB management is responsible for (1) preparing the financial statements in conformity with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with the prescribed guidelines in U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements and the RSI; (4) establishing and maintaining effective internal control over financial reporting and evaluating its effectiveness; and (5) complying with applicable laws and regulations. CFPB management evaluated the effectiveness of CFPB's internal control over financial reporting as of September 30, 2012, based on the criteria established under FMFIA. CFPB management's assertion based on its evaluation is included in appendix I.

We are responsible for planning and performing the audit to obtain reasonable assurance and provide our opinion about whether (1) CFPB's financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles and (2) CFPB management maintained, in all material respects, effective internal control over financial reporting as of September 30, 2012. We are also responsible for (1) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and (2) applying certain limited procedures to the RSI and other information included with the financial statements.

In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in CFPB's financial statements;
- assessed the accounting principles used and significant estimates made by CFPB management;
- evaluated the overall presentation of CFPB's financial statements;
- obtained an understanding of CFPB and its operations, including its internal control over financial reporting;

[5]Other information is comprised of information included with the financial statements, other than RSI and the auditor's report.

- considered CFPB's process for evaluating and reporting on internal control over financial reporting that CFPB is required to perform by Title X of the Dodd-Frank Wall Street Reform and Consumer Protection Act;
- assessed the risk of (1) material misstatement in CFPB's financial statements and (2) material weakness in its internal control over financial reporting;
- evaluated the design and operating effectiveness of CFPB's internal control over financial reporting based on the assessed risk;
- tested relevant internal control over CFPB's financial reporting;
- tested compliance with selected provisions of laws and regulations, including 31 U.S.C. § 3902 – Interest penalties under the Prompt Payment Act; 31 U.S.C. § 3904 – Limitations on Discount Payments Under the Prompt Payment Act; 5 U.S.C. § 8334(a) – Civil Service Retirement Act; 5 U.S.C. §§ 8422, 8423, 8432 – Federal Employees' Retirement System Act of 1986; Social Security Act, as amended; 5 U.S.C. §§ 8905–8909 – Federal Employees Health Benefits Act of 1959, as amended; and Title X of the Dodd-Frank Wall Street Reform and Consumer Protection Act;
- conducted inquiries of management about the methods of preparing the RSI and compared this information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures;
- read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements; and
- performed such other procedures as we considered necessary in the circumstances.

An entity's internal control over financial reporting is a process effected by those charged with governance, by management, and by other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with the laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements.

We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting and may not be sufficient for other purposes. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness. Because of inherent limitations, internal control may not prevent or detect and correct misstatements due to error or fraud, losses, or noncompliance. We also caution that projecting any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We did not test compliance with all laws and regulations applicable to CFPB. We limited our tests of compliance to selected provisions of laws and regulations that have a direct and material effect on the financial statements for fiscal year 2012. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our audit in accordance with U.S. generally accepted government auditing standards. We believe our audit provides a reasonable basis for our opinions and other conclusions.

Agency Comments and Our Evaluation

In commenting on a draft of this report, the Director of the Consumer Financial Protection Bureau stated that he accepted the audit findings and commented that the agency would continue to work to enhance its internal controls and ensure the reliability of its financial reporting. The complete text of CFPB's response is reprinted in appendix II.

J. Lawrence Malenich

J. Lawrence Malenich
Director
Financial Management and Assurance

November 8, 2012

Appendix I: Management's Report on Internal Control over Financial Reporting

cfpb Consumer Financial Protection Bureau

1700 G Street NW, Washington, DC 20552

November 8, 2012

Mr. Gene Dodaro
Comptroller General of the United States
441 G Street, NW
Washington, DC 20548

Dear Mr. Dodaro,

As required by § 1017 of the Dodd-Frank Act, 12 U.S.C. § 5497(a)(4)(D), the Consumer Financial Protection Bureau (CFPB) provides this management assertion regarding the effectiveness of internal control that apply to financial reporting by the CFPB using the standards established in Section 3512(c) of Title 31, United States Code (commonly known as the Federal Managers' Financial Integrity Act) and applicable sections of Office of Management and Budget Circular A-123.

The CFPB internal control over financial reporting are processes implemented by those charged with governance, by management, and by other personnel. The objectives of the internal control are to provide reasonable assurance that transactions are: 1) properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and, 2) executed in accordance with laws governing the use of budget authority and other laws that could have a direct and material effect on the financial statements.

CFPB management is responsible for establishing and maintaining effective internal control over financial reporting. The CFPB conducted its assessment of the effectiveness of internal control based on the criteria required by the Dodd-Frank Act. Based on this evaluation, the CFPB can provide reasonable assurance that its internal control over financial reporting as of September 30, 2012 were operating effectively and that no material weaknesses were found in the design or operation of internal control.

Richard Cordray

Richard Cordray
Director
Consumer Financial Protection Bureau

Stephen J. Agostini

Stephen J. Agostini
Chief Financial Officer
Consumer Financial Protection Bureau

consumerfinance.gov

Appendix II: Management's Response to the Auditor's Report

Consumer Financial Protection Bureau
1700 G Street NW, Washington, DC 20552

November 8, 2012

Mr. J. Lawrence Malenich
Director, Financial Management and Assurance
Government Accountability Office
441 G Street, N.W., Room 5T45
Washington, DC 20548

Dear Mr. Malenich,

I appreciate the opportunity to respond to the Government Accountability Office's (GAO) draft audit report titled, *Financial Audit: Bureau of Consumer Financial Protection's Fiscal Years 2012 and 2011 Financial Statements (GAO-13-125R)*, and want to thank you and your staff for your dedicated efforts and for working with us to meet the audit requirements.

We are pleased that GAO's auditors rendered an "unqualified" or "clean" audit opinion, which means they found that the CFPB financial statements are presented fairly, in all material respects, and in conformity with U.S. generally accepted accounting principles; that CFPB maintained, in all material respects, effective internal control over financial reporting; and that there were no instances of reportable noncompliance with laws and regulations tested by GAO.

During fiscal year 2012, the CFPB experienced significant growth in personnel, budgetary resources, and regulatory authority and associated responsibilities. I am proud of how we have met the challenge of managing our growth. Maintaining an unqualified audit opinion on the CFPB's comparative financial statements for fiscal years 2012 and 2011 is a true testament to the efforts of the CFPB management and staff.

In fiscal year 2013, the CFPB will continue to work to enhance our system of internal control and ensure the reliability of CFPB's financial reporting. The CFPB looks forward to working with GAO in future audits and truly appreciates GAO's work over the past fiscal year.

If you have any questions relating to this response, please contact Stephen J. Agostini, Chief Financial Officer.

Richard Cordray

Richard Cordray
Director
Consumer Financial Protection Bureau

consumerfinance.gov

III. Financial Statements and Notes

CONSUMER FINANCIAL PROTECTION BUREAU
BALANCE SHEET
As of September 30, 2012 and 2011
(In Dollars)

	2012	2011
Assets:		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$ 21,623,999	$ 18,673,308
Investments (Note 3)	186,695,680	80,298,806
Advances and Prepayments (Note 6)	4,463,881	-
Total Intragovernmental	212,783,560	98,972,114
Cash, and Other Monetary Assets (Note 4)	32,312,284	332,021
Accounts Receivable	21,650	7,068
Property, Equipment, and Software, Net (Note 5)	5,819,962	1,770,214
Advances and Prepayments (Note 6)	14,666,795	14,689,107
Total Assets	$ 265,604,251	$ 115,770,524
Liabilities:		
Intragovernmental		
Accounts Payable	$ 7,848,838	$ 3,288,536
Other (Note 7)	3,264,304	1,151,377
Total Intragovernmental	11,113,142	4,439,913
Accounts Payable	5,611,247	5,728,159
Employer Benefits Contributions	6,165,965	817,293
Accrued Funded Payroll	6,428,847	4,315,674
Unfunded Leave	7,767,225	3,982,285
Other (Note 7)	13,882	14,536
Total Liabilities (Note 8)	$ 37,100,308	$ 19,297,860
Commitments and Contingencies (Note 9)		
Net Position:		
Cumulative Results of Operations - Earmarked Funds	$ 228,503,943	$ 96,472,664
Total Net Position	$ 228,503,943	$ 96,472,664
Total Liabilities and Net Position	$ 265,604,251	$ 115,770,524

The accompanying notes are an integral part of these financial statements.

CONSUMER FINANCIAL PROTECTION BUREAU
STATEMENT OF NET COST
For the Fiscal Years Ended September 30, 2012 and 2011
(In Dollars)

	2012	2011
Program Costs:		
Consumer Education and Engagement (Including Response Center):		
Gross Costs	$ 56,659,754	$ 22,831,638
Less: Earned Revenue	-	-
Net Consumer Education and Engagement (Including Response Center)	$ 56,659,754	$ 22,831,638
Research, Markets, and Regulations:		
Gross Costs	$ 39,308,741	$ 15,485,938
Less: Earned Revenue	-	-
Net Research, Markets, and Regulations	$ 39,308,741	$ 15,485,938
Supervision, Enforcement, Fair Lending and Equal Opportunity:		
Gross Costs	$ 150,229,509	$ 47,011,018
Less: Earned Revenue	-	-
Net Supervision, Enforcement, Fair Lending and Equal Opportunity	$ 150,229,509	$ 47,011,018
Total Gross Program Costs	$ 246,198,004	$ 85,328,594
Less: Total Earned Revenues	-	-
Net Cost of Operations (Note 10)	$ 246,198,004	$ 85,328,594

The accompanying notes are an integral part of these financial statements.

CONSUMER FINANCIAL PROTECTION BUREAU
STATEMENT OF CHANGES IN NET POSITION
For the Fiscal Years Ended September 30, 2012 and 2011
(In Dollars)

	2012	2011
Cumulative Results of Operations:		
Beginning Balances	$ 96,472,664	$ 18,256,655
Budgetary Financing Sources:		
Nonexchange Revenue	375,533,175	161,847,142
Other	721	3,709
Other Financing Sources (Non-Exchange):		
Transfers In/Out Reimbursement	433,146	-
Imputed Financing Sources	2,262,241	1,693,752
Total Financing Sources	378,229,283	163,544,603
Net Cost of Operations	(246,198,004)	(85,328,594)
Net Change	132,031,279	78,216,009
Cumulative Results of Operations - Earmarked Funds	$ 228,503,943	$ 96,472,664
Net Position	$ 228,503,943	$ 96,472,664

The accompanying notes are an integral part of these financial statements.

CONSUMER FINANCIAL PROTECTION BUREAU
STATEMENT OF BUDGETARY RESOURCES
For the Fiscal Years Ended September 30, 2012 and 2011
(In Dollars)

	2012	2011
Budgetary Resources:		
Unobligated Balance Brought Forward, October 1	$ 47,719,902	$ 9,200,000
Recoveries of Prior Year Unpaid Obligations	8,103,573	-
Unobligated balance from prior year budget authority, net	55,823,475	9,200,000
Funds Available for Obligation	375,504,321	161,849,662
Total Budgetary Resources	$ 431,327,796	$ 171,049,662
Status of Budgetary Resources:		
Obligations Incurred (Note 11)	$ 299,759,726	$ 123,329,760
Unobligated balance, end of year:		
Exempt from apportionment	131,568,070	47,719,902
Total Budgetary Resources	$ 431,327,796	$ 171,049,662
Change in Obligated Balance:		
Unpaid Obligations, Brought Forward, October 1	$ 51,583,044	$ 9,200,000
Obligations Incurred	299,759,726	123,329,760
Outlays (gross)	(234,206,069)	(80,946,716)
Recoveries of prior year unpaid obligations (-)	(8,103,573)	-
Obligated balance, end of year		
Unpaid obligations, end of year	109,033,128	51,583,044
Obligated balance, end of year	$ 109,033,128	$ 51,583,044
Budget Authority and Outlays, Net:		
Budget authority, gross	$ 375,504,321	$ 161,849,662
Budget Authority, net	$ 375,504,321	$ 161,849,662
Outlays, gross	$ 234,206,069	$ 80,946,716
Agency outlays, net	$ 234,206,069	$ 80,946,716

The accompanying notes are an integral part of these financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Bureau of Consumer Financial Protection, known as the Consumer Financial Protection Bureau (CFPB), was established on July 21, 2010 under Title X of the Dodd-Frank Wall Street Reform and Consumer Protection Act Public Law No. 111-203 (Dodd-Frank Act). CFPB was established as an independent bureau within the Federal Reserve System. The Bureau is an Executive agency as defined in section 105 of Title 5, United States Code.

The Dodd-Frank Act authorizes the CFPB to exercise its authorities to ensure that, with respect to consumer financial products and services:

a. Consumers are provided with timely and understandable information to make responsible decisions about financial transactions;
b. Consumers are protected from unfair, deceptive, or abusive acts and practices and from discrimination;
c. Outdated, unnecessary, or unduly burdensome regulations are regularly identified and addressed in order to reduce unwarranted regulatory burdens;
d. Federal consumer financial law is enforced consistently in order to promote fair competition; and
e. Markets for consumer financial products and services operate transparently and efficiently to facilitate access and innovation.

Under the Dodd-Frank Act, on the designated transfer date, July 21, 2011, certain authorities and functions of several agencies relating to Federal consumer financial law were transferred to the CFPB in order to accomplish the above objectives. These authorities were transferred from the Board of Governors of the Federal Reserve System (Board of Governors), Comptroller of the Currency (OCC), Office of Thrift Supervision (OTS), Federal Deposit Insurance Corporation (FDIC), National Credit Union Administration (NCUA), and the Department of Housing and Urban Development (HUD). In addition, Congress vested the Bureau with authority to enforce in certain circumstances the Federal Trade Commission's Telemarketing Sales Rule and its rules under the Federal Trade Commission Act, although the Federal Trade Commission retains full authority over these rules. The Dodd-Frank Act also provided the CFPB with certain other federal consumer financial regulatory authorities in addition to these transferred authorities.

To accomplish its mission, the CFPB is organized into six primary divisions/offices:

1. <u>Consumer Education and Engagement</u>

Provides, through a variety of initiatives and methods, information to consumers that will allow them to make decisions that are best for them. Consumer education is a central mission to the Bureau. The Bureau is developing targeted outreach to groups that face particular challenges, as required by the Dodd-Frank Act.

2. <u>Supervision, Enforcement, Fair Lending and Equal Opportunity</u>

Ensures compliance with federal consumer financial laws by supervising market participants and bringing enforcement actions when appropriate.

3. Research, Markets, and Regulations

Responsible for understanding consumer financial markets and consumer behavior, for evaluating whether there is a need for regulation, and for determining the costs and benefits of potential or existing regulations. Before the Bureau acts, it will seek to be fully informed. The offices within this division are staffed with professionals selected for their strong analytic skills and subject matter expertise.

4. Legal Division

Responsible for the Bureau's compliance with all applicable laws and provides advice to the Director and the Bureau's divisions.

5. External Affairs

Ensures that the Bureau maintains robust dialogue with various stakeholders that have an interest in its work in order to promote understanding, transparency, and accountability.

6. Operations, Chief Operating Officer

Builds and sustains the CFPB's operational infrastructure to support the entire organization.

The CFPB workforce is spread across the country with its headquarters in Washington, D.C. and regional satellite offices in Chicago, New York City, and San Francisco. The headquarters is temporarily spread across several locations within Washington, D.C., utilizing space pursuant to interagency agreements with the Department of the Treasury (Treasury), the Office of the Comptroller of the Currency (OCC) and the Federal Housing Finance Agency (FHFA). CFPB plans to eventually consolidate its headquarters into one building in Washington, D.C. The workforce in CFPB's regional offices is predominantly mobile and therefore minimal office and conference room space is used in most of the regions.

Additional information on the organizational structure and responsibilities of CFPB is available on CFPB's website at http://www.consumerfinance.gov/.

Under the Dodd-Frank Act, the Secretary of the Treasury was responsible for establishing the CFPB and performing certain functions of the Bureau until a Director of the CFPB was put in place. The Bureau's day-to-day operations were managed by the Special Advisor to the Secretary of the Treasury for the Consumer Financial Protection Bureau until January 4, 2012, when President Obama appointed Richard Cordray as the first Director of the CFPB.

B. Basis of Presentation

CFPB's principal statements were prepared from its official financial records and general ledger in conformity with accounting principles generally accepted in the United States and follows the general presentation guidance established by OMB Circular A-136, *Financial Reporting Requirements,* as revised. The financial statements are a requirement of the Dodd-Frank Act. The financial statements are in addition to the financial reports prepared by CFPB, which are used to monitor and control budgetary resources. The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and the status and availability of budgetary resources of CFPB. This is the second full year of operation for the CFPB and therefore comparative statements are presented for fiscal years 2011 and 2012.

The net cost of operations is presented by the three primary objectives of the Bureau – Educate, Enforce, and Study – consistent with CFPB's organizational structure.

C. Basis of Accounting

Transactions are recorded on both an accrual accounting basis and a budgetary basis. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal requirements and controls over the use of federal funds. CFPB conforms to accounting principles generally accepted in the United States for federal entities as prescribed by the standards set forth by the Federal Accounting Standards Advisory Board (FASAB). FASAB is recognized by the American Institute of Certified Public Accountants as the body designated to establish generally accepted accounting principles for federal government entities. Certain assets, liabilities, earned revenues, and costs have been classified as intragovernmental throughout the financial statements and notes. Intragovernmental assets and liabilities are those due from or to other federal entities. Intragovernmental earned revenues are collections or accruals due from other federal entities. Intragovernmental costs are payments or accruals due to other federal entities. CFPB has rights and ownership of all assets reported in these financial statements. CFPB does not possess any non-entity assets.

D. Funding Sources

CFPB's funding is obtained primarily through transfers from the Board of Governors, interest earned on investments, and penalties and fees collected. The Dodd-Frank Act requires the CFPB to maintain an account with the Federal Reserve – the "Bureau of Consumer Financial Protection Fund" (Bureau Fund). The Director of CFPB, or his designee, request transfers from the Board of Governors in amounts necessary to carry out the authorities and operations of the Bureau. The Board of Governors transfers the funds into the Bureau Fund, which is maintained at the Federal Reserve Bank of New York (FRBNY). Bureau funds determined not needed to meet the current needs of the Bureau are invested in Treasury securities on the open market. Earnings from the investments are also deposited into this fund. CFPB requests funds on a quarterly basis. The funds maintained at the FRBNY are reported in the financial statements and related notes and represent budget authority for CFPB.

The CFPB funding requests for the Bureau Fund are capped as follows:

> The amount that shall be transferred to the Bureau in each fiscal year shall not exceed a fixed percentage of the total operating expenses of the Federal Reserve System, subject to an annual inflation adjustment, as reported in the Annual Report, 2009, of the Board of Governors, equal to:
>
> 1. 10 percent of such expenses in fiscal year 2011;
> 2. 11 percent of such expenses in fiscal year 2012;
> 3. 12 percent of such expenses in fiscal year 2013, and in each year thereafter.

The Dodd-Frank Act explicitly provides that Bureau funds obtained by or transferred to the Bureau Fund are not Government funds or appropriated funds.

If the Director were to determine that the non-appropriated funds to which it is entitled under the Act are insufficient to carry out its responsibilities, the Act provides the potential for CFPB also to obtain appropriated funds, up to a capped amount, in fiscal years 2011-2014. There has been no such determination at this time. In accordance with the Act and appropriations law requirements, further action would be required on the part of the Director and Congress in order for CFPB to obtain such appropriated funds.

The CFPB also collects filing fees from developers under the Interstate Land Sales Full Disclosure Act (ILSA). ILSA protects consumers from fraud and abuse in the sale or lease of land. On July 21, 2011, responsibility for administering ILSA was transferred to the CFPB from HUD pursuant to the Dodd-Frank Act. The Act requires land developers to register subdivisions of 100 or more non-exempt lots and to provide each purchaser with a disclosure document called a Property Report. Developers must pay a fee when they register such subdivisions. While CFPB continues to study the legal effects of the legislation with respect to the transfer of these functions under the Land Sales Act, and the collection of fees, the fees are currently being deposited into an account maintained by Treasury. The fees collected may be retained and are available until expended for the purpose of covering all or part of the costs that the Bureau incurs for ILSA program operations.

Pursuant to the Dodd-Frank Act, the CFPB is also authorized to obtain civil penalties against any person in any judicial or administrative action under Federal consumer financial laws. The Act requires the CFPB to maintain a separate fund, known as the Consumer Financial Civil Penalty Fund (Civil Penalty Fund). Civil penalties are deposited into the Civil Penalty Fund established and maintained at the FRBNY. The Act authorizes the CFPB to use the Civil Penalty Fund for payment to victims of activities for which civil penalties have been imposed and, in certain circumstances, for consumer education and financial literacy programs. Amounts in the Civil Penalty Fund are available "without fiscal year limitation." The Civil Penalty Fund had its initial collections and deposits in fiscal year 2012.

CFPB also recognizes imputed financing sources. An imputed financing source is recognized by the receiving entity for costs that are paid by other entities. CFPB recognized imputed costs and financing sources in fiscal years 2011 and 2012 as prescribed by accounting standards. CFPB recognizes as an imputed financing source the amount of pension and post-retirement benefit expenses for current employees that OCC and the Office of Personnel Management (OPM) has or will pay on CFPB's behalf.

E. Use of Estimates

The Bureau has made certain estimates and assumptions relating to the reporting of assets, liabilities, revenues, expenses, and the disclosure of contingent liabilities to prepare these financial statements. The estimates are based on current conditions that may change in the future. Actual results could differ from these estimates. Significant transactions subject to estimates include costs regarding benefit plans for CFPB employees that are administered by the OPM, OCC and the Federal Reserve System and cost allocations among the programs on the Statement of Net Cost.

F. Earmarked Funds

FASAB's Statement of Federal Financial Accounting Standards (SFFAS) No. 27 "Identifying and Reporting Earmarked Funds" established certain disclosure requirements for funds defined as "earmarked." SFFAS No. 27 states that "earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes, and must be accounted for separately from the Government's general revenues." The standard also presents three required criteria for an earmarked fund. Based on the standard's criteria, CFPB has determined that the Bureau Fund is an earmarked fund due to its primary funding sources being transfers from the Board of Governors, interest on investments, and fees from the ILSA program. Further, the CFPB has determined based on the criteria of SFFAS No. 27 that the Civil Penalty Fund is also an earmarked fund and has established a separate special fund to account for its activity. These funds, which also qualify as special funds, are discussed further in Note 1.G. below.

G. Fund Balance with Treasury

The U.S. Treasury holds funds in the Treasury General Account for CFPB which are available to pay agency liabilities and to finance authorized purchase obligations. Treasury processes cash receipts, such as fees collected from the ILSA program, and disbursements on CFPB's behalf. As discussed in Note 1.D. above, CFPB also maintains an account with the FRBNY known as the Bureau Fund. During the year, increases to the Bureau Fund are generally comprised of fund transfers from the Board of Governors and investment interest. These funds are available for transfer to CFPB's Fund Balance with Treasury. Also, as discussed above in Note 1.D., CFPB maintains an additional account at the FRBNY for the Civil Penalty Fund. These funds are also available for transfer to CFPB's Fund Balance with Treasury under a separate fund symbol from the Bureau Fund. CFPB's Fund Balance with Treasury is maintained in special funds. A special fund is established where the law requires collections to be earmarked from a specified source to finance a particular program, and the law neither authorizes the fund to conduct a cycle of business-type operations (making it a revolving fund) nor designates it as a trust fund.

H. Investments

CFPB has the authority to invest the funds in the Bureau Fund account that are not required to meet the current needs of the Bureau. CFPB invests solely in U.S. Treasury securities purchased at a discount on the open market, which are normally held to maturity and carried at cost. CFPB selects investments with maturities suitable to its needs, currently three-month Treasury bills. Investments are adjusted for discounts. In accordance with generally accepted accounting principles, CFPB records the value of its investments in U.S. Treasury securities at cost and amortizes the discount on a straight-line basis over the term of the respective issues. Interest is credited to the Bureau Fund.

I. Accounts Receivable

Accounts receivable consists of amounts owed to CFPB by the public. An allowance for uncollectible accounts receivable from the public is established when either (1) management determines that collection is unlikely to occur after a review of outstanding accounts and the failure of all collection efforts, or (2) an account for which no allowance has been established is submitted to Treasury for collection, which generally takes place when it becomes 180 days delinquent.

J. Property, Equipment, and Software, Net

Property, Equipment, and Software is recorded at historical cost. It consists of tangible assets and software. Under CFPB's property management policy, equipment acquisitions of $50,000 or more are capitalized and depreciated using the straight-line method (using a half year convention) over the estimated useful life of the asset. Similarly, internal use software, software purchased or developed to facilitate the operation of an entity's programs, is capitalized for software of $750,000 or more and depreciated using the straight-line method (using a half year convention) over the estimated useful life of the asset. Additionally, for bulk purchases of similar items, which individually do not meet the capitalization threshold, the acquisition is capitalized and depreciated if the depreciated basis of the bulk purchase is $250,000 or more. Applicable standard governmental guidelines regulate the disposal and convertibility of agency property and equipment.

The useful life classifications for capitalized assets are as follows:

PP&E Category	Useful Lives (years)
Laptop/Desktop Computers	3
Internal Use Software	5
Mainframe Computer System	7
Servers	7
Telecommunications Equipment	7
Furniture	8
Other Equipment	10

A leasehold improvement's useful life is equal to the remaining lease term or the estimated useful life of the improvement, whichever is shorter. CFPB has no real property holdings or stewardship or heritage assets. Other property items, normal repairs, and maintenance are charged to expense as incurred.

K. Advances and Prepaid Charges

Advances and prepayments may occur as a result of reimbursable agreements, subscriptions, payments to contractors and employees, and payments to entities administering benefit programs for CFPB employees. Payments made in advance of the receipt of goods and services are recorded as advances or prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

L. Liabilities

Liabilities represent the amount of monies likely to be paid by CFPB as a result of transactions or events that have already occurred. Liabilities may be intragovernmental (claims against the CFPB by other Federal agencies) or with the public (claims against CFPB by an entity or person that is not a Federal agency). However, no liability can be paid if there is no funding. Liabilities for which funds are not available, therefore, are classified as not covered by budgetary resources. There is no certainty that the funding will be received. Additionally, the Government, acting in its sovereign capacity, can abrogate liabilities. Liabilities not covered by budgetary resources on the Balance Sheet are equivalent to amounts reported as components not requiring or generating resources on the Reconciliation of Net Cost to Budget.

M. Annual, Sick, and Other Leave

Annual leave, compensatory time, and credit hours earned by the Bureau's employees, but not yet used, are reported as accrued liabilities. The accrued balance is adjusted annually to current pay rates. The accrued leave, for which funding is not available, is recorded as an unfunded liability. Sick and other leave are expensed as taken.

N. Employee Benefits

CFPB employees can elect to enroll in various benefit programs – medical, vision, dental, long-term disability, and life insurance.

Benefits for employees transferred pursuant to the Dodd-Frank Act
The Dodd-Frank Act provided employees transferred from other agencies (Board of Governors, Federal Reserve Banks, OCC, OTS, FDIC, NCUA, and HUD) with the ability to continue participation in some of the transferring agencies' non-Title 5 benefit programs for a defined amount of time (one year from the

CFPB transfer date of July 21, 2011). Title 5 of the U.S. Code outlines benefit programs for the majority of the Federal workforce, which are typically administered by OPM. The transferring agencies continued to administer the non-Title 5 benefit programs for those transferred employees during the defined amount of time. Upon conclusion of the defined period of time, the employees had the opportunity to enroll in Title 5 benefit programs and in non-Title 5 benefit programs sponsored by CFPB. For those employees participating in the transferring agencies' programs, CFPB reimbursed the transferring agencies for the employer's contribution to the programs. CFPB also has reimbursed the transferring agencies for administrative costs pursuant to memoranda of understanding with the transferring agencies. These costs are reflected as expenses in CFPB's financial statements.

Benefits for employees not transferred pursuant to the Dodd-Frank Act
Employees not transferred to the Bureau pursuant to the Dodd-Frank Act are enrolled in benefit programs administered by OPM and also have the option to enroll in non-Title 5 benefit programs sponsored by CFPB in addition to, or in lieu of, OPM programs. For those employees participating in OPM's benefit programs, CFPB records the employer's contribution to those programs. For those employees participating in CFPB's non-Title 5 benefit programs, CFPB directly contracts with vendors to provide those services. The Bureau recognizes the employer's contributions for these benefits as the benefits are earned. All of these costs are reflected as expenses in CFPB's financial statements.

O. Pension Costs and Other Retirement Benefits

CFPB employees are enrolled in several retirement and pension programs and post-employment benefits in accordance with the authorities in the Dodd-Frank Act.

Employees transferred from the Federal Reserve, OCC, OTS, FDIC, and HUD
The Dodd-Frank Act allowed employees transferred from OCC, OTS, FDIC, and HUD, under the terms of the Act, to continue participating in the pension or retirement plans in which they were enrolled at their transferring agency or to affirmatively elect, between January 21, 2012 and January 20, 2013, to join the Federal Reserve System Retirement Plan and the Federal Reserve System Thrift Plan. Many transferee employees from these agencies are in the traditional Title 5 retirement plans (Federal Employees Retirement System (FERS), Civil Service Retirement System (CSRS), or CSRS Offset); however, a few transferees from OTS are in a non-Title 5 plan (i.e., Pentegra Defined Benefit Plan). Transferees from the Federal Reserve are allowed to remain in the Federal Reserve System retirement program or to affirmatively elect into the appropriate Title 5 retirement plan during that same timeframe. For those employees electing to enroll in an alternative retirement plan, the enrollment will become effective in January 2013.

CFPB does not report on its financial statements information pertaining to the retirement plans covering its employees. Reporting amounts such as plan assets, accumulated plan benefits, and related unfunded liabilities, if any, is the responsibility of the Federal Reserve System, OCC, or OPM as the administrator of their respective plans. In all cases, CFPB pays any employer contributions required by the plans. Refer to the chart below for information on which agency administers each of the retirement plans for CFPB employees.

OCC, OTS, and FDIC also offered other agency-only savings plans to employees. Any transferees who participated in such plans are allowed to continue their participation as long as they remain enrolled in their current retirement plans. In such cases, CFPB pays any employer contributions. Employees who elect to enroll in the Federal Reserve retirement plan will not be allowed to continue their participation in either the Title 5 Thrift Savings Plan or the OCC, OTS, and FDIC agency savings plans.

CFPB has also reimbursed the transferring agencies for administrative costs pursuant to memoranda of understanding with the transferring agencies. These costs are reflected as expenses in CFPB's financial statements.

All other employees of CFPB

Employees hired with prior Title 5 Federal Retirement System coverage who are not transferees under the Dodd Frank Act are enrolled in the appropriate retirement programs administered by OPM – CSRS, CSRS Offset, or FERS. These employees also have the option to enroll in the Federal Reserve System retirement plans. CFPB has been providing these new employees the opportunity to enroll in the Federal Reserve retirement system plans beginning in November 2011. For those employees electing to enroll in the Federal Reserve System retirement plans, the enrollment becomes effective at the beginning of the pay period following receipt of their written election decision. New employees with no previous coverage under a Title 5 retirement plan are automatically enrolled in the Federal Reserve System's retirement plans. CFPB pays the employer's contribution into those plans.

Pension/Retirement Plans for CFPB Employees

Name	**Administering Agency**
Federal Reserve System Retirement Plan	Federal Reserve System
Federal Reserve System Thrift Plan	Federal Reserve System
Pension Enhancement Plan for Officers of the Board of Governors of the Federal Reserve System	Federal Reserve System
Retirement Plan for Employees of the Federal Reserve System Benefits Equalization Plan[1]	Federal Reserve System
Retirement Plan for Employees of the Federal Reserve System Benefits Equalization Plan for Section 415 Excess Benefits[1]	Federal Reserve System
Thrift Plan for Employees of the Federal Reserve System Benefits Equalization Plan[1]	Federal Reserve System
Civil Service Retirement System (CSRS)	OPM
CSRS Offset	OPM
Federal Employees Retirement System (FERS)	OPM
Thrift Savings Plan	Federal Retirement Thrift Investment Board
FDIC Savings Plan	FDIC
OCC 401(k)	OCC
OTS 401(k)	OCC
OTS Deferred Compensation Plan	OCC
Pentegra Defined Benefit Plan (OTS)	OCC (administration is through Pentegra)

[1] This retirement program does not have any CFPB participants for fiscal years 2012 or 2011.

The Bureau does not have a separate pension or retirement plan distinct from the plans described above. CFPB expenses its contributions to the retirement plans of covered employees as the expenses are incurred. CFPB reported imputed costs (not paid by CFPB) with respect to retirement plans (OPM-administered), health benefits and life insurance (for employees retiring under Title 5 retirement plans; OPM-administered) pursuant to guidance received from OPM. These costs are paid by OPM. Disclosure is intended to provide information regarding the full cost of CFPB's program in conformity with generally accepted accounting principles. CFPB however records expenses for the post-retirement benefits (also OPM-administered) for those employees retiring under the Federal Reserve retirement plans. These costs are not imputed costs with OPM. These costs are disclosed in Note 8 as Other Liabilities.

The Bureau recognizes the employer's contributions for the retirement plans administered by the Federal Reserve. The Bureau is responsible for transferring to the Federal Reserve both the employer's contributions and the employee's contributions that the Bureau has collected from employees. The FRBNY records the full costs and liability and pays for the retirement plans on behalf of the Federal Reserve System and CFPB.

P. Commitments and Contingencies

A commitment is a preliminary action that reserves available funds until an obligation is made which will result in a legal liability of the U.S. government. Examples of a commitment include purchase requisitions or unsigned contracts.

Liabilities are deemed contingent when the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. Contingencies are recognized on the balance sheet and statement of net cost when the liability is probable and can be reasonably estimated. Contingencies are disclosed in the notes to the financial statements when there is a reasonable possibility of a loss from the outcome of future events but cannot be reasonably estimated.

Q. Accounting Standards Issued and Not Yet Implemented

In June 2012, FASAB issued SFFAS No. 43, " Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds" (SFFAS 43). SFFAS 43 changes the term "earmarked funds" to "funds from dedicated collections;" clarifies that at least one source of funds external to the federal government must exist for a fund to qualify as a fund from dedicated collections; and adding an explicit exclusion for any fund established to account for pensions, other retirement benefits, other postemployment or other benefits provided for federal employees (civilian and military). Under the standard, reporting can include either consolidated or combined data on funds from dedicated collections and certain component entities may report on funds from dedicated collections for amounts related to the statement of changes in net position in a note rather than on the face of the statement. SFFAS 43 is effective for our fiscal year 2013 reporting beginning on October 1, 2012, in which early adoption is not permitted. We are currently evaluating the potential impact of adopting SFFAS 43 for fiscal year 2013, but do not expect its adoption to have a material impact on our consolidated financial statements.

NOTE 2. FUND BALANCE WITH TREASURY

Fund Balance with Treasury account balances as of September 30, 2012 and September 30, 2011 were as follows:

	2012	2011
Fund Balances:		
Special Fund	$ 21,623,999	$ 18,673,308
Total	$ 21,623,999	$ 18,673,308
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	$ 131,568,070	$ 47,719,902
Obligated Balance Not Yet Disbursed	109,033,128	51,583,044
Investments at Cost	(186,664,915)	(80,297,617)
Cash Held Outside of Treasury (See Note 4)	(32,312,284)	(332,021)
Total	$ 21,623,999	$ 18,673,308

Unobligated Balance Available represents the amount of budget authority that can be used to enter into new obligations. This amount, or a portion thereof, may be administratively dedicated for specific purposes that have not yet been obligated. The Obligated Balance Not Yet Disbursed represents amounts designated for payment of goods and services ordered but not received or goods and services received but for which payment has not yet been made.

NOTE 3. INVESTMENTS

As discussed further in Note 4, at the direction of the CFPB, the FRBNY invests the portion of the Bureau Fund that is not required in the judgment of the Bureau to meet the current needs of the Bureau. When directed by CFPB, the FRBNY will utilize the funds available to purchase investments on the open market. CFPB only invests in three month U.S. Treasury bills. The market value is determined by the secondary U.S. Treasury market and represents the value an individual investor is willing to pay for these securities, as of September 30, 2012 and September 30, 2011.

Investments as of September 30, 2012 consist of the following:

	Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investments Net	Market Value Disclosure
Intragovernmental Securities:						
Marketable	186,664,915	Straight-Line	30,765	-	186,695,680	186,694,746
Total	$186,664,915		$ 30,765	$ -	$ 186,695,680	$ 186,694,746

Investments as of September 30, 2011 consist of the following:

	Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investments Net	Market Value Disclosure
Intragovernmental Securities:						
Marketable	80,297,617	Straight-Line	1,189	-	80,298,806	80,297,603
Total	$ 80,297,617		$ 1,189	$ -	$ 80,298,806	$ 80,297,603

NOTE 4. CASH AND OTHER MONETARY ASSETS

CFPB has both cash and investments held outside of Treasury. When transfers are made from the Board of Governors to CFPB, the funds are deposited into an account held within the FRBNY referred to as the Bureau Fund. The account has a required minimum balance of $250,000 and any funds in excess of this minimum are invested in Treasury securities in increments of $100,000 by the FRBNY utilizing an automatic investment process based on direction from CFPB. CFPB requests cash disbursement from the Bureau Fund to the CFPB's Fund Balance with Treasury based on projections of future cash outlays.

Funds obtained by, transferred to, or credited to the Bureau Fund are immediately available to CFPB and under the control of the Director, and shall remain available until expended, to pay for the expenses of the Bureau in carrying out its duties and responsibilities. Any civil penalty obtained from any person in any judicial or administrative action under Federal consumer financial laws is deposited into the Civil Penalty Fund. Amounts in the Civil Penalty Fund are immediately available to CFPB and under the control of the Director, and shall remain available until expended, for payments to victims of activities for which civil penalties have been imposed. To the extent that such victims cannot be located or such payments are otherwise not practicable, the Bureau may use such funds for the purpose of consumer education and financial literacy programs.

Funds obtained by or transferred to the Bureau Fund shall not be construed to be Government funds or appropriated monies. Funds in the Bureau Fund and the Civil Penalty Fund are not subject to apportionment for purposes of chapter 15 Title 31, United States Code, or under any other authority.

Account balances as of September 30, 2012 and September 30, 2011:

	2012	2011
Cash		
Cash Held in the Bureau Fund at the Federal Reserve	312,284	332,021
Cash Held in the Civil Penalty Fund at the Federal Reserve	32,000,000	-
Total Cash and Other Monetary Assets	$ 32,312,284	$ 332,021

NOTE 5. PROPERTY, EQUIPMENT AND SOFTWARE, NET

Schedule of Property, Equipment, and Software as of September 30, 2012 consist of the following:

Major Class	Acquisition Cost	Accumulated Amortization/Depreciation	Net Book Value
Furniture & Equipment	3,496,961	1,235,797	2,261,164
Internal Use Software	4,171,747	612,949	3,558,798
Total	$ 7,668,708	$ 1,848,746	$ 5,819,962

Schedule of Property, Equipment, and Software as of September 30, 2011 consist of the following:

Major Class	Acquisition Cost	Accumulated Amortization/Depreciation	Net Book Value
Furniture & Equipment	997,719	108,490	889,229
Internal Use Software	978,872	97,887	880,985
Total	$ 1,976,591	$ 206,377	$ 1,770,214

NOTE 6. ADVANCES AND PREPAYMENTS

Advances and Prepayment balances as of September 30, 2012 and September 30, 2011 were as follows:

	2012	2011
Intragovernmental		
Advances and Prepayments	$ 4,463,881	$ -
Total Intragovernmental Other Assets	$ 4,463,881	$ -
With the Public		
Advances and Prepayments	$ 14,666,795	$ 14,689,107
Total Public Other Assets	$ 14,666,795	$ 14,689,107

The prepayment primarily represents a one-time payment by CFPB of $14.4 million to the Federal Reserve System for the Federal Reserve System retirement plans to cover the time in service for employees that transferred to CFPB under Section 1064 of the Dodd-Frank Act. Pursuant to Section 1064 of the Dodd-Frank Act, employees transferred to CFPB may enroll in the Federal Reserve System Retirement Plan and Federal Reserve System Thrift Plan. If the transferred employee chooses to enroll in these plans, CFPB has to transfer to the Federal Reserve System Retirement Plan an amount determined by the Board of Governors in consultation with CFPB to reimburse the Federal Reserve System Retirement Plan for the costs of providing the transferred employees' benefits under this plan. The $14.4 million payment was based on a projection of CFPB employees likely to enroll in the Federal Reserve System Retirement Plan. A memorandum of understanding between the Board of Governors and the Bureau established that the Board of Governors would provide the Bureau a final cost estimate for this payment by September 30, 2014. This prepayment represents the amount agreed to by the Board of Governors and Bureau to fund the Federal Reserve Plan Trust until the final cost estimate is complete. The amount was calculated using actuarial assumptions. The intragovernmental advance balance of nearly $4.5 million represents funds advanced to the Department of the Treasury for services provided by the working capital fund and funds advanced to FHFA for the development & maintenance of a joint National Mortgage Database. Other prepayments include subscriptions and other miscellaneous items.

NOTE 7. OTHER LIABILITIES

Other liabilities as of September 30, 2012 and September 30, 2011 consist of the following:

		2012		2011
Intragovernmental Liabilities				
FECA Liability	$	420	$	-
Payroll Taxes Payable		391,406		257,336
Benefits Payable		2,869,925		894,041
Custodial Liability		2,553		-
Total Intragovernmental Liabilities	$	3,264,304	$	1,151,377
With the Public				
Employee Withholdings	$	13,882	$	14,536
Total Public Liabilities	$	13,882	$	14,536

All other liabilities are considered current liabilities.

NOTE 8. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources as of September 30, 2012 and September 30, 2011 consist of the following:

	2012	2011
Intragovernmental		
FECA	$ 420	$ -
Other Liabilities	2,076,669	-
With the Public		
Unfunded Leave	7,767,225	3,982,285
Total Liabilities Not Covered by Budgetary Resources	$ 9,844,314	$ 3,982,285
Total Liabilities Covered by Budgetary Resources	27,255,994	15,315,575
Total Liabilities	$ 37,100,308	$ 19,297,860

As described in Note 1.O., Other liabilities include costs for post-retirement benefits for CFPB employees retiring under the Federal Reserve retirement plans.

NOTE 9. COMMITMENTS AND CONTINGENCIES

As described in Note 6, CFPB is responsible for reimbursing the Federal Reserve Retirement Plan for certain costs related to employees, transferred to CFPB under Section 1064 of the Dodd Frank Act, that enroll in the Plan. As described in note 1.O., employees will be given the opportunity to elect to enroll into the Plan from January 21, 2012 to January 20, 2013, therefore the number of employees that will elect to enroll in the Plan is not known as of September 30, 2012. Consequently, a contingent liability and related expense are not recognized as of September 30, 2012, because the amount to be reimbursed is not measurable.

NOTE 10. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

Intragovernmental costs and intragovernmental exchange revenue represent goods and services provided between two reporting entities within the Federal government, and are in contrast to those with non-federal entities (the public). Such costs and revenue for fiscal years 2012 and 2011 are summarized as follows:

By Program

(In Dollars)		2012		2011
Consumer Education and Engagement (Including Response Center)				
Intragovernmental Costs	$	16,313,037	$	9,947,744
Public Costs		40,346,717		12,883,894
Total Program Costs		56,659,754		22,831,638
Net Consumer Education and Engagement Cost	$	56,659,754	$	22,831,638
Research, Markets, and Regulations				
Intragovernmental Costs	$	11,317,467	$	6,747,223
Public Costs		27,991,274		8,738,715
Total Program Costs		39,308,741		15,485,938
Net Research, Markets, and Regulations Cost	$	39,308,741	$	15,485,938
Supervision, Enforcement, Fair Lending and Equal Opportunity				
Intragovernmental Costs	$	43,252,914	$	20,482,699
Public Costs		106,976,595		26,528,319
Total Program Costs		150,229,509		47,011,018
Net Supervision, Enforcement, Fair Lending and Equal Opportunity Cost	$	150,229,509	$	47,011,018
Total Intragovernmental Costs	$	70,883,418	$	37,177,666
Total Public Costs		175,314,586		48,150,928
Total Program Costs		246,198,004		85,328,594
Total Program Net Cost	$	246,198,004	$	85,328,594

NOTE 11. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

All obligations incurred are characterized as Category C, Exempt from apportionment (i.e. not apportioned), on the Statement of Budgetary Resources. Obligations incurred and reported in the Statement of Budgetary Resources in fiscal years 2012 and 2011consisted of the following:

		2012		2011
Direct Obligations, Category C	$	299,759,726		123,329,760
Total Obligations Incurred	$	299,759,726	$	123,329,760

NOTE 12. UNDELIVERED ORDERS AT THE END OF THE PERIOD

Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, states that the amount of budgetary resources obligated for undelivered orders at the end of the period should be disclosed. CFPB's Undelivered Orders represent obligated amounts designated for future payment of goods and services ordered but not received.

Orders as of September 30, 2012 and September 30, 2011 were as follows:

	2012	2011
Undelivered Orders at the End of the Period	$ 81,779,687	$ 36,267,469
Total Undelivered Orders at the End of the Period	$ 81,779,687	$ 36,267,469

NOTE 13. RECONCILIATION OF NET COST TO BUDGET

CFPB has reconciled its budgetary obligations and non-budgetary resources available to its net cost of operations for the periods ended September 30, 2012 and September 30, 2011.

(In Dollars)	2012	2011
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 299,759,726	$ 123,329,760
Less: Spending Authority From Offsetting Collections and Recoveries	(8,103,573)	-
Net Obligations	291,656,153	123,329,760
Other Resources		
Transfers in/out Without Reimbursement	433,146	-
Imputed Financing From Costs Absorbed By Others	2,262,241	1,693,752
Net Other Resources Used to Finance Activities	2,695,387	1,693,752
Total Resources Used to Finance Activities	294,351,540	125,023,512
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change In Budgetary Resources Obligated For Goods,		
Services and Benefits Ordered But Not Yet Provided	(49,953,789)	(41,899,921)
Resources That Finance the Acquisition of Assets	(5,085,710)	(1,976,591)
Total Resources Used to Finance Items Not Part of Net Cost of Operations	(55,039,499)	(43,876,512)
Total Resources Used to Finance the Net Cost of Operations	239,312,041	81,147,000
Components of the Net Cost of Operations That Will Not Require or		
Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods		
Increase In Annual Leave Liability	3,784,940	3,982,285
Other	2,077,089	-
Components Not Requiring or Generating Resources		
Depreciation and Amortization	1,035,964	206,377
Other	(12,030)	(7,068)
Total Components of Net Cost of Operations That Will Not Require or		
Generate Resources In The Current Period	6,885,963	4,181,594
Net Cost of Operations	$ 246,198,004	$ 85,328,594

NOTE 14. PRESIDENT'S BUDGET

Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, requires explanations of material differences between amounts reported in the Statement of Budgetary Resources and the actual balances published in the Budget of the United States Government (President's Budget). However, the President's Budget that will include fiscal year 2012 actual budgetary execution information has not yet been published. The President's Budget is scheduled for publication in February 2013 and can be found at the OMB Web site: *http://www.whitehouse.gov/omb/*. The 2013 Budget of the United States Government, with the "Actual" column completed for 2011, has been reconciled to the Statement of Budgetary Resources and there were no material differences.

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 171,049,662	$ 123,329,760	$ -	$ 80,946,716
Rounding	(49,662)	(329,760)		53,284
Budget of U.S. Government	171,000,000	123,000,000	-	81,000,000
Total Unreconciled Difference	$ -	$ -	$ -	$ -

NOTE 15. RENTAL PAYMENTS FOR SPACE

A. Description of Agreement: Interagency agreement with the Department of the Treasury's Office of the Comptroller of the Currency (OCC) for space to accommodate the CFPB staff assigned to its headquarters in Washington, DC. The occupancy agreement with OCC covers use of the premises for a period of 20 years with two optional five (5) year renewal periods. The annual rent shall escalate two percent each year.

Future Payments Due:

Fiscal Year	Buildings
2013	$11,496,463
2014	11,726,392
2015	11,960,920
2016	12,200,139
2017	12,444,141
After 5 Years	202,757,583
Total Future Payments	$262,585,638

B. Description of Agreement: Interagency agreement with the Federal Housing Finance Agency (FHFA) for supplies, services and the use of space at 1625 I Street, N.W., Washington D.C. The interagency agreement is for 3 years and 3 months expiring on June 30, 2015. The annual rent shall escalate four percent each year.

Future Payments Due:

Fiscal Year	Buildings
2013	$ 2,877,049
2014	2,992,131
2015	2,318,608
Total Future Payments	$ 8,187,788

NOTE 16. EARMARKED FUNDS

Provided below is summary component entity information for CFPB's two primary earmarked funds -- the Bureau Fund and the Civil Penalty Fund. The information is displayed as of September 30, 2012. During FY 2011 there was only one primary earmarked fund, the Bureau Fund and accordingly, no information is available for the Civil Penalty Fund to display for FY 2011.

	Bureau Fund	Civil Penalty Fund	FY 2012
A. Fund Balances & Status of Funds:			
Fund Balances:			
Special Fund	$ 21,623,999	$ -	$ 21,623,999
Total	$ 21,623,999	$ -	$ 21,623,999
Status of Fund Balance with Treasury:			
Unobligated Balance			
Available	$ 99,568,070	$ 32,000,000	$ 131,568,070
Obligated Balance Not Yet Disbursed	109,033,128	-	109,033,128
Investments at Cost	(186,664,915)	-	(186,664,915)
Cash Held Outside of Treasury	(312,284)	(32,000,000)	(32,312,284)
Total	$ 21,623,999	$ -	$ 21,623,999
B. Summary Assets, Liabilities, and Net Position:			
Assets:			
Total Intragovernmental	$ 212,783,560	$ -	$ 212,783,560
Cash and Other Monetary Assets	312,284	32,000,000	32,312,284
Other	20,508,407	-	20,508,407
Total Summary Assets	$ 233,604,251	$ 32,000,000	$ 265,604,251
Liabilities and Net Position:			
Total Liabilities	$ 37,100,308	$ -	$ 37,100,308
Cumulative Results of Operations	196,503,943	32,000,000	228,503,943
Total Liabilities & Net Position	$ 233,604,251	$ 32,000,000	$ 265,604,251
C. Summary Statement of Net Cost:			
Total Gross Program Costs	$ 246,198,004	$ -	$ 246,198,004
Net Cost of Operations	$ 246,198,004	$ -	$ 246,198,004
D. Summary Statement of Changes in Net Position:			
Net Position Beginning of Period	$ 96,472,664	$ -	$ 96,472,664
Total Financing Sources	346,229,283	32,000,000	378,229,283
Net Cost of Operations	(246,198,004)	-	(246,198,004)
Change in Net Position	100,031,279	32,000,000	132,031,279
Net Position End of Period	$ 196,503,943	$ 32,000,000	$ 228,503,943

	Bureau Fund	Civil Penalty Fund	FY 2011
A. Fund Balances & Status of Funds:			
Fund Balances:			
Special Fund	$ 18,673,308	$ -	$ 18,673,308
Total	$ 18,673,308	$ -	$ 18,673,308
Status of Fund Balance with Treasury:			
Unobligated Balance			
Available	$ 47,719,902	$ -	$ 47,719,902
Obligated Balance Not Yet Disbursed	51,583,044	-	51,583,044
Investments at Cost	(80,297,617)	-	(80,297,617)
Cash Held Outside of Treasury	(332,021)	-	(332,021)
Total	$ 18,673,308	$ -	$ 18,673,308
B. Summary Assets, Liabilities, and Net Position:			
Assets:			
Total Intragovernmental	$ 98,972,114	$ -	$ 98,972,114
Cash and Other Monetary Assets	332,021	-	332,021
Other	16,466,389	-	16,466,389
Total Summary Assets	$ 115,770,524	$ -	$ 115,770,524
Liabilities and Net Position:			
Total Liabilities	$ 19,297,860	$ -	$ 19,297,860
Cumulative Results of Operations	96,472,664	-	96,472,664
Total Liabilities & Net Position	$ 115,770,524	$ -	$ 115,770,524
C. Summary Statement of Net Cost:			
Total Gross Program Costs	$ 85,328,594	$ -	$ 85,328,594
Net Cost of Operations	$ 85,328,594	$ -	$ 85,328,594
D. Summary Statement of Changes in Net Position:			
Net Position Beginning of Period	$ 18,256,655	$ -	$ 18,256,655
Total Financing Sources	163,544,603	-	163,544,603
Net Cost of Operations	(85,328,594)	-	(85,328,594)
Change in Net Position	78,216,009	-	78,216,009
Net Position End of Period	$ 96,472,664	$ -	$ 96,472,664

NOTE 17. SUBSEQUENT EVENTS

On October 1, 2012 the CFPB entered into three Consent Orders with three financial institutions for violations of Federal consumer financial law. The Orders required the financial institutions to pay in total $14.1 million in civil monetary penalties to the CFPB's Civil Penalty Fund. The Orders were not agreed to and paid until fiscal year 2013; however, it represents significant CFPB work efforts and negotiations that occurred during fiscal year 2012.

Consumer Financial
Protection Bureau

1700 G Street NW, Washington, DC 20552

Consumer Help: 855-411-2372
Inquiries: 202-435-7000

www.consumerfinance.gov