Consumer Financial Protection Bureau

1700 G Street NW, Washington, DC 20552

Policy priorities over the next two years

The Consumer Financial Protection Bureau (CFPB or Bureau) is focused on creating a consumer financial marketplace that works for all consumers. Our mission is to make markets for consumer financial products and services work for consumers and responsible providers by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives.

When we do our work well, we help to ensure that consumers are able to make the financial decisions they believe are best for themselves and their families in a fair marketplace—one where prices are clear up front, risks are visible, nothing is buried in fine print, and everyone plays by the rules. In a market that works, consumers should be able to make direct comparisons among financial products and services and no provider should be able to use unfair, deceptive, or abusive practices.

Over the past year, the CFPB has engaged in an intensive planning effort to prioritize how we will use our tools – together – to tackle some of the most troubling problems facing consumers. There are four industrywide problems that we have been focused on: deception, or situations where the costs and risks of a financial decision are obscured or opaque; debt traps, or practices that trigger a cycle of debt where consumers rack up substantial costs over time; dead ends, or situations where people cannot "vote with their feet" when they are treated unfairly; and discrimination, or unequal treatment based on characteristics such as race, gender, or other biases prohibited by law. In developing our priorities, we assessed these problems within and across markets and then prioritized them based on the extent of the consumer harm that we were able to identify and our capacity to eliminate or mitigate that harm.

The result, below, is a set of near-term priority goals where we hope to make substantial progress over the next two years, and a plan for how to deploy our shared cross-Bureau resources to do so.

To be clear, these goals do not capture all of the important work we are doing. In particular, the Bureau will continue to fulfill its mandate under the Dodd-Frank Act to police all markets within its jurisdiction for compliance with consumer financial law and regulations. That is a core part of our work that will not change over time, even though our overall priorities as an agency will shift. Accordingly, we were careful to preserve significant resources to ensure that we fulfill this mandate. Financial companies should continue their focus on complying with the law beyond the particular issues described in the goals, whether or not they see their particular industry or product mentioned explicitly among the shared cross-Bureau priorities. We will also continue to monitor the markets in our jurisdiction and be flexible where necessary to respond to emerging issues protect consumers.

In addition, while this strategy focuses on our forward-looking priorities as an agency, there are a few additional priority work streams that are well-established and ongoing, and we will see that work through to completion. This includes, in particular, our fair lending oversight of indirect auto lenders and our rulemaking on prepaid cards.

CFPB's Near-term priority goals (Listed alphabetically)

ARBITRATION

Arbitration is a way to resolve disputes outside the court system. In recent years, many contracts for consumer financial products and services have included a "pre-dispute arbitration clause" stating that either party can require that disputes that may arise about the product or service be resolved through arbitration, rather than through the court system. Where such a clause exists, either side can generally block lawsuits, including class actions, from proceeding in court.

The CFPB envisions a consumer financial marketplace where consumers have the ability to effectuate their rights and hold institutions accountable for unlawful conduct.

Why is this a near-term priority goal?

- The CFPB's arbitration study found widespread use of pre-dispute arbitration clauses in contracts for a variety of products. Such clauses were found in anywhere from half to 99 percent of all the markets studied.
  - Credit card issuers that include arbitration clauses in contracts account for 53 percent of the credit card market.

  - 92 percent of prepaid card agreements and 99 percent of payday loan agreements in California and Texas include arbitration clauses.
  - Among mobile wireless providers that authorize third parties to charge consumers for services, 88 percent of the largest carriers include arbitration clauses. In the private student loan market, 86 percent of the largest lenders include arbitration clauses in their contracts.
- Over 90 percent of the arbitration agreements the CFPB studied expressly prohibited class arbitrations. Moreover, three out of four consumers the CFPB surveyed did not know they were subject to an arbitration clause.
- The CFPB's arbitration study also found that consumers rarely bring individual lawsuits but that class actions are an effective way to enable large numbers of consumers to secure relief for small dollar claims, bringing an average of $220 million in relief to 6.8 million people per year.
- Congress provided the Bureau with the authority to regulate the use of arbitration clauses if the Bureau finds that doing so is in the public interest and for the protection of consumers, and if the findings in such a rule are consistent with the results of the CFPB's study.

How will we use our tools over the next two years to get there?

- The Bureau will continue the rulemaking process and propose a rule consistent with its study that will further enable consumers to effectuate their rights and hold institutions accountable for unlawful conduct.

CONSUMER REPORTING

Consumer reporting companies are private businesses that track a consumer's credit history and other information about consumers. Such companies play a key role in the consumer financial services marketplace and in the financial lives of consumers. For example, the reports that the three largest consumer reporting companies sell are used in determining everything from consumer eligibility for credit to eligibility for employment and housing, to servicemembers' eligibility for required security clearances. "Furnishers" are companies that supply information to consumer reporting companies; typically these are financial institutions that provide credit or collect on amounts owed, like credit card companies and debt collectors.

The CFPB envisions a consumer reporting system where furnishers provide and consumer reporting companies maintain and distribute data that are accurate and inclusive of more consumers. This should be supplemented by effective and efficient dispute management and resolution processes for consumers.

Why is this a near-term priority goal?

- Roughly 26 million consumers lack a credit report and an additional 19 million have insufficient information for a credit score, which makes it difficult for these consumers to obtain credit from mainstream lenders.
- Consumer reporting companies and furnishers have an obligation to maintain accuracy of consumer data, but experience indicates that they lack incentives and under-invest in accuracy.
- According to the Federal Trade Commission, roughly 20 percent of the consumers who participated in its 2012 study had an error in at least one of their credit reports, including 5 percent of all participants who had errors of a magnitude that could negatively impact their score and result in less favorable loan terms.
- Over 75 percent of consumer reporting complaints that the CFPB receives relate to consumer reporting accuracy.
- The CFPB is uniquely situated to assess and address issues associated with accuracy. It is the first federal agency with regulatory and supervisory authority over the consumer reporting companies and it also has jurisdiction over most of the major furnishers.

How will we use our tools over the next two years to get there?

- The Bureau will continue to examine and investigate consumer reporting companies and furnishers of consumer information, focusing on accuracy and dispute resolution processes, and we will hold those institutions accountable for remedying any deficiencies.
- The Bureau will use the information it gathers using outreach and various tools to assess options for cooperatively improving consumer reporting data.
- Based on this work, the Bureau may consider rulemaking around furnisher and consumer reporting accuracy, dispute resolution, and related issues.

- The Bureau will explore how alternative data is or can be used in the consumer reporting system to improve access to financial services.

DEBT COLLECTION

There are many businesses in the multi-billion-dollar debt collection market. Banks and other original creditors may collect their own debts or hire third-party debt collectors. Original creditors and other owners of debts also may sell their debts to debt buyers, who may collect on the purchased debts or hire third-party debt collectors to recover them. It is estimated that there are more than 6,000 debt collection firms in the U.S.

Third-party collectors include collection agencies or lawyers who collect debts for others as part of their business. There are also companies that buy past-due debts from creditors or other businesses and then try to collect them. These debt collectors are also called debt collection agencies, debt collection companies, or debt buyers.

Although the Fair Debt Collection Practices Act generally applies only to third-party collectors, all collectors subject to the CFPB's jurisdiction can be held accountable for any unfair, deceptive, or abusive practices in collecting a consumer's debts.

The CFPB envisions a debt collection market where everyone who collects debts substantiates the debts they are collecting, accurately identifies debtors, provides debtors with appropriate information, and communicates with debtors about their debts in a respectful, lawful, consumer-oriented way.

Why is this a near-term priority goal?

- Around one-third of consumers with credit reports have one or more collections items on their credit reports. These debts range from less than $25 to more than $125,000, averaging $5,178.
- The Bureau receives its highest volume of complaints—around 80,000 per year—from consumers in the area of collections, and consumers often have limited resources and opportunities to address wrongful collections or practices.
- Debt may be sold several times without consistent standards governing the flow and retention of consumer information, increasing the possibility that collectors are acting on incomplete or inaccurate information about debtors.

- Debt collectors make money based on how much they collect and that incentive can thwart the legal protections afforded to consumers. Consumers subject to collections do not choose their debt collector and debt collectors do not have a customer service relationship with consumers.

- In 2010, Congress made the Bureau the first agency with the authority to issue substantive rules under the main federal debt collection statute. That statute has not been updated since 1977 and has several areas of uncertainty.

How will we use our tools over the next two years to get there?

- The Bureau will initiate the rulemaking process with the goal of finalizing a rule that will establish clear rules of the road to ensure that debt collectors (both first-party and third-party) treat consumers with dignity and respect, obtain and retain the information necessary to substantiate the debts they collect on, and provide consumers with appropriate information about their rights and the debt collection process.

- The Bureau's rulemaking activity will be complemented by rigorous supervision and enforcement to ensure that institutions are held accountable for fulfilling their current obligations and, eventually, by ensuring that institutions comply with any rules promulgated in the rulemaking process.

DEMAND-SIDE CONSUMER BEHAVIOR

An essential part of the CFPB mission is to empower consumers to take more control over their financial lives and improve their financial well-being. Even with a safe, well-functioning consumer financial market, consumers still need to be able to understand how to make the choices about money that will best serve their own life goals. Despite the availability of a wide range of information about managing money and about financial products and services, many consumers struggle when making financial decisions.

The CFPB envisions a marketplace where community and public service providers integrate financial capability skill-building into their educational and service programs, and consumers are aware of and have access to trusted tools and resources to make and act on critical financial decisions.

Why is this a near-term priority goal?

- According to the 2014 Survey of American Family Finances, only half of American families surveyed feel their households are financially secure. More than half reported just breaking even or spending more than they make each month.
- The amount spent in the United States on financial education of all types is dwarfed by the amount spent on consumer financial marketing. For every dollar spent on financial education in a year, $25 is spent on consumer financial marketing.
- Many consumers at or near retirement are financially unprepared; four in ten late boomers (currently ages 51-59) are reaching retirement with limited or no savings.
- According to a 2012 study, 89 percent of surveyed adults said that financial education should be taught in schools. However, only 17 states require students to take a high school course in personal finance.
- The Bureau is uniquely situated to partner with community and public service providers and create a nationwide support infrastructure to effectively expand the reach of financial capability services to consumers.
- The Bureau is a trusted resource for a significant number of consumers when they are making financial decisions. Bureau tools can help people identify the questions to ask and the steps to take in shopping for and comparing financial products and choices as they decide what will best support their own life goals.
- The Dodd-Frank Act established financial literacy as a core component of the Bureau's work on behalf of American consumers.

How will we use our tools over the next two years to get there?

- The Bureau will create consumer financial decision-making tools and build awareness of the Bureau's tools to provide consumers with the resources they need to make important financial decisions.
- The Bureau will enable existing social service providers, youth services, and K-12 organizations to help more young consumers build financial skills.
- The Bureau will conduct foundational research that financial educators can use to raise the effectiveness of educational and service programs and tools in improving consumer financial decision-making and financial well-being.

HOUSEHOLD BALANCE SHEETS

The lives of American consumers are complex and their financial decisions are influenced by many factors. These decisions sometimes impact their financial well-being for years to come. Current research often yields insights into individual financial choices but rarely offers a glimpse of the household's entire balance sheet over time.

The CFPB envisions policymaking and consumer education based on a deep understanding of the evolution of households' balance sheets and how households' use of financial products changes over time.

Why is this a near-term priority goal?

- The financial decisions that consumers make today can significantly affect their long-term financial well-being. For example, claiming retirement benefits early could result in a 30 percent reduction in monthly payments.
- Most current research addresses credit products or financial decisions in isolation, without considering each consumer's full set of assets and liabilities.
- Understanding the effects that sets of products and financial behaviors have on consumers requires a broad and long-term perspective on the evolution of consumer financial health and well-being.
- For example, the Bureau's research found that medical debt collections caused a 45- to 125-point drop in credit scores among prime consumers, dramatically impacting their future credit prospects, even though medical collections were not particularly predictive of a consumer's future credit performance.
- Studying the dynamics of household balance sheets will help the Bureau better evaluate how financial product choices or external events affect consumers and will help to identify the behaviors and factors that affect financial success.
- This research will enhance the Bureau's ability to identify relevant trends and, when appropriate, to craft regulatory solutions that help markets better serve American consumers.

How will we use our tools over the next two years to get there?

- The Bureau will initiate a research program aimed at better understanding the factors that promote or inhibit the financial health of households by researching the dynamics of household balance sheets.
- As part of this effort, we will continue to develop data resources that provide valuable insight about financial decision-making and the financial health of households while maintaining consumer privacy.
- Relying on the Bureau's own expertise and engaging with the broader research community, we will conduct several studies that use rigorous analysis to better understand the dynamics of household balance sheets.

MORTGAGES

With a market size of approximately $10 trillion, the mortgage market is far and away the largest consumer credit market. For most consumers, a mortgage is a necessary step in the path to home ownership. Consumers seeking a mortgage will find a variety of sources to choose from, including banks, credit unions, nonbank lenders, and mortgage brokers. Once consumers obtain a mortgage, a mortgage servicer (which may be the same entity that issued the mortgage or a third party) is responsible for collecting payments from the mortgage borrower and forwarding those payments to the owner of the loan. Mortgage servicers typically handle customer service, collections, loan modifications, and foreclosures.

The CFPB envisions a mortgage market where lenders serve the entire array of credit-worthy borrowers fairly and in a non-discriminatory manner, servicers' processes result in fair and efficient outcomes for consumers, and new mortgage rules are implemented in a manner that supports a sustainable mortgage market.

Why is this a near-term priority goal?

- Leading up to the mortgage crisis, certain lenders originated mortgages to consumers without considering their ability to repay the loans. The gradual deterioration in underwriting standards led to dramatic increases in mortgage delinquencies and foreclosure rates.
- As required by the Dodd-Frank Act, the CFPB issued several rules to address the issues that helped cause the crisis. The Bureau is now responsible for implementing those rules.

This includes a rule requiring that lenders assess a borrower's ability to repay a mortgage before making the loan.

- Investments are needed to ensure the Bureau has the right information to prevent the next crisis, and that the Bureau has a deep, real-time, and comprehensive understanding of the mortgage market.
- Today, roughly 3 million consumers obtain mortgages to purchase homes each year, and this obligation is typically the largest debt obligation for these consumers.
- Half of consumers fail to shop for a mortgage in connection with a home purchase even though it could result in substantial savings.
- As the market recovers, discrimination remains a significant risk, with both denial rates and mortgage prices higher, and credit access lower, for people of color relative to non-Hispanic whites.
- At the same time, over 1.5 million consumers are struggling to pay their mortgages and servicers often lack incentives for sufficient investment in customer service and compliance.

How will we use our tools over the next two years to get there?

- The Bureau will work to ensure that the new Home Mortgage Disclosure Act rule is successfully implemented.
- The Bureau's supervisory and enforcement programs will work to ensure equal and fair (non-discriminatory) access to mortgage credit.
- We will also place particular focus on implementation of our servicing rules, protecting delinquent borrowers still suffering from the aftermath of the crisis or other economic setbacks, and ensuring that servicers are equipped to handle any future delinquencies fairly.
- The Bureau will continue to work with institutions to support implementation of the mortgage rules and will begin to assess the effectiveness of significant rules.

OPEN-USE CREDIT

The Bureau defines open-use credit as any credit product that is offered without an expectation that the loan will be used for a specific purchase, such as to buy a home or a car, or to finance higher education. Open-use credit may be secured (backed by collateral, such as a car) or unsecured. The open-use credit market encompasses a range of financial products such as credit cards, overdraft products, payday loans, auto title loans, and installment loans.

The CFPB envisions an open-use credit market where lenders rely on business models that succeed when consumers use credit when needed and are able to repay their debts when due.

Why is this a near-term priority goal?

- It is possible for lenders to structure loan products that enable the lenders to succeed even when many of their borrowers cannot afford to repay the loans when due. The Bureau has found this to be generally true of payday loans, auto title loans, and certain installment loans.
- In the payday loan space, according to the Bureau's research, over 80 percent of payday loans are rolled over or followed by another loan within 14 days, and 15 percent of new loans are followed by a loan sequence at least 10 loans long. Half of all loans are in a sequence at least 10 loans long. At least 2.5 million households, and perhaps as many as 12 million consumers, use payday loans over a 12-month period. Payday lenders (storefront and online combined) collect about $8.7 billion annually in interest and fees.
- Auto title loans typically are expensive credit, backed by a security interest in the consumer's vehicle. Between 1 million and 2 million consumers use auto title loans each year. These households spend approximately $3 billion annually in fees, according to the Pew Charitable Trusts.
- The consumers who find themselves in these types of loans typically come from low- and moderate-income households and are disproportionately female and persons of color.
- Low- and moderate-income households also incur large and largely unanticipated costs from overdraft products. Most overdraft fees are paid by a small fraction of bank customers: 8 percent of customers incur nearly 75 percent of all overdraft fees, and the median transaction amount that causes an overdraft fee is just $50.

How will we use our tools over the next two years to get there?

- The Bureau will continue the small-dollar rulemaking process with the goal of finalizing a rule that will protect consumers from debt traps associated with unaffordable loans.

- A proposal to define the larger participants in the installment lending market will allow the Bureau to supervise a more comprehensive range of lending markets.
- The Bureau will initiate a rulemaking process with the goal of developing rules to make the overdraft market fairer and more transparent.
- The Bureau's supervisory and enforcement work will complement this rulemaking activity, in part by holding institutions accountable for deceptive marketing and illegal debt collection practices related to open-use credit products, and by ensuring compliance with any future rules.

SMALL BUSINESS LENDING

While most of the CFPB's work focuses on credit markets that serve consumers, Congress also directed the Bureau to monitor certain aspects of the market for small business lending. Small businesses, including those owned by women and minorities, are critical engines for economic growth, and access to credit is a crucial component of their success. Small business loans take several forms, including term loans, credit lines, and business credit cards, among other products, and lenders include both small and large banks and nonbanks such as online or marketplace lenders.

The CFPB envisions a small business lending market where fair lending laws are enforced and where communities, governmental entities, and creditors have access to the data needed to identify the business and community development needs and opportunities of women-owned, minority-owned, and small businesses.

Why is this a near-term priority goal?

- The small business lending market is vast and complex, with a market size of over $1 trillion, serving over 28 million businesses.
- Millions of consumers work in or own small businesses that rely on accessible and non-discriminatory credit markets. Small businesses are an important source of wealth and job creation.
- Existing research suggests that significant discrimination against minorities may exist in the small business lending market.
- Currently no federal agency collects comprehensive data on small business loans, which limits our understanding of that important credit market and makes enforcement of fair lending laws difficult. The Dodd-Frank Act requires the Bureau to issue a rule on small

business lending data collection.

How will we use our tools over the next two years to get there?

- The Bureau will build a small business lending team and begin market research and outreach for a rulemaking on business lending data collection.
- Subject to an assessment of feasibility, the Bureau's consumer response team will build the infrastructure to intake and analyze small business lending complaints.
- As part of its supervisory work, the Bureau will continue to examine small business lenders for compliance with fair lending laws.

STUDENT LENDING

Student lending encompasses the student loan origination and servicing markets. There are two types of student loans: federal loans sponsored by the federal government, and private student loans, which include loans from state-affiliated nonprofits and institutional loans provided by schools. Consumers obtain a loan from a student loan originator, which is the entity that issues the loan. Student loan servicers are a critical link between borrowers and lenders. Servicers manage borrowers' accounts, process monthly payments, manage enrollment in alternative repayment plans, and communicate directly with borrowers, including borrowers in distress.

The CFPB envisions a student lending market where servicers facilitate repayment of student debt in a manner that is consistent with consumer interests, transparent, and fair, and incentives encourage these outcomes.

Why is this a near-term priority goal?

- Outstanding student debt has doubled since 2007 to nearly $1.2 trillion owed by 40 million consumers. Nearly half of the amounts outstanding are not currently in repayment.
- Nearly 8 million student loan borrowers are in default and another 3 million are struggling to make payments—more than one quarter of all student loan borrowers.
- Servicers are the borrowers' primary point of contact, and borrowers have no choice of their servicer.

- The Bureau sees consistent signs of consumer harm from student loan servicing examinations, investigations, and consumer complaint data. Servicers lack sufficient incentives to change harmful practices.

- The Bureau is the only federal regulator with supervisory authority over virtually the entire student loan servicing market, including the major nonbank players in student loan servicing. These nonbank servicers handle more than 90 percent of new originations.

How will we use our tools over the next two years to get there?

- The Bureau will continue its work with the Department of Education and other agencies to develop and implement recommendations that align servicer incentives with appropriate consumer outcomes, including improvements that ensure consumers obtain the full benefit of available payment options.

- Through its supervisory and enforcement activity, the Bureau—in coordination with its law enforcement partners—will hold servicers accountable for their legal obligations to consumers.

- Based on this work, the Bureau will evaluate possible additional policy responses, including potential rulemaking.

###

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