

# **CFO update for the third quarter of fiscal year 2014**

APRIL 1 – JUNE 30, 2014

Issued: August 15, 2014

## **Bureau Fund**

In the first three quarters of fiscal year 2014 , which ended on June 30, 2014, the Consumer Financial Protection Bureau (CFPB) spent approximately \$385 million (including commitments and obligations)<sup>1</sup> to carry out the authorities of the Bureau under federal consumer financial laws. Approximately \$177 million was spent on employee compensation and benefits for the 1,372 CFPB employees employed by the end of the quarter.

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

- \$11.8 million for a one-year building occupancy agreement with the Office of the Comptroller of the Currency;
- \$4.1 million for a one-year building occupancy agreement with the General Service Administration for temporary office space;
- \$3.9 million for supervisory compliance tools that will automate data analysis by providing functionality for examiners to analyze specific loan files in the field. The tools will streamline the on-site portion of exams; thereby making more efficient use of supervision resources;
- \$2.2 million to the Department of Treasury's Departmental Offices primarily for information technology infrastructure;
- \$2.1 million for cyber security program management support services;
- \$1.7 million for a Consumer Response risk-based targeting system which will support complex analysis and rank complaints for investigations, and also assisting CFPB employees on making decisions on which complaints to investigate, and;
- \$1.4 million for management and consulting services for CFPB's Office of Consumer Response.

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

Table 1: Fiscal Year 2014 spending by expense category thru Q3 of FY 2014:

<b>Expense Category</b>	<b>Fiscal Year 2014</b>
Personnel Compensation	127,898,000
Benefit Compensation	48,798,000
Travel	12,607,000
Transportation of Things	86,000
Rents, Communications, Utilities & Misc.	9,014,000
Printing and Reproduction	784,000
Other Contractual Services	153,917,000
Supplies & Materials	4,057,000
Equipment	27,966,000
Land and Structures	229,000
Interest and Dividends	0
<b>Total (as of 6/30/14)</b>	<b>\$385,356,000</b>

Table 2: Fiscal Year 2014 spending by division/program thru Q3 of FY 2014:

<b>Division/Program Area</b>	<b>Fiscal Year 2014</b>
Office of the Director*	2,921,000
Chief Operating Officer	92,274,000
Consumer Education & Engagement	17,583,000
Research, Markets & Regulations	25,799,000
Supervision, Enforcement, Fair Lending	106,212,000
Legal Division	9,128,000
External Affairs	4,656,000
Other Programs <sup>2</sup>	1,895,000
Centralized Services <sup>3</sup>	124,888,000
<b>Total (as of 6/30/14)</b>	<b>\$385,356,000</b>

\*Includes the Office of Minority and Women Inclusion (OMWI) that was moved from the Chief Operating Officer to the Office of Director effective April 2014.

## FY 2014 Funds Transfers Received from the Federal Reserve

The CFPB is funded principally by transfers from the Federal Reserve System, up to the limits set forth in the Dodd-Frank Act. Funding from the Federal Reserve System for fiscal year 2014 is capped at \$608 million. As of June 30, 2014, the CFPB received the following transfers for FY 2014:

\$181.0M	October 15, 2013
\$126.3M	January 16, 2014
\$115.5M	April 11, 2014

## Civil Penalty Fund

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

### Civil Penalty Funds Collected in FY 2014:

Table: FY 2014 Q1 – Q3 Civil Penalty Fund Deposits

Entity	Amount	Date
Washington Federal	\$34,000	October 11, 2013
Mortgage Master, Inc.	\$425,000	October 15, 2013
Castle & Cooke Mortgage, LLC	\$4,000,000	November 13, 2013
Cash America International, Inc.	\$5,000,000	November 25, 2013
Meracord LLC <sup>4</sup>	\$555,000	November 26, 2013
Republic Mortgage Insurance Company	\$100,000	December 5, 2013
American Express Bank, FSB	\$2,000,000	December 23, 2013
American Express Centurion Bank	\$3,600,000	December 23, 2013
American Express Travel Related Services Company, Inc.	\$4,000,000	December 23, 2013
Ally	\$18,000,000	December 30, 2013
Fidelity Mortgage Corporation	\$54,000	January 21, 2014
1 <sup>st</sup> Alliance Lending, LLC	\$83,000	March 5, 2014
Bank of America	\$20,000,000	April 17, 2014
RealtySouth	\$500,000	June 4, 2014
Synchrony (GE Capital Retail Bank)	\$3,500,000	June 20, 2014
Stonebridge Title Services, Inc.	\$30,000	June 24, 2014

In the first quarter of FY 2014, the CFPB collected a total of \$37.7 million in civil penalties from ten defendants. In the second quarter of FY 2014, the CFPB collected a total of \$137,000 in civil penalties from two defendants. In the third quarter of FY 2014, the CFPB collected a total of \$24 million in civil penalties from four defendants.

Civil Penalty Funds Allocated in FY 2014:

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

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

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

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

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

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

*Period 2 Allocation Summary:*

*Victim Compensation: \$2,557,231*

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

*Consumer Education and Financial Literacy Programs: \$0*

*Total Allocation: \$2,557,231*

On May 30, 2014, the Bureau made its third allocation from the Civil Penalty Fund. As of March 31, 2014, the Civil Penalty Fund contained an unallocated balance of \$91.3 million. This amount was available for allocation pursuant to 12 C.F.R. § 1075.105(c).

During Period 3, final orders in Bureau enforcement actions imposed civil penalties in thirteen cases. Under the Civil Penalty Fund rule, the victims of the violations for which the civil penalties were imposed in these cases are eligible to receive payment from the Civil Penalty Fund to compensate their uncompensated harm. <sup>5</sup>

Of those thirteen cases, the Civil Penalty Fund Administrator determined that two cases did not have eligible classes of victims, and seven cases had classes of eligible victims with no uncompensated harm that is compensable from the Civil Penalty Fund. The Fund Administrator had insufficient information for one case as of the time of allocation to determine whether classes of victims had “uncompensated harm” as defined by the Civil Penalty Fund Rule and three cases had classes of eligible victims with uncompensated harm.

Of the three cases that had classes of eligible victims with uncompensated harm, the class of eligible victims with uncompensated harm in one case is expected to receive full compensation pursuant to an order issued by another federal regulator. The Fund Administrator accordingly declined to allocate any funds to that class at this time. The two remaining cases with classes of victims with uncompensated harm that is compensable from the Civil Penalty Fund were Meracord and 3D Resorts-Bluegrass. Specifically, the Meracord victims had \$11.5 million in estimated uncompensated harm, and the 3D Resorts-Bluegrass victims had \$6.7 million in estimated uncompensated harm.

The Bureau allocated \$11.5 million to the Meracord victim class and \$6.7 million to the 3D Resorts-Bluegrass victim class, enough to compensate fully those victim classes’ uncompensated harm. No funds were allocated to consumer education and financial literacy programs.

*Period 3 Allocation Summary:*

*Victim Compensation: \$18,246,329*

- *Meracord*
  - *Victim Classes Allocation: \$11,542,229*
- *3D Resorts-Bluegrass*
  - *Victim Class Allocation: \$6,704,100*

*Consumer Education and Financial Literacy Programs: \$0*

*Total Allocation: \$18,246,329*

The remaining unallocated Civil Penalty Fund balance remains available for future allocation. Civil penalties collected after March 31, 2014 were deposited in the Fund. The amount in the Fund as of September 30, 2014 will be available for allocation following the conclusion of Period 4 in accordance with 12 C.F.R. § 1075.105(c).

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

## **Bureau-Administered Redress**

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

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

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

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