



CFPB Summarizes Exam Findings

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The Consumer Financial Protection Bureau (the “CFPB” or “Bureau”) recently released its first “Supervisory Highlights” report (“CFPB Highlights”). Through the Supervisory Highlights, the Bureau apprises the public and financial services industry on common issues discovered in the execution of its supervisory and examination program. The CFPB Highlights also details the remedial relief obtained for consumers during the year and along those same lines, states its purpose to “signal to all institutions the kinds of activities that should be carefully scrutinized for compliance with law.”

The CFPB expects to periodically publish additional “Supervisory Highlights” and “provide financial institutions with clear guidance about the standards of conduct expected of them.” The key takeaways from the CFPB Highlights and focus of this QuickStudy article follow:

The Bureau’s Areas of Concern for the Financial Services Industry

The concerns and problems described in this initial Supervisory Highlights report include the following areas:

- **Compliance Management.** The CFPB found comprehensive deficiencies in compliance management systems, such as failures to adopt and follow compliance policies and procedures. The CFPB notes that, in compliance exams, it “evaluates *both the understanding and application* of the financial institutions’ compliance management programs by its managers and employees.”

Takeaway: Make sure your board, management and staff are trained on your compliance policies and procedures. Make sure your employees *actually conduct operations* in accordance with your compliance policies and procedures.

- **Outsourcing Oversight.** The CFPB identified deficiencies relating to oversight of affiliates and third-party service providers, including the adoption and implementation of “policies and procedures to monitor and test for compliance with Federal consumer financial law by service providers acting on behalf of the financial institution.”

Takeaway: As we have said many times before, you must begin to think of your material service providers as part of your operation and responsibility. Pre-contract due diligence, on-going monitoring, compliance performance standards, must all become part of your routine approach to those business relationships (see previous [QuickStudy](#)).



- **Fair Lending.** The CFPB discovered deficiencies in fair lending compliance programs to ensure compliance with ECOA and Regulation B. The CFPB directed financial institutions to expand their internal fair lending regression analyses, monitor compliance through special reports and certifications, and take other steps to address the potential existence of discrimination.

Takeaway: Particularly if you originate and/or service mortgage loans, it is imperative you adopt a fair lending policy and provide your staff with fair lending training.

- **Credit Bureau Reporting.** The CFPB found FCRA violations consisting of failures to: 1) communicate appropriate and accurate information to consumer reporting agencies; 2) indicate when a consumer had disputed account information; and 3) retain information upon completion of dispute investigations. The CFPB also found numerous instances of deficient employee training on FCRA and Regulation V.

Takeaway: This data integrity issue is one to address. Now is the time to tighten up the processes around reporting and dispute verification investigations and resolution.

- **Mortgage Lending.** The CFPB also discovered significant TILA and RESPA violations by residential mortgage lenders, such as inadequate or improper completion of the Good Faith Estimate and HUD-1 Settlement Statement, as well as inaccurate TILA disclosures. The CFPB also identified HMDA compliance as an area of concern, noting that its examiners found several financial institutions had significant error rates in their HMDA data.

Takeaway: There are situations where the Bureau has started an examination only to find that the data integrity in a HMDA file is so poor that it has required the lender to go back and scrub a year's worth of files and resubmit its report.

Clear Message

If your financial services business is subject to regulation by the CFPB, there is a significant amount of guidance on where to focus your compliance efforts. Be diligent in the review of the revised Supervision and Examination Manual, CFPB guidance bulletins and now, the Supervisory Highlights, to be better prepared for the time when the Bureau comes to examine your operation.

For more information on the matters discussed in this *Locke Lord QuickStudy*, please contact one of the authors:

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