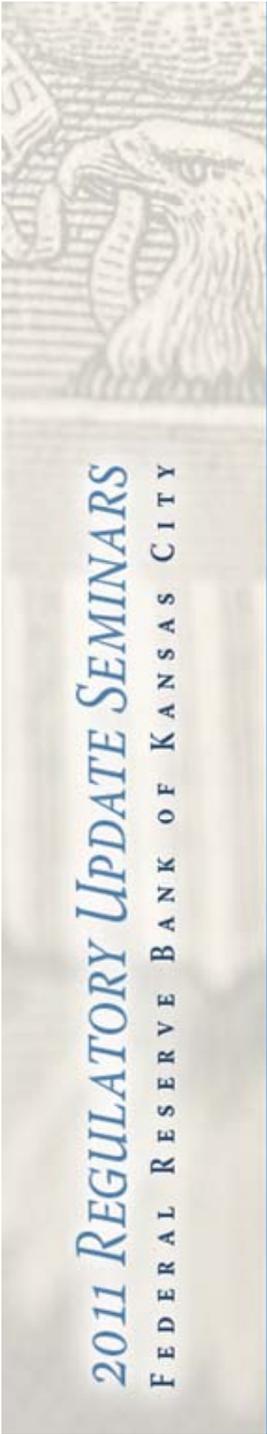


# CONSUMER COMPLIANCE HOT TOPICS

<sup>2011</sup>  
*Regulatory Update*  
— SEMINAR —  
*Federal Reserve Bank of Kansas City*

# Current Issues

- Consumer Financial Protection Bureau (CFPB)
- Regulatory Timeline and Summary of New Regulations
- How to Prepare for the Changes
- Top Risk Management Issues
- Top 5 Compliance Violations of 2010



# Consumer Financial Protection Bureau

- Created by the Dodd-Frank Act
- Funded by the Federal Reserve
- Operates Independently

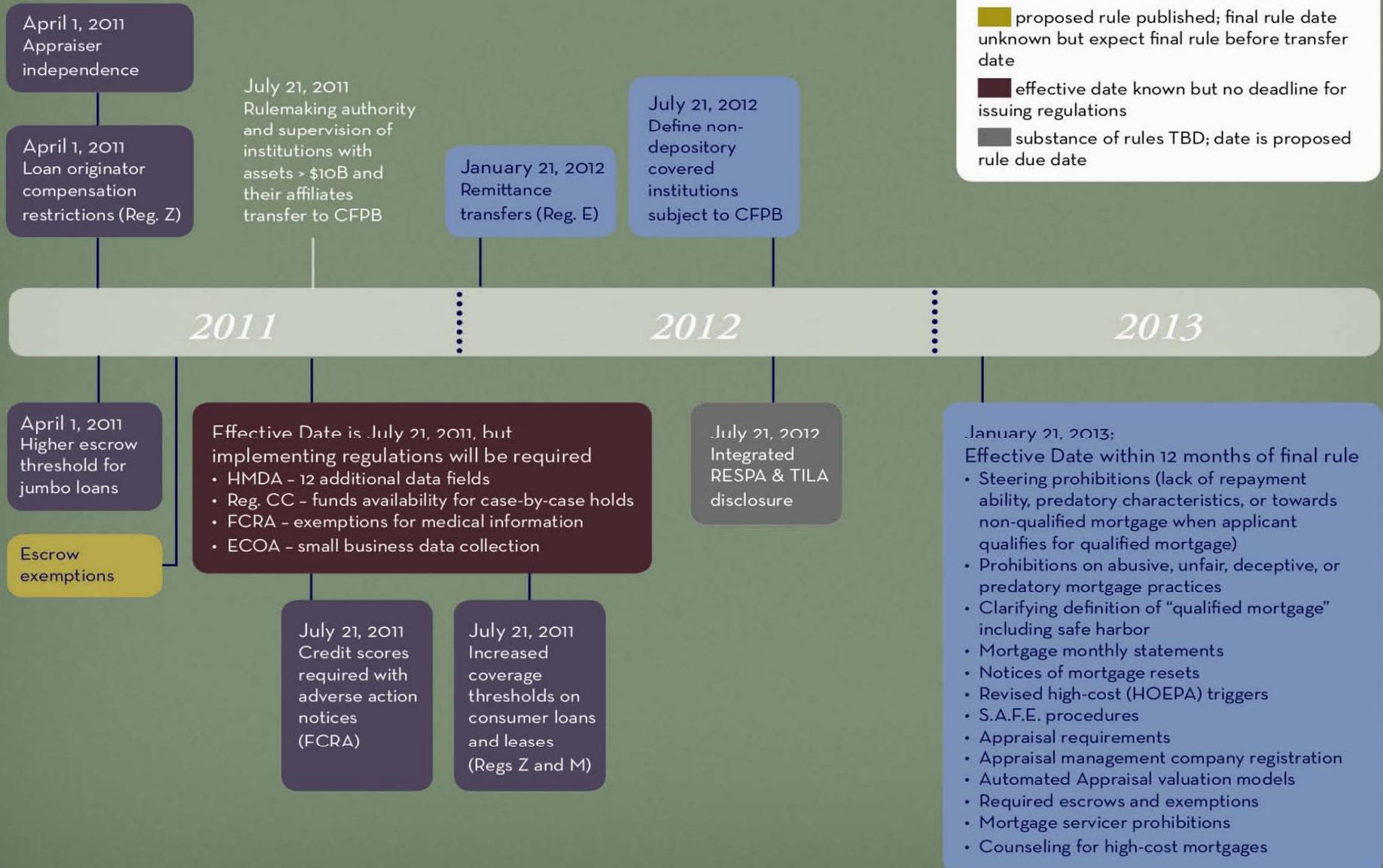
# Consumer Financial Protection Bureau

- Authority Effective July 21, 2011
  - rule writing authority for most consumer protection statutes (enumerated laws)
  - supervisory authority to enforce consumer protection laws
    - financial institutions with assets > \$10 billion and their affiliates
    - certain nondepository institutions

# Consumer Compliance Regulatory Changes 2011 – 2013

**KEY**

- substance of rules and due date known; date is effective date
- proposed rules have not been issued; date is final rule due date
- proposed rule published; final rule date unknown but expect final rule before transfer date
- effective date known but no deadline for issuing regulations
- substance of rules TBD; date is proposed rule due date



# Summary of Regulations

- April 1, 2011
  - loan originator compensation rules
  - appraisal independence
- July 21, 2011
  - higher thresholds for loan coverage under Regulation Z
  - credit scores with adverse action notices

# Summary of Regulations

- July 21, 2011
  - additional HMDA data collection fields
  - small business data collection
- July 21, 2012
  - combined RESPA and TILA disclosure

# Required Future Rulemakings

- Many New Rules Applicable to Mortgage Loans
  - verify ability to repay
  - qualified mortgage safe harbor
  - additional mortgage servicing requirements
  - additional high cost loan requirements
- Small/Rural Bank Exemptions

# Recent Developments

- No Action on Three Regulation Z Proposed Rulemakings
- CFPB Implementation
  - Elizabeth Warren overseeing the development
  - transfer of employees
  - CFPB website
    - <http://www.consumerfinance.gov>

# Recent Developments

- CRA Regulation Review
- Escrow Exemption Proposal
  - banks that operate predominantly in rural or underserved areas
  - bank originated and serviced 100 or fewer loans during either of the preceding two years
  - must not maintain any escrow accounts currently

# Preparation

- Last Year
  - change management
- This Year
  - compliance risk management
  - compliance examinations

# Compliance Risk Management

- Controls
  - preventive
  - detective
  - corrective





# Compliance Risk Management

- Reserve Bank Specific Components
  - board and management oversight
  - policies, procedures, and limits
  - risk monitoring and management information systems (MIS)
  - internal controls

# Board and Management Oversight

- Understanding of Compliance Risks in Your Bank
- Approval of Business Strategies and Policies
- Management and Staff Expertise
- Compliance Culture
- Effectiveness



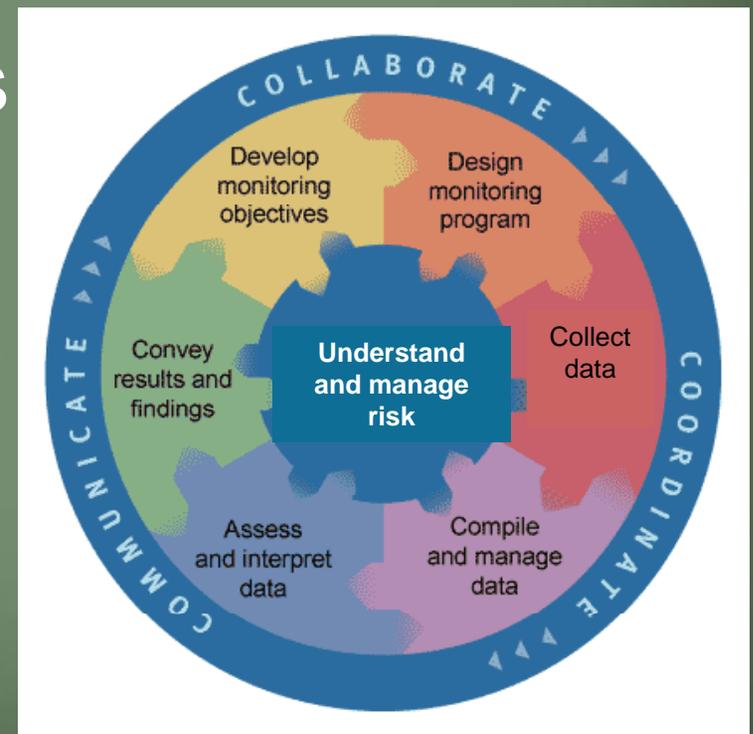
# Policies, Procedures, and Limits

- Policies
  - formality
  - sufficiency
  - new activities
- Training
  - coverage and frequency
  - formality and applicability
  - effectiveness
  - accountability



# Risk Monitoring and MIS

- Comprehensiveness
- Timeliness
- Effectiveness
- Monitoring Programs



# Internal Controls

- Reporting Lines
- Audit
- Systems and Automation
- Compliance Review and Testing
- Operational Controls





# Examination Findings

- Compliance Program That is Not Commensurate with Bank Size and Operations
- Vendor Management
- Limited Loan Documentation

# Examination Findings

- Community Reinvestment Act
  - declining lending volumes
    - particularly to LMI people and areas
  - Passive defense of CRA performance



# 2010 Top 5 Compliance Violations

## Federal Reserve Bank of Kansas City

- 54 Compliance Examinations in 2010
- RESPA (HUD's Regulation X)
  - 24 CFR 3500.8(b)
    - general accuracy of charges to be stated
    - found in:
      - » 32% of 2010 compliance examinations
      - » 41% of 2009 compliance examinations
      - » 65% of 2008 compliance examinations
  - Tips
    - review title company documents in advance of loan closing
    - pre-closing loan document checklist
    - develop examples of completed HUD-1s

# 2010 Top 5 Compliance Violations

## Federal Reserve Bank of Kansas City

- Equal Credit Opportunity (Regulation B)
  - 12 CFR 202.13(a)(1)(i)
    - information for monitoring purposes not obtained for ethnicity or race
    - found in:
      - » 28% of 2010 compliance examinations
      - » 24% of 2009 compliance examinations
      - » 51% of 2008 compliance examinations
  - Tip
    - training

# 2010 Top 5 Compliance Violations

## Federal Reserve Bank of Kansas City

- Equal Credit Opportunity (Regulation B)
  - 12 CFR 202.5(b)
    - may not inquire about race, color, religion, national origin or sex, except for self testing
    - found in:
      - » 22% of 2010 compliance examinations
      - » 24% of 2009 compliance examinations
      - » 35% of 2008 compliance examinations
  - Tip
    - training

# 2010 Top 5 Compliance Violations

## Federal Reserve Bank of Kansas City

- HMDA (Regulation C)
  - 12 CFR 203.4(a)(12)
    - accurate reporting of the rate spread
      - » difference between APR and average prime offer rate
    - found in:
      - » 20% of 2010 compliance examinations
      - » 24% of 2009 compliance examinations
      - » 16% of 2008 compliance examinations (not a Top 5)
  - Tips
    - training
    - centralized HMDA input
    - second reviews

# 2010 Top 5 Compliance Violations

## Federal Reserve Bank of Kansas City

- Flood Disaster Protection (Regulation H)
  - 12 CFR 208.25(c)(1)
    - loans in special flood hazard areas must be insured
    - found in:
      - » 20% of 2010 compliance examinations
      - » 29% of 2009 compliance examinations
      - » 22% of 2008 compliance examinations (not a Top 5)
  - Tips
    - implement reviews for flood insurance renewals
    - develop detailed flood procedures
    - loan administration or loan processor acts as a gatekeeper – loans don't close without insurance

# Outreach

- Fed Connections Program
  - quarterly program
  - delivers topical information on hot topics
  - being expanded to include topics other than consumer compliance

2011 REGULATORY UPDATE SEMINARS  
FEDERAL RESERVE BANK OF KANSAS CITY

*Fed Connections*

**FEDERAL RESERVE BANK OF KANSAS CITY OUTREACH**



# Consumer Compliance Hot Topics

*2011 REGULATORY UPDATE SEMINARS*  
FEDERAL RESERVE BANK OF KANSAS CITY

Questions?