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Managing Evolving CFPB Regulatory Risk through Effective Change Management

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DISPUTES & INVESTIGATIONS • ECONOMICS • FINANCIAL ADVISORY • MANAGEMENT CONSULTING

Presenting to You Today



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Introduction

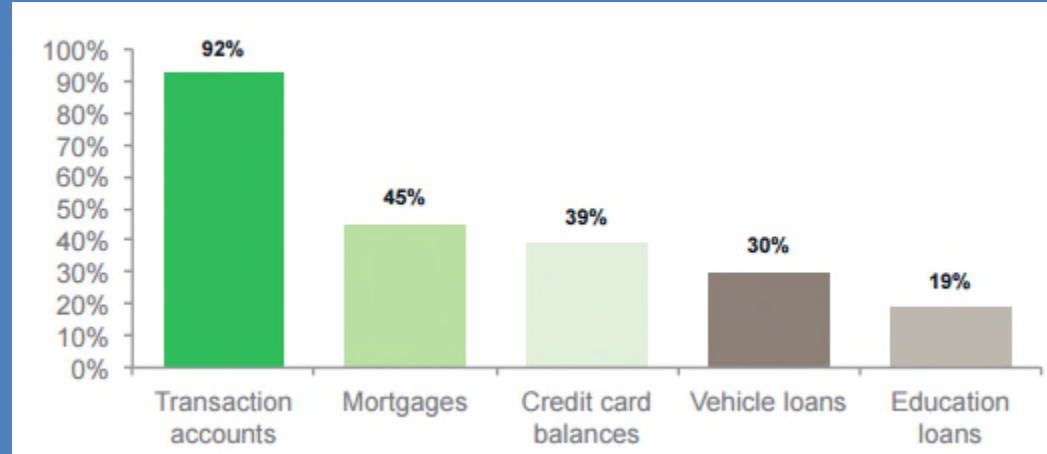
- **Rapid Pace of Regulatory Change**
- **CFPB and Other Regulatory Drivers of Expectations**
- **Compliance Management System**
- **The Evolving Regulatory Environment Poses a Significant Challenge**
- **Regulatory Change Management Deployment**
- **Key Challenges and Opportunities**
- **Questions**



Rapid Pace of Regulatory Change

- Consumer Financial Protection Bureau (FY 2016) — 1,690 FTE (Projected)
 - Supervision, Enforcement, and Fair Lending — 747 FTE
 - Budget — \$171,691,956

Percent of American Families that Rely on One or More Financial Product



Source: CFPB Strategic Plan (Feb. 2015)

Rapid Pace of Regulatory Change

Supervision and Enforcement Financial Results (Between Oct. 1 – March 1, 2015)

- Supervision
 - \$114 million in consumer redress to over 700,000 consumers
- Enforcement
 - \$19 million in consumer redress (plus \$480 million in student loan forgiveness to Corinthian students)
 - \$32 million in civil money penalties

Consumer Complaints (July 2011-March 2015): 582,600

Recent Rulemaking Activity

- **Small Dollar/Payday Rule Proposal**
- **NPRM for Prepaid Market** – would require prepaid companies to limit consumers' losses when prepaid funds are stolen or cards are lost, investigate and resolve errors, provide easy and free access to account information, and adhere to credit card protections if a credit product is offered in relation to a prepaid account.
- **Proposals to Amend Various Mortgage Servicing Rules**

Several reports and other publications

- Medical debt
- Snapshot of complaints on reverse mortgages
- Consumer perspectives on credit scores and credit reports
- Consumer arbitration and “Know Before You Owe” mortgage toolkit

Rapid Pace of Regulatory Change (cont'd)

- **Debt Collection Market Highlights**

- Debt collection rulemaking
- Bulletins
- Furnishing
- Supervision and Enforcement
- What's next?

- **Auto Lending Market Highlights**

- Supervisory Exams
- Fair Lending Focus
- What's next?

- **Small Dollar/Payday Lending**

- Focus on Advertising/Lead Generation
- Rulemaking Proposal
- What's next?

- **Education Market Highlights**

- Debt collection practices
- Lending practices (UDAAP)
- Servicing

- **General Trends of Note**

- Supervisory Reports of Examination
- Appeals Process
- Advertising and Marketing
- Payment Processing
- Debt Collection

CFPB and Other Regulatory Drivers of Expectations

Submit a complaint

Have an issue with a financial product or service? We'll forward your complaint to the company and work to get a response from them.

CHECK YOUR COMPLAINT STATUS

Check status Postage

Para presentar una queja en español, llámar al (855) 411-2372

Choose a product or service to get started

If you don't want to submit a complaint, you can tell your story.

MOST COMMON

- Mortgage
- Debt collection
- Credit reporting

OTHER PRODUCTS AND SERVICES

- Bank account or service
- Credit card
- Money transfer

#finalrules

FINAL RULES ISSUED BY THE CFPB

2015

JUNE 10

Defining Larger Participants of the Automobile Financing Market and Defining Certain Automobile Leasing Activity as a Financial Product or Service

JUNE 9

umerfinance.gov/guidance/

For more, see our blog post about the 2014 rural and underserved exemptions.

2015 Rural counties list

Access the final list for use in 2015 in any of these formats: [CSV](#) | [XLS](#) | [PDF](#)

2015 Rural or underserved counties list

Access the final list for use in 2015 in any of these formats: [CSV](#) | [XLS](#) | [PDF](#)

For more, see our blog post about the 2015 rural and underserved exemptions.

Supervisory Highlights

cfpb Consumer Financial Protection Bureau

Fall 2014

Version 2 – October 2012

CFPB Supervision and Examination Manual

This examination manual provides internal guidance to supervisory staff of the CFPB. It does not bind the CFPB and does not create any rights, benefits, or defenses, substantive or procedural, that are enforceable by any party in any manner. While every effort has been made to ensure accuracy, examination procedures should not be relied on as a legal reference.

cfpb Consumer Financial Protection Bureau

2015 Docket

Administrative Proceeding File No. 2015-CFPB-0011 – Guarantee Mortgage Corporation

- Consent order
- Stipulation

Administrative Proceeding File No. 2015-CFPB-0010 – International Land Consultants, Inc., et al.

- Consent order
- Stipulation

Administrative Proceeding File No. 2015-CFPB-0009 – Regions Bank

- Consent order
- Stipulation

Administrative Proceeding File No. 2015-CFPB-0008 – Fort Knox Military Assistance Company, LLC.

- Consent order
- Stipulation

Administrative Proceeding File No. 2015-CFPB-0007 – R M K Financial Corporation

- Consent order
- Stipulation

Administrative Proceeding File No. 2015-CFPB-0006 – Flagship Financial Group, LLC

- Consent order
- Stipulation

Administrative Proceeding File No. 2015-CFPB-0005 – American Preferred Lending, Inc.

- Consent order
- Stipulation

Administrative Proceeding File No. 2015-CFPB-0004 – New Day Financial, LLC

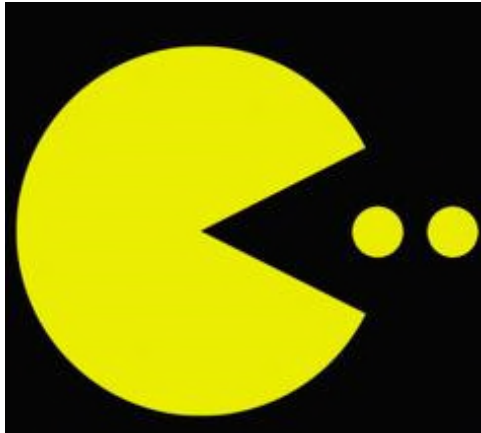
- Consent order
- Stipulation

Administrative Proceeding File No. 2015-CFPB-0003 – Continental Finance Company, LLC

- Consent order

CFPB and Other Regulatory Drivers of Expectations

CFPB and UDAAP



Compliance Management System – Role and Benefits

A compliance management system is how a supervised entity:

- Establishes its compliance responsibilities;
- Communicates those responsibilities to employees;
- Ensures that responsibilities for meeting legal requirements and internal policies are incorporated into business processes;
- Reviews operations to ensure responsibilities are carried out and legal requirements are met; and
- Takes corrective action and updates tools, systems, and materials as necessary.

An effective compliance management system commonly has four interdependent control components:

- Board and management oversight;
- Compliance program;
- Response to consumer complaints; and
- Compliance audit.

The Evolving Regulatory Environment Poses a Significant Challenge

Shifting Regulatory Landscape

- Numerous **regulatory changes** since **Dodd-Frank Act in 2010**
- Regulations origination from **various sources (CFPB, FRB, OCC, states)**
- In addition to federal regulations, changing **state laws** have become **more complex to manage**

Increased Enforcement Actions

- **Volume of enforcement actions is increasing** (CFPB enforcement actions increased by 29% from 2013 to 2014)
- Enforcement actions have resulted in **finances and remediation** to customers in the **millions and even billions**

High Cost of Operationalizing and Maintaining Compliance

- **Numerous updates** need to be made to remain compliant, often **concurrently**
- Areas requiring updates include:
 - Business Processes
 - Systems
 - Reporting
 - Policies and Procedures
 - Controls

Complex Legacy Systems

- **Complex legacy** systems resulting from **earlier acquisitions**
- Require **additional work** to ensure regulatory compliance across **multiple systems**

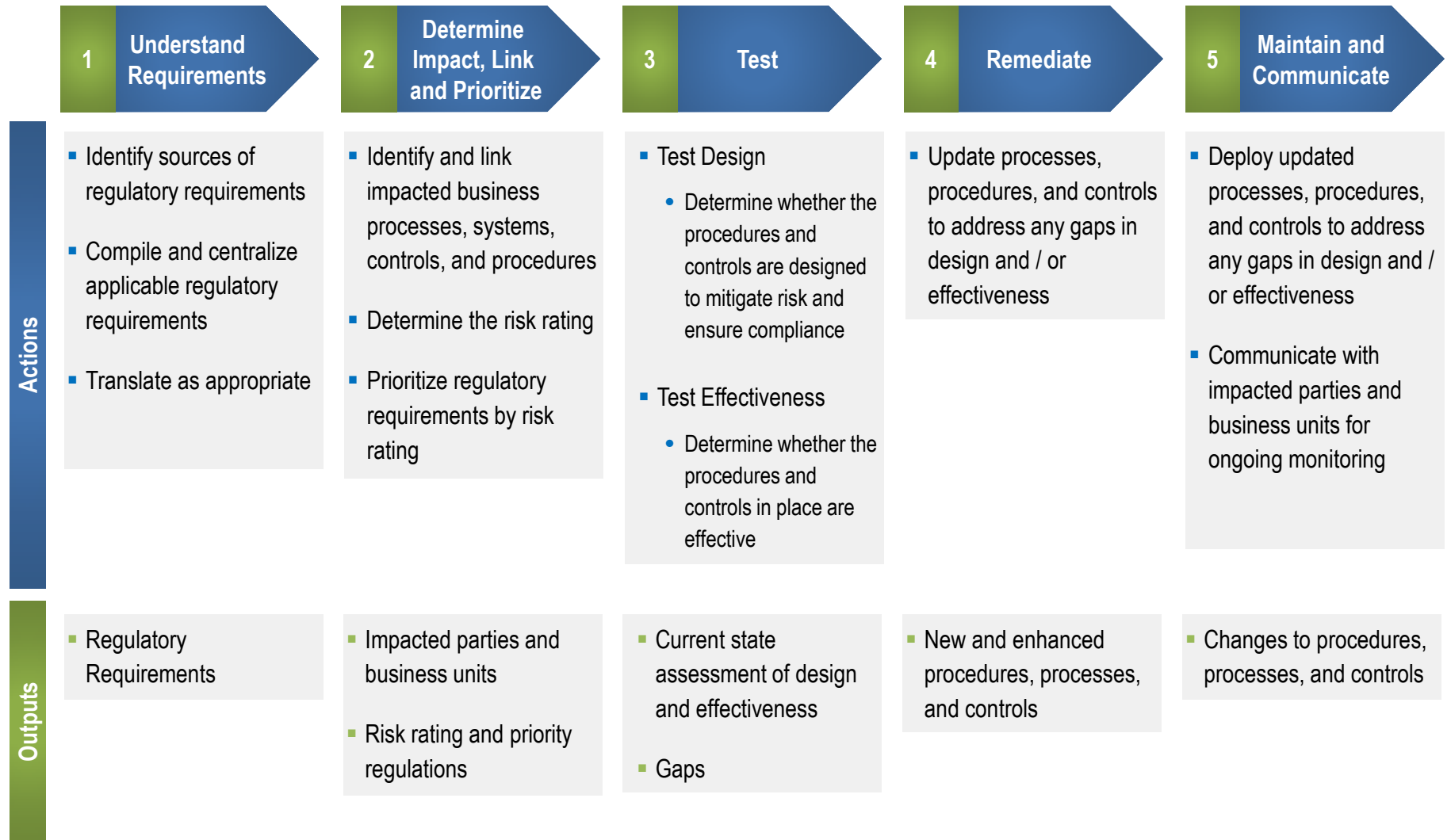
Difficulty Demonstrating Compliance

- Regulators require **increased transparency** into proving compliance
- Expectation for sufficiently **documented compliance process**

Managing Ongoing Compliance

- Institutions must be able to **identify changes** to laws and regulations to **maintain compliance**
- Changes to laws and regulations may require **updates** and **revisions** to various business processes

Deploy an End-to-End Regulatory Change Management Process to Address Evolving Landscape



Effective Framework to Manage Regulatory Change Management

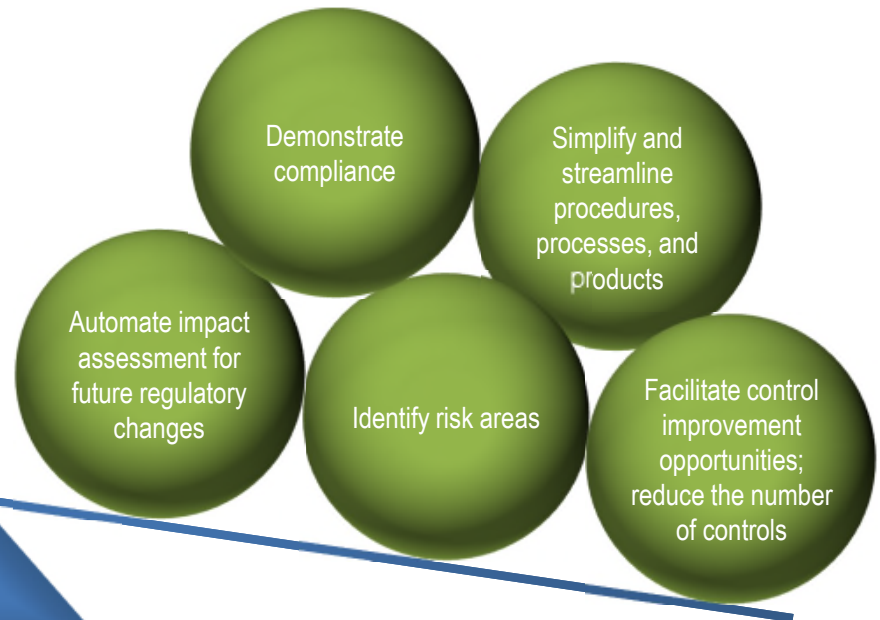
Foundation	<ul style="list-style-type: none">▪ Understand and capture the requirements that govern the business provides foundation for compliance
Traceability	<ul style="list-style-type: none">▪ Link requirements to impacted areas (policies, procedures, controls, systems, etc.) to provide evidence that requirements are addressed or will be addressed
Transparency	<ul style="list-style-type: none">▪ Test to identify areas of weaknesses or gaps – both in design and effectiveness
Collaboration	<ul style="list-style-type: none">▪ Cross department collaboration between legal, risk, compliance, and the business is key to getting the desired results
Maintain and Communicate	<ul style="list-style-type: none">▪ Implement a process to capture new and revised regulatory requirements▪ Communicate with parties and business units to update impacted areas

Key Challenges and Opportunities Identified Through Implementing the Regulatory Change Management Process

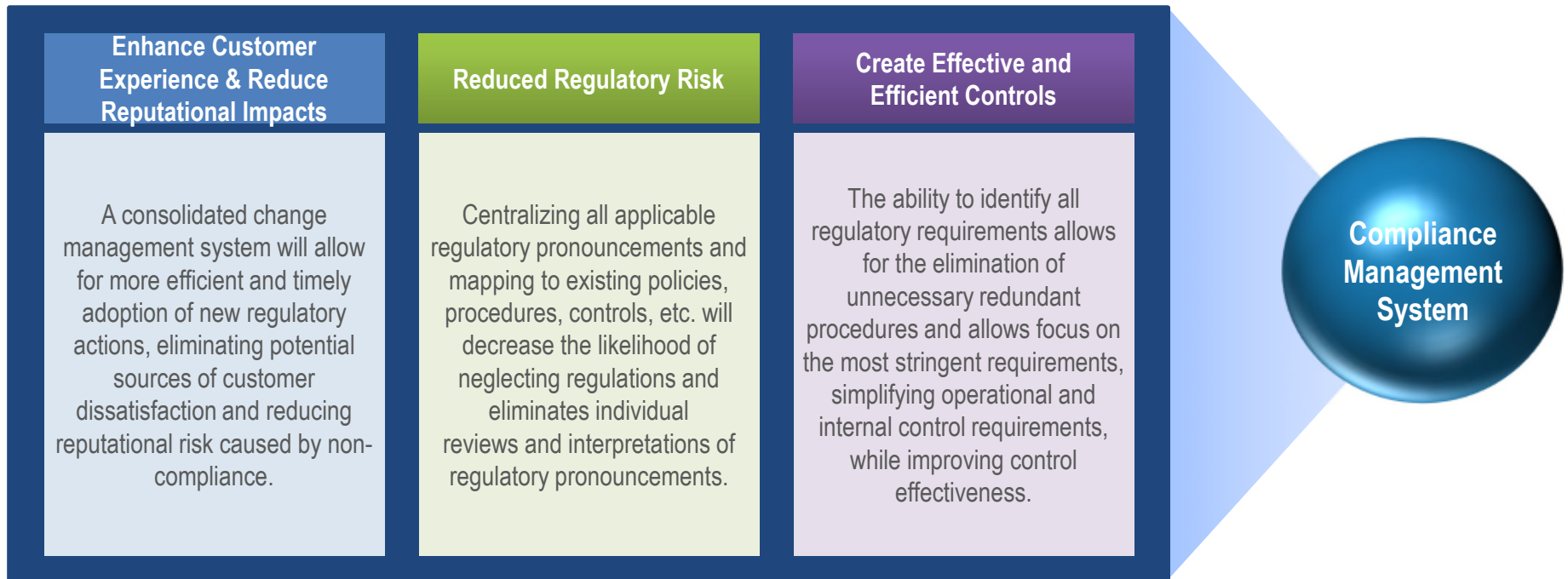
Challenges



Opportunities



The Regulatory Change Management Process Provides Benefits to the Financial Institution, Customers, and Stakeholders



Questions



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