



Strategies for Successful Compliance

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Panelists



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What is a Compliance Management System?

CFPB - "To maintain legal compliance, an institution **must develop** and maintain a sound compliance management system (CMS) that is integrated into the overall framework for product design, delivery, and administration across their entire product and service lifecycle."

Structure of CMS:

- Board and Senior Management
- Policies and Procedures
- Training; Monitoring
- Audit; Complaint Management
- Service Provider Oversight



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What is a Compliance Management System?

Functions of a CMS:

- Establish** a company's compliance **responsibilities**.
- Communicate** the compliance **responsibilities to employees**.
- Ensure that responsibilities for meeting legal requirements and internal policies and procedures are **incorporated into business processes**.
- Review (i.e., audit)** the actual operations to ensure responsibilities are carried out and legal requirements are met.
- Take **corrective action and remediate** as necessary.
- Periodically review and **update** CMS, policies and procedures, systems, tools, etc. to remain current.



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What is a Compliance Management System?

Requirements of a CMS:

- Formal and written
- Risk-based
- Comprehensive
- Integrated into the framework of operations
- Covers the entire lifecycle of the credit product/service
- Be based on size, complexity, and nature and scope of activities;
- Be adapted to business strategy and operations;
- "Appropriately address and prevent violations of law and associated harms to consumers."



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Top 5 Most Common CMS Deficiencies



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Top 5 Most Common CMS Deficiencies

- **Out of the Regulatory Loop**
 - Failure to keep pace with evolving regulatory changes, leaving organizations vulnerable to compliance risks
 - Top challenge facing organizations; increased focus on industry-specific regulations
- **Insufficient Training**
 - The absence of consistent, relevant, and comprehensive personnel training results in a weak compliance culture and operational mishaps
 - 31% of CCOs have not documented, or do not know if they have documented formalized roles and responsibilities for compliance team
- **Weak Audits and Monitoring**
 - Inadequate systems for tracking and monitoring compliance, risking unidentified or unaddressed issues

Stryker, Nicole. "The Compliance Journey: Boosting the Value of Compliance in a Changing Regulatory Climate."
KPMG. Ed. Karen Staines. KPMG LLP, 2017.



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Top 5 Most Common CMS Deficiencies

- **Mismanaged Consumer Complaints**
 - Poor handling or resolution of customer complaints, potentially signaling larger, systemic compliance issues.
- **Inadequate Third-Party Risk Management**
 - Insufficient due diligence and monitoring of third-party partners, exposing the organization to unforeseen compliance risks.



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What are the Regulators Saying?

- CFPB Consumer Complaint Report (2022) - <https://www.consumerfinance.gov/data-research/research-reports/2022-consumer-response-annual-report/>
- Interagency Guidance on Third-Party Relationships: Risk Management - <https://www.fdic.gov/news/financial-institution-letters/2023/fil23029.html>
- CFPB Policy Statement on Abusiveness - <https://www.consumerfinance.gov/compliance/supervisory-guidance/policy-statement-on-abusiveness/>
- CFPB Circular 2022-07 Reasonable investigation of consumer reporting disputes - <https://www.consumerfinance.gov/compliance/circulars/consumer-financial-protection-circular-2022-07-reasonable-investigation-of-consumer-reporting-disputes/>
- Consumer Financial Protection Circular 2022-03 Adverse action notification requirements in connection with credit decisions based on complex algorithms - <https://www.consumerfinance.gov/compliance/circulars/circular-2022-03-adverse-action-notification-requirements-in-connection-with-credit-decisions-based-on-complex-algorithms/>



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What are the Regulators Saying?

- Supervisory Highlights 2023 and Fall 2022 - <https://www.consumerfinance.gov/compliance/supervisory-highlights/>
 - In response to these findings, institutions **amended their compliance management systems**,
 - **directed their service providers to institute compliance management system enhancements** to ensure requests for documents were honored.
 - Lenders were **directed to enhance their compliance management systems** to prevent these practices and to provide remediation to affected consumers
 - Examiners found **evidence of inadequate compliance management systems** where institutions failed to maintain records of transactions sufficient to ensure
- Responsible Business Conduct: Self-Assessing, Self-Reporting, Remediating, and Cooperating Bulletins
 - CFPB Bulletin 2020-01 (March 6, 2020)
 - CFPB Bulletin 2013-06 (June 25, 2013)



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Building Blocks for a Functioning CMS

- Implement a top-down approach to regulatory compliance
- Build a reliable compliance team
- Have accessible and updated process documentation
- Make technology a friend rather than an enemy



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Practical Considerations for Exam Readiness?

- Access your CMS regularly!
- Impact of Turnover (especially in legal and compliance)
- Understand your Document System(s) (how it works; where are things stored)
- Left-hand, Right-hand (does system/procedures match documents/policies)



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Practical Considerations for Exam Readiness?

- Access to Data held by 3rd Party (what do they have; how can I get it)
- Third-party Relationships (more involvement; # of products/partners)
- Fintech Agreements (See Cross River Consent)
- Consumer Complaints (be proactive and responsive)



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Questions?



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