



## ***DCU BULLETIN***

*Division of Credit Unions*

*Washington State Department of Financial Institutions*

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### **Exam Focus for Consumer Protection Compliance During 2017 through 2020**

In March 2017, the Division of Credit Unions (Division) will complete its first cycle of enhanced consumer protection compliance exams for credit unions with total assets greater than \$500 million. We conduct these enhanced compliance exams independently from the regular safety and soundness examination and we issue a compliance exam report. For credit unions with total assets less than \$500 million, consumer protection compliance continues to be a part of the regular safety and soundness examination and report. For information about the compliance examination procedures, see the consumer compliance exam manual at <http://www.dfi.wa.gov/credit-unions/for-credit-unions/consumer-compliance-exam-manual>.

The Division performed seventeen enhanced compliance examinations over a three year period (2014 – 2016). This Bulletin provides the Division's compliance examination focus for its second three year cycle (2017 – 2020) and this information will help credit unions better prepare for their next enhanced compliance examination. The following is the enhanced compliance exam focus for the next three years. If the focus is revised due to significant changes in consumer protection regulation during 2017 through 2020, we'll issue an updated Bulletin.

#### **1. Compliance Management Systems:**

Strong Compliance Management Systems (CMS) are the foundation to effectively managing the compliance risks associated with changing products and service offerings and for satisfactorily addressing the ever changing consumer protection compliance laws and requirements.

The Division's CMS examination reviews will continue to focus on the following:

- Board and management oversight of the credit union's compliance program and practices;
- The effectiveness of the credit union's overall compliance program;
- Internal and external compliance audits;
- Consumer complaint tracking and reporting to the board of directors; and
- Staff and board training.

## **2. Unfair, Deceptive, or Abusive Acts and Practices (UDAAP)**

UDAAP will also be an enhanced compliance examination focus, focusing on the third party vendors used by the credit union and the credit union's internal product offerings. Specific areas of UDAAP focus are:

- Third party collection agencies and the credit union's due diligence performed on the collection agency's practices, including third party collection agency record retention practices; and
- Payday loan alternatives – examiners will review how well credit unions assess their payday loan alternative programs and how well they monitor accounts for excessive usage.

## **3. Other Consumer Protection Compliance Area Reviews**

The Division will also focus its exams on the following specific compliance areas:

- **Equal Credit Opportunity Act/Regulation B** – The timely issuance of adverse action notices, the record retention practices for adverse action notices and loan applications, training, and policies;
- **Home Mortgage Disclosure Act (HMDA) Regulation C** – The accuracy of the HMDA Loan Application Register (LAR), a review of the software systems used for HMDA reporting, and the reporting accuracy of preapproved loan applications;
- **Real Estate Settlement Procedures Act (RESPA) Regulation X, and Truth in Lending Act (TILA) Regulation Z** – The accuracy of the initial loan disclosures, the credit union's ability to identify and track high-priced mortgages, the accuracy of the credit union's verification of the borrower's income for ability to repay, and the procedures for ability to repay determinations; and

- **Servicemembers Civil Relief Act (SCRA)** - Compliance with the SCRA regarding late fees and interest over 6% on protected members who invoked SCRA, and the credit union's VISA card policy and its procedures pertaining to when a member invokes SCRA.

The Division anticipates completing six enhanced compliance examinations annually over the next three years. Examinations will be two to three weeks in length. The Division will send a pre-examination letter, including documentation requests, to the credit union approximately eight weeks in advance of the exam.

**FFIEC Compliance Exam Rating System** - The Division has adopted the Federal Financial Institutions Examination Council's (FFIEC) Uniform Consumer Compliance Rating System for its enhanced compliance exams. On November 7, 2016 the FFIEC issued final guidance on the revised rating system, commonly known as the "CC Rating System". The rating system is based upon a scale of 1 through 5, in which "1" represents the lowest level of supervisory concern, while "5" represents a critically deficient level of performance, and therefore the highest degree of supervisory concern. The revised rating system emphasizes compliance risk management practices which are designed to manage consumer compliance risk, and to prevent harm to consumer members. See: [https://www.ffiec.gov/press/PDF/FFIEC\\_CCR\\_SystemFR\\_Note.pdf](https://www.ffiec.gov/press/PDF/FFIEC_CCR_SystemFR_Note.pdf)

## COMPLIANCE FOCUS DURING SAFETY AND SOUNDNESS EXAMS

Compliance exam work will also be done during regular safety and soundness examinations.

At safety and soundness examinations, examiners will focus on the following:

- overall effectiveness of a credit union's compliance program, given its asset size and product offering,
- Bank Secrecy Act/Anti-Money Laundering,
- the TILA-RESPA integrated disclosure requirements, the Ability-to-Repay and the Qualified Mortgage Standards under Reg Z, and
- the most recently finalized compliance regulations that impact credit unions.

If you have any questions about the Division's enhanced compliance examination program or this bulletin, please contact Margaret Esola at 360-970-0349 – [Margaret.Esola@dfi.wa.gov](mailto:Margaret.Esola@dfi.wa.gov) or Myriam Powers at 360-902-0508 - [Myriam.Powers@dfi.wa.gov](mailto:Myriam.Powers@dfi.wa.gov).