



Hudson Cook, LLP



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A COMPLIANCE MANAGEMENT SYSTEM

What It Is

Why You Need One &

How You Create One

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CFPB's Expectations

“[T]he CFPB expects every regulated entity under its supervision and enforcement authority to have an effective *compliance management system* adapted to its business strategy and operations.”

– *CFPB Supervision and Examination Manual*



CFPB's Expectations

“To maintain legal compliance, a supervised entity must develop and maintain a sound *compliance management system* that is integrated into the overall framework for product design, delivery, and administration — that is, the entire product and service lifecycle.”

– *CFPB Supervision and Examination Manual*



Purpose of a CMS

To ensure compliance with Federal consumer financial laws and regulations and address and prevent associated risks of harm to consumers.



What must a CMS do?

- Establish a company's compliance responsibilities.
- Communicate the compliance responsibilities to employees.
- Ensure that responsibilities for meeting legal requirements and internal policies are incorporated into business processes.



What must a CMS do?

- Review (*i.e.*, audit) the actual operations to ensure responsibilities are carried out and legal requirements are met.
- Take corrective action and updates tools, systems, and materials as necessary.



What are the essentials of a CMS?

- Must be a formal written program.
- Must be risk-based.
- Must be comprehensive.
 - It is integrated into the framework of operations, and
 - It encompasses the entire lifecycle of the credit product/service.



What must be included in a CMS?

There are four interdependent “control” components.

- Board and management oversight.
- Compliance program.
- Consumer complaint response program.
- Compliance audit.



Board & Management Oversight

Active participation of the Board and senior management is expected — *true* oversight.

- Must establish compliance expectations.
 - With respect to the company, and
 - With respect to service providers.



Board & Management Oversight

- Must establish the compliance infrastructure.
 - Includes appointing an “appropriately qualified and experienced” Compliance Officer.
 - Includes creating a structure (*the function*) from which policies, procedures and standards will be set.



Board & Management Oversight

- Must ensure that sufficient resources are allocated to the compliance functions.
- Must review periodic reports on compliance matters, including those that present monitoring and audit results.
 - *Fair lending and UDAAP are of particular importance.*



Compliance Program

- Must be formal and written.
- Must be administered by a Compliance Officer.
- Must include:
 - Policies and procedures
 - That implement the Board's approved policies, and
 - Are designed to prevent violations and detect *and prevent associated risks of harm to consumers.*



Compliance Program

- Must Include (*cont'd*):
 - Training
 - At all levels.
 - *Specifically address fair lending and UDAAP.*
 - Monitoring & Corrective Action
 - Different from auditing.
 - Risk-focused.
 - Identify procedural and training weaknesses.
 - Include timely corrective action, as appropriate.



Complaint Resolution Program

- Must be formal and provide for “responsive and responsible” handling of consumer complaints *and inquiries*.
- Must be used as intelligence gathering tool.
 - Log, classify and analyze data.
- Must provide for the prompt addressing and resolving of complaints and inquiries.
- Must include an escalation procedure.



Complaint Resolution Program

- Data analyzed must be used to understand what business practices may need adjusting, and the weaknesses in the CMS.
- Must include remediation and corrective action, as appropriate.
- Must include reports to the Board and senior management.
- Must include service provider complaint data.



Compliance Audit

- Must be an independent function.
- Must provide for the review of the company's compliance with:
 - Consumer financial laws
 - Internal policies and procedures
- Must be comprehensive in scope and appropriate in frequency.



Compliance Audit

- Must measure performance vis-à-vis the Board's expectations for compliance.
- Must include periodic reports to the Board.
- Must provide for timely and appropriate corrective action and remediation.
- Must provide for the timely and widespread distribution of results.



Questions





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