

CFPB Risk and Actions You Can Take Now

Three ways you may be exposed by your vendors



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Introductions



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Areas Covered

- A closer look at CFPB mission and jurisdiction
- What the changing environment means to you
- Case study: How CBE Companies developed an effective compliance management system
- How to immediately avoid risks
- Questions and answers

A Closer Look at CFPB Mission & True Jurisdiction

CFPB Mission & True Jurisdiction

- The CFPB is a federal agency whose mission is to protect consumers
- CFPB, is defining their scope and authority more broadly than ever in history
 - Funding and authority is unlike other governing agencies
- If the CFPB doesn't feel it has authority, it is committed to sharing information and data with federal and state regulators, including consumer complaint information
- Every organization is subject to enforcement



CFPB – Where the Bureau *Will* Audit You

- Direct authority over any organization that provides any financial product or service
- Defined by CFPB as:
 - Payment processing products or services by any technological means
 - Debt collection related to any consumer financial product or service
 - Credit extension or deferred payment of debt by an organization to a consumer
 - Stored value or payment instruments - sold, provided or issued

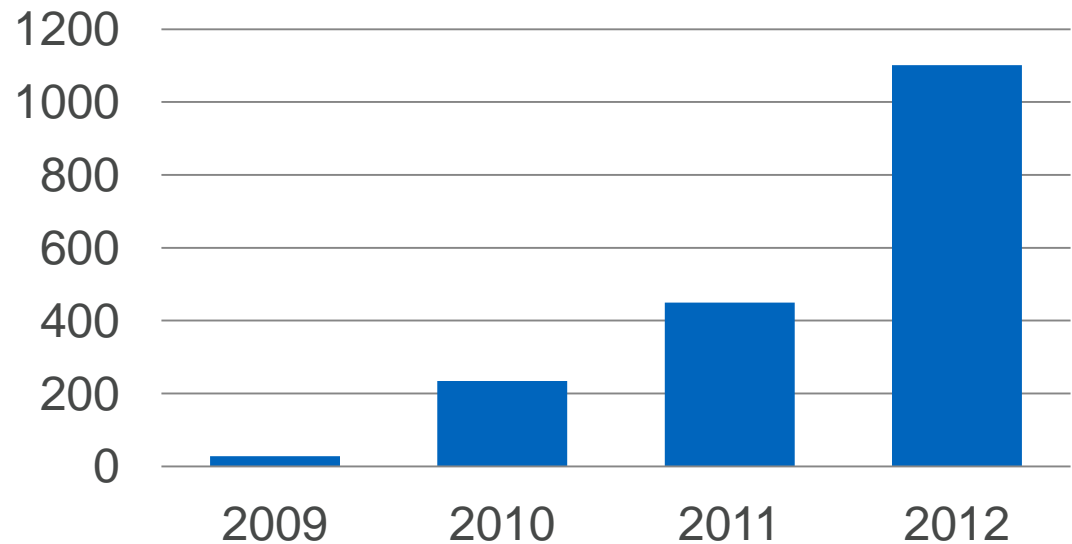
Indirect Jurisdiction Creates Vicarious Liability

- Your vendors can be audited as a service provider
 - Service provider is “any person that provides a material service to a covered person of a consumer financial product or service”
 - Service provider may or may not be affiliated with the person to which it provides service
 - CFPB also has supervisory and enforcement authority over service providers, including onsite examinations
- Vicarious liability issues
 - Can no longer claim the vendor was solely responsible
 - Even when your established policy is broken by vendor
- Not exclusive to first- or third-party collection agency

From a Few Lawsuits to Over 1,000 in Just Three Years...

- We've seen a *staggering* increase in lawsuits in the last three years
- Anticipate over 4,500 in 2013

Annualized TCPA Lawsuit Increases



The Scary Truth

- Audit risk
- Large fines
- Class action law suits
- Brand erosion
- Customer experience destruction
- Decreased customer lifetime value

Company	CFPB Fines	Consumer Payments	Total
Major Bank A	\$27.5 (CFPB)	\$85	\$112.5
Major Bank B	\$25 (CFPB) \$35 (OCC)	\$150	\$210
Major Bank C	\$7 (CFPB) \$7 (Treasury)	\$200	\$214
Total	\$59.5 (CFPB) \$35 (OCC) \$7 (Treasury)	\$435	\$536.5

CFPB Fines and Consumer Payments (\$m)
Source: CFPB Website

What the Changing Environment Means to You

No Trade-Offs Necessary

- The ultimate challenge: deliver performance in spite of CPFBS oversight and supervision
 - **Increase customer acquisition**
 - Most creditors face tougher credit checking procedures
 - **Meet SOW objectives**
 - Amidst budget constraints and a margin squeeze
 - **Balance recoveries with overall customer experience**
 - All agents must learn how to deliver both
 - **Ensure timely and efficient processes**
 - Credit risk and processes are fine-tuned
 - **Fully understand and adapt to customer behavior**
 - Leverage customer data and adapt processes

Case Study:

How CBE Companies developed an effective compliance management system

Mock Audit Process

April 2012
CBE hired McGladrey to conduct a first of its kind
CFPB Mock Audit

June 2012
Mock Audit created based on similar CFPB
Examination Procedures

August 2012
McGladrey conducted Mock Audit with
OCC-experienced staff

October 2012
Action items for each finding submitted to CBE's
Project Management Office for reconciliation

Three Biggest Areas Your Vendors May be Exposing You to CFPB Risk

1. Corrective action measures

- FDCPA
- FCRA
- TCPA

2. Credit reporting

- Transparency
- Policies and procedures

3. Governance

- Risk management continuum checks and balances
- Clear and total separation of Compliance from Operations

How to Immediately Avoid Risks

Questions You Should be Asking

1. Do I have an audit process that inspects what I expect out of my vendors?
2. Do I have metric-driven insight for improved quality and compliance processes and scoring?
3. Do I have a plan to mitigate and lower risk of paying large CFPB fines and reputation damage from vendors that are not ready for a CFPB audit process?

Questions You Should be Asking

4. Does my vendor provide thought leadership, innovative design and implementation?
5. Am I focusing on long-term performance and consumer protection?
6. Am I actively learning and planning for upcoming CFPB compliance measures?

What You Can Do *Now* to Protect Yourself

- Take steps to guard the value of your brand and consumer protection
- Inspect your processes and vendors
- Be proactive with compliance with internal auditing for vendors and service providers
- Ask questions and be proactive
- Be in *full* protection mode
- Partner with an experienced, third-party financial services auditing firm to conduct pro-active CFPB audit of your vendor oversight program and processes

Questions and Answers

Thank you for joining us today!

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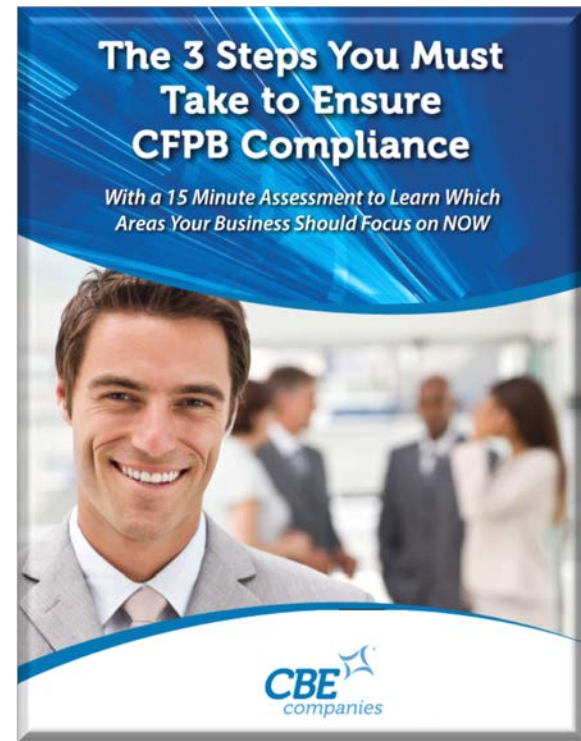
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