



Office of Inspector General

Board of Governors of the Federal Reserve System
Bureau of Consumer Financial Protection

Executive Summary, 2021-SR-B-012, October 6, 2021

The Board Can Improve the Efficiency and Effectiveness of Certain Aspects of Its Consumer Compliance Examination and Enforcement Action Issuance Processes

Findings

The Federal Reserve System's consumer-focused supervisory activities seek to promote a fair and transparent financial services marketplace and to ensure that the state member banks within its jurisdiction comply with applicable federal consumer laws and regulations. The Board of Governors of the Federal Reserve System's Division of Consumer and Community Affairs (DCCA) is responsible for executing these activities. We found that DCCA can improve the efficiency and effectiveness of certain aspects of the consumer compliance examination and enforcement action issuance processes.

Specifically, we found that DCCA can improve the efficiency and effectiveness of these processes for unfair or deceptive acts or practices (UDAP) and fair lending matters. We believe that the lengthy UDAP and fair lending review processes and the resulting prolonged examinations detract from the effectiveness of these programs by adversely affecting consumers, examiners, and supervised institutions and increasing reputational risk for the System. We believe that DCCA can improve the UDAP review processes by developing formal performance goals and target time frames, establishing criteria for when DCCA must review a potential UDAP matter, and providing guidance and training to Federal Reserve Bank consumer compliance supervision personnel. We acknowledge that DCCA has recently made efforts to improve the timeliness of the fair lending review processes by establishing new performance measures and targets as well as refining the criteria for delegating certain fair lending reviews to the Reserve Banks. However, we believe that DCCA can further enhance these processes by developing additional training to help acclimate Reserve Bank staff and examiners to their newly delegated roles and responsibilities. In addition, DCCA should assess the staffing structure and approach of its Fair Lending Enforcement and UDAP Enforcement sections. We also found that DCCA can enhance transparency in the UDAP and fair lending examination and enforcement action issuance processes by clarifying expectations for communicating with key stakeholders.

Recommendations

Our report contains recommendations designed to enhance the efficiency and effectiveness of the Board's and the Reserve Banks' consumer compliance examination and enforcement action issuance processes for UDAP and fair lending matters. In its response to our draft report, the Board concurs with our recommendations and outlines actions that have been or will be taken to address each recommendation. We will follow up to ensure that the recommendations are fully addressed.

Purpose

We conducted this evaluation to assess the efficiency and effectiveness of the Board's and the Reserve Banks' consumer compliance examination and enforcement action issuance processes, including the processes pertaining to UDAP and fair lending matters. This evaluation covered these processes for state member banks with total assets of \$10 billion or less. Our scope did not include assessing the appropriateness of substantive outcomes related to the Board's review of UDAP and fair lending matters, including whether enforcement actions were warranted.

Background

The Board delegates to each Reserve Bank the authority to supervise certain financial institutions located within the Reserve Bank's district. Reserve Bank consumer compliance examination staff help execute the Board's consumer compliance supervision program, and DCCA oversees these delegated responsibilities. DCCA's *Consumer Compliance Handbook* describes UDAP and fair lending as two of the most significant consumer compliance risk areas for financial institutions. The handbook states that violations of these laws and regulations often cause significant consumer harm and pose legal, financial, and reputational risks to a supervised institution. Enforcement actions may be used to address UDAP or fair lending matters.