

HOW TO USE THIS MANUAL

Performance of your own risk assessment is critical to an adequate risk-rated compliance review program. Complying with federal consumer credit regulations can be complex enough, but the regulators also expect you to be able to identify and rate those areas in which you have risk exposure — low through high — and have internal control procedures in place to manage them. Risk assessment is an essential part of your risk-based compliance audit for all of your products, services, and activities. Results of your internal compliance monitoring, the potential for customer litigation, increased regulatory scrutiny, and prior exam violations are some of the factors that can affect risk assessment. To satisfy the bank regulators, you need to consistently and constantly weigh risks against benefits and make decisions accordingly.

Risk-Based Compliance Audit Program: Risk Assessment Checklists and Related Requirements consists of individual checklists — organized by individual products and services — that can be used to conduct reviews for compliance with federal consumer credit laws and regulations. This manual also includes the ability to add a risk component to all of your compliance reviews.

A risk assessment matrix that you can use to help you assess the level of risk for the various compliance requirements and assign a risk rating is included in the manual. Each regulation is broken down into its major requirements. Each of these requirements can then be assessed for their risk, based on various risk factors. The results can then be used to create a risk rating for each procedure in the checklist. There is no substitute for performing your own risk assessment, which is why the checklists do not include any default risk ratings.

There are a number of ways to designate risk for this purpose, from a simple “High” or “Low,” to numerical ratings of 1-3 or 1-5, etc. More importantly, risk is a function of your own situation. While there are some compliance requirements that may be risk-rated the same for all institutions, many depend on your own circumstances. For example, something might ordinarily be considered as a low risk, but if you have been cited for that as a violation in previous exam reports, it becomes a high risk item to you.

There is also a CD that accompanies the manual, which links the citations in the checklists to the text of the corresponding regulatory requirement — for those who want to dig deeper and read the actual requirements. The CD also contains exhibits, forms, and checklists that can be customized, and supplemental information not available in the printed manual.

The manual is intended for compliance officers, internal audit officers, and department personnel who monitor compliance within their own departments.

CFPB CITATIONS

With the implementation of the Consumer Financial Protection Bureau (CFPB), there are CFR citations that have changed. A convenient summary conversion chart for consumer finance citations in this *Risk Based Compliance Audit* can be found before the title page of the manual, followed by the complete CFPB Consumer Regulations Recodification. As chapters in your manual are updated, they will contain the new citations. We trust that this conversion chart will be a valuable reference for you until all citations have been finalized.

THE CHECKLISTS

There are separate checklists for each of your institution's lines of business. The individual checklists eliminate confusion by bringing together in one place all of the various regulatory requirements for a given product line. This approach is different than other compliance checklists. Other checklists typically are organized by regulation rather than by line of business. This leaves the user to figure out exactly what provisions of any given regulation apply to a particular product.

We can illustrate this with an example. The traditional approach to compliance checklists is to have separate checklists for Truth-in-Lending, Real Estate Settlement Procedures Act (RESPA), Truth-in-Savings, etc. However, you are more likely to be looking at your business by individual products and functions rather than by regulation — where any one product can be subject to a number of requirements from several different regulations.

The most obvious example of this is in the area of residential real estate lending. A residential real estate loan involves complying with a number of regulations, such as the FACT Act, Truth-in-Lending, RESPA, Equal Credit Opportunity, etc. If compliance reviews are conducted by regulation, you would need to look at your real estate loans files several times to review for compliance with all of the applicable regulations. With our approach, all you have to do is decide on the particular type of residential loan you want to review, and then select the appropriate checklist for a step-by-step listing of all the requirements affecting that loan product.

There are areas for which several alternatives may be available to your institution. In order to facilitate in-depth discussions of those alternatives, we have provided detailed instructions in the chapter text. In the Table on Contents you will find complete analysis organized by checklist topics.

Checklists for chapters appear in print at the end of chapters. Checklists are also available on the CD in a format that can be easily customized for your financial institution. Links to the Electronic Code are available in the checklists.

ORGANIZATION OF THE MANUAL

We designed *Risk-Based Compliance Audit Program: Risk Assessment Checklists and Related Requirements* to assist you in achieving more efficiency in the compliance review process. To accomplish this, we have organized the individual checklists according to the following topical areas:

- Deposits
 - Advertising
 - Postings
 - Account Opening
 - Deposit Operations
- Loans
 - Loan Advertising and Early Disclosures

- Loan Applications and Originations
- Insider Lending Restrictions — Regulation O
- Loan Operations
- Servicemembers Civil Relief Act
- Consumer Credit to Servicemembers and Dependents
- The Safe Act
- Real Estate Appraisal Regulations and Appraisal/Evaluation Guidelines
- Loan Compensation and Steering
- Bank Secrecy Act
- Community Reinvestment Act
- Record Retention
- Privacy and Security
 - Right to Financial Privacy Act
 - Privacy Rule
 - Privacy Disclosure
 - Security of Customer Information
 - FACT Act
- Electronic Disclosure
- Insurance Sales
- Web Site Compliance

(A complete list of the checklists included in this manual appears on page xi.)

Chapter 16 covers selected lending laws and regulations, and compliance requirements.

BENEFITS TO BE DERIVED

This manual offers the reader many benefits, including the following:

- A risk-based approach to evaluating compliance.
- A comprehensive set of checklists that cover all of the products and services that an institution offers. These checklists eliminate the need to wade through numerous regulations to pick out the sections that apply to any given product or service.

- The companion CD links the individual checklist items to the related regulatory and statutory requirements, allowing the subscriber to become familiar with the actual regulatory requirement.
- Detailed instructions in the chapter text provide further discussion on individual points included in the checklists.
- Each checklist contains cross-references to sections of the regulations that are applicable to a product or function.
- The checklists can be used to conduct multiple reviews, where necessary. For example, the real estate loan and application checklists are arranged so that a number of loans and applications can be reviewed using the same checklist form. This allows you to conduct your reviews more quickly, while at the same time keep more detailed work papers, since all of the information regarding each loan reviewed is on the checklist.

With its product-based organization, we believe that *Risk-Based Compliance Audit Program* is a unique compliance tool. As you begin to use the manual we are confident that it will become one of your trusted compliance resources.