

Bureau of Consumer Financial Protection

The Bureau Can Improve Its Periodic Monitoring Program to Better Target Risk and Enhance Training for Examiners



Office of Inspector General
Board of Governors of the Federal Reserve System
Bureau of Consumer Financial Protection



Office of Inspector General

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

Executive Summary, 2020-SR-C-015, June 24, 2020

The Bureau Can Improve Its Periodic Monitoring Program to Better Target Risk and Enhance Training for Examiners

Findings

In July 2019, the Bureau of Consumer Financial Protection's Division of Supervision, Enforcement and Fair Lending (SEFL) completed an internal initiative that included an assessment of its periodic monitoring program. Both SEFL's internal initiative and our independent assessment found that the agency can improve its supervisory monitoring program. Specifically, SEFL can expand the number of nondepository institutions it will monitor, better tailor the resources dedicated to monitoring based on risk, and hire additional examiners to augment monitoring and the supervision program more broadly.

Additionally, based on a review of a sample of completed monitoring templates, we determined that examiners did not consistently conduct or document periodic monitoring activities in accordance with SEFL's guidance. We also found that examiners may lack clarity on how periodic monitoring activities factor into SEFL's prioritization process and its broader supervision program.

In January 2020, during the drafting of this report, SEFL finalized updates to its periodic monitoring policy, which include expanding its monitoring program to cover additional nondepository institutions. We understand that SEFL is currently in the process of hiring additional examiners, in part to support its monitoring efforts.

Recommendations

Our report contains recommendations designed to further enhance the Bureau's periodic monitoring program. In its response to our draft report, the Bureau concurs with our recommendations and outlines actions that have been or will be taken to address our recommendations. For our recommendation related to updating SEFL's periodic monitoring policies and procedures to reflect the changes made to the program, we have reviewed documentation associated with the actions taken by the Bureau, and we believe that the agency has taken sufficient action to close this recommendation. We will follow up to ensure that the remaining recommendations are fully addressed.

Purpose

We conducted this evaluation to assess SEFL's approach to monitoring supervised institutions for consistency with the Bureau's strategic plan and internal policies and procedures. We focused our review on the Bureau's periodic monitoring activities following SEFL's issuance of its January 2017 periodic monitoring directive, and we sought to assess SEFL's plans to improve its periodic monitoring program.

Background

SEFL is responsible for ensuring compliance with federal consumer financial laws by supervising market participants and bringing enforcement actions where appropriate. The Dodd-Frank Wall Street Reform and Consumer Protection Act requires the Bureau to take a risk-based approach to its nondepository institution supervision program and to consistently enforce consumer financial law without regard to whether a financial service provider is a depository or nondepository institution.

Periodic monitoring is a key component of SEFL's supervisory program, complementing the division's examination activities. The primary purpose of periodic monitoring is to maintain reasonably current information on the activities of an institution and to determine whether changes in risks to consumers or markets warrant changes to the Bureau's planned supervisory activities. Periodic monitoring also allows the Bureau to assess an institution's compliance with previously established corrective actions and to evaluate management's ongoing efforts to improve the institution's compliance program.



Office of Inspector General

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

Recommendations, 2020-SR-C-015, June 24, 2020

The Bureau Can Improve Its Periodic Monitoring Program to Better Target Risk and Enhance Training for Examiners

Finding 1: SEFL Should Implement Its Plan to Better Target Risk With Periodic Monitoring

Number	Recommendation	Responsible office
1	Update policies and procedures to reflect changes to the periodic monitoring program.	Division of Supervision, Enforcement and Fair Lending
2	Implement plans to monitor nondepository institutions that are prioritized for examination.	Division of Supervision, Enforcement and Fair Lending
3	Implement plans to tailor the resources assigned to monitor institutions based on risk.	Division of Supervision, Enforcement and Fair Lending

Finding 2: SEFL Can Improve Its Efforts to Conduct and Document Periodic Monitoring Activities

Number	Recommendation	Responsible office
4	Finalize plans to enhance training on periodic monitoring. This training should <ol style="list-style-type: none">reinforce the documentary expectations for completing sections of the periodic monitoring template.clarify the purpose of periodic monitoring and how it factors into SEFL’s annual prioritization process and the broader supervision program.	Division of Supervision, Enforcement and Fair Lending




Office of Inspector General

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

MEMORANDUM

DATE: June 24, 2020

TO: Bryan A. Schneider
Associate Director, Division of Supervision, Enforcement and Fair Lending
Bureau of Consumer Financial Protection

FROM: Michael VanHuysen 
Associate Inspector General for Audits and Evaluations

SUBJECT: OIG Report 2020-SR-C-015: *The Bureau Can Improve Its Periodic Monitoring Program to Better Target Risk and Enhance Training for Examiners*

We have completed our report on the subject evaluation. We conducted this evaluation to assess the Division of Supervision, Enforcement and Fair Lending’s (SEFL) approach to monitoring supervised institutions for consistency with the Bureau of Consumer Financial Protection’s strategic plan and internal policies and procedures.

We provided you with a draft of our report for review and comment. In your response, you concur with our recommendations and outline actions that have been or will be taken to address our recommendations. For our recommendation related to updating SEFL’s periodic monitoring policies and procedures to reflect the changes made to the program, we have reviewed documentation associated with the actions taken by the Bureau, and we believe that the agency has taken sufficient action to close this recommendation. We will follow up to ensure that the remaining recommendations are fully addressed. We have included your response as appendix B to our report.

We appreciate the cooperation that we received from SEFL during this evaluation. Please contact me if you would like to discuss this report or any related issues.

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- Tim Siwy
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Introduction

Objective

We conducted an evaluation of the Division of Supervision, Enforcement and Fair Lending’s (SEFL) periodic monitoring program. Our objective was to assess SEFL’s approach to monitoring supervised institutions for consistency with the Bureau of Consumer Financial Protection’s strategic plan and internal policies and procedures.

Background

The Dodd-Frank Wall Street Reform and Consumer Protection Act established the Bureau to regulate the offering and provision of consumer financial products or services under federal consumer financial laws. The Dodd-Frank Act provides the Bureau with the authority to supervise depository institutions and their affiliates with more than \$10 billion in total assets and certain nondepository institutions. Among nondepository institutions, the Bureau has the authority to supervise consumer mortgage, private education lending, and payday lending institutions regardless of size, as well as the authority to publish a rule defining which participants in certain markets are large enough to fall under its supervisory jurisdiction.¹

The Dodd-Frank Act requires the Bureau to take a risk-based approach to its nondepository institution supervision program and to consistently enforce consumer financial law without regard to whether a financial service provider is a depository or nondepository institution.² In seeking to address these requirements, the Bureau annually assesses the risk that institutions and product lines pose to consumers, and the agency’s fiscal year 2018–2022 strategic plan establishes a goal of consistently enforcing the law across markets for consumer financial products.

The Division of Supervision, Enforcement and Fair Lending

SEFL is responsible for ensuring compliance with federal consumer financial laws by supervising market participants and bringing enforcement actions where appropriate. There are three offices within SEFL: the Office of Supervision Examinations (OSE), the Office of Supervision Policy, and the Office of Enforcement.³ We focused the scope of our evaluation on OSE’s periodic monitoring program. OSE is responsible for supervising and examining institutions’ compliance with federal consumer financial laws. OSE carries out its responsibilities through four regional offices located in New York (Northeast), Chicago

¹ 12 C.F.R. part 1090. In addition, the Dodd-Frank Act provides the Bureau with supervisory authority over institutions whose conduct the Bureau has reasonable cause to determine, by order, after notice and a reasonable opportunity to respond, “poses risks to consumers with regard to the offering or provision of consumer financial products or services.” 12 U.S.C. § 5514(a)(1)(C).

² 12 U.S.C. §§ 5514(b)(2) and 5512(b)(4).

³ The Office of Supervision Policy develops supervision strategy and provides subject-matter expertise on legal and policy issues to the Bureau’s examination staff. The Office of Enforcement enforces federal consumer financial laws by investigating potential wrongdoing and taking legal action where appropriate.

(Midwest), Atlanta (Southeast), and San Francisco (West). Regional OSE staff are responsible for conducting examination work, performing monitoring activities, and coordinating with federal and state regulators, as necessary. Within OSE, the Reporting, Analytics, Monitoring, Prioritization and Scheduling (RAMPS) team leads the Bureau's annual risk assessment and prioritization process, which informs SEFL's annual examination schedule.⁴

SEFL's Periodic Monitoring Program

Periodic monitoring is a key component of SEFL's supervisory program, complementing the division's examination activities. The primary purpose of periodic monitoring is to maintain reasonably current information on the activities of an institution and to determine whether changes in risks to consumers or markets warrant changes to the Bureau's planned supervisory activities. Periodic monitoring also allows the Bureau to assess an institution's compliance with previously established corrective actions and to evaluate management's ongoing efforts to improve an institution's compliance program. In addition, RAMPS may use the information obtained through periodic monitoring during the annual risk assessment and examination prioritization process.

SEFL implemented its formal periodic monitoring program through an internal directive in January 2017 and developed a template and corresponding instructions to assist examiners in completing periodic monitoring activities.⁵ The directive requires regions to use the template to monitor all depository institutions under the Bureau's jurisdiction, as well as certain nondepository institutions. SEFL maintains a list of these institutions that are subject to periodic monitoring. As of December 2019, this list includes 173 depository institutions and 6 nondepository institutions, including 3 national credit reporting agencies and 3 mortgage servicers.

According to SEFL's directive, examiners must conduct periodic monitoring of required institutions at least quarterly but can increase the frequency depending on an institution's risk profile. Additionally, the directive states that monitoring activities should vary depending on the institution's size, complexity, and risk profile. Although examiners must perform periodic monitoring activities in accordance with the periodic monitoring directive, the directive allows regional directors the discretion to monitor additional nondepository institutions beyond those required by SEFL.⁶

Quarterly periodic monitoring activities may include

- reviewing supervisory and public information about the institution, including examination reports, Call Reports, and consumer complaints

⁴ The annual prioritization process refers to SEFL's risk-based approach for prioritizing potential supervisory activities and scheduling those activities for the next calendar year.

⁵ SEFL updated the periodic monitoring template and instructions in August 2018 and revised its periodic monitoring directive in October 2018. In October 2019, a SEFL official stated that the division began drafting additional updates to the periodic monitoring directive, template, and instructions; however, SEFL had not finalized those changes as of the end of our fieldwork in December 2019.

⁶ The periodic monitoring directive also provides regional directors with the discretion to determine whether a depository institution's holding company, affiliates, or subsidiaries should be exempt from periodic monitoring.

- contacting the institution to discuss new products or services, events that may affect compliance management, noteworthy changes in operations and management, and any other information
- contacting the federal prudential regulator and relevant state regulators to discuss recent events and questions raised by supervisory or public information about the institution
- consulting internally with other Bureau offices

SEFL schedules periodic monitoring activities quarterly between examinations. Field managers assign periodic monitoring activities to examiners, who typically perform monitoring activities offsite and document the results of their work in the periodic monitoring template. Each examiner provides the completed template to their field manager. SEFL expects field managers to review submitted templates for completeness and accuracy. The field manager, examiner, or a regional analyst may upload the completed template to the Supervisory and Examination System (SES).⁷

SEFL intends for each completed template to be a living document, with examiners updating it each quarter with new information. The template contains five sections for examiners to populate (table 1).

Table 1. Periodic Monitoring Template Sections

Template section	Description
General Information	Monitoring review period, names of the designated monitoring examiner and approver, and the template completion and approval dates. Information about the entity, as well as information about examination and enforcement activity involving the Bureau or other regulators and any consumer restitution.
Strategy and Reporting	Details of meetings and communications with an institution and other regulators. Recent news about management or other changes at the entity during the monitoring period.
Financial Condition	Description of the institution’s financial condition, including any significant growth or shrinkage and significant changes in consumer products.
Consumer Complaints	Summary of trends in the volume of overall consumer complaints, the top complaints against the institution, and other noteworthy indications of changes to consumer risks within specific institution product lines.
Risk Assessment	Table detailing an examiner’s assessment of an institution’s inherent risk, compliance management system, and overall risk for the current and preceding monitoring period, as well as any change in the direction of overall risk for each relevant institution product line.

Source: OIG summary of SEFL’s periodic monitoring template.

⁷ SES is the Bureau’s system of record for examination activities.



Finding 1: SEFL Should Implement Its Plan to Better Target Risk With Periodic Monitoring

In executing periodic monitoring, SEFL has historically prioritized depository institutions over nondepository institutions. As noted previously, the Dodd-Frank Act requires the Bureau to consistently enforce consumer financial law without regard to whether a financial service provider is a depository or nondepository institution. In addition, the Dodd-Frank Act requires the Bureau to exercise its nondepository institution supervisory authority based on an assessment of the risk posed to consumers in relevant product and geographic markets. In July 2019, SEFL completed an internal initiative to identify efficiencies and ways to better use risk-based principles in its supervision of depository and nondepository institutions. Both SEFL's internal initiative and our independent assessment as part of this evaluation found that SEFL can better target risk through its supervisory monitoring program. According to senior officials, SEFL plans to update its monitoring program by expanding its monitoring coverage to nondepository institutions, tailoring the resources dedicated to monitoring based on risk, and hiring additional examiners to augment monitoring and the supervision program more broadly.

SEFL Has Historically Focused Its Periodic Monitoring Resources on Depository Institutions

The Bureau has been selecting institutions for periodic monitoring primarily based on institution type rather than a more comprehensive set of potential risk factors. The Dodd-Frank Act requires the Bureau to take a risk-based approach to its nondepository institution supervision program and to consistently enforce federal consumer financial law without regard to whether a financial service provider is a depository or nondepository institution. However, as of December 2019, 173 of the 179 institutions that SEFL required the regions to monitor were depository institutions; SEFL required the regions to monitor only 6 nondepository institutions. The 173 depository institutions represented all the depository institutions under the Bureau's supervisory jurisdiction, while the 6 nondepository institutions represented a small fraction of the potentially tens of thousands of nondepository institutions under the Bureau's jurisdiction.

As noted previously, the periodic monitoring directive affords regional directors the discretion to monitor additional nondepository institutions beyond those required by SEFL. This approach led to inconsistencies in monitoring nondepository institutions across regions. Specifically, three of the four regions elected to monitor additional nondepository institutions on a discretionary basis, and this practice varied widely by region. We found that the West region chose to monitor 49 additional nondepository entities, while the Northeast and Midwest regions chose to monitor 3 and 7 additional nondepository institutions, respectively. The Southeast region did not monitor any additional nondepository institutions beyond those required by SEFL.

Interviewees across the regions and at headquarters had varying perspectives on SEFL's decision to require regions to monitor all depository institutions and only six nondepository institutions. Some

interviewees indicated that depository institutions generally posed more risk to consumers than did nondepository institutions. In addition, interviewees noted that public data on depository institutions are generally more available, allowing for easier monitoring of depository institutions. According to one interviewee, SEFL has considered developing a data collection process for nondepository institutions; however, the large number of nondepository institutions under the Bureau's jurisdiction presents a logistical challenge to such an initiative.

Several interviewees indicated that resource constraints precluded the Bureau from monitoring additional nondepository institutions. For example, one field manager indicated that staffing shortages have stretched examiners to their workload limits. Another interviewee commented that field managers now perform some monitoring activities rather than delegating all of them to examiners because of resource constraints. Interviewees also noted that the required quarterly frequency for monitoring depository institutions coupled with a lack of resources made it challenging for examiners to monitor additional nondepository institutions. In August 2019, the Bureau ended a hiring freeze that placed restrictions on hiring new employees, including examiners.⁸ SEFL subsequently received approval to hire approximately 45 examiners. As of the end of our fieldwork in December 2019, the division was in the early stages of the recruiting process for these positions.

SEFL Has Developed a Plan to Better Target Risk and Prioritize Resources for Monitoring Activities

In 2019, SEFL completed an internal initiative to identify efficiencies in its supervisory processes, including its periodic monitoring program. Through the initiative, SEFL highlighted five functions, including periodic monitoring, for which it would seek to make increased use of risk-based principles in its supervision of depository and nondepository institutions.⁹

Among other outputs, the initiative resulted in a plan to better target risk and prioritize resources for periodic monitoring. To inform this plan, SEFL also leveraged the results of a separate internal assessment specific to periodic monitoring that concluded in May 2019.¹⁰ According to SEFL, beginning in 2020, the division intends to tailor examiner resources for monitoring institutions based in part on a risk rating it assigns to each institution.

For all depository institutions, SEFL plans to continue to require quarterly monitoring and plans to adjust the number of examiners assigned for monitoring purposes. Specifically, it plans to annually allot 160 examiner hours to monitor each high-risk institution, 80 examiner hours to monitor each medium-risk institution, and 40 examiner hours to monitor each low-risk institution.

⁸ The Bureau initiated this hiring freeze in 2017.

⁹ In addition to periodic monitoring, SEFL highlighted the following four supervisory functions: targeted reviews, follow-up activities, responsive reviews, and regular examinations.

¹⁰ The purpose of this assessment, begun in 2018, was to identify opportunities to improve SEFL's periodic monitoring practices. The assessment included interviews of examiners from all four regions, a review of completed periodic monitoring templates, and a gap analysis that evaluated the differences between the monitoring of depository and nondepository institutions across all four regions.

During our evaluation, interviewees indicated that adjusting the frequency of monitoring based on each depository institution's level of risk may be a more effective means of tailoring resources. Senior officials indicated that SEFL had considered varying the frequency of required monitoring for depository institutions based on risk; however, these officials noted the importance of regular contact with depository institutions and stated that they instead decided to augment the examiner resources dedicated to monitoring activities and tailor the number of examiners assigned based on an institution's risk.

SEFL also plans to expand its monitoring of nondepository institutions. According to a senior official, beginning in 2020, SEFL plans to monitor each nondepository institution it schedules for an examination as a result of its annual risk assessment and prioritization process. Specifically, the official indicated that SEFL plans to monitor each of these institutions for a total of 3 years, including the year in which it examines the institution. The official added that SEFL plans to determine whether monitoring should continue at an institution beyond the initial 3-year period based on the results of its examination and monitoring activities. Unlike depository institutions, the required frequency for monitoring nondepository institutions will depend on a risk rating SEFL assigns each institution. SEFL plans to require quarterly monitoring for high-risk nondepository institutions, semiannual monitoring for medium-risk nondepository institutions, and annual monitoring for low-risk nondepository institutions. A senior official noted that SEFL's plan to hire approximately 45 new examiners should enhance the Bureau's monitoring efforts.

Based on our independent assessment of the monitoring program, we believe that SEFL's plan may help it (1) expand the number of nondepository institutions it will monitor, (2) tailor the resources it assigns to monitoring institutions based on risk, and (3) increase examination resources to conduct periodic monitoring.

Management Actions Taken

In January 2020, during the drafting of this report, SEFL finalized updates to its periodic monitoring policy. These updates include expanding its monitoring program to cover additional nondepository institutions. According to a senior official, SEFL is currently in the process of hiring additional examiners, in part to support its monitoring efforts.

Recommendations

We recommend that the director of SEFL

1. Update policies and procedures to reflect changes to the periodic monitoring program.
2. Implement plans to monitor nondepository institutions that are prioritized for examination.
3. Implement plans to tailor the resources assigned to monitor institutions based on risk.

Management Response

In its response to our draft report, the Bureau concurs with our recommendations. In response to recommendation 1, the agency states that SEFL has implemented an updated periodic monitoring policy

that reflects changes made to the program and includes an updated periodic monitoring template. In response to recommendation 2, the agency states that SEFL extended its periodic monitoring policy to include more nondepository institutions. In response to recommendation 3, the agency states that the updated periodic monitoring policy includes a structure for tailoring the resources assigned to monitor institutions based on risk. In a separate communication, the Bureau informed us that it implemented actions to address recommendations 2 and 3 in the first quarter of 2020 and that it expects to provide us with supporting documentation in the third quarter of 2020.

OIG Comment

We have reviewed documentation associated with the actions taken by the Bureau in response to recommendation 1. We are closing recommendation 1 upon issuance of this report based on the actions taken. We will follow up to ensure that recommendations 2 and 3 have been fully addressed.



Finding 2: SEFL Can Improve Its Efforts to Conduct and Document Periodic Monitoring Activities

Examiners did not consistently conduct or document periodic monitoring activities in accordance with requirements in SEFL's periodic monitoring directive, template, and instructions. We also found that examiners may not understand how periodic monitoring activities factor into RAMPS's prioritization process and SEFL's broader supervision program. We determined that a lack of sufficient training on the purpose, execution, and documentation of periodic monitoring may have contributed to the inconsistencies and instances of noncompliance. As a result, SEFL may not be receiving sufficient or up-to-date information on supervised institutions and therefore may not make the appropriate adjustments to its supervisory activities.

Examiners Did Not Always Document Periodic Monitoring in Accordance With Requirements

During our review of completed templates for the institutions in our sample, we identified several instances in which examiners did not document periodic monitoring activities in accordance with requirements in the directive, template, and guidance. We also identified inconsistencies in the documentation of certain aspects of the templates. Specifically, we observed the following:

- **Missing templates.** SEFL's periodic monitoring directive states that regions must complete templates for required institutions at least quarterly and specifies that the presence of enforcement activities does not eliminate this requirement. Including institutions monitored on a discretionary basis, we expected to find completed quarterly templates for each of the 12 required institutions in our sample stored in SES from the first quarter of 2018 through the first quarter of 2019. However, we found that 3 of those 12 institutions did not have completed templates for some of those quarters.¹¹ In addition, we noted missing templates for 3 of the 4 nondepository institutions in our sample that the Bureau monitored on a discretionary basis. One interviewee described the presence of enforcement actions as the justification for a missing completed template, and field managers for two institutions cited staffing transitions.
- **Lack of documented supervisory approvals.** The template includes fields for the approving official's name and the date approved. We identified instances in which completed templates did not include an approving official's name or an approval date. The majority of these instances occurred in one region. Specifically, two of six templates that we reviewed for an institution in this region did not include an approving official's name. In addition, none of the templates that we reviewed for another institution in this region included an approval date. Templates

¹¹ The 12 required institutions in our sample include 8 depository institutions and 4 nondepository institutions.

completed without evidence of supervisory review may be at greater risk of containing inaccuracies.

- **Inconsistent documentation of outreach activities.** One of the key periodic monitoring activities is contacting an institution to discuss any new products or services the institution is offering consumers, events that may affect compliance management, or changes in operations and management. The template includes a section for documenting meetings and communications with the institution. We found that examiners did not conduct or document outreach activities in the templates for two institutions in our sample. The completed template for one of the two institutions indicated that outreach activities did not occur because of the presence of ongoing enforcement activities, and the completed template for the other institution did not explain the lack of documented outreach activities.
- **Inconsistent completion of the risk assessment.** The template requires examiners to complete a risk assessment for each of an institution's product lines. For each product line, examiners must assign a rating for inherent risk, compliance management systems, and overall risk. Examiners also must indicate the preceding quarter's overall risk and the change in direction of the overall risk from the preceding quarter. In our review of completed templates for sampled institutions, we found that staff did not complete the majority of the risk assessment tables in accordance with the instructions. For example, we found that examiners often inaccurately transferred the results from the previous quarter's risk assessment table to the current template.
- **Inconsistent completion of institution product line descriptions.** The template requires examiners to describe activities associated with each of an institution's product lines in narrative form and to support the overall risk rating for each respective product line. In our review of the completed templates in our sample, we identified inconsistencies in the documentation of this information. Specifically, some product line descriptions included narratives describing the relevant activity, while others did not include any institution product line descriptions.

Training on Conducting and Documenting Periodic Monitoring Activities Can Be Improved

We attribute inconsistencies and instances of noncompliance with the periodic monitoring directive, template, and guidance to a lack of sufficient training for examiners on how to conduct and document periodic monitoring activities. According to interviewees, regional examiners receive training on periodic monitoring through on-the-job training from field managers or presentations at regional conferences.

Several interviewees indicated that examiners have not received adequate training on conducting periodic monitoring activities and completing specific sections of the template, including the financial condition and risk assessment sections. For example, interviewees indicated that examiners have not received adequate training on interpreting financial information to complete the financial condition section of the template. Further, an examiner in one region explained that examiners are not comfortable with completing the risk assessment section of the periodic monitoring template. An examiner in another region suggested that SEFL enhance training by providing examples of completed templates. A RAMPS official indicated that the risk assessment is the most important section of the periodic monitoring template, underscoring the need for more training in this area.

We also found that examiners may not have a clear understanding of the purpose of periodic monitoring and how it factors into the broader supervision program. Although the periodic monitoring directive states that the template helps regional management capture necessary information to provide input for RAMPS's prioritization process, several regional interviewees indicated that staff do not understand how SEFL uses the completed templates during the annual prioritization process. For example, several examiners indicated that they do not know how to complete an optional column in the template that may affect the prioritization process. One field manager noted that guidance on completing that column may help examiners better understand the connection between periodic monitoring and the prioritization process.

An official indicated that SEFL is working to develop additional training for examiners on periodic monitoring. We believe that additional training may help examiners consistently conduct and document monitoring activities in accordance with the periodic monitoring directive, template, and guidance. Further, additional training may help to reinforce how periodic monitoring factors into SEFL's prioritization process and broader supervision program.

Recommendation

We recommend that the director of SEFL

4. Finalize plans to enhance training on periodic monitoring. This training should
 - a. reinforce the documentary expectations for completing sections of the periodic monitoring template.
 - b. clarify the purpose of periodic monitoring and how it factors into SEFL's annual prioritization process and the broader supervision program.

Management Response

In its response to our draft report, the Bureau concurs with our recommendation. The Bureau states that SEFL will develop and provide training for examiners on the agency's documentary expectations for completing sections of the periodic monitoring template. According to the Bureau, the training will also clarify the purpose of periodic monitoring and how it factors into SEFL's annual prioritization process and the broader supervision program. The Bureau expects to complete these actions by the end of the fourth quarter of 2020.

OIG Comment

The planned actions described by the Bureau appear to be responsive to our recommendation. We will follow up to ensure that the recommendation is fully addressed.



Appendix A: Scope and Methodology

We initiated this evaluation to assess SEFL’s approach to monitoring supervised institutions for consistency with the Bureau’s strategic plan and its internal policies and procedures. The scope of our evaluation included the Bureau’s periodic monitoring activities following SEFL’s issuance of the January 2017 periodic monitoring directive.

To accomplish our objective, we interviewed 33 SEFL employees involved in the Bureau’s monitoring process. These interviewees included several SEFL headquarters staff and employees from the four regions, including examiners, field managers, regional analysts, and regional directors. We also reviewed existing and draft policies and procedures related to the periodic monitoring process.

We selected a judgmental sample of 16 institutions from a total population of 199 institutions for which the Bureau scheduled periodic monitoring during the scope of our review. For each region, we selected two depository institutions and two nondepository institutions, for a total of four institutions per region.

- We selected one smaller and one larger depository institution for each region. Specifically, we defined an asset size of \$20–\$30 billion to represent smaller depository institutions and \$120–\$140 billion to represent larger depository institutions.
- We also selected four nondepository institutions not included on SEFL’s required monitoring list and four nondepository institutions included on the list.

We reviewed the completed templates and other supporting documentation for the institutions in our sample. Specifically, we assessed whether examiners conducted and documented periodic monitoring activities in accordance with SEFL guidance. Based on our sampling approach, we cannot extrapolate the result of our analysis across the entire population of completed monitoring templates.

We conducted our fieldwork from April 2019 through December 2019. We conducted this evaluation in accordance with the *Quality Standards for Inspection and Evaluation*, issued by the Council of the Inspectors General on Integrity and Efficiency in January 2012.

Appendix B: Management Response



1700 G Street NW, Washington, D.C. 20552

May 28, 2020

Mr. Michael VanHuysen
Assistant Inspector General for Audits and Evaluations
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau
20th and Constitution Avenue NW
Washington, DC 20551

Dear Mr. VanHuysen,

Thank you for the opportunity to review and comment on the Office of Inspector General's (OIG's) draft report *The Bureau Can Improve Its Periodic Monitoring Program to Better Target Risk and Enhance Training for Examiners*.

The Consumer Financial Protection Bureau (Bureau or CFPB) appreciates the OIG's review and concurs with the recommendations for improving practices related to its monitoring program. As noted in the report, the Bureau was in the process of making a number of improvements to its monitoring program. Several of these improvements have been completed, including implementation of an updated monitoring policy that applies to depository and nondepository institutions. Accordingly, some of the recommendations have already been implemented, and the Bureau is committed to taking steps toward implementing the remainder.

Thank you again for your review. We provide the following comments for each of the specific recommendations.

Sincerely,

//signed//
Bryan A. Schneider
Associate Director
Division of Supervision, Enforcement, and Fair Lending (SEFL)

consumerfinance.gov

1. SEFL, through the Office of Supervision Examinations (OSE), has adopted and implemented an updated policy to reflect changes to the periodic monitoring program. With the new policy, an updated periodic monitoring template was implemented as of January 1, 2020.
2. With the implementation of its updated monitoring policy, OSE extended its monitoring policy to nondepository institutions as of January 1, 2020.
3. The updated monitoring policy implemented as of January 1, 2020 includes a structure for tailoring the resources assigned to monitor institutions based upon risk.
4. SEFL will develop and provide training for examiners on CFPB's documentary expectations for completing sections of the periodic monitoring template and to clarify the purpose of periodic monitoring and how it factors into SEFL's annual prioritization process and the broader supervision program practices by the end of the fourth calendar quarter of 2020.



Abbreviations

OSE	Office of Supervision Examinations
SEFL	Division of Supervision, Enforcement and Fair Lending
SES	Supervisory and Examination System
RAMPS	Reporting, Analytics, Monitoring, Prioritization and Scheduling

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