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.