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

Executive Summary, 2019-SR-C-005, March 25, 2019

The Bureau Can Improve Its Risk Assessment Framework for Prioritizing and Scheduling Examination Activities

Findings

We identified opportunities for the Bureau of Consumer Financial Protection (Bureau) to improve its risk assessment framework for prioritizing and scheduling examinations. Specifically, the Division of Supervision, Enforcement and Fair Lending's (SEFL) approach for assigning a key risk score to individual institution product lines is not transparent for some Bureau employees involved in the scoring process; these employees would benefit from additional training and guidance on that process. We also found that SEFL can improve its preliminary research on supervised institutions. Finally, we found that SEFL can improve the internal reporting of changes to the examination schedule.

Recommendations

Our report contains recommendations designed to improve the Bureau's risk assessment framework for prioritizing and scheduling examination activities. We recommend that SEFL require annual training and implement guidance to provide clarity on its process for scoring a key risk. Further, we recommend that SEFL take steps to improve preliminary research on supervised institutions. Finally, we recommend that SEFL develop and implement an internal report that documents the rationale for any changes to the examination schedule.

In its response to our draft report, the Bureau concurs with our recommendations and outlines actions that will be taken to address our recommendations. For our recommendation related to improving SEFL's preliminary research on prioritized institutions, 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 an evaluation of the effectiveness of the Bureau's risk assessment framework for prioritizing examination activities. Our objectives were (1) to assess the effectiveness of SEFL's risk assessment framework, including the identification, analysis, and prioritization of supervised institutions for examination, and (2) to review each region's implementation of the results of the prioritization process through examination scheduling.

Background

The Dodd-Frank Wall Street Reform and Consumer Protection Act provides the Bureau with the authority to supervise depository institutions with more than $10 billion in total assets and their affiliates, and certain nondepository institutions. The Bureau's oversight authorities cover thousands of institutions, many of which offer more than one product line that is subject to Bureau oversight. Because the number of institutions and product lines under the Bureau's supervisory authority significantly exceeds the agency's capacity to conduct its oversight activities, the Bureau seeks to prioritize its examination activities based on an annual assessment of risk posed to consumers. In doing so, the Bureau uses quantitative and qualitative data while seeking a consistent supervisory approach across the depository and nondepository institutions.