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CFPB Risk Assessment in RADAR

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I. Conducting CFPB Risk Assessments in RADAR



How a CFPB Risk Assessment is Different

- The analysis for the CFPB risk subfactors is more consumer, rather than financial institution, focused as described in the CFPB template:
 - “ ‘Risk to Consumers’ for the purpose of the CFPB Risk Assessment is the potential for consumers to suffer economic loss or other legally-cognizable injury as a result of a violation of Federal consumer financial law.” – *CFPB Template, p. Risk Assessment 1*
- The CFPB is looking for risk ratings that specifically examine the risk of certain products or groups of products.
 - RADAR allows for a focused product by product review of risk.
- RADAR provides a financial institution with great flexibility in designing its approach to assessing risk.
 - For example, the specific elements listed in the CFPB template can be included as instructions to the user or as sub-subfactor ratings that contribute to an overall subfactor rating.

Mapping CFPB Risk to Consumer Approach to Risk Subcategories

- RADAR allows financial institutions to design their own Inherent Risk and Quality of Risk Management assessments.
- The specially designed assessments are mapped to Risk Subcategories.
 - The mapping allows the financial institutions to replicate in RADAR the CFPB template requirements and to map these assessments to all consumer-related Risk Subcategories.
- In RADAR, risk assessments that do not fall into the purview of the CFPB can have their own distinct assessments with subfactors that differ from the CFPB approach.

Mapping Specialized CFPB Assessments to Risk Subcategories

Reference Data Manager - CO Subcategory

* Parent Code: Customer

* Description: Real Estate Settlement

* Display Order: 80

* Default Likelihood: Medium

* Default Impact: Medium

* Likelihood Assessment: CFPB Likelihood Assessment

* Impact Assessment: CFPB Impact Assessment

* Consumer Risk Assessment: Default Consumer Risk Assessment

* QRM Assessment: CFPB QRM

* Activated: 08-Mar-2010

Deactivated:

Buttons: Cancel, Audit Trail History

In RADAR, users can map the specialized CFPB assessment to risk subcategories. In the example above, the risk category – subcategory Customer – Real Estate Settlement concerns consumers. Therefore, the CFPB assessments for likelihood, impact, and quality of risk management are selected.

II. Example CFPB Risk Assessment in RADAR



Assessing Risk by Product

Risk Assessments

Residual Risk: Low
Business: Bank
Risk Category - Subcategory: Customer - Real Estate Settlement
Obligation: 12 CFR 22 / Loans in Areas Having Special Flood Hazards

General (Pending)
Inherent Risk (Moderate)
Control Assessment (Strong)
Related Items (0)
Annotations (0)
RADAR # 1035

Business

* **Name:** Bank

Entity Category: Commercial Bank

Immediate Parent: Holding Company

Primary Operations Location: New York, United States

Risk Category

Category - Subcategory: Customer - Real Estate Settlement View All - View Selected

Obligations

- 12 CFR 22 / Loans in Areas Having Special Flood Hazards
- 12 CFR 226.42 / Valuation Independence
- 12 USC 2601, et seq. / Real Estate Settlement Procedures Act of 1974
- 24 CFR 3500 / Real Estate Settlement Procedures Act
- 24 CFR 3500.10 / One-Day Advance Inspection of HUD-1 or HUD-1A Settlement Statement; Delivery, Recordkeeping
- 24 CFR 3500.14 / Prohibition against Kickbacks and Unearned Fees
- 24 CFR 3500.15 / Affiliated Business Arrangements
- 24 CFR 3500.17 / Escrow Accounts
- 24 CFR 3500.21 / Mortgage Servicing Transfers
- 42 USC 4001-4129 / Flood Disaster Protection Act of 1973, as amended
- 75 Fed Reg 66554 / Interim Final Rule Truth in Lending
- OCC 2010-40 / Flood Insurance
- SR 05-5 / Interagency FAQs on the Agencies' Appraisal Regulations and Interagency Statement on Independence of Appraisal and Evaluation Functions
- Title V of the Riegle Community Development and Regulatory Improvement Act of 1994 / National Flood Insurance Reform Act of 1994

Related Products

Product Name: Add Selected Product

Selected Products

30 Year Fixed Rate Mortgage

Contacts / Dates

* **Compliance Contact:** Tomlinson, Joan **Risk Assessment Date:** 11-Jan-2012

In RADAR, users select the product or products that they want to review in risk assessments. This allows the user to consider factors specific to that product in the risk assessment such as whether the product had a large volume of consumer complaints. The CFPB template calls for such detailed analysis. The system draws the list of products and services from the Activities Library on the Libraries tab.



Determining Inherent Risk

- The CFPB Inherent Risk subfactors are required to be rated high, moderate, or low.
- The subfactors include:
 - Nature and structure of products
 - Consumers to whom products are marketed
 - Marketing methods and sales organizations
 - Ongoing customer relationship management
 - Compliance management challenges
 - Other factors that point to heightened consumer risk

Determining Inherent Risk

Risk Assessments

Residual Risk:
Moderate

Business: Bank

Risk Category - Subcategory: Customer - Real Estate Settlement

Obligation: 12 CFR 22 / Loans in Areas Having Special Flood Hazards

General (Pending)
Inherent Risk (Moderate)
Control Assessment (Adequate)
Related Items (0)
Annotations (0)

Initial Risk Trend: Increasing

Inherent Risk

Likelihood

Likelihood of Breach: Moderate

Nature and Structure of Products: Moderate

Consumers to Whom Products are Marketed: High

Marketing Methods and Sales Organizations: Moderate

Ongoing Customer Relationship Management: Low

Compliance Management Challenges: High

Other Factors that Point to Heightened Consumer Risk: Low

Inherent Risk Rating: Moderate

Text area with placeholder: Lorem ipsum dolor sit amet, consectetur adipiscing elit, sed do eiusmod tempor incididunt ut labore et dolore magna aliqua.

Impact

Impact of Violation: Low

Magnitude of Potential Harm: Moderate

Severity of Potential Harm: Low

Cancel
Audit Trail History
Spell Check
Save and Continue
Save and Close

The CFPB template includes subfactors for determining Inherent Risk and also calls for the consideration of the magnitude and severity of potential harm to consumers. In the example above, the CFPB's inherent risk subfactors contribute to the Likelihood of Breach determination and Magnitude and Severity contribute to Impact of Violation. The two factors are combined by the system to determine the Inherent Risk to Consumers. RADAR also has room for comments regarding each rating as the CFPB template requires.



Determining Control Effectiveness

- The CFPB requires the Quality of Consumer Compliance Risk Controls and Mitigation (or Control Effectiveness) to be rated Strong, Adequate, or Weak.
- The subfactors include:
 - Board of Directors and Management
 - Authority and Accountability for Compliance
 - Compliance Risk Management Program and Oversight
 - Product and System Development and Modification
 - Training
 - Complaint Management
 - Other Factors that Point to Potential Lack of Controls or Mitigation

Determining Control Effectiveness

Risk Assessments

Residual Risk: Moderate
Business: Bank
Risk Category - Subcategory: Customer - Real Estate Settlement
Obligation: 12 CFR 22 / Loans in Areas Having Special Flood Hazards

General (Pending)
Inherent Risk (Moderate)
Control Assessment (Strong)
Related Items (0)
Annotations (0)

Control Effectiveness

* Quality of Risk Management:	Adequate	Lorem ipsum dolor sit amet, consectetur adipiscing elit, sed do eiusmod tempor
Board of Directors and Management:	Strong	Lorem ipsum dolor sit amet, consectetur
Authority and Accountability for Compliance:	Adequate	Lorem ipsum dolor sit amet, consectetur
Compliance Risk Management Program and Oversight:	Strong	Lorem ipsum dolor sit amet, consectetur
Product and System Development and Modification:	Adequate	Lorem ipsum dolor sit amet, consectetur
Training:	Weak	Lorem ipsum dolor sit amet, consectetur
Complaint Management:	Adequate	Lorem ipsum dolor sit amet, consectetur
Other Factors that Point to Potential Lack of Controls or Mitigation:	Strong	Lorem ipsum dolor sit amet, consectetur

Residual Risk

Residual Risk Rating: Moderate

Residual Risk Rating Comment: Lorem ipsum dolor sit amet, consectetur

Recommendations

Add a Recommendation

Recommendation	Due Date	Export to Log
1: Lorem ipsum dolor sit amet, consectetur adipiscing elit, sed do eiusmod tempor incididunt ut labore et dolore magna aliqua.	31-Jan-2012	<input type="checkbox"/> Export All
2: Lorem ipsum dolor sit amet, consectetur adipiscing elit, sed do eiusmod tempor incididunt ut labore et dolore magna aliqua.	29-Feb-2012	<input type="checkbox"/> Export All

Cancel
Audit Trail History
Spell Check
Save and Continue
Save and Close

The CFPB template includes the above listed subfactors to determine the Quality of Consumer Compliance Risk Control and Mitigation, or Control Effectiveness as it is referred to in RADAR. In addition to being able to include the required comments regarding the ratings, RADAR also allows the user to include recommendations for improving controls and to track the progress of these recommendations in the Log Module of RADAR.

Determining the Overall Risk to Consumers

- The Overall Risk to Consumers is determined in RADAR via a matrix that combines the inherent risk of the activity and the quality of the risk controls.
- Users can customize the matrix to correspond with the CFPB's Overall Risk to Consumers Matrix.

*Right: Matrix from the CFPB Examination Procedures Template.
Below: User customizable matrix in RADAR showing CFPB approach.*

Overall Risk to Consumers				
		Quality of Risk Controls		
		Strong	Adequate	Weak
Inherent Risk	High	Moderate	High	High
	Moderate	Low	Moderate	High
	Low	Low	Low	Moderate

Residual Risk Matrix

		Quality of Risk Management		
		Strong	Adequate	Weak
I n h e r e n t	High	Moderate	High	High
	Moderate	Low	Moderate	High
	Low	Low	Low	Moderate