

Consumer Compliance Supervisory HIGHLIGHTS

Federal Deposit Insurance Corporation



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Introduction

The past year has presented unprecedented challenges as a result of the Coronavirus Disease 2019 (COVID-19). The global COVID-19 pandemic continues to impact financial institutions, consumers, and communities. This unique, challenging, and evolving situation resulted in financial institutions making significant adjustments to their operations in 2020 to ensure consumers continue to have access to the important products and services they rely on.

Since mid-March 2020, the FDIC has conducted its consumer compliance examinations entirely offsite. Remote examinations have leveraged technology and file-sharing tools to allow us to conduct our examinations in a virtual environment.

This FDIC publication provides an overview of the consumer compliance supervision activities and issues identified through the FDIC's supervision of state non-member banks and thrifts in 2020.

This issue of the FDIC Consumer Compliance Supervisory Highlights includes:

- A summary of the FDIC's supervisory approach in response to COVID-19;
- A description of the most frequently cited violations and other consumer compliance examination observations;¹
- Information on regulatory developments; and
- A summary of consumer compliance resources and information available to financial institutions.

¹The legal violations discussed in this issue of the FDIC Consumer Compliance Supervisory Highlights are based on the particular facts and circumstances observed by the FDIC in the course of its examinations. A conclusion that a legal violation exists may not lead to such a finding under different facts and circumstances. The finding of a violation requires an analysis of both the applicable law, and the particular facts and circumstances of the act or practice found at a particular institution.

Summary of Overall Consumer Compliance Performance in 2020

The FDIC supervises approximately 3,200 state-chartered banks and thrifts that are not members of the Federal Reserve System (supervised institutions). Most of these institutions are community banks that provide credit and services locally. The FDIC is responsible for evaluating supervised institutions for compliance with consumer protection, anti-discrimination, and community reinvestment laws, among other duties.

The FDIC's consumer compliance examination program focuses on identifying, addressing, and mitigating the greatest potential risks to consumers, based on the business model and products offered by a particular institution. The FDIC conducts periodic risk-based examinations of supervised institutions for compliance with over 30 Federal consumer protection laws and regulations. In 2020, the FDIC conducted approximately 1,000 consumer compliance examinations. Overall, supervised institutions demonstrated effective management of their consumer compliance responsibilities.

The FDIC uses the Federal Financial Institutions Examination Council's (FFIEC) Uniform Interagency Consumer Compliance Rating System to conduct examinations and evaluate supervised institutions' adherence to consumer protection laws and regulations. As of December 31, 2020, 99 percent of all FDIC-supervised institutions were rated satisfactory or better for consumer compliance (i.e., ratings of "1" or "2") as well as for the Community Reinvestment Act (CRA).

Institutions rated less than satisfactory for consumer compliance (i.e., ratings of "3," "4," or "5") demonstrated overall compliance management system (CMS) weaknesses and had violations of law with a potential or actual negative impact on consumers. Weaknesses in an institution's CMS can stem from programmatic deficiencies and may result in violations of consumer protection laws and regulations.

Supervisory Approach in Response to COVID-19

COVID-19 Resources

In 2020, the FDIC developed several resources to assist financial institutions, customers and communities affected by COVID-19. FDIC guidance and other resources are available for bankers and consumers on the [COVID-19 Information for Bankers and Consumers website](#).

FDIC Statement on Financial Institutions Working with Customers Affected by the Coronavirus and Regulatory and Supervisory Assistance

On March 9, 2020, the FDIC issued a [statement](#) encouraging financial institutions to assist customers and communities affected by COVID-19 in a prudent manner. The statement encourages financial institutions to work with borrowers, especially those from industry sectors particularly vulnerable to the volatility in the current economic environment and small businesses and independent contractors that are reliant on affected industries. In addition, the FDIC worked with affected financial institutions to reduce burden when scheduling examinations.

Frequently Asked Questions for those Impacted by COVID-19

The FDIC developed two sets of frequently asked questions (FAQs) for [financial institutions](#) and [bank customers](#) impacted by COVID-19, which address a variety of issues that have arisen as financial institutions work with customers and communities impacted by COVID-19. These Q&As are periodically updated as additional information becomes available.

Community Reinvestment Act Consideration for Activities in Response to COVID-19

On March 19, 2020, the FDIC issued a [joint statement](#) with the Board of Governors of the Federal Reserve System (Federal Reserve) and the Office of the Comptroller of the Currency (OCC) (collectively,

the agencies) regarding CRA consideration for bank activities in response to COVID-19. The agencies encourage financial institutions to work with affected customers and communities, particularly those that are low- and moderate-income. The agencies recognize that such efforts—when consistent with safe and sound banking practices and applicable laws, including consumer protection laws—serve the long-term interests of these communities and the financial system.

Bank's Efforts to Meet the Needs of Consumers and Communities

During the pandemic, the FDIC conducted outreach to supervised institutions, state banking trade associations, and state banking departments to monitor bank efforts to meet the needs of consumers and communities as the pandemic unfolded. We found many supervised institutions took steps to assist consumers, such as allowing loan modifications with no fees, waiving fees on accounts, and offering some in-home banking services. Some supervised institutions also offered curbside service by letting customers stay in their cars and sending employees in protective equipment outside to serve them. Supervised institutions also provided consumers information on opening accounts and conducting financial transactions remotely — online or through a mobile app. Supervised institutions of all sizes were highly engaged in offering Paycheck Protection Program (PPP) loans to small businesses.

In addition to serving customers, we observed supervised institutions supporting employees by offering paid time to assist with local community efforts and to provide financial education to the public. Supervised institutions also instituted branch cleaning procedures, physical distancing requirements, and employee health checks.

Conducting Examinations in a Virtual Environment

To ensure the health and safety of its workforce, financial institutions, and consumers, the FDIC shifted to conduct all consumer compliance examinations and industry meetings in a virtual environment. At the outset of the pandemic, the FDIC paused examination activities to enable institutions to focus on adjusting their operations and meeting the needs of their customers. Once examination activity resumed, the FDIC exercised flexibility in scheduling meetings and made adjustments, as needed, to accommodate a supervised institution's preferences.²

Overall, after initial disruption in the early days of the pandemic, institutions were generally able to respond to examination requests and engage with examiners effectively in a virtual process. We observed that some institutions experienced operational or staffing challenges that limited the ability of management to respond to normal supervisory requests. For example, not all financial institutions routinely scan and store electronic copies of files. Some institutions had to manually scan documents requested by examination staff. Another challenge involved obtaining remote access to bank systems and various connectivity issues, which resulted in slight delays in obtaining information or documents to conduct off-site examinations. Despite these challenges, the FDIC conducted all consumer compliance and CRA examinations in accordance with timeframes established by FDIC policy.

CARES Act Assessments

The Coronavirus Aid, Relief, and Economic Security (CARES) Act provided direct economic assistance for American workers, families, and small businesses. The FDIC developed and implemented a targeted CARES Act assessment for FDIC-supervised institutions with significant mortgage servicing portfolios. The overall purpose of this targeted assessment was to provide financial institutions the opportunity to share their challenges, issues, and concerns related to the COVID-19 pandemic and the CARES Act, and to determine the extent to which financial institutions implemented relevant CARES Act provisions. These reviews were diagnostic in approach and took into account good faith efforts to support consumers and comply with consumer protection laws and regulations.

Overall, the FDIC's CARES Act assessment found that supervised institutions had compliance management systems that identified, mitigated, and responded to consumer compliance risks in the institution's operations, and associated products and services. Banks noted that they were challenged by the high volume of COVID-19-related mortgage requests and questions from customers. They were also challenged by their efforts to maintain a healthy workforce during the pandemic. Though COVID-19 presented serious challenges, supervised institutions created or revised policies and procedures, participated in comprehensive training, and exhibited effective oversight to support compliance with the CARES Act.

²See the FDIC Financial Institution Letters dated March 16, 2020, [FDIC Announces Steps to Protect Banks and Consumers and to Continue Operations](#), and March 27, 2020, [FDIC Updates Steps to Protect Banks and Consumers and to Continue Operations](#).

Most Frequently Cited Violations

During 2020, FDIC consumer compliance examiners identified regulatory violations that ranged in severity from highest to lowest level of concern (i.e., Levels 3, 2 and 1, with Level 1 representing the lowest level of concern).³ This publication focuses on the five most frequently cited instances of Level 3 or Level 2 violations.

The most frequently cited violations (representing approximately 74 percent of the total violations cited in 2020) involve: the Truth in Lending Act (TILA), Truth in Savings Act (TISA), Flood Disaster Protection Act (FDPA), Electronic Funds Transfer Act (EFTA), and the Real Estate Settlement Procedures Act (RESPA).

Since the FDIC conducts consumer compliance examinations using a risk-focused methodology, the most frequently cited violations generally involve regulations that represent the greatest

potential for consumer harm. For example, TILA includes required disclosures about mortgage costs and certain calculation errors that could result in reimbursements to consumers. Moreover, the flood insurance provisions included in the FDPA could result in penalties if the supervised institution does not take certain steps to ensure compliance. Given the heightened risk for potential consumer harm, these five areas of the law generally represent a center of focus for consumer compliance examiners.

In 2020, the FDIC initiated 8 formal enforcement actions and 16 informal enforcement actions to address consumer compliance examination findings. During this period, the FDIC issued Civil Money Penalty (CMP) orders against institutions to address violations of the FDPA, totaling \$63,466. Voluntary payments to consumers totaled approximately \$7.4 million to more than 67,000 consumers.

Statute/Regulation	Level 3 Violations		Level 2 Violations		Total Violations ⁴	
	#	%	#	%	#	%
TILA	8	<1%	555	40%	563	40%
FDPA	5	<1%	128	9%	133	9%
TISA	3	<1%	140	10%	143	10%
EFTA	3	<1%	123	9%	126	9%
RESPA	1	<1%	72	5%	73	5%
Total 5 Most Commonly Cited Statutes	20	1%	1018	72%	1038	74%
All Cited Statutes in 2020	39	3%	1366	97%	1405	100%

³See FDIC Consumer Compliance Examination Manual, [Section II-6.1 \(Communicating Findings\)](#).

⁴Level 1 violations are isolated or sporadic in nature or systemic violations that are unlikely to impact consumers or the underlying purposes of the regulation or statute. Thus, Level 1 violations are not included in this table.

Consumer Compliance Examination Observations

The following describes some of the most salient consumer compliance issues identified by the FDIC during the consumer compliance examinations conducted in 2020. The issues include matters involving RESPA, TILA, and fair lending.

Real Estate Settlement Procedures Act (RESPA)

Background

RESPA provides consumers with disclosures related to the home purchase and settlement process, and prohibits certain real estate settlement practices. Section 8(a) of RESPA prohibits giving or accepting a thing of value for the referral of settlement service business involving a federally-related mortgage loan.

In general, a RESPA Section 8(a) violation would occur if: 1) there is the payment or acceptance of a fee, kickback, or thing of value; 2) there is an agreement to refer settlement services; and 3) there is an actual referral.

The first element refers to a “thing of value.” A “thing of value” is a broad term. Cash is one “thing of value,” but it could also include instances where a bank pays for another company’s marketing or advertising services.

The second element relates to whether there is an agreement to refer settlement service business. An agreement does not need to be formal or written. In fact, it is rare to find a formal, written agreement to make referrals.

The third element refers to a “referral.” A referral includes any action that has the effect of affirmatively influencing a person to select a particular settlement service provider. A referral can also occur whenever a person paying for a settlement service is required to use a particular provider of a settlement service.

Findings

In 2020, the FDIC continued to identify RESPA violations at supervised institutions. These matters involved the payment of illegal kickbacks, disguised as above-market payments for lead generation, marketing services, and office space or desk rentals.

An issue that often arose in these types of cases was whether the settlement service provider was paying for a lead (which is generally acceptable) or paying for a referral (which is prohibited). In order to distinguish between a lead and a referral, examiners looked at whether the person providing the lead/referral was merely giving information about a potential borrower to the settlement service provider or the person was “affirmatively influencing” a consumer to select a certain provider. “Affirmative influence” means recommending, directing or steering a consumer to a certain provider. True leads permissible under RESPA are often lists of customer contacts that are not conditioned on the number of closed transactions resulting from the leads, or any other considerations, such as endorsement of the settlement service.

Mitigating Risk

The FDIC has observed certain risk-mitigating activities that institutions may consider in efforts to comply with RESPA:

- Providing training to executives, senior management, as well as staff responsible for and involved in mortgage lending operations;
- Performing due diligence when considering new third-party relationships entered into by the bank, or any individuals employed at or under contract to the bank, that generate leads or identify prospective mortgage borrowers; and
- Developing a monitoring process for identifying, assessing, documenting and reporting risks to executive and senior management.

Truth in Lending/Real Estate Settlement Procedures Integrated Disclosure (TRID) Rule

Background

The TRID Rule replaced the requirements to provide the RESPA Good Faith Estimate and HUD-1 Settlement Statement and Truth in Lending disclosures for most closed-end mortgage loans with two documents: the Loan Estimate and the Closing Disclosure. The Loan Estimate helps consumers understand the key features, estimated costs, and risk of the mortgage loan for which they are applying. The Closing Disclosure helps consumers understand all of the actual costs of the transaction and provide them with the opportunity to review costs and resolve any problems before closing.

Under the TRID Rule, a creditor must provide the consumer with a good faith estimate of the disclosures in the Loan Estimate. If any information necessary for an accurate disclosure is unknown (i.e., not reasonably available to the creditor at the time the Loan Estimate is made), the creditor must make the disclosure based on the “best information reasonably available” at the time the disclosure is provided to the consumer. This standard requires that the creditor, acting in good faith, exercise due diligence in obtaining information.

Findings

In 2020, the FDIC identified instances involving Veterans Administration Loans where institutions failed to comply with the “best information reasonably available” and due diligence standards under TRID by issuing Loan Estimates based on unavailable interest rates and loan terms. Additionally, examiners observed potentially deceptive practices when institutions represented certain terms for loans that were not generally available.

Mitigating Risk

Through our examination and supervisory experience, the FDIC has observed certain risk-mitigating activities that institutions may consider and find useful. For example:

- Providing training to executives, senior management, as well as staff responsible for and involved in mortgage lending operations;
- Establishing effective policies and procedures to assist staff in complying with regulatory requirements when carrying out activities such as preparing disclosures; and
- Considering the implementation of a centralized process to complete or review disclosures to ensure accuracy.

Fair Lending

Background

The FDIC conducts a fair lending review as part of every consumer compliance examination. The fair lending review evaluates a supervised institution’s compliance with the antidiscrimination laws and regulations, including the Equal Credit Opportunity Act (ECOA) and the Fair Housing Act (FHA). While the vast majority of supervised institutions maintain effective compliance programs, examiners do occasionally identify violations. In the rare cases when there is reason to believe that a creditor is engaged in a pattern or practice of discrimination in violation of ECOA, the FDIC is required by law to refer the matter to the Department of Justice (DOJ). In 2020, the FDIC referred three fair lending matters to the DOJ.

Findings

In one of the fair lending matter referred to the DOJ in 2020, the institution was originating unsecured loans through third party partners. In general, the institution contracted with a third party to operate a website through which applicants could apply for credit directly.

Examiners reviewed the underwriting criteria and discovered that these criteria included the prohibited bases of age and the receipt of public assistance income. If the applicant was under the age of 30, the institution would deny the application. Separately, the applicants who applied on the website had to select their source of income from a drop-down menu. The menu included options such as: “employment,” “social security,” and “pension.” If the applicant chose any option other than “employment,” the application was denied. For example, if the consumer selected “social security” from the menu, the application would be denied. Social security is a source of public assistance income.

Another case involved an institution that used credit-scoring models developed by a third party to offer consumers unsecured lines of credit. One of these credit-scoring models scored younger applicants more favorably than it scored elderly applicants. This credit model also scored applicants less favorably if they noted on their application that they were on maternity leave. Another credit model assigned less favorable scores based on whether the applicant relied on public assistance income as compared to income from employment. Collectively, this resulted in applicants being treated differently on the prohibited bases of age, sex, and the receipt of public assistance income.

In another fair lending matter referred to the DOJ in 2020, examiners identified a policy that provided a different pricing method for married joint applicants than for un-married joint applicants. If

the applicants were married, the institution’s policy stated that the loan officer should use the highest credit score of the two applicants to price the loan. If they were unmarried, loan officers would use the primary applicant’s credit score. The institution considered the main applicant to be the person listed first on the credit application.

The institution had a tiered scoring system with higher loan rates for applicants with lower credit scores. The policy provided borrowers with higher credit scores with lower rates. Because married applicants were priced using the highest credit score and unmarried applicants using the “main” applicant’s score, the effect of this policy was to price applicants differently on the prohibited basis of marital status. The FDIC identified unmarried co-applicants who received less favorable pricing than similarly-situated married applicants because of the institution’s policy.

Mitigating Risks

Including a prohibited basis for discrimination in a credit policy presents a significant risk of violating a federal fair lending law. To address this risk, banks may consider regularly reviewing credit policies to ensure ECOA and Regulation B permit such consideration. More generally, a strong compliance management system helps ensure financial institutions treat consumers fairly by operating in compliance with fair lending laws. Banks may consider the following steps to help further mitigate fair lending risks:

- Maintain written policies and procedures that include information for lending staff to reference when applying credit decision criteria and determining whether borrowers are creditworthy; and
- Review any filters or other criteria used for online leads, website applications, or credit-scoring models.

Regulatory and Other Developments

In 2020, the FDIC issued several requests for information and interagency Q&As and statements. The following provides information on matters involving consumer compliance laws and regulations that were issued or finalized in 2020 and scheduled to become effective in 2021. Additionally, this section includes information on efforts to modernize the CRA.

Community Reinvestment Act Rulemaking

In December 2019, the OCC and the FDIC proposed a joint rule to modernize the CRA.⁴ The proposed rulemaking was a culmination of a multi-year effort by the prudential banking regulators to modernize CRA regulations for the first time in a quarter of a century.

In May 2020, FDIC Chairman Jelena McWilliams issued a statement indicating that the FDIC strongly supports the efforts to make the CRA rules clearer, more transparent, and less subjective, but that the FDIC was not prepared to finalize the CRA proposal at the time, in light of COVID-19. Further, the Chairman indicated that the FDIC recognized the effort community banks were making to support America's small businesses and families during the COVID-19 national emergency and encouraged financial institutions to work constructively with borrowers affected by COVID-19.⁵

In June 2020, the OCC published a final CRA rule that clarifies and expands the activities that qualify for CRA credit; updates where activities count for CRA credit; creates a method for evaluating CRA performance; and provides for timely and transparent CRA-related data collection, recordkeeping, and reporting. The OCC's CRA rule applies to national banks and savings associations, and is effective as of October 1, 2020.

On September 20, 2020, the Federal Reserve issued an Advance Notice of Proposed Rulemaking (ANPR) that invites public comment on an approach to modernize the regulations that implement the CRA. The ANPR seeks feedback on ways to evaluate how banks meet the needs of low- and moderate-income (LMI) communities and address inequities in credit access.

The FDIC is reviewing the comment letters received by the Federal Reserve on its ANPR.

Modernization of Official Sign and Advertising Rules

On February 19, 2020, [the FDIC released a request for information](#) seeking input for the potential modernization of the official sign and advertising rules (12 C.F.R. Part 328) to reflect how deposit-taking via physical branch, digital, and mobile banking channels had evolved since the previous update to the rules in 2006. The FDIC also sought input on misrepresentations — intentional or unintentional — concerning deposit insurance. In addition, the FDIC requested information about how new technology or other solutions could be leveraged to help consumers better distinguish FDIC-insured banks and savings associations from non-FDIC insured institutions (nonbanks) across web and digital channels.

On April 16, 2020, the FDIC announced that it was postponing its efforts to modify its sign and advertising requirements. The FDIC remains committed to modernizing these rules at a future date to better reflect how banks and savings associations are transforming their business models to take deposits via physical branches, digital, and mobile banking channels. The FDIC plans to renew its effort to consider how to revise and clarify its sign and advertising rules related to FDIC deposit insurance later this year.

⁴See December 12, 2019, [Statement by FDIC Chairman Jelena McWilliams on the Notice of Proposed Rulemaking on Revisions to the Community Reinvestment Act Regulations](#).

⁵See May 20, 2020, [Statement by FDIC Chairman Jelena McWilliams on the CRA Joint Proposed Rulemaking](#).

Flood Insurance

The Federal Emergency Management Agency [issued a final rule](#) that revised the National Flood Insurance Program (NFIP) regulations to codify certain provisions of the Biggert-Waters Flood Insurance Reform Act of 2012 and the Homeowner Flood Insurance Affordability Act of 2014, and to clarify certain existing NFIP rules relating to NFIP operations and the Standard Flood Insurance Policy. The rule is effective October 1, 2021.

Interagency Flood Insurance Questions and Answers (Q&As)

On June 26, 2020, the agencies issued proposed interagency Q&As that reflect the significant changes in the Federal flood insurance law. The proposed Q&As, published in the Federal Register on July 6, 2020, reflects major amendments to flood insurance laws (Biggert-Waters Flood Insurance Reform Act of 2012 and the Homeowner Flood Insurance Affordability Act of 2014) with regard to the escrow of flood insurance premiums, the detached structure exemption, and force-placement procedures. The 2020 proposal also revised existing Q&As to improve clarity and reorganized Q&As by topic to make it easier for users to find and review information related to technical flood insurance topics. The proposed Q&As are intended to help lenders meet their responsibilities under the Federal flood insurance

law and to increase public understanding of the flood regulations. On March 11, 2021, the agencies requested public comment on 24 [proposed Q&As regarding private flood insurance](#). These 24 supplement the 118 Q&As that the agencies proposed on July 6, 2020.

Small-Dollar Loan Programs

On May 20, 2020, the FDIC, Federal Reserve, National Credit Union Administration, and the OCC issued [Interagency Lending Principles for Offering Responsible Small-Dollar Loans \(FIL-58-2020\)](#) to encourage banks to offer responsible small-dollar loan products to consumers and small businesses. The FDIC recognizes the important role that responsibly offered small-dollar loans can play in helping customers meet their ongoing needs for credit due to temporary cash-flow imbalances, unexpected expenses, or income shortfalls, including during periods of economic stress, national emergencies, or disaster recoveries. Well-designed small-dollar lending programs can result in successful repayment outcomes that facilitate a customer's ability to demonstrate positive credit behavior and transition into other financial products.

Banks may, but are not required to, discuss plans for offering small-dollar loan products with the FDIC prior to implementation.

Resources for Financial Institutions

The FDIC provides resources for financial institutions to support their efforts to serve and meet the needs of their communities. In addition, these resources may provide information that can help institutions stay abreast of regulatory developments and provide guidance on consumer compliance topics.

Banker Resource Center

The FDIC's [Banker Resource Center](#) provides supervisory resources for banking professionals. The site includes links to applicable laws and regulations, frequently asked questions, archived webcasts and teleconferences, statements of policy, and other information issued either on an interagency basis or individually by the FDIC.

Technical Assistance Videos on Fair Lending

Starting in 2020 and ending in February 2021, the FDIC released a total of nine fair lending videos for the [Technical Assistance Video Program](#). These videos are intended as a high-level overview to help FDIC-supervised institutions understand how FDIC examiners look at fair lending compliance and to provide resources that may assist institutions in assessing and mitigating fair lending risks.

The first video provides an overview of the federal fair lending laws and regulations. The second video focuses on how a bank's CMS can mitigate fair

lending risk. The third video discusses the FDIC's fair lending examination approach. The remaining six videos reflect information in the FFIEC Interagency Fair Lending Examination Procedures and provide overviews of overt discrimination, as well as risks relating to underwriting, pricing, steering, redlining, and marketing. The videos range in length from approximately 10 to 28 minutes.

Artificial Intelligence/Machine Learning Webinar

On December 16, 2020, the FDIC, Federal Reserve, CFPB, and the OCC conducted an Ask the Regulators webinar event on the use of artificial intelligence and machine learning (AI/ML). The webinar included discussion on issues and common questions raised about banks' use of AI/ML, including risk management and controls, data usage, explainability and transparency, independent review, and consumer protection considerations. The webinar also highlighted several existing laws, regulations, supervisory guidance, and other resources that may be relevant to AI/ML usage. Webinar materials are archived at www.askthefed.org.

Regulatory Calendar

The FDIC's [Regulatory Calendar](#) provides resources to help FDIC-supervised institutions stay abreast of changes in federal banking laws, regulations and supervisory guidance.