

[COMPANY]

COMPLIANCE MANAGEMENT SYSTEM

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TABLE OF CONTENTS

| | |
|---|-----------|
| - PART I - INTRODUCTION..... | 6 |
| GENERAL PRINCIPLES AND INTRODUCTION | 7 |
| - PART II - COMPLIANCE MANAGEMENT SYSTEM | 9 |
| 1. BOARD OF DIRECTORS AND MANAGEMENT OVERSIGHT | 10 |
| 1.1. OVERVIEW..... | 10 |
| 1.2. CFPB EXAMINATION OBJECTIVES..... | 10 |
| 1.3. CFPB EXAMINATION PROCEDURES | 11 |
| 1.4. [COMPANY]'S BOARD OF DIRECTORS AND MANAGEMENT OVERSIGHT POLICY | 12 |
| 2. COMPLIANCE PROGRAM..... | 15 |
| 2.1. POLICIES AND PROCEDURES | 16 |
| A. OVERVIEW..... | 16 |
| B. CFPB EXAMINATION OBJECTIVES..... | 16 |
| C. CFPB EXAMINATION PROCEDURES | 16 |
| D. [COMPANY]'S POLICY REGARDING POLICIES AND PROCEDURES..... | 18 |
| 2.2. TRAINING | 19 |
| A. OVERVIEW..... | 19 |
| B. CFPB EXAMINATION OBJECTIVES..... | 19 |
| C. CFPB EXAMINATION PROCEDURES | 19 |
| D. [COMPANY]'S TRAINING POLICY..... | 20 |
| 2.3. MONITORING AND CORRECTIVE ACTION | 23 |
| A. OVERVIEW..... | 23 |
| B. CFPB EXAMINATION OBJECTIVES..... | 23 |
| C. CFPB EXAMINATION PROCEDURES | 24 |
| D. [COMPANY]'S MONITORING AND CORRECTIVE ACTION POLICY | 24 |
| 2.4. SERVICE PROVIDER RELATIONSHIPS | 29 |
| A. OVERVIEW..... | 29 |
| B. CFPB EXAMINATION PROCEDURES..... | 30 |
| C. [COMPANY]'S SERVICE PROVIDER RELATIONSHIPS POLICY..... | 31 |
| 3. CONSUMER COMPLAINT MANAGEMENT PROGRAM | 34 |
| 3.1. OVERVIEW..... | 34 |
| 3.2. CFPB EXAMINATION OBJECTIVES..... | 34 |

| | |
|---|------------|
| 3.3. CFPB EXAMINATION PROCEDURES | 35 |
| 3.4. [COMPANY]'S CONSUMER COMPLAINT MANAGEMENT PROGRAM POLICY | 36 |
| 4. COMPLIANCE AUDIT | 38 |
| 4.1. OVERVIEW | 38 |
| 4.2. CFPB EXAMINATION OBJECTIVES..... | 38 |
| 4.3. CFPB EXAMINATION PROCEDURES..... | 38 |
| 4.4. [COMPANY]'S COMPLIANCE AUDIT POLICY | 39 |
| - PART III - FEDERAL CONSUMER FINANCIAL LAW POLICIES..... | 43 |
| 1. ELECTRONIC FUND TRANSFER ACT (“EFTA”)..... | 44 |
| 1.1. OVERVIEW..... | 44 |
| 1.2. [COMPANY]'S EFTA POLICY | 46 |
| 2. EQUAL CREDIT OPPORTUNITY ACT (“ECOA”) | 48 |
| 2.1. OVERVIEW..... | 48 |
| 2.2. [COMPANY]'S ECOA POLICY..... | 55 |
| 3. FAIR CREDIT REPORTING ACT (“FCRA”)..... | 59 |
| 3.1. OVERVIEW..... | 59 |
| 3.2. [COMPANY]'S FCRA POLICY..... | 69 |
| 4. FAIR DEBT COLLECTION PRACTICES ACT (“FDCPA”)..... | 73 |
| 4.1. OVERVIEW..... | 73 |
| 4.2. [COMPANY]'S DEBT COLLECTION POLICY | 78 |
| 5. GRAMM-LEACH-BLILEY ACT (“GLBA”)..... | 87 |
| 5.1. OVERVIEW..... | 87 |
| 5.2. [COMPANY]'S GLBA POLICY | 95 |
| 6. PRIVACY OF CONSUMER FINANCIAL INFORMATION (“PCFI”) | 100 |
| 6.1. OVERVIEW..... | 100 |
| 6.2. [COMPANY]'S INFORMATION SECURITY PROGRAM..... | 103 |
| 7. RED FLAGS RULE | 115 |
| 7.1. OVERVIEW..... | 115 |
| 7.2. [COMPANY]'S RED FLAGS POLICY | 116 |
| 8. MILITARY LENDING ACT (“MLA”)..... | 122 |
| 8.1. OVERVIEW..... | 122 |
| 8.2. [COMPANY]'S MILITARY LENDING ACT POLICY..... | 126 |
| 9. SERVICEMEMBERS CIVIL RELIEF ACT (“SCRA”)..... | 129 |

| | |
|---|------------|
| 9.1. OVERVIEW..... | 129 |
| 9.2. [COMPANY]'S SCRA POLICY..... | 130 |
| 10. TELEPHONE CONSUMER PROTECTION ACT (“TCPA”)..... | 134 |
| 10.1. OVERVIEW..... | 134 |
| 10.2. [COMPANY]'S TCPA POLICY..... | 140 |
| 11. TRUTH IN LENDING ACT (“TILA”) | 143 |
| 11.1. OVERVIEW..... | 143 |
| A. CLOSED-END CREDIT | 144 |
| B. OPEN-END CREDIT..... | 147 |
| 11.2. [COMPANY]'S TILA COMPLIANCE POLICY | 153 |
| 12. UNFAIR, DECEPTIVE AND ABUSIVE ACTS AND PRACTICES (“UDAAP”) | 158 |
| 12.1. OVERVIEW..... | 158 |
| 12.2. UDAAP IN THE CONTEXT OF SHORT-TERM, SMALL-DOLLAR LOANS | 162 |
| 12.3. [COMPANY]'S UDAAP POLICY | 163 |

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- PART I -
INTRODUCTION

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GENERAL PRINCIPLES AND INTRODUCTION

Companies within the scope of the Consumer Financial Protection Bureau's ("CFPB") supervision and enforcement authority include both depository institutions and non-depository consumer financial services companies. To maintain legal compliance, financial institutions must develop and maintain a sound Compliance Management System ("CMS") that is integrated into the overall framework for product design, delivery, and administration — that is, the entire product and service lifecycle.

The CFPB expects that compliance will be an essential part of the day-to-day responsibilities of the financial institution's management and employees, that the financial institution will self-identify compliance issues, and that the financial institution will initiate corrective action. The CFPB also expects that financial institutions will manage relationships with service providers to ensure that these providers effectively manage compliance with Federal consumer financial laws applicable to the product or service being provided.

Weaknesses in a financial institution's CMS can result in violations of law or regulation and associated harm to consumers. Therefore, the CFPB expects every financial institution under its supervision and enforcement authority to have an effective CMS adapted to its business strategy and operations. CFPB examinations will include review and testing of components of the financial institution's CMS. The CFPB's initial review will help determine the scope and intensity of an examination. The findings of more detailed reviews and transaction testing will determine the effectiveness of the CMS and whether enhancements or corrective actions are necessary.

The CFPB understands that large banking organizations with complex compliance profiles and a wide range of consumer financial products and services will manage compliance differently than entities that may be owned by a single individual and feature a narrow range of financial products and services. Compliance may be managed on a firm- or enterprise-wide basis, and financial institutions may engage outside firms to assist with compliance management. Regardless of how compliance is managed, a financial institutions under CFPB's supervisory purview must comply with Federal consumer financial laws and appropriately address and prevent violations of law and associated harms to consumers through its CMS.

The CFPB also understands that financial institutions will organize compliance management to include compliance with consumer-related state and Federal laws that are outside the scope of CFPB's supervision responsibilities, in addition to the matters that are within CFPB's scope. The CFPB, therefore, expects that compliance management activities will be organized within a firm, legal entity, division, or business unit in the way that is most effective for the financial institution, and that the manner of organization will vary from company to company.

COMPLIANCE MANAGEMENT SYSTEM

A well-developed CMS lessens risks to consumers and reduces the potential for violations of Federal consumer financial law. Because of the importance of a robust CMS, every CFPB examination contains some level of CMS review.

A CMS is how a supervised entity:

- Establishes its compliance responsibilities;
- Communicates those responsibilities to employees;
- Ensures that responsibilities for meeting legal requirements and internal policies are incorporated into business processes;
- Reviews operations to ensure responsibilities are carried out and legal requirements are met; and
- Takes corrective action and updates tools, systems, and materials as necessary.

Although the CFPB does not require any specific CMS structure, the CFPB's Supervision and Examination Manual discusses the common elements of an effective CMS. An effective CMS commonly has four interdependent control components:

1. Board and management oversight
2. Compliance program
3. Response to consumer complaints
4. Compliance audit

When all of these control components are strong and well-coordinated, a financial institution is more likely to be successful at managing its compliance responsibilities and risks.

- PART II -
COMPLIANCE MANAGEMENT SYSTEM

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1. BOARD OF DIRECTORS AND MANAGEMENT OVERSIGHT

1.1. OVERVIEW

All financial service providers have either a board of directors or one or more controlling persons that oversee the operations of the entity. In a depository institution, the board of directors is responsible for developing and administering the compliance management system. In a non-depository consumer financial services company, the ultimate responsibility may rest with a board of directors in the case of a corporate entity or with a controlling person, senior management, or some other body.

An effective board of directors communicates clear expectations and adopts clear policy statements about consumer compliance, not only within the entity itself, but also to its service providers. The board should establish a compliance function within the entity, allocating sufficient resources to that function, commensurate with the entity's size, organizational complexity, and risk profile. The board should ensure that the compliance function is appropriately staffed with a qualified chief compliance officer, and other additional compliance managers who have the authority and accountability necessary to implement the compliance management program, with clear and visible support from senior management, as well. Management should ensure a strong compliance function and provide recurring reports of compliance risks, issues, and resolutions to the board or to a committee of the board.

In a financial services provider that does not have a board of directors, the controlling person or senior management should undertake similar measures to ensure an effective compliance program.

1.2. CFPB EXAMINATION OBJECTIVES

The effectiveness of a compliance management system is grounded in the actions taken by its board of directors and senior management. For that reason, CFPB examiners seek to determine whether the board of directors and senior management have:

1. Demonstrated clear expectations about compliance, not only within the entity, but also to service providers.
2. Adopted clear policy statements regarding consumer compliance.
3. Appointed an appropriately qualified and experienced chief compliance officer and provided for other compliance officers with authority and accountability. (In smaller or less complex entities where staffing is limited, a full-time compliance officer may not be necessary. However, management should have clear responsibility for compliance management and compliance staff should be assigned to carry out this function in a manner commensurate with the size of the entity and the nature and risks of its activities.)

BOARD OF DIRECTORS AND MANAGEMENT OVERSIGHT

4. Established a compliance function to set policies, procedures, and standards.
5. Allocated resources to the compliance function commensurate with the size and complexity of the entity's operations and practices, the Federal consumer financial laws and regulations to which the entity is subject, and necessary to avoid the potential consumer harm associated with violations of such laws and regulations.
6. Addressed consumer compliance issues and associated risks of harm to consumers throughout product development, marketing, and account administration, and through the entity's handling of consumer complaints and inquiries.
7. Required audit coverage of compliance matters and reviewed the results of periodic compliance audits.
8. Provided for recurring reports of compliance risks, issues, and resolution through a committee structure or to the board.

1.3. CFPB EXAMINATION PROCEDURES

CFPB examiners will request and review records and discuss issues and questions with senior management. With respect to board and senior management oversight, CFPB examiners are instructed to:

1. Review board meeting minutes and supporting materials during the period under review for coverage of compliance matters.
2. Determine board committee structures and delegated responsibility for compliance matters, such as to an audit committee or risk committee, and review the meeting minutes and supporting materials of those committees for coverage of compliance matters.
3. Determine any management committees with delegated authority and accountability for compliance matters, including fair lending, and review their composition, functions, and reporting to committees of the board or to the board.
4. Determine the authority and accountability for compliance matters of regional or business unit governance bodies; and review their composition, functions, and reporting.
5. Review policies for clarity, comprehensiveness, currency, and appropriate reflection of risks to consumers posed by the organization's practices, as well as compliance issues and risks facing the organization.
6. Review the formal written compliance function document adopted by the board of directors or an appropriate committee of the board, and determine the resource allocation to compliance as part of the entity's budget and planning process.

BOARD OF DIRECTORS AND MANAGEMENT OVERSIGHT

7. Identify the chief compliance officer and other responsible individuals.
8. Review the role of the chief compliance officer for authority to lead a compliance program and independence from business units.
9. Review board and board committee records for evidence of the chief compliance officer's independent access to board members and governance bodies.
10. Review processes for the identification of new regulatory requirements, changes in requirements, and planning for implementation.
11. Review processes for development and implementation of new consumer financial products or services, distribution channels or strategies, to determine degree of compliance function participation. Determine whether these processes consider fair lending compliance risk.
12. Determine degree of compliance review of draft marketing material (including scripts) and their implementation.
13. Review reporting for the identification and resolution of issues and the timeliness and completeness of such actions.
14. Review board or committee consideration of compliance audit matters for coverage of key risks, independence from business functions, and resolution of identified issues.
15. Draw preliminary conclusions about the strength, adequacy, or weakness of board and senior management oversight, subject to risk focused review and testing for compliance.

In the absence of a board of directors and board committee structure, CFPB examiners will determine whether the person or group exercising the oversight function receives relevant information about compliance and consumer protection matters and takes steps to ensure that the key elements, resources, and individuals necessary for a compliance management system commensurate with the supervised entity's risk profile are in place and functioning.

1.4. [COMPANY]'S BOARD OF DIRECTORS AND MANAGEMENT OVERSIGHT POLICY

Board Adoption of Compliance Management System

The Board has adopted this Compliance Management System, which sets forth [Company]'s obligations under Federal consumer financial laws and regulations and establishes the Company's policies for fulfilling those obligations. This Compliance Management System demonstrates [Company]'s expectations about compliance with Federal consumer financial laws and regulations. The Board expects not only that [Company]'s senior management and employees strive for full compliance with Federal consumer financial laws and regulations, but also that service providers will also be held to the highest standards.

BOARD OF DIRECTORS AND MANAGEMENT OVERSIGHT

Appointment of Chief Compliance Officer

The Board has created a position of Chief Compliance Officer and has appointed an appropriately qualified and experience individual to serve in that capacity. The Board will provide for additional compliance management and staff if it deems additional resources are necessary. The Chief Compliance Officer will report directly to the Board [and/or General Counsel].

Chief Compliance Officer Duties

The Chief Compliance Officer has the authority to lead the compliance program. The Chief Compliance Officer's responsibilities include implementing, overseeing and updating the Company's Compliance Management System. As appropriate, the Chief Compliance Officer may assign certain responsibilities to other employees and/or outside counsel but shall remain accountable for the administration and execution of the Compliance Management System.

The Chief Compliance Officer is responsible for identifying new or revised regulatory requirements that may affect [Company] and planning for implementation. The Chief Compliance Officer may revise the Compliance Management System as appropriate. Amendments to the Compliance Management System may be necessary for any of the following reasons:

1. changes in the law;
2. changes in risks of harm facing consumers;
3. changes in [Company]'s products or marketing;
4. compliance audit findings;
5. consumer complaints and inquiries;
6. regulatory examinations or enforcement actions;
7. litigation; and
8. any other developments indicating that [Company]'s policies are inadequate, inaccurate or outdated.

The Chief Compliance Officer is encouraged to bring concerns about [Company]'s compliance function to the Board's attention.

Chief Compliance Officer Independence

The Chief Compliance Officer is authorized to lead the compliance program. The compliance program will be independent from business units, rather than embedded in the business line.

BOARD OF DIRECTORS AND MANAGEMENT OVERSIGHT

Compliance Program Resources

The Board intends to allocate resources to [Company]'s compliance function that are commensurate with the size and complexity of the Company's operations and practices and all applicable Federal consumer financial laws and regulations. Further, the Board will allocate resources as necessary to avoid the potential consumer harm associated with violations of applicable Federal consumer financial laws and regulations. The Chief Compliance Officer should alert the Board if the Chief Compliance Officer believes that [Company] does not have adequate resources and personnel to ensure the Company's compliance with Federal consumer financial laws. The Board will evaluate the sufficiency of the resources devoted to [Company]'s compliance efforts on an annual basis.

Reporting to the Board

The Chief Compliance Officer will prepare and present periodic reports to the Board on a regular basis. Such periodic reports will address the following topics:

1. the results of periodic compliance audits;
2. the results of monitoring efforts;
3. the receipt and handling of consumer complaints and inquiries;
4. any significant revisions to [Company]'s policies, procedures, and standards;
5. any compliance risks presented by new products, including risks associated with product development, marketing and servicing;
6. new regulatory requirements or changes in legal requirements;
7. service provider compliance; and
8. any other matters relating to [Company]'s compliance.

The Chief Compliance Officer will maintain written records of matters addressed during such periodic reports.

2. COMPLIANCE PROGRAM

A sound compliance program is essential to the efficient and successful operation of the supervised entity. A strong compliance program includes the following components:

1. Policies and procedures;
2. Training; and
3. Monitoring and corrective action.

A supervised entity should establish a formal, written compliance program, and that program generally should be generally administered by a chief compliance officer. In addition to being a planned and organized effort to guide the entity's compliance activities, a written program represents an essential source document that may serve as a training and reference tool for employees. A well planned, implemented, and maintained compliance program will produce the following benefits:

- prevent or reduce regulatory violations;
- protect consumers from non-compliance and associated harms;
- decrease the costs and risks of litigation affecting revenues and operational focus; and
- help align business strategies with outcomes.

COMPLIANCE PROGRAM POLICIES AND PROCEDURES

2.1. POLICIES AND PROCEDURES

A. OVERVIEW

Policies and procedures should include guidance to the company's personnel regarding how to carry out their responsibilities in compliance with applicable Federal consumer financial laws. Policies and procedures will be developed as part of a separate compliance function, rather than developed within the business line. These policies and procedures should be consistent with one another, and they should be written, followed, and board- or leadership-approved.

B. CFPB EXAMINATION OBJECTIVES

Compliance policies and procedures should be documented and in sufficient detail to implement the board-approved policy documents. CFPB examiners will seek to determine whether compliance policies and procedures:

1. Are consistent with board-approved policies.
2. Address compliance with applicable Federal consumer financial laws in a manner designed to prevent violations and to detect and prevent associated risks of harm to consumers.
3. Cover product or service lifecycles.
4. Are maintained and modified to remain current and to serve as a reference for employees in their day-to-day activities.

C. CFPB EXAMINATION PROCEDURES

CFPB Examiners will request and review compliance policies and procedures and discuss elements with compliance officers or other responsible officers and employees of the supervised entity, as follows:

1. Request and review policies and procedures related to consumer compliance, including fair lending and other Federal consumer financial laws and policies and procedures related to offering consumer financial products and services.
2. Review policies and procedures for changes management committed to make following recent monitoring, audit, and examination findings and recommendations.
3. Review policies and procedures to determine whether and how they address new or amended Federal consumer financial laws and regulations since the preceding examination or since the most recent consumer compliance examination by a state or prudential regulator, if applicable, if this is CFPB's first examination.
4. Request and review policies and procedures to determine whether they cover consumer financial products or services introduced since the preceding examination or since the