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To: Clients and Friends

From: David F. Dulock

Subject: Uniform Interagency Consumer Compliance Rating System

In the November 14, 2016, *Federal Register* (81 FR 79473, [click here](#)) the Federal Financial Institutions Examination Council (FFIEC), on behalf of its members—the Board of Governors of the Federal Reserve System (FRB), the Consumer Financial Protection Bureau (CFPB), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Office of the Comptroller of the Currency (OCC), and the State Liaison Committee (SLC) (the Agencies)—published a revised Uniform Interagency Consumer Compliance Rating System (the CC Rating System), effective for consumer compliance examinations that begin on or after March 31, 2017.

Overview of CC Rating System

The CC Rating System is a supervisory policy for evaluating financial institutions' adherence to consumer compliance requirements. It provides a general framework for evaluating compliance assessment factors in order to assign a consumer compliance rating to each federally regulated financial institution. The CC Rating System is based upon a scale of 1 through 5, in increasing order of supervisory concern – i.e., 1 represents the highest rating and the lowest level of supervisory concern, while 5 represents the lowest rating and the most critically deficient level of performance and the highest degree of supervisory concern. The CC Rating System is risk-based in line with Agencies' current risk-based, tailored examination processes. It emphasizes the importance of an institution's compliance management system (CMS), with emphasis on compliance risk management practices designed to manage consumer compliance risk, support compliance, and prevent consumer harm. The CC Rating System conveys to examiners that assessment factors associated with an institution's CMS should be evaluated commensurate with the institution's size, complexity, and risk profile. It also establishes incentives for institutions to promote consumer protection by preventing, self-identifying, and addressing compliance issues in a proactive manner by recognizing institutions that consistently adopt these compliance strategies.

Ratings assigned to financial institutions by the Agencies under the CC Rating System are confidential supervisory information that are prohibited from disclosure except as authorized by federal laws and regulations.

Summary of CC Rating System

The CC Rating System is composed of guidance and definitions and assigns an overall consumer compliance rating to each federally regulated financial institution. The guidance provides examiners with direction on how to use the definitions when assigning a consumer compliance rating to an institution. The definitions consist of qualitative descriptions for each rating category. Ratings of 1 or 2 represent satisfactory or better performance. Ratings of 3, 4, or 5 indicate performance that is less than satisfactory.

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The CC Rating System is organized under the following categories: (1) Board and Management Oversight, (2) Compliance Program, and (3) Violations of Law and Consumer Harm. The CC Rating System definitions list the assessment factors considered within each category, along with narrative descriptions of performance. The first two categories, Board and Management Oversight and Compliance Program, assess a financial institution's CMS commensurate with the institution's size, complexity, and risk profile. These two categories also extend to a financial institution's third-party relationships – *i.e.*, examiners are to evaluate activities conducted through third-party relationships as though the activities were performed by the institution itself and to review a financial institution's management of third-party relationships and servicers as part of its CMS. The third category, Violations of Law and Consumer Harm, evaluates the dimensions of any identified violation or consumer harm.

Under the first category, Board and Management Oversight, the financial institution's board of directors and management are each assessed based on the following assessment factors:

- oversight of and commitment to the institution's CMS;
- effectiveness of the institution's change management processes, including responding timely and satisfactorily to change in laws and regulations, market conditions and the institution's products and services;
- comprehension, identification, and management of risks arising from the institution's products, services, and activities; and
- self-identification of consumer compliance issues and corrective action undertaken as such issues are identified.

Under the second category, Compliance Program, other elements of the institution's CMS are assessed based on the following assessment factors:

- whether the institution's policies and procedures and third-party relationship management programs are appropriate to the risk in the products, services, and activities of the institution;
- the degree to which compliance training is current, comprehensive and tailored to risk and staff responsibilities;
- the sufficiency of monitoring and/or audit to identify compliance risks throughout the institution; and
- the responsiveness and effectiveness of the consumer complaint resolution process.

Under the third category, Violations of Law and Consumer Harm are analyzed based on the following assessment factors:

- root cause, or causes, of any violations of law identified during the examination;
- severity of any consumer harm resulting from violations;
- duration of time over which the violations occurred; and
- pervasiveness of the violations.

The overall consumer compliance rating assigned to a financial institution under the CC Rating System reflects a comprehensive evaluation of the financial institution's performance under the CC Rating System by considering the categories and assessment factors in the context of the institution's size, complexity, and risk profile. This overall rating is not based on a numeric average or any other quantitative calculation. Further, since specific numeric ratings will not be assigned to any of the assessment factors, an institution need not achieve a satisfactory assessment in all categories in order to be assigned an overall satisfactory rating and, conversely,

an institution may be assigned a less than satisfactory overall rating even if some of its assessments were satisfactory. In addition, certain financial institutions with total assets exceeding \$10 billion may receive an overall consumer compliance rating by both the CFPB and the institution's primary prudential regulator—FRB, FDIC, NCUA, or OCC—because the CFPB and these prudential regulators have overlapping examination authority for these institutions. The CFPB has exclusive examination authority for compliance with Federal consumer financial laws while the prudential regulators have examination authority for compliance with certain other laws related to consumer financial protection.

We caution our clients and other readers of this memorandum not to rely solely on the brief summary of the CC Rating System contained in this memorandum but to read the CC Rating System and its preamble in their entirety by clicking on the hyperlink [click here](#) in the first paragraph on page 1.

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