JUNE 2025

YOUR MONTHLY COMPLIANCE NEWSLETTER

FINDINGS FROM OUR CONSULTING WORK

Each month, we like to share some common findings, insights for your consideration, or useful tips from the field. With nearly 100 compliance-related review projects completed annually, we see a broad spectrum of issues and learn a lot along the way.

This month, I want to focus on third-party risk. Many discussions around third-party risk tend to be routine and cover things everyone assumes are understood. I agree, but what we've been seeing lately is quite different. The real issue isn't the inherent risk third parties pose to your organization; it's the risk that they simply aren't fulfilling their responsibilities, despite being paid to do so.

A few years ago, we encountered a recurring problem related to Regulation E and error disputes. Our clients were paying third-party vendors (whom we'll leave unnamed) to handle error resolution and debit card disputes. During our reviews, we requested proof that these vendors were meeting Regulation E's timeline requirements, or proof that they were processing disputes promptly, issuing provisional credits within 10 days, and sending required letters on time. At first, the vendors claimed they were compliant, but once asked to demonstrate proof, discrepancies surfaced.

As soon as our clients pressed the vendors to verify that they were providing timely provisional credits, processing disputes appropriately, and adhering to deadlines, many issues emerged. The vendors weren't processing transactions on time, and our clients, who relied on

See FINDINGS page 3

CFPB ANNOUNCEMENT REGARDING ENFORCEMENT ACTIONS RELATED TO BUY NOW, PAY LATER LOANS

This is not so much a regulatory change as it is a regulatory change in focus. The CFPB announced that it will NOT prioritize actions taken on the basis of Regulation Z; Use of Digital User Accounts to Access Buy Now, Pay Later Loans. They seem to be pulling back oversight in this space. If your organization makes these types of loans, we always recommend that you do not scale back on your oversight, just because the CFPB will be on a temporary basis.

CFPB ASKS COURT TO VACATE MEDICAL DEBT RULE

The CFPB's authority regarding medical debt reporting was challenging, and that lawsuit may be coming to an end. The proposed rule basically ended medical debt and medical bills from being reported on consumer credit reports.

While this seems like relief for some consumers, it also poses challenges to lenders and underwriters since the debt is legally owed, but now it is not known to individuals making key lending decisions on things like a consumer's debt-to-income ratio. This could have a negative impact by getting someone into a loan product that they don't truly qualify for but appear to in the absence of this massive debt owed.

The ABA Banking Journal did a nice little write up of the topic. Click HERE to learn more.

CFPB RELEASES ANNUAL CONSUMER RESPONSE REPORT

This annual report analyzes the year's consumer complaints. More than 2.8 million complaints were submitted in 2024. Here are some highlights:

- Complaints about credit and consumer reporting were 85% of those received
- Mortgage complaints saw a 10% decrease for VA mortgages and a 12% decrease for conventional mortgages, but the likely cause, in part, is a slowdown of the housing market

If you want to read through the report, you can find it in its entirety HERE.

AGENCIES ISSUE HOST STATE LOAN-TO-DEPOSIT RATIOS

This is generally relevant to banks that have branches outside of their home state. It is part of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, so it's been around for more than 30 years.

The law generally prohibits banks from establishing or acquiring branches primarily for the purpose of acquiring additional deposits. You will need to ensure your statewide loan-to-deposit ratio is within certain parameters of the host state's ratio. If you are reinvesting into those communities through loans, this is more of a formality and easy to do.

To find the statewide loan-to-deposit ratios, follow the link HERE.

THE LATEST EDITION OF CONSUMER COMPLIANCE OUTLOOK IS AVAILABLE

In the May newsletter, we talked about this free publication and how the last issue discussed top fair lending findings from the Federal Reserve. The Q1 edition is now available.

In this issue, they talk about the top-cited violations in 2024 for HMDA, Community Reinvestment Act data collection and reporting violations, give a regulatory calendar outlook, and so much more. Check out the latest edition HERE.

FINDINGS

Continued from page 1

these vendors to help them meet Reg E obligations, were unknowingly falling short of requirements. In essence, the vendor said they were doing the job, but the reality was different.

Fast forward to recent reviews, and this issue remains highly relevant. Several of our clients utilize third-party vendors to assist with flood insurance compliance. These vendors monitor loans requiring flood insurance and coordinate with borrowers to secure annual policies, aiming to prevent coverage lapses. During our flood insurance reviews, when we requested documentation, similar problems surfaced. Policies weren't being obtained or updated, coverage wasn't sufficient, or other regulatory requirements weren't met. The vendors had not delivered on their promises, and our clients were unaware until we asked for proof.

The key takeaway is this: while leveraging third-party vendors can help streamline compliance with various regulations, you retain the ultimate responsibility. It's essential to oversee these relationships closely. Push your vendors to PROVE they are complying. Request documentation, reports, or other evidence that confirms they are meeting their obligations. The compliance burden remains with you, so if you're outsourcing any part of it, ensure your vendors are fulfilling their responsibilities. Do so actively instead of just trusting them.

Too often, we find our clients unaware of vendor shortcomings until we intervene and ask for proof. Proactive oversight is vital to maintaining your organization's compliance program.

YOUR MONTHLY FAIR LENDING CORNER NEWSLETTER

VIDEO

EXCEPTION RATES

Check out our monthly fair lending short video first and then come back here for some additional thoughts.
[Exception Rates | Tuscan Club University]

The topic of this month's fair lending newsletter is exceptions. Please ensure you watch the video first, and this is a great one to share with your loan staff.

Exceptions can be a good thing – they can get a customer to qualify for a loan when they otherwise would be denied, but when there are not controls over the exception risk process, we risk granting exceptions on a prohibited basis like sex, race, or ethnicity.

Once you track your exceptions (underwriting and pricing) and have good data to analyze, it's time to see how your organization has performed. The best starting point is to find out how many loans you originated in a given period and how many of those loan files required an exception. For example, if you made 1,000 loans in the period, and 200 had an exception, that's a 20 percent exception rate.

So, is that good? That is more of a risk management decision than a compliance decision. That's high in my book of risk tolerance, but your organization may deem that acceptable. There is no standard, but you should have an idea what is an acceptable rate of exceptions at your organization.

The next step is to find exception rates based on prohibited basis group characteristics. For example, do you always seem to make exceptions for men but not women? White borrowers but not minority borrowers?

Organizations that make very few exceptions have much lower risk, and analyzing this area can be quite simple. Organizations that frequently make exceptions and have a lot of loan volume need to have a much more sophisticated program to review for this key risk. Examiners expect you to do this, so be proactive and do it before they force your hand.

Introducing Our Totally Updated And Enhanced

FAIR LENDING SCHOOL 2.0

GET CERTIFIED AS A **FAIR LENDING EXPERT (FLE)**

Fair Lending School 2.0 has been completely updated!

- All new videos
- New risk assessment module added
- 2 more hours of content
- Reorganized manual
- Updated content and examples
- All new training experience – same price

Learn:

- Loan Lifecycle Process and Fair Lending Risks
- How to Monitor and Audit Your Own Program
- Real-World Case Studies and Examples
- Step-by-Step Procedures

Benefits:

- Professionally Produced Videos – 100% Online
- No Travel = Zero Time Away From Your Institution
- Completely Self-Paced
- The Best Fair Lending Training Available
- **12** Continuing Education Credits – Including CRCM Credit

Cost:

Course: $1,295
Certification: $300

Our Fair Lending School was authored by a team of commissioned examiners.

TUSCAN CLUB
UNIVERSITY

Visit **tcuniversity.us** to get started today.

Earn CRCM and FLE Certification Credit

FAIR LENDING EXPERT GROUP (FLEX)

Expand your knowledge and expertise in Fair Lending

- Open to all compliance, fair lending, and audit professionals
- We have banks, credit unions, and mortgage companies from across the United States
- We meet quarterly for 2 hours
- One Annual fee gets all of your people in the group (Pricing starts at $800/organization)
- We submit all meetings for 2.5 hours of CRCM credit (earn up to 10 CPE hours every year)
- We focus on different fair lending training topics at each meeting
- Ask our experts your fair lending questions
- Keep updated on changes in regulations and the latest guidance
- Share fair lending exam and audit findings so you stay ahead on what the regulators are seeing
- All meetings are recorded if you miss the live broadcast

TUSCAN CLUB
UNIVERSITY

Visit **tcuniversity.us** to learn more.