

Weathering a CFPB Examination:

How Implementing a Customer Communication Management System Can Protect Automotive Financing Companies



In the United States, automotive financing is a trillion-dollar industry. As of Q2 2021, Americans hold more than 110 million auto loans¹ with a value of nearly \$1.42 trillion, reflecting a growth of \$33 billion in that total during Q2 2021 alone.

Accordingly, the auto loan industry is subject to strict regulation and constant government oversight. Auto finance is one of many business types that fall under the purview of the CFPB (Consumer Finance Protection Bureau) as part of that agency's mandate to supervise "larger participants" in markets for nondepository (i.e., non-banking) consumer financial products. Automobile financing companies that have at least 10,000 aggregate annual obligations² meet the definition of "larger participant," where an obligation is defined as either credit granted for the purpose of purchasing an automobile (i.e., an auto loan) or an automobile lease.

As part of that mandate, the CFPB has several tools at their disposal to assess the risk posed by these firms to consumers, the most powerful of which is the examination – their term for an audit. Governed by the procedures in the CFPB Supervision and Examination Manual, examinations by the CFPB are very thorough. They cover everything, including the company business model, advertising, lending and payment policies, and all exchanges with customers throughout the entire loan life cycle. These areas and more are fair game for discovery in service of the CFPB's mission to assess the risk of potential violations.

Enduring an audit of this scale may seem a daunting task, as they can be both time-consuming and expensive. Furthermore, there's a significant downside to failing, including fines, penalties, reputation risk, and the possibility of continued and expensive oversight that can persist until the agency is confident in the disposition of all corrective actions. As an added bonus, CCM platforms also improve customer engagement and drive cost savings by reducing overhead and redundancies.

Fortunately, a comprehensive, turnkey solution exists to help mitigate your risks in the event of a CFPB examination. Customer Communication Management (CCM) software is a powerful tool for managing customer communications, policy and procedures, record keeping, and compliance review across an entire lending operation. A proper CCM system is a critical component of a holistic compliance management system. CCM helps keep organizations prepared in the event of an examination from the CFPB.



Compliance Assured

By the standards of the average person, federal regulations can be difficult to grasp. Companies that find themselves subject to such regulations, like those in auto finance, are required to develop processes and policies for personnel to navigate the complexities and nuances of such compliance. Staff may need extra internal training or support to obtain external professional certifications related to federal policy.

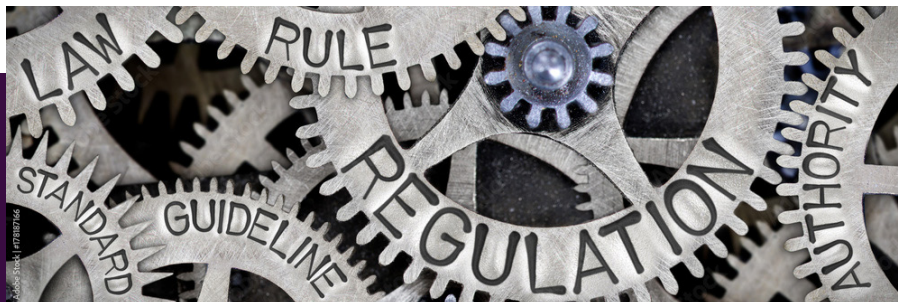
Even with specialized guidance, mistakes still happen. With legacy systems, especially those that rely on paper and specialized programs, it often falls to the user or an internal audit department to track down and manually flag nonconformances in the loan process. These processes may rely on someone happening across any discrepancies before the errors escape company control and are caught by an external oversight group (like the CFPB). When discovered by oversight groups outside of a formal examination, these errors can result in the regulators performing an examination to determine whether such escapes are systemic, material, and representative of the company's general operations. When discovered during a formal examination, they lead to time-consuming and expensive corrective action. The risk is inadequately mitigated by manual controls alone because humans make mistakes. Auto financing companies that implement a Customer Communications Management solution, or CCM, reduces the risk of noncompliance.

Implementing a fully automated CCM system reduces reliance on this ineffective, backward-looking error detection. A CCM platform automatically records and compiles all communication into a single, easy-to-access database. Meanwhile, it drives compliance touchpoints

that empower your process owners to review and approve actions at the speed of relevance, in accordance with company policy on delegation of authority. CCM software puts the records of activity for every loan officer or department right at the fingertips of internal auditors, company leaders, or anyone else who may require them.

When the CFPB examines a company, they may request a sample of its communications, advertisements, and/or transactions³ as part of the discovery process. It can be highly time-consuming to segregate activity specific to the area of examination in question. This is particularly true if your firm bundles transactions to achieve efficiencies in operation, as many firms that handle multiple loan types do. CCM tools come equipped with query capabilities that allow users to easily separate and capture those relevant communications and documents pertaining to an examiner's inquiry. This automated process captures the who, when, where, and what of all communications and helps eliminate redundant efforts of each office or functional unit spending time and resources scouring and filtering their records in response to a sampling request.

A quality CCM platform has built-in support for enforcing compliance with company policies, federal or state regulations, or any other conditions that a company wants to impose on client communications. CCM platforms are tailorable, with smart policy management that allows users to customize compliance reviews for different markets and localities with differing applicable laws and regulations. This capability is vital for the automotive finance industry, where each state and city have their own consumer protection and lending regulations that may stack on top of federal rules.



The Increasing Demands of a Digital World

Overall, auto loan debt is the third-largest source of consumer debt in the United States behind home loans and student loans and makes up about 10% of all household debt. Roughly 4 out of 5 new car purchases are financed⁴. Auto lenders must be ready to meet growing demand and increasing customer expectations, as well as stricter oversight from the CFPB and other regulatory bodies.

The core of the auto loan industry is communication: communicating terms, offers, rates, laws, requirements, and more to your customers. The more a company expands, the more communications occur, and the more employees are needed to meet demand. Escalating human touchpoints means more room for human error. In a digital world, speed is critical, both in scaling your operation size and in offering the targeted communications that customers have come to expect. However, increasing the speed of operations also opens up more room for error.

Balancing customer demands with those of the regulators isn't easy, but with a CCM platform, it can be. CCM tools are highly scalable and can support 10,000 obligations just as easily as 10. The right CCM software



will integrate all backend legacy systems into one, simple-to-use platform with increased digital capabilities for reaching customers through genuine omnichannel engagement. All customer communications are recorded and archived, so you always know exactly what you've said to your lending customers at any given time, making audits or CFPB examinations much easier to weather.

Faster Response to Changing Conditions

With every passing year, the world moves faster. People utilize technology to think and act more quickly, pushing market conditions to change. Company policymakers must also work to keep up with this ever-escalating pace. This speed of innovation comes with challenges. When you depend on legacy technologies to help you keep up with constantly evolving policy changes, you risk falling behind. Even more modern solutions will experience compliance issues if they are fragmented and split between many departments, systems, and vendors.

One of the factors used by the CFPB to assess risk and what, if any, fines or other actions are warranted is the speed and credibility with which a firm can implement the changes necessary to bring them into compliance. A company that cannot implement timely policy corrections or does not have a believable course to compliance is more likely to find itself under continued supervision.

Unfortunately, slower legacy systems make even the most minor changes difficult to propagate down the process chain, eating up months of time during which your communications are out of conformance. Leaders in auto finance will find solutions in digitalization, embracing technologies like end-to-end CCM to quickly execute change across departments and divisions, no matter the size of their organization. Any auto finance business too slow to comply with the changes mandated by a CFPB examination or shifting regulations could quickly find itself embroiled in intrusive and disruptive regulatory monitoring.



Is it better to react to problems as they arise or to have a solution in place to resolve issues proactively? If the adage "an ounce of prevention is worth a pound of cure" is to be believed, the latter is always preferable. CEDAR CX is a CCM platform designed with the challenges of the auto finance industry in mind. An auto finance organization with CCM integrated into its business model is better equipped to adapt to changing laws promptly and efficiently. We offer a robust suite of tools with customizable modules tailor-made for weathering a CFPB examination or, really, any audit your organization may face. Why wait for the regulators to come around when you can put out the welcome mat with a state-of-the-art CCM platform that not only makes any examination a breeze but improves your bottom line and customer happiness – all in one easy-to-use platform?



If you're wondering how to get started, you can schedule a demo or visit our website at www.CEDARCX.com. We also offer complimentary scoping workshops to help you look at the full spectrum of how a CCM platform can work with your current systems to update and upgrade your capabilities and to help socialize the process across your enterprise stakeholders.





¹ Federal Reserve Bank of New York, Household Debt and Credit, August 2021.
https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2021Q2.pdf

² Legal Information Institute, Electronic Code of Federal Regulations (e-CFR), 12 CFR § 1090.108, Automobile financing market.
<https://www.law.cornell.edu/cfr/text/12/1090.108>

³ Consumer Financial Protection Bureau, CFPB Supervision and Examination Process, October 2012.
https://files.consumerfinance.gov/f/documents/032017_cfpb_examination-process-overview_supervision-and-examination-manual.pdf

⁴ Latham, A. (2021, August 12). 2020 Auto Loan Industry Study. Supermoney.
<https://www.supermoney.com/studies/auto-loan-industry-study/>