

# VENDOR & SERVICE PROVIDER OVERSIGHT



# PROGRAM OVERVIEW



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Subject: Service Providers

The Consumer Financial Protection Bureau (“CFPB”) expects supervised banks and nonbanks to oversee their business relationships with service providers in a manner that ensures compliance with Federal consumer financial law, which is designed to protect the interests of consumers and avoid consumer harm. The CFPB’s exercise of its supervisory and enforcement authority will closely reflect this orientation and emphasis.

This Bulletin uses the following terms:

*Supervised banks and nonbanks* refers to the following entities supervised by the CFPB:

- Large insured depository institutions, large insured credit unions, and their affiliates (12 U.S.C. § 5515); and
- Certain non-depository consumer financial services companies (12 U.S.C. § 5514).

*Supervised service providers* refers to the following entities supervised by the CFPB:

- Service providers to supervised banks and nonbanks (12 U.S.C. §§ 5515, 5514); and
- Service providers to a substantial number of small insured depository institutions or small insured credit unions (12 U.S.C. § 5516).

*Service provider* is generally defined in section 1002(26) of the Dodd-Frank Act as “any person that provides a material service to a covered person in connection with the offering or provision by such covered person of a consumer financial product or service.” (12 U.S.C. § 5481(26)). A service provider may or may not be affiliated with the person to which it provides services.

*Federal consumer financial law* is defined in section 1002(14) of the Dodd-Frank Act (12 U.S.C. § 5481(14)).

**A. Service Provider Relationships**

The CFPB recognizes that the use of service providers is often an appropriate business decision for supervised banks and nonbanks. Supervised banks and nonbanks may outsource certain functions to service providers due to resource constraints, use service providers to develop and market additional products or services, or rely on expertise from service providers that would not otherwise be available without significant investment.

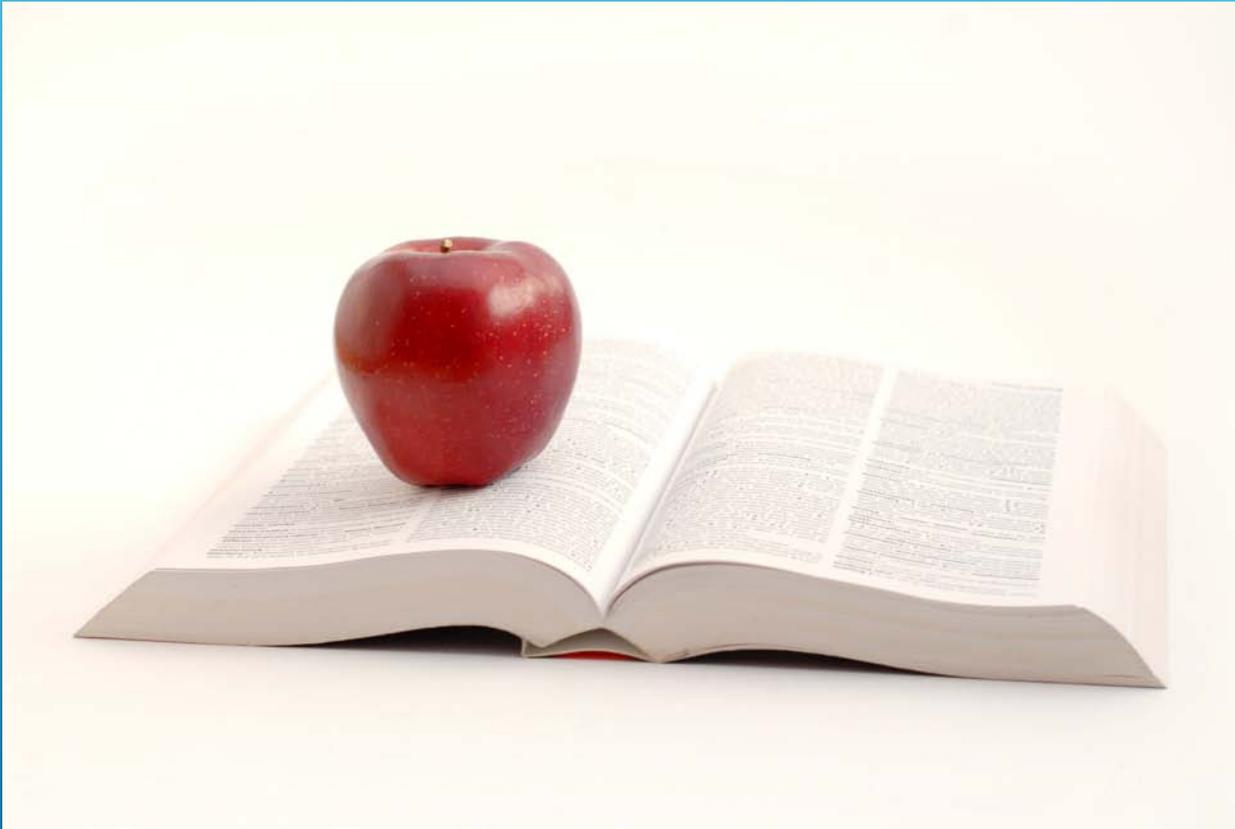
## A CFPB REQUIREMENT

The CFPB has, in its examination manual and subsequent bulletins, emphasized that entities that employ service providers are responsible for their actions, and may be held liable for errors or omissions of their service providers that cause risk of harm to consumers.

## MEANINGFUL STEPS TO VENDOR OVERSIGHT

While vendor and service provider oversight may seem daunting, there are meaningful steps that organizations of any size or complexity may take to establish a vendor management program.





## DEFINITIONS

The terminology employed by the CFPB to describe what may be frequently referred to as “vendors” is “service provider.” Service providers may include many levels of student finance, including letter vendors, IT contractors, collection agencies, and many others.



## STEP 1: PERFORM DUE DILIGENCE

The first step before entering a relationship with a potential service provider is to perform meaningful due diligence on the service provider's ability to comply with its obligations- performance and compliance.



## STEP 2: ESTABLISH CONTRACTS WITH COMPLIANCE OBLIGATIONS

Each relationship that has compliance obligations for your service providers should be committed to a writing that can be retrieved, and if necessary, enforced if the obligations are not met.

## STEP 3: MAINTAIN UP TO DATE COPIES OF SERVICE PROVIDER POLICIES AND PROCEDURES

It is important to maintain current copies of service provider's policies, procedures, and training materials to ensure that service provider's have measures in place to comply with compliance obligations in their service contracts.





## STEP 4: APPOINT A RELATIONSHIP MANAGER

Frequently, service provider oversight can be facilitated by having a dedicated point of contact within your organization and with the service provider. Choosing a relationship manager who is knowledgeable about the service provider can be an important step to begin the exchange of information necessary for meaningful oversight.



## STEP 5: MONITOR & ANALYZE COMPLAINTS AND DISPUTES

Complaints and disputes related to the service provided to your organization should be tracked and monitored for the timely communication and resolution of complaints and disputes. Service providers who receive complaints and disputes due to weaknesses in their compliance programs should be identified for further oversight.

## STEP 6: TIER YOUR SERVICE PROVIDERS

		Inherent Risk										
		2	3	4	5	6	8	9	10	12	15	18
	5	7	8	9	10	11	13	14	15	17	20	23
	7	9	10	11	12	13	15	16	17	19	22	25
	9	11	12	13	14	15	17	18	19	21	24	27
	10	12	13	14	15	16	18	19	20	22	25	28
	11	13	14	15	16	17	19	20	21	23	26	29
Controls	13	15	16	17	18	19	21	22	23	25	28	31
	15	17	18	19	20	21	23	24	25	27	30	33
	18	20	21	22	23	24	26	27	28	30	33	36
	20	22	23	24	25	26	28	29	30	32	35	38
	21	23	24	25	26	27	29	30	31	33	36	39
	24	26	27	28	29	30	32	33	34	36	39	42
	25	27	28	29	30	31	33	34	35	37	40	43
	27	29	30	31	32	33	35	36	37	39	42	45
	30	32	33	34	35	36	38	39	40	42	45	48
		>10	Low Risk									
		11-20	Moderate Risk									
		21-29	Elevated Risk									
		30-38	High Risk									
		39-48	Critical Risk									

Once policies, procedures, training and complaints are analyzed for an existing service provider, they should be tiered for inherent risk to consumers and controls in place to mitigate risk. Service providers who represent a greater risk to consumers and the organization should be subjected to increased levels of monitoring.

## STEP 7: CONDUCT REGULAR AUDITS

Regular audits of service providers should be conducted based on risk. Low risk service providers could be audited through regular questionnaires on compliance obligations. Moderate risk service providers could be audited through phone interviews and collecting documentation such as training logs, licensing or certification documents, and other audit reports. High risk service providers could be audited through on-site visits or more intensive review.



## STEP 8: REVIEW SERVICE PROVIDER PERFORMANCE AND HOLD THEM ACCOUNTABLE

When audit results show lapses in compliance with obligations in contracts, then vendors and service providers should be held accountable, up to, and including termination.



QUESTIONS AND COMMENTS?

