FOURTH PARTY VENDOR LIABILITY:

Are You Unintentionally Putting Your Clients at Risk With Your Partners?

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AGENDA FOURTH PARTY VENDOR LIABILITY: Are You Unintentionally Putting Your Clients At Risk With Your Partners?

- 1. Summary of Federal Laws and Regulations
- 2. Common Law Duties of Principal and Agent
- 3. Finding and Working with Fourth Party Providers
- 4. Sound Vendor Management Practices
- 5. Vendor Management Tools





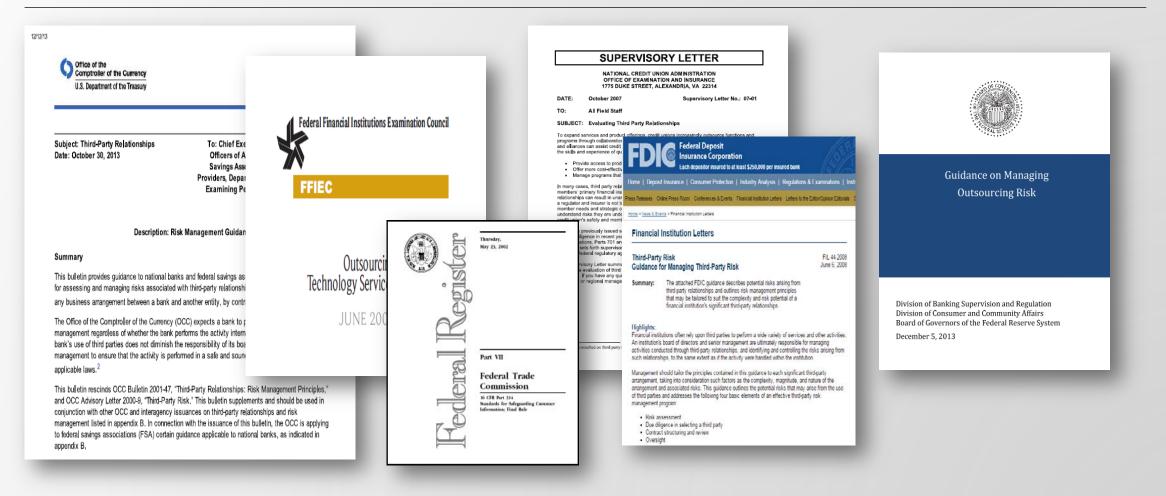
SUMMARY OF FEDERAL LAWS AND REGULATIONS IMPOSING LIABILITY ON LENDERS FOR ACTS OF THIRD PARTY SERVICE PROVIDERS

- 2010 Wall Street Reform and Consumer Protection Act
- OCC, FDIC, NCUA, Federal Reserve, FFIEC, FTC
 Gramm Leach Bliley Act
- Consumer Financial Protection Bureau (CFPB)
- CFPB's eight rules and their effective dates
- CFPB 2012-03 Bulletin regarding due diligence
- Lender due diligence expectations
- ALTA "best practices", self-assessment guides and certification



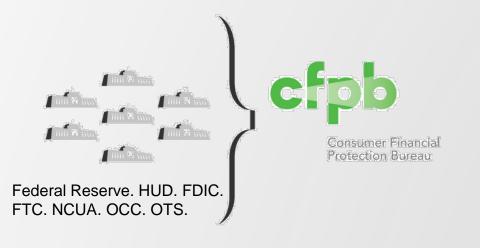


THE REGULATIONS AND GUIDANCE ARE NOT NEW OCC, FFIEC, FTC (GLBA), NCUA, FDIC, FEDERAL RESERVE



DODD-FRANK AND THE CFPB

Dodd-Frank Wall Street Reform and Consumer Protection Act - Enacted July 21, 2010



...a whole new way of doing business with the goals of *protecting the consumer* and bringing *supervision* and *accountability* to the financial services industry...

CFPB oversight includes – Consumer Education & Engagement. Card Markets. Credit Information, Collections & Deposits Markets. Installment & Liquidity Lending Markets. Mortgage Markets. Fair Lending & Equal Opportunity. Financial Education & Empowerment. Older Americans. Servicemember Affairs. Students. Office of Minority & Women Inclusion.



CFPB SUPERVISORY AUTHORITY

- Large & small banks
- Credit unions & thrifts

"Nonbanks" such as:

- Residential mortgage companies
- Mortgage originators and brokers
- Mortgage servicers
- Providers of loan modification or foreclosure relief services
- Payday lenders
- Private education lenders
- Credit reporting and debt collection agencies

And...

Service providers to banks and nonbanks, *including* "*providers of real estate settlement services*."



CFPB FINAL RULES

Rule	Summary	Issued Date/ Effective Date
Integrated Mortgage Disclosures	Simplifies RESPA & TILA disclosure forms by integrating GFE/Preliminary Truth in Lending = Loan Estimate – 3 pgs Final Truth in Lending/HUD-1 = Closing Disclosure – 5 pgs	November 20, 2013 August 1, 2015
Ability to Repay/Qualified Mortgage (QM)	Requires lenders to ensure borrowers have ability to repay their mortgage. Sets qualifications for QMs	January 10, 2013 January 10, 2014
2013 HOEPA Rule	High-cost mortgage and homeownership counseling amendments to TILA (Reg Z) and RESPA (Reg X). Expands types of mortgage loans subject to HOEPA	January 10, 2013 January 10, 2014
Loan Originator Compensation	Prohibits steering incentives, dual compensation and levels playing field for qualification and screening standards	January 20, 2013 June 1, 2013 (some) January 10, 2014
ECOA Valuations	Disclosure and delivery requirements for copies of appraisals and other written valuations under the Equal Credit Opportunity Act (Reg B)	January 18, 2013 January 18, 2014
TILA Higher Price Mortgage Loan Appraisals	Increases requirements and disclosures of appraisal purpose; requires copy of appraisal to consumer	January 18, 2013 January 18, 2014
Escrows under TILA (Reg Z)	Requires certain lenders to collect monthly escrows (impounds) for five years for some "higher-priced" mortgage loans	January 10, 2013 June 1, 2013
TILA and RESPA Servicing (Two rules)	Protects consumers from detrimental actions by mortgage servicers and provides consumers with better tools, information and protections for consumers facing foreclosure	January 17, 2013 January 10, 2014



PREPARING FOR AUGUST 1, 2015 – TRID/IMD*

Basic Overview:

- Integration of four current TILA and RESPA disclosures into Loan Estimate and Closing Disclosure
- New timing, delivery and retention requirements for disclosures
- New tolerance levels for disclosed estimates
- New pre-disclosure requirements

Scope: The Rule Does Not Apply To:

- Reverse mortgages
- Home-equity lines of credit (HELOCs)
- Chattel-dwelling loans
- Loans made by a person who makes 5 or fewer mortgages in a year, unless more than 1 HOEPA loan in any 12month period
- Certain no-interest loans secured by subordinate liens (down payment assistance, etc. - see rule for more detail)

*Current industry acronyms for TILA-RESPA Integrated Disclosures or Integrated Mortgage Disclosures See consumer finance.gov/regulations for the Rule and a Summary



INTEGRATED MORTGAGE DISCLOSURES*

Loan Estimate (LE)

- 3 pages dynamic forms, TIP calculation, DFA disclosures
- Replaces GFE
 and Preliminary TIL
- Delivery requirement by Creditor or Mortgage Broker: 3 business days after application; 7 business days before consummation*

FICUS BANK 4321 Random Boulevard - Somecity,	ST 12340 Save this Loan Est	imate to compare with your Closing Disclosure.	Losn Costs A. Origination Charges .25% of Loan Amount (Points)	\$1,802 \$405	Other Costs E. Taxes and Other Government I Recording Fees and Other Taxes	Fees \$85 \$85	
Loan Estimate DATE ISSUE 2/15/2013 Michael Jones and 123 Anywhore Stree Anytown, ST 12345 PROPERTY 455 Somewhare Av Anytown, ST 12345 SALE PRICE \$180,000	Aary Stone LOAN TYPE II G t LOAN ID # 123 RATE LOCK IN enue Beto char		Application Fee Underwriting Fee	\$300 \$1,997	Tantier Taus F. Frapalis Homowner's Insurance Premha Mortgage Insurance Premha Mortgage Insurance Premha Property Taus (montho) G. Initibal Excrew Payment at Cl Homowner's Insurance \$100.8	Additional Information	NORTLAGE BROKER NMILS_LUCENSE ID LOAN OFFICER NMILS_LUCENSE ID
Loan Terms		t increase after closing?	B. Services You Cannot Shop For Appraisal Fee	\$672 \$405	Mortgage Insurance Property Taxes \$105.3	EMAIL joasmith@fic PHONE 123-456-789	
Loan Amount	\$162,000 NO		Credit Report Fee Flood Determination Fee	\$30 \$20			
Interest Rate	3.875% NO		Flood Monitoring Fee Tax Monitoring Fee	\$32 \$75			
Monthly Principal & Interest See Projected Payments below for your Estimated Total Monthly Payment	\$761.78 NO		Tax Status Research Fee	\$110	H. Other Title – Owner's Title Policy (optio	Comparisons In 5 Years	Use these measures to compare this loan with other loans. \$56,582 Total you will have paid in principal, interest, mortgage insurance, and loan \$15,773 Principal you will have paid off.
	Does the Ioan h	ave these features?			L TOTAL OTHER COSTS (E + F	Annual Percentage Rate (APR)	4.274% Your costs over the loan term expressed as a rate. This is not your interest t
Prepayment Penalty	YES - As hig first 2 y	h as \$3,240 if you pay off the loan during the rears	C. Services You Can Shop For	\$3,198		Total Interest Percentage (TIP)	
Balloon Payment	NO		C. Services tou Can Shop For \$3,198 Pest Inspection Fee \$135 Survey Fee \$65	J. TOTAL CLOSING COSTS D+1		percentage of your loan amount.	
Projected Payments			Title – Insurance Binder Title – Lender's Title Policy	\$700	Lender Credits	Other Considerations	
Payment Calculation	Years 1-7	Years 8-30	Title – Settlement Agent Fee Title – Title Search	\$502 \$1,261	Calculating Cash to Close Total Closing Costs (J)	Appraisal We	e may order an appraisal to determine the property's value and charge you for this
Principal & Interest	\$761.78	\$761.78			Closing Costs Financed (Paid from Down Payment/Funds from Born	api You	praifal. We will promptly give you a copy of any appraisal, even if your foan does not cl u can pay for an additional appraisal for your own use at your own cost.
Mortgage Insurance Estimated Escrow Amount can increase over time	+ 82 + 206	+ + 206			Deposit Funds for Borrower Seller Credits	Assumption If y	ou sall or transfer this property to another person, we will allow, under cartain conditions, this person to assume this loan on the original terms. will not allow assumption of this loan on the original terms.
Estimated Total Monthly Payment	\$1,050	\$968	D. TOTAL LOAN COSTS (A + B + C)	\$5,672	Adjustments and Other Credits Estimated Cash to Close		is loan requires homeowner's insurance on the property, which you may obtain from a mpany of your choice that we find acceptable.
	This estimate indu	des In escrow? YES					our payment is more than 15 days late, we will charge a late fee of 5% of the monthly incipal and interest payment.
Estimated Taxes, Insurance & Assessments Amount can increase over time	\$206 Depending Taxes a month Other:	urance YES				Refinance Ref	financing this loan will depend on your future financial situation, the property value, as inket conditions. You may not be able to refinance this loan.
	See Section G on page property costs separab	2 for escnowed property costs. You must pay for other by:				Servicing We	intend to service your loan. If so, you will make your payments to us. to transfer servicing of your loan.
Costs at Closing Estimated Closing Costs	\$8,054 Includes \$5,672 in Loan Co in Lender Credits. See page	osts + \$2,382 in Other Costs - \$0 2 for details.					
Estimated Cash to Close	\$16,054 Includes Closing Costs. Se	ee Calculating Cash to Close on page 2 for details.	LOAN ESTIMATE		_	Confirm Receipt	1
Visit www.cons	l umerfinance.gov/mortgage-estimate for g	peneral information and tools. PAGE 1 OF 3 - LOANID # 123456789				By signing, you are only confirming t received this form.	that you have received this form. You do not have to accept this loan because you have signed o

*See **consumerfinance.gov/regulatory-implementation/tila-respa/** for compliance guidance, forms, sample timetable and other implementation tools



INTEGRATED MORTGAGE DISCLOSURES*

Closing Disclosure

- 5 pages separate Seller Disclosure, if required
- Replaces Final TIL and HUD-1, no HUD lines, more data exchange required earlier in process
- Delivery requirement by Creditor or Settlement Agent: Consumer must receive no later than 3 business days prior to consummation*

Closing Disclosur	e document w	statement of final loan terms and closing costs. Compare this th your Loan Estimate.	Calculating Cas	Los	in Estimate Final	ias changed from your Loan Estimate. Did this change?	Loan Calculations Total of Payments. Total you will have paid after	Other Di		
Closing Information	Transaction Informat	ion Loan Information	Total Closing Costs (J) Closing Costs Paid Bell		\$8,054.00 \$9,712.10	YES - See Total Lean Costs (D) and Total Other Costs (I) YES - You paid these Cosing Costs before desting	you make all payments of principal, interest,	5,803.36 give you a c	rty was appraised for your loan opy at no additional cost at lea	t 3 days before closing.
Date Issued 4/15/2013 Closing Date 4/15/2013	Borrower Michael Jon 123 Arrywh	es and Mary Stone Loan Term 30 years	Closing Costs Engance		20 - 228300		Finance Charge. The dollar amount the loan will	If you have r	not yet received it, please conta listed below.	ct your lender at the
Disburgement Date 4/15/2013 Settlement Agent Epsilon Title Co.	Anytown, S	ono Stroot Purpose Purchaso 112345 Product Fixed Rato and Anny Dop	(Paid from your Loan Down Payment/Fund	(from Borrower	\$0 \$0 \$18,000.00 \$18,000.00	NO	cost you. \$11	8,830.27 Contract De	dalk.	
ta # 12-3456	321 Somew	there Drive Lean Type Conventional DFHA	Deposit		\$10,000.00 - \$10,000.00		Amount Financed. The loan amount available after	- what ha	te and security instrument for i ppens if you fail to make your	nformation about avments.
Anytown, ST 1234 iale Price \$180,000	15 Lender Ficus Bank	Loan ID # 123456789 MIC # 000654321	Funds for Borrower Seller Coolits			NO YES -See Seller Credits in Section L		- what is a	default on the loan, s in which your lender can requ	
Sale Pres \$100,000		MR. # 000834321	Adjustments and Oth	er Gredits	\$0 - \$1,035.04	YES See details in Sections K and L	Annual Percentage Rate (APR). Your costs over the loan term expressed as a rate. This is not your	kan, and the rules	for making payments before t	
Loan Terms	Can	this amount increase after closing?	Cash to Close		\$16,054.00 \$14,147.36		Interest rate.	4.174% Liability aft	er Foreclosure	
Loan Amount	\$162,000 NO						Total Interest Percentage (TIP). The total amount of interest that you will pay over the loan term as a	cover the an	r forecloses on this property an nount of unpaid balance on this	d the foreclosure does n loan,
Interest Rate	3.875% NO		Summartes of Tr		Use this table to see a sun		of interest that you will pay over the loan term as a percentage of your loan amount.	69.46% 🖪 state law	may protect you from liability fo or take on any additional debt	r the unpaid balance. If y
Monthly Principal & Interest	\$761.78 NO		BORROWER'S TRAN		\$189,762,30	SELLER'S TRANSACTION M. Due to Seller at Closing \$180,000.00		lose this p	protection and have to pay any o re. You may want to consult a la	obt remaining even after
See Projected Payments below for your Estimated Total Monthly Payment			01 Sale Price of Prop	erty	\$180,000.00	01 Sale Price of Property \$180,000.00		state law	does not protect you from liabl	ity for the unpaid balans
Estimated Total Monthly Payment	Des	the loan have these features?	C2 Sale Price of Any C3 Closing Costs Pai	Personal Property Include d at Closing (2)	ed in Sale \$9,682.30	02 Sale Price of Any Personal Property Included in Sale 03	Questions? If you have questions about th loan terms or costs on this form, use the con			
Prepayment Penalty	YE		Adustments			01	information below. To get more information	the property	this loan will depend on your to value, and market conditions.	uture financial situation, You may not be able to
								refinance th		
Balloon Payment	N	Closing Cost Details	Borrower-Paid	Seller-Paid	Paid by Others	Additional Information About This Loan		Tax Deduct If you borrow	w more than this property is w	rth, the interest on the
		Loan Costs	At Closing Before Closing \$1,992,09	At Closing Before Cl	osing Others	Loan Disclosures		from your fa	t above this property's fair man derail income taxes. You should	et value is not deductit consult a tax advisor fo
Projected Payments Payment Calculation	Years 1-7	A. Origination Charges 01 0.25 % of Loan Amount (Points)	\$1,802.00 \$405.00 \$300.00			Assumption	Escrow Account	more inform	ution.	
Payment Calculation	19073 1-7	02 Application Fee 03 Underwriting Fee	\$1,097.00			If you sell or transfer this property to another person, your lender will allow, under certain conditions, this person to assume this	For new, your loan If will have an escrow account (also called an "impound" or "trust"	Real Estate Br	roker Real Estate Broker	Settlement Agent
Principal & Interest	\$761.78	05 06				Ican on the original terms.	account) to pay the property costs listed below. Without an escre account, you would pay them directly, possibly in one or two large	(8)	(\$)	Epsilon Title Co.
Mortgage Insurance	+ 82.35	07				E will not allow assumption of this loan on the original terms.	payments a year. Your lender may be liable for penalties and inter for failing to make a payment.	st Broker Inc.	Broker Co.	
Estimated Escrow Amount can increase over time	+ 206.13	B. Services Borrower Did Not Shop For Appraisal Fee to John Smith Appraisers Inc.	\$236.55		\$405.00	Your loan		789 Local Land Sometown, ST	987 Suburb Ct. 12345 Someplace, ST 12340	123 Commerce Pl. Somecity, ST 12344
Estimated Total		02 Gedit Report Fee to Information Inc. 03 Data Data ministration Law to Information Inc.	\$29,00			has a demand feature, which permits your lender to require early repayment of the loan. You should review your note for details.	Escrow Escrowed \$2,473.56 Estimated total amount over year 1 fo	-		,
Monthly Payment	\$1,050.26	of Flood Monitoring Fee to Info Co. os Tax Monitoring Fee to Info Co.	\$31.75 \$75.00			does not have a demand feature.	Property Costs over Year 1 Property Losts: Property Losts:	Z765416	Z61456	Z61616
5-10-11 (T-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1-1	This	06 Tax Status Research Fee to Info Co. 07	\$90.00			Late Payment If your payment is more than 15 days late, your lender will charge a	1.1	Samuel Green	Joseph Cain	Sarah Arnold
Estimated Taxes, Insurance & Assessments Amount can increase over time	\$356.13 XH	08			_	tate fee of 5% of the monthly principal and interest payment.	Non-Excremed \$1,000.00 Estimated total amount over year 1 for Property Costs over Year 1 Homeowney's Association Daws	P16415	P51461	PT1234
Amount can increase over time See page 4 for details	a month CO	C. Services Borrower Did Shop For 01 Pest Inspection Fee to Pesta Co.	\$2,655.50 \$120.50			Negative Amortization (increase in Loan Amount) Under your loan terms, you	You may have other property costs.	same monorati	bir inegalphare.bir	sarahm
	costs	OT Past Inspection Fee to Pasts Co. OT Survey Fee to Survey Co. OT Title - Insurance Ender to Epsilon Title Co.	\$85.00			are scheduled to make monthly payments that do not pay all of the interest due that month. As a result, your loan amount will	Initial Excrow \$412.25 A cushion for the excrow account you Reyment pay at closing. See Section G on page	-	321.555.7171	epsilontitie.com
Costs at Closing		01 Table - Landar's Table Insurance to Epsilon Table Co. 05 Table - Settlement Agent Fee to Epsilon Table Co.	\$500.00 \$500.00			Increase (negatively amortize), and your loan amount will likely become larger than your original loan amount. Increases in your		125-335-1/1/	321-355-7171	987-555-4321
Closing Costs	\$9,712.10 Includes \$4	06 Title – Title Search to Epsilon Title Co. 07	\$800.00			loan amount lower the equity you have in this property. The may have monthly payments that do not pay all of the interest	Monthly Escrow \$206.13 The amount included in your total Payment monthly payment.			
closing costs	in Lender C	D. TOTAL LOAN COSTS (Berrower-Paid)	\$4,694.03			due that month, if you do, your loan amount will increase (negatively amortize), and, as a result, your loan amount may		You do not have	e to accept this loan because y	u have signed or receive
Cash to Close	\$14,147.26 Includes C	Lown Costs Subtotals (A + B + C)	\$4,664.35 \$29.80	l l		become larger than your original loan amount. Increases in your loan amount lower the equity you have in this property.	will not have an escrow account because _you declined ityou lender does not offer one. You must directly pay your property	·		
		Other Costs	545.00		1	III do not have a negative amortization feature.	costs, such as taxes and homeowner's insurance. Contact your lender to ask if your loan can have an escrow account.			
CLOSING DISCLOSURE		01 Recording Fees Deed: \$40.00 Mortgage: \$45.00 00 Teander Las to Any State	\$45.00	\$250.00	_	Partial Payments	No Escrew	Co-Applicar	it Signature	Date
		F. Prepaida 0) Honecovers's Insurance Premium (12 mp.) to Insurance Co.	\$2,120.80 \$1,202.96			Your lender III may accept payments that are less than the full amount due	Extinuated Extinuated total amount over year 1. Ye Property Costs over Year 1 in one or two large payments a year.	, i i i i i i i i i i i i i i i i i i i	PAGE	OF 5 - LOAN ID # 123456:
		Tromeowner's insurance Premium (12 ma) to insurance co. Zi Mortgage Insurance Premium (mo) Prepaid Interest (\$17.44 per day from 4/15/13 to 5/1/13)	\$279.04			(partial payments) and apply them to your loan. may hold them in a separate account until you pay the rest of the	over Year 1 in one or two large payments a year. Excross Waiver Fee			
		01 Property Taxes (6 mo.) to Any County USA 05	\$6.31.80			payment, and then apply the full payment to your loan.	In the future,			
		G. Initial Escrow Payment at Closing 01 Homeowner's Insurance \$100.83 per month for 2 mo.	\$412.25 \$201.66			If this loan is sold, your new lender may have a different policy.	Your property costs may change and, as a result, your escrow pay- ment may change. You may be able to cancel your escrow account,			
		Homeowner's Insurance \$100.83 per month for 2 mo. Mortgage Insurance per month for mo. Property Taxes \$105.30 per month for 2 mo. OI	\$210.60			Security Interest You are granting a security interest in	but if you do, you must pay your property costs directly. If you fail to pay your property taxes, your state or local government may (1)			
		04 05				456 Somewhere Ave, Anytown, ST 12345	impose fines and penalties or (2) place a tax lien on this property. If you fail to pay any of your property costs, your lender may (1) add	-		
							the amounts to your loan balance, (2) add an escrow account to you loan, or (3) require you to pay for property insurance that the lende			
			- 0.01			You may lose this property if you do not make your payments or satisfy other obligations for this loan.	buys on your behalf, which likely would cost more and provide few benefits than what you could buy on your own.	·		
		00 Apprepate Adjustment BLOther								
		01 HDA Capital Contribution to HDA Acre Inc. 02 HDA Processing Fee to HDA Acre Inc.	\$500.00 \$150.00		10.00					
		01 HDA Capital Contribution to HDA Acre Inc. 02 HDA Processing Fire to HDA Acre Inc. 03 Home Inspection Fire to Engineers Inc. 04 Home Warranty Fire to XY2 Warranty Inc.	\$500.00 \$150.00 \$750.00	\$450.00	50.00					
		HOA Capital Contribution to HOA Acre Inc. HOA Processing Fee to HOA Acre Inc. Hone Inspection Fee to Engineers Inc. Hone Warranty Fee to XVZ Warranty Inc. Baal State Commission to Apple Real State Booker	\$150.00 \$750.00	\$450,00 \$5,700,00 \$5,700,00	50.00					
		01 HDA Capital Contribution to HDA Acre Inc. 02 HDA Processing Fire to HDA Acre Inc. 03 Home Inspection Fire to Engineers Inc. 04 Home Warranty Fire to XY2 Warranty Inc.	\$150.00	\$450.00 \$5,700.00	50.00					
		HAN Capital Contribution to HGM And Inc. HOM Form Inc. HOM Forming from to HGM And Inc. HOM Former Inc. Home Inspection Fire to Engineer Inc. Home Inspection Fire to EXP Manuscription. Home Instruct Commission to Alpha Rul Later Broker Hard State Commission to Alpha Rul Later Broker Hard State Commission to Compage Rul State Broker Hard State Commission to Commission to Commission	\$150.00 \$750.00 \$1,000.00	\$450.00 \$5,700.00	50.00					
		HOA/Capital Contribution to HOA/can Inc. HOA/Capital Contributions HOA/Capital Contribution HOA/Capital Contribution HOA/Capital Contribution Hoave Memory Inc. Hoave Mem	\$120.00 \$750.00 \$1,000.00 \$5,018.65 \$5,018.65 \$5,018.65 \$5,018.65	\$450.00 \$5,700.00 \$5,700.00	50.00			ı		

*See **consumerfinance.gov/regulatory-implementation/tila-respa/** for compliance guidance, forms, sample timetable and other implementation tools



CFPB BULLETIN 2012-03 - APRIL 13, 2012

Provides that lenders *may be held legally responsible for the actions or inactions of their service providers* where consumers are harmed as a *result of the service provider failing to comply with consumer financial law.*

To "limit the potential" for such responsibility, lenders *"should take steps" to ensure no unwarranted risks are posed to consumers* by their *service providers.*

1801 L. Strawt	NW, Washington, DC 20036		
	EFFE Bulletin 2012-03 Date: Apul 13, 2012 Subject Service Formides The Commune Financial Protection Burean ("CFFE") espects repertised banks and modulus to overcee their burgers relationships with service providen in a manaer		ming the service provider's polisies, procedures, internal g materials to ensure that the service provider conducts and overaging of employees or agents that have consume as exponentialises; mort with the service provider clear expectations shour a more constraint and enforceships
	enture: compliance with Federal continuer financial law, which it designed to prote- instearts of continuers and avoid contunues hum. The CFEP's scenitor of its supervisory and enforcement authority will closely seflect this oscenation and emplo- This Bulletin uses the following terms:	er the company on the communities, again repondency choose and a strain the supervised service man athority Over Service Providers	ed responsibilities, including engaging in unfair, deceptive actace; controls and on-going monitoring to determine whether amplying with Federal constance financial law; and a to address fully any problems identified through the
	Expended have and worker ceffers to the following exatics: supervised by the CFES- - Large insured deposition plantitudions, large insured cerefit unions, and their affilines: 112 USC § 5315); and - Certain non-depositiony communer financial territies companies (12 USC § 5314).	eral consumer financial law and for other related forcement authority when violations of the law are DEPB supervisors and enforcement authority over	including terminating the relationship where appropriate, ang to the exponsibilities of a supportivel bank or poobu- its with service paoriders, plaste certer the CFPB's anad: Compliant Management Review and Ugdar, Deeptire, as
	Lightmind strain provide a stars to the following easilies supervised by the CFFB: • Service providers to supervised bushs and multihality (10.10.5, 05, 5515, 55 and • Service providers to a substantial number of small instance depository institu- or small surved content subsoci (12.15, 05, 5516).	on on unifie, deseptire, or aboute acts or practices. 149; Sortement authority against supervised service titous	
	Joint provider is greatedly defined in section 1002/20/ of the Dodd-Frank Act is "up period that provides a naturally testing to a constant period in a constant of the offening or promision by much correct perions of a local manual product on series." (20 5 C; 543/10). A science portodicate may compare obser affilianted up period to which is provides series. <i>Photon Construct Frank Section</i> 2002/14/ of the Dodd-Frank Act Section 2002/14/ of	is an anomalie to make a barrow poportion der reintouchig. The CFTS will apport here to of whether it is a supervised bank or nonbank that provide: or regulatory violations and related consumer harm,	
	(12 U.S.C. 5 4461 (14). A Service Provider Laionnhips The CFFE recognize that the nut of service providers is often an appropriate busin decides for supervised banks and nonbanks. Supervised banks and nonbanks may outcome extension functions to certain provider that to arounce constraint, nut era	diligence to venty that the service provider	
	ontrolate estual munclas to strates powars due to econec constant, to estu provincies to develo y and mulciul addinatal podore os services, or y no experiis fiona service provident that would not otherwise be available without significant investment.	uce	
consumeritin	arte que		<u>cov/vpc</u> <u>reservision examination mercal_11211.pdf</u> at 32 (CM and 59 (UDAAP 6).
	consumerfinance.qov		
		consumer finance.gov	

CFPB issues Bulletin 2012-03 April 13, 2012



THE FIVE STEPS

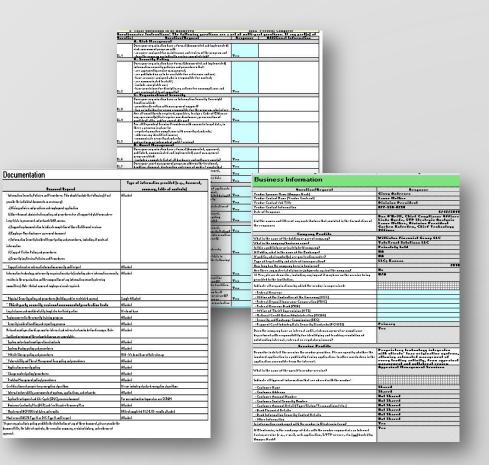
- 1. "Conducting thorough due diligence to verify that the *service provider* understands and is capable of complying with *federal consumer financial law;*
- 2. Requesting and reviewing the *service provider's policies, procedures, internal controls, and training manuals t*o ensure that the *service provider conducts appropriate training and oversight of employees or agents* that have consumer contact or compliance responsibilities;

- 3. Including in the contract with the service provider clear expectations about compliance, as well as appropriate and enforceable consequences for violating compliance-related responsibilities, including engaging in unfair, deceptive, or abusive acts or practices;
- 4. Establishing *internal controls and ongoing monitoring* to determine whether the service provider is complying with federal consumer financial law;
- 5. Taking *prompt action to address* fully any *problems identified through the monitoring process,* including terminating the relationship where appropriate."



LENDER DUE DILIGENCE OF VENDORS

- Regardless the size of the entity, regulators are requiring compliance.
- There is not a "one size fits all" component to what documentation settlement service providers are being required to produce.
- "Tell me, show me, prove to me ... What's in your CMS?"
 - Policies and Procedures
 - Training
 - Monitoring and corrective action
 - Effective response to and resolution of consumer complaints





MORE LENDER DUE DILIGENCE OF VENDORS

- Lender Audits On-site Visits "Trust, but verify"
 Facilities, Data Security, Employee Interviews
- Internal and External
 Process Reviews & Audits
- Information Technology
 - Administrative, Technical & Physical Safeguards
- ✓ Corporate Policies and Procedures
- ✓ ALTA Best Practices
- ✓ State and Federal Rules and Regulations
- ✓ Consumer Financial Law
- ✓ Information Security Audits

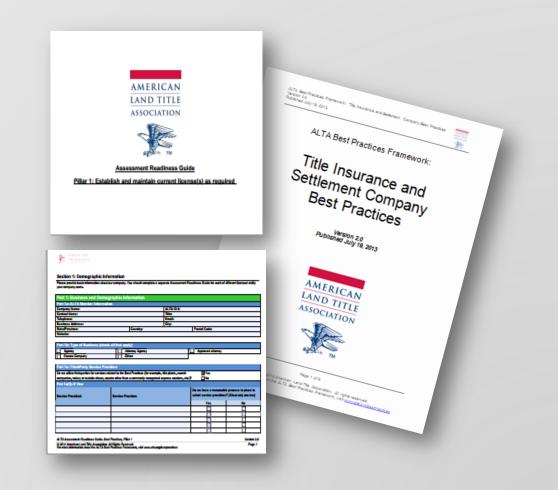


- ✓ Technology Service Providers Audits
- ✓ Service Organization Control (SOC) Reports
- ✓ Master Service Agreements
- ✓ General Closing Instructions
- ✓ Performance and Metrics Evaluations



ALTA[®] SEVEN PILLARS OF BEST PRACTICES SELF-ASSESSMENT GUIDES AND CERTIFICATION

- 1. Maintain current license(s)
- 2. Written procedures and controls for Escrow Trust Accounts
- 3. Written privacy and information security program to protect Non-public Personal Information
- 4. Real estate settlement procedures and policies
- 5. Written procedures related to title policy production, delivery, reporting and premium remittance
- 6. Liability insurance and fidelity coverage
- 7. Procedures for resolving consumer complaints





FINDING AND WORKING SUCCESSFULLY WITH FOURTH PARTY VENDORS

"... How far can the review, evaluation and qualification of vendors reach?

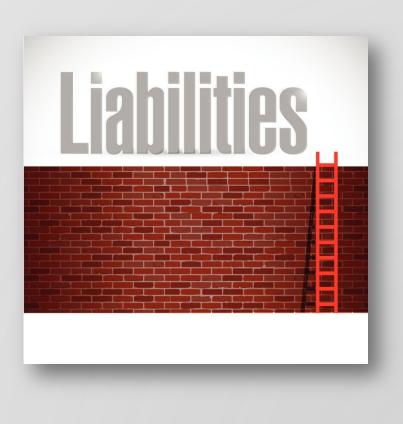
... as far as necessary for lenders to ensure everyone in the service chain adheres to consumer finance laws and rules protecting consumers."





COMMON LAW DUTIES OF PRINCIPAL AND AGENT

- Liability for acts of third and fourth parties
- Indemnification
- Insurance





FOURTH PARTY SERVICE PROVIDERS

• Who should be considered a fourth party service provider?

 How far downstream is your due diligence expected to go – fifth parties? sixth parties? beyond?





EVALUATING FOURTH PARTY SERVICE PROVIDERS

Concentrate <u>first</u> on vendor
 qualifications **BEFORE** any
 negotiations on business terms

• Consider the "vital few" ...





SOUND VENDOR MANAGEMENT PRACTICES Sourcing, Evaluating, Qualifying and Selection

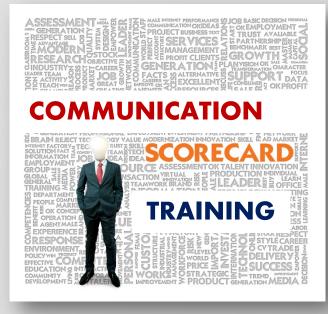
- Use of non-disclosure agreements (NDAs)
- Due diligence considerations
- Defining roles and responsibilities
- Process mapping
- Reference checks
- Other sources for vendor information





MORE SOUND VENDOR MANAGEMENT PRACTICES Contracting, Training and Tracking

- Service level agreements (SLAs)
- Training vendors transfer of knowledge
- Scorecards
- Communication matrix
- Escalation





MORE SOUND VENDOR MANAGEMENT PRACTICES Using Multiple Service Providers

- Champion/challenger model
- Multiple vendors load balancing





VENDOR MANAGEMENT TOOLS, TEMPLATES AND FORMS

- Non-disclosure Agreement (NDA)
- Vendor evaluation
- Metric management creating a score card to track the "vital few"
- Vendor manager position description and essential duties
- Due diligence questionnaire and checklist

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QUESTIONS AND COMMENTS

For more information about WFG and its audit and compliance programs contact **Don O'Neill** at 916.300.1817 or <u>doneill@wfgnationaltitle.com</u>





DISCLAIMER

This information is not a substitute for legal advice, is for your reference only and is not intended to represent the only approach to any particular issue. This information should not be construed as legal, financial or business advice and users should consult legal counsel and subject-matter experts to be sure that the policies adopted and implemented meet the requirements unique to your company.

