



November 23, 2015

Ms. Patricia McClung
Assistant Director of Mortgage Markets
Consumer Financial Protection Bureau
1700 G Street NW
Washington, DC 20522

Dear Tricia:

Thank you for listening to ALTA members' concerns regarding the implementation of the Know Before You Owe rule and, specifically, how to interpret the liability provisions of the rule. On a related note, I wanted to discuss the Bureau's role and expectations for third-party vendor management programs.

As you know, the Bureau published a bulletin in 2012 outlining its expectations that financial firms have a program in place to manage the consumer compliance risk presented by their third-party service providers. While this bulletin did not establish any requirements different than those imposed by other federal banking regulations, ALTA and its leadership made the determination to proactively work with the mortgage lending community to develop a set of uniform standards that lenders could use when managing title and settlement companies. This product is known as the Title Insurance and Settlement Company Best Practices.

Over the last three years, a number of lenders, both large and community-based, have incorporated the ALTA Best Practices into their vendor management protocols. Despite this progress, we continue to hear from lenders that they are confused about the Bureau's expectations for third-party vendor management. This lack of understanding has hindered the development of robust vendor management programs for fear that they will not meet the Bureau's expectations.

To help alleviate this confusion and provide necessary clarity to the marketplace, ALTA urges the Bureau to provide greater guidance on how to oversee third-party vendors. ALTA has identified four specific actions the Bureau can take to help supervised entities and service

providers better understand what constitutes a sufficient vendor management program that will meet the Bureau's expectations.

First, ALTA encourages the Bureau to be aware of the types of vendor management programs that are currently being adopted in the marketplace. The lack of a comprehensive understanding of what the Bureau, and other federal regulators, are looking for in vendor management programs has led many lenders to impose inconsistent standards for their service providers, exposing service providers to multiple verification processes. These varying processes are proving to be expensive for vendors to adopt, especially for the small title and settlement providers that make up over 65% of the more than 20,000 settlement agents in the United States. To better understand the current state of the marketplace, we encourage the Bureau to update its examination questionnaire to include routine questions about a company's vendor management plan for settlement agents.

Second, ALTA recommends that the Bureau provide more public statements about the good practices within the vendor management programs they are seeing in the marketplace. Oftentimes, the Bureau only shares information about vendor management programs that have failed to meet the Bureau's expectations and which have resulted in an enforcement action. To help promote its goals of creating a self-policing and self-reporting industry,¹ the Bureau should be more transparent about what types of standards are acceptable to the Bureau, such as ALTA's Title Insurance and Settlement Company Best Practices. By highlighting superior industry actions that accomplish the Bureau's goal of protecting consumers, the Bureau can influence the marketplace to adopt more thorough vendor management programs that meet its expectations.

Third, supervised entities would benefit from greater direction from the Bureau during the supervision process. During this process, the Bureau has the opportunity to guide the behavior of supervised entities by highlighting both compliant and concerning actions that these individual entities have taken. We recommend that the Bureau enhance its supervision manual to include more specific expectations around vendor management. Through this enhanced process, the Bureau can better shape how industry adopts third-party vendor management programs.

Lastly, it would be helpful for the Bureau to delineate the purview of its supervised entities' vendor management programs. In many instances, title companies are not selected directly by the lender, but are rather chosen by the consumer. In these situations, the lender has minimal control over what settlement agent is employed to complete the closing transaction. ALTA recommends that the Bureau clarify how these arrangements fit into the structure of the vendor management programs to help maintain the integrity of consumer choice.

¹ CFPB Bulletin 2013-06 (June 25, 2013)

We appreciate your consideration of these recommendations and would welcome the opportunity to discuss these comments further with you and your team. ALTA looks forward to continuing to work with the Bureau to ensure that industry can meet the Bureau's expectations for third-party vendor management programs.

Sincerely,

A handwritten signature in black ink, appearing to read "Michelle L. Korsmo". The signature is fluid and cursive, with a large, sweeping initial "M".

Michelle L. Korsmo
Chief Executive Officer