Massachusetts

Division of Banks

Risk Assessment

Entity Name:

Prepared by:

Charter/License Number:

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Consumer Risk Assessment

The Division of Banks' (Division's) Risk Assessment process is designed to evaluate on a consistent basis the extent of risk to consumers arising from the activities of a particular supervised entity and to identify the sources of that risk. "Risk to consumers" for the purpose of the Division's Risk Assessment is the potential for consumers to suffer economic loss or other ascertainable injury as a result of a violation of state or federal consumer financial protection law. To determine risk to consumers, the Risk Assessment considers the interaction of two broad sets of factors: the inherent risks in a particular line of business or the entity as a whole and the quality of controls implemented by the entity to manage and mitigate those risks. As noted below, the Risk Assessment will be used during Division's supervision planning process to set priorities and focus examination and supervision activities.

Inherent risk includes factors that increase the potential for unfair, deceptive or abusive acts or practices, for discrimination, or for violations of other consumer financial protection laws. It also includes factors that increase the compliance management challenges of a business and thereby increase the risk of such violations. The quality of risk controls includes factors related to both managing and mitigating specific inherent risks as well as the strength of an entity's overall system of compliance management.

The questions and considerations in this template may be used to conduct risk assessments of individual lines of business, supervised entities as a whole, and groups of affiliated entities when feasible and applicable. Assessments of individual lines of business in large complex entities may be considered together to reach conclusions about the entity as a whole.

The risk assessment is not a determination of whether a violation of law exists.

Using the Risk Assessment Template

The template provides a series of factors that bear on inherent risk and relevant risk controls. Examiners conducting the assessment should rate each relevant factor (low, moderate, or high inherent risk; strong, adequate, or weak risk controls and mitigation), and comment briefly on the basis for each rating and issues to consider during the examination. The factor ratings, taken as a whole, result in the Risk Summary, which is a conclusion about whether the overall risk to consumers is low, moderate, or high. The Risk Summary also includes a judgment about the expected change in the overall risk (decreasing, increasing, or stable/unchanged), and when that direction last changed. The Risk Summary, and the basis for it, will be included with the Examination Report.

The factor ratings and comments should be used to inform the Examination Scope. For example, if the nature and structure of certain products point to high inherent risk and the quality of risk controls is only adequate, then the examination scope should likely include a review of those products and the related compliance controls. The magnitude and severity of potential consumer harm arising from particular risks should be considered when setting priorities for review.

There may be other institution or industry-specific risk factors beyond those included in the template that should be considered when assessing risk to consumers. Examiners should use their knowledge and judgment to identify risks that are unique to a particular entity or its specialized business focus.

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The sections below include (1) factors that specifically increase the risk that unfair, deceptive, abusive acts or practices, discrimination, or other violations of consumer financial law will occur and (2) factors that generally increase the difficulty of managing compliance in an organization.

Inherent Risk
Comments in each section should identify any specific factors present in the line of business or entity being assessed, note the potential UDAAP, discrimination, or other regulatory issues to review during an examination, and comment briefly on the basis for the rating assigned to that factor. The rating should reflect the degree of risk.

Nature and Structure of Products	Comments
The profitability of a product is dependent upon penalty fees (e.g., fees for a late payment, for exceeding a credit limit, or for overdrawing deposited funds).	[Click&Type]
The terms of the product are subject to change at the discretion of the entity, and the entity has frequently made changes in the terms.	
The entity reverses fees at a significantly higher rate than other entities of similar size offering similar products.	

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Pricing structure (interest rate, points, fees) and other features and terms are combined in a manner that is likely to make the total costs of the product difficult for consumers to understand.	
Products are bundled in a way that may obscure relative costs.	
Consumers pay penalties to terminate a relationship, including forgoing money or benefits they would otherwise earn.	
Consumers face barriers to information, such as costs to access customer service or information about their account.	
Credit decision-makers have wide discretion over setting terms and features of products with inadequate policies and procedures addressing appropriate exercise of that discretion.	

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Credit products are not underwritten based upon the likely ability of the consumer to make the required (or, in the case of adjustable rate products, potentially required) payments over the term of the loan.	
RATING – Nature and Structure of Products	☐ **Low** ☐ **Moderate** ☐ **High**

Consumers to whom products are marketed	**Comments**
Consider the extent to which the marketing of a product or service is targeted to particular populations including: • Students or young adults; • Elderly; • Minorities; • Immigrants; • Consumers of certain national origins;	[Click&type]

• Members of specific religious groups or denominations; • Military service members or former service members; • Consumers with limited education; • Consumers with limited English proficiency; • Low-income consumers or consumers on limited fixed incomes; • Consumers receiving any type of public assistance; • Consumers with limited experience with financial products or services; • Consumers in or who have recently experienced financial distress; • Consumers with low credit scores (e.g., FICO below 620); or • Consumers of a certain gender or marital status.	

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Products targeted to consumers who fall in multiple categories may be of particular concern. Consider whether any particular populations are missing or excluded from the entity's advertising.	
RATING – Consumers to whom products are marketed	☐ **Low** ☐ **Moderate** ☐ **High**

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Marketing methods and sales organizations	Comments
Incentives and Compensation	[Click&type]
Incentives encourage the sale of high-cost products regardless of consumer's request or situation.	
Compensation or performance evaluation of person-to-person sales staff (telephone, face-to-face)is based on: • The number of sales made; • The size of the sales made (for example, average loan size) or the volume of sales; • The price of the product sold; or • The particular product sold without consideration of product outcomes or performance(for example, default or attrition rates, etc.).	
Person-to-person sales staff has discretion to set prices (interest rate, points, fees) with inadequate policies and procedures addressing exercise of	

that discretion.	
Person-to-person sales staff is not accountable for product outcomes or performance (default rates, attrition rates, etc.).	
Marketing and Advertising	
Marketing materials are not written in a language or at a level understandable by targeted consumers.	
Key product terms or features are not readily available to consumers.	
Targeted consumers would not likely qualify for advertised products or terms.	
Advertising includes teaser rates or low fees with little or no information about important conditions (such as periodic or exit charges).	
Complex products are marketed to consumers not likely to benefit from them or who may likely be harmed by them.	

Product marketing and sales, including branch locations, are targeted in a manner that may be discriminatory.	
Advertising utilizes media outlets targeted to particular populations only to advertise its higher-cost products and not its full range of products.	
RATING – Marketing Methods and Sales Organization	☐ **Low** ☐ **Moderate** ☐ **High**

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Ongoing customer relationship management	Comments
Employees with customer service responsibilities, including collections, are not evaluated or compensated based on the quality of service or level of customer satisfaction.	[Click&type]
The compensation of customer service representatives with discretion to adjust prices or modify other terms is impacted by the frequency and/or size of such adjustments.	
Customer service representatives with discretion to adjust prices or modify other terms operate with inadequate policies and procedures addressing exercise of that discretion.	
Vendors with customer service responsibilities, including collections, are not evaluated based on quality of service or level of customer satisfaction.	
The compensation of vendors that provide customer service representatives with discretion to adjust prices or modify other	

terms is impacted by the frequency and/or size of such adjustments.	
Vendors that provide customer service representatives with discretion in pricing operate with inadequate policies and procedures addressing exercise of that discretion.	
The number of customer service staff is insufficient to provide timely service.	
Customer service information systems do not have sufficient capacity to support the number of customers.	
RATING – Ongoing customer relationship management	☐ **Low** ☐ **Moderate** ☐ **High**

Compliance management challenges	**Comments**
The entity maintains multiple, discrete un-integrated information systems to originate and service product relationships, including new product relationships with existing customers.	[Click&type]
Solicitation is conducted through active	

cross-selling, outbound telemarketing, or use of third parties for direct marketing.	
The entity uses internet advertising or a wide variety of other mass media.	
The entity has an extensive or decentralized retail network.	
Numerous subsidiaries or affiliates provide consumer financial products and services on behalf of the entity.	
The entity relies heavily on third parties other than subsidiaries or other affiliates to provide products and services to consumers.	
RATING – Compliance Management Challenges	☐ **Low** ☐ **Moderate** ☐ **High**

Financial Condition	**Comments**
CAPITAL – The entity meets net worth requirements based on established regulation. The entity has policies and procedures in place designed to notify the Division when net worth requirements are	[Click&type]

not met and of the actions taken to correct any deficiency.	
ASSETS – The entities assets adequately consider valuation for mortgage receivables and other line items subject to possible adverse classification (i.e. uncollectable accounts or other assets subject to adverse classification). The entity's bank and investment statements, as clarified by any notes to the financial statements, support the accuracy of its balance sheets and the types of assets reflected on its financial statements.	
EARNINGS - The entity identifies revenue sources and demonstrates positive earnings contributing to capital growth and stability.	
LIQUIDITY - The entity has the capacity to meet obligations to creditors, investors and employees. The entity has available warehouse lines with the capacity to fund loans	
RATING – Financial Condition	☐ **Low** ☐ **Moderate** ☐ **High**

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Other factors that point to heightened consumer risk	Comments
<DESCRIBE FACTOR>	[Click&type]
RATING – Other factors	☐ **Low** ☐ **Moderate** ☐ **High**

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The considerations below bear on both the general quality of an entity's consumer compliance risk management and specifically on controlling the risks of unfair, deceptive or abusive acts or practices, discrimination, or other violations of consumer financial law. The specific factors indicate strong compliance management.

QUALITY OF CONSUMER COMPLIANCE RISK CONTROLS AND MITIGATION
Comments in each section should identify any factors of concern in the line of business or entity being assessed, note particular compliance management issues to review during an examination, and comment briefly on the basis for the rating assigned to that factor. The rating should reflect the strength of compliance management.

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Board of Directors and Management	Comments
The board of directors has adopted comprehensive policies that establish clear standards for compliance with applicable laws, including laws prohibiting unfair, deceptive or abusive acts or practices, and discrimination: • Policies and procedures are comprehensive and thorough. • Policies are current and consistent with consumer business activities, and reflect current laws and regulations. • A clear process exists for aligning compliance policies with changing business activities.	[Click&type]
Management's commitment to consumer compliance has been communicated throughout the regulated entity.	
The board and management receive regular and meaningful reporting with respect to consumer protection issues, consumer compliance, or complaints.	

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The board and management follow up on a timely basis on issues identified with respect to consumer compliance.	
Management anticipates, plans, and reacts promptly to changes in markets, technology, regulations, or consumer need.	

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Management 's ability to mitigate the various types of risk associated with financial services companies and to determine the financial impact that may result from mismanagement of these risks. Including: • Credit Risk – quality of loans, underwriting standards, loan product types, and loan documentation type • Interest Rate Risk –ability to manage fluctuations in the market directly related to interest rates, including the interest rates offered to consumers, rate lock policies and investor agreement • Price Risk – Valuation of portfolio, financial instruments in relationship to market factors (interest rates, market liquidity and volatilities) • Transaction/Operation Risk – policies, procedures and internal controls in place to identify problems and irregularities in loans and/or servicing portfolio, which could result in loan buybacks or misapplication of funds • Compliance Risk – ability to comply with federal and state laws and regulation reducing or eliminating the likelihood of fines, civil money penalties and damages and voiding of contract • Strategic Risk – ability to develop and	

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RATING – Board of Directors and Management	☐ **Strong** ☐ **Adequate** ☐ **Weak**

Authority and accountability for compliance	**Comments**
Sufficient resources have been allocated to compliance, including monitoring of compliance throughout the organization and monitoring third parties that perform activities involving consumers.	[Click&type]
Management and staff responsible for compliance with consumer protection laws are independent from the business line when appropriate given the size, nature, and complexity of the entity and have clear authority to identify and resolve consumer compliance issues.	
Unit or individual performance expectations include responsibility for compliance.	
Units or individuals have sufficient authority to effect a strong compliance	

program.	
RATING – Authority and accountability for compliance	☐ **Strong** ☐ **Adequate** ☐ **Weak**

Compliance risk management program and oversight	**Comments**
The compliance risk management program is well tailored to the size, nature, and complexity of the entity.	[Click&type]
The compliance program is independent from the business line when appropriate given the size, nature, and complexity of the entity and provides sufficient oversight of the entity.	
The compliance program provides sufficient oversight of third parties interacting with consumers on behalf of the entity in relation to consumer compliance risk.	
Regular compliance testing is conducted and includes samples of sufficient size covering all relevant product types, decision centers, customer points of	

contact, and customer communications.	
Compliance testing includes regular and comprehensive self-assessments for compliance with consumer laws and regulations including fair lending.	
The compliance management program promptly addresses issues of potential unfairness, deception, abuse, or discrimination.	
The compliance risk management program includes comprehensive controls and systems to assure prompt and thorough corrective action when problems are found.	
RATING – Compliance risk management program and oversight	☐ **Strong** ☐ **Adequate** ☐ **Weak**

Product and system development and modification	**Comments**
Consumer compliance risks are considered throughout the product and system lifecycle.	[Click&type]
Management and staff responsible for	

consumer compliance are involved in the product life cycle, including product development and changes, marketing, product delivery, and customer service.	
Possible unfair, deceptive, abusive, or discriminatory effects of product design or delivery are considered and resolved at an early stage.	
Management and staff responsible for consumer compliance are involved in the structuring of incentives, including those for employees and third-party vendors and their employees who interact with consumers.	
RATING – Product and system development and modification	☐ **Strong** ☐ **Adequate** ☐ **Weak**

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Training	Comments
Appropriate training is provided to all staff, including those responsible for product development, marketing, and customer service and covers consumer protection laws and the obligation to avoid unfair, deceptive, abusive, or discriminatory practices.	[Click&type]
Training is timely, repeated as necessary, and tailored to the particular responsibilities of the staff receiving it.	
Training encourages all employees to take responsibility for consumer compliance and to identify and correct issues.	
Policies and procedures and oversight mechanisms are designed to ensure that appropriate and current training is provided to employees of third parties who interact with consumers.	
RATING – Training	☐ **Strong** ☐ **Adequate** ☐ **Weak**

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Complaint Management	Comments
The entity provides consumers with the opportunity to submit complaints through channels of the customer's choice, including mail, email, or phone.	[Click&type]
The entity provides complete and timely responses to complaints received either directly from consumers or indirectly through regulators or other third parties that process complaints.	
Third parties that provide services involving consumers have an established complaint process that is appropriately monitored by the supervised entity.	
The entity tracks all types of complaints.	
The entity actively monitors complaints to identify issues that may require changes in products, procedures, and/or training.	
The entity tracks the time to final resolution of consumer complaints.	
Complaints are resolved without requiring the direction or involvement of executives,	

regulators, or third parties (such as the Better Business Bureau), or the prospect of litigation or enforcement actions.	
RATING – Complaint Management	☐ **Strong** ☐ **Adequate** ☐ **Weak**

Other factors that point to potential lack of controls or mitigation	**Comments**
<DESCRIBE FACTOR>	[Click&type]
RATING – Other factors	☐ **Strong** ☐ **Adequate** ☐ **Weak**

Magnitude and Severity of Potential Harm – *This factor should be considered when setting priorities for examination activities based on potential risks identified in particular products, lines of business, or the entity overall. Comments should discuss and compare the likely magnitude and severity of potential harm from any identified sources of risk.*	**Comments**

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The magnitude and severity of potential harm to consumers will vary based upon the number of consumers who may be directly impacted and the risks identified. For example, a smaller entity, or smaller line of business within an entity, may pose a greater risk to consumers than a larger one if the consumers potentially impacted by the smaller entity or line of business face much larger harmful consequences than those of the larger entity.	[Click&type]
RATING – Magnitude and Severity of Potential Harm	☐ **Low** ☐ **Moderate** ☐ **High**

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Background Considerations – these factors indicate a likelihood of existing weaknesses and may bear on the direction of risk

Supervisory History – Regulatory violations and Matters Requiring Attention identified in previous examinations; consumer compliance rating	Comments
Violations involve prohibited kickbacks, discrimination, unfair, deceptive or abusive acts or practices, need for reimbursements, or other harm to consumers.	[Click&type]
Violations are repeated or continuing.	
Violations result from systemic causes.	
Violations and Matters Requiring Attention reflect compliance management weaknesses.	
Consumer compliance rating of 3, 4 or 5.	
RATING – Supervisory History	☐ **Low** ☐ **Moderate** ☐ **High**

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Consumer complaints	**Comments**
Numerous complaints from consumers are filed against the entity, or its third-party vendors that interact with consumers, relative to the size of the customer base or in comparison to other entities of similar size offering similar products.	[Click&type]
Complaints allege or involve: • Misleading or false statements; • Lack of disclosure of information about material terms of a product or service; • Unauthorized fees, fees for services not provided, or duplicative fees; • Previously undisclosed charges; • Customer service; or • Loan servicing and collections.	
Complaints evidence non-compliance with consumer protection laws.	
Complaints raise issues of discrimination.	
Complaints raise issues of potential unfair,	

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deceptive, or abusive acts or practices.	
RATING – Consumer Complaints	☐ **Low** ☐ **Moderate** ☐ **High**

SUMMARY WORKSHEET ***Use this worksheet for an overall view of the Risk Assessment findings.*** ***Enter the rating for the different risk factors reviewed on the previous pages and note the priorities for examination review.***		
Risk Factors	**Rating**	**Review Priorities**
INHERENT RISK		[Click&type]
Nature and structure of products	[Select Rating]	
Consumers to whom products are marketed	[Select Rating]	
Marketing methods and sales organization	[Select Rating]	
Ongoing customer relationship management	[Select Rating]	
Compliance Management Challenges	[Select Rating]	
Financial Condition	[Select Rating]	
Other factors	[Select Rating]	

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RISK CONTROLS AND MITIGATION		
Board of directors and management	[Select Rating]	
Authority and accountability for compliance	[Select Rating]	
Compliance risk management program and oversight	[Select Rating]	
Product and system development and modification	[Select Rating]	
Training	[Select Rating]	
Complaint management	[Select Rating]	
Other factors	[Select Rating]	
Magnitude and severity of potential harm	[Select Rating]	
BACKGROUND CONSIDERATIONS		
Supervisory history – regulatory violations, Matters Requiring Attention, rating	[Select Rating]	
Consumer complaints	[Select Rating]	

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RISK ASSESSMENT CONCLUSIONS

Risk Summary

Supervised entity or line of business reviewed: [Click&type]

Element	Current MM/DD/YYYY	Preceding MM/DD/YYYY
Inherent Risk	[Select Rating]	[Select Rating]
Quality of Risk Controls and Mitigation	[Select Rating]	[Select Rating]
Overall Risk to Consumers*	[Select Rating]	[Select Rating]

Expected Change/Direction of Risk	☐ Increasing ☐ Decreasing ☐ Stable
Last Change in Direction	MM/DD/YYYY ☐ Increasing ☐ Decreasing ☐ Stable

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**Overall Risk to Consumers:*

The overall risk is the inherent risk identified in a particular business line or supervised entity, mitigated or amplified by the strength or weakness of the controls to address those risks. The following chart is a general guide to assessing the overall risk to consumers. Examiners must apply their judgment in making this determination; however, a risk controls conclusion of “Weak” should result in an overall risk conclusion that is no more favorable than “Moderate,” even if the degree of risk is concluded to be “Low.”

Overall Risk to Consumers				
		Quality of Risk Controls		
		Strong	Adequate	Weak
Inherent Risk	High	Moderate	High	High
	Moderate	Low	Moderate	High
	Low	Low	Low	Moderate

Summarize the primary bases for the summary conclusions:

[Click&type]