

# Violations of Consumer, Borrower Rights, and Flood Insurance Regulations Identified in FY 2003 Examinations

## SUMMARY REPORT

### Overview

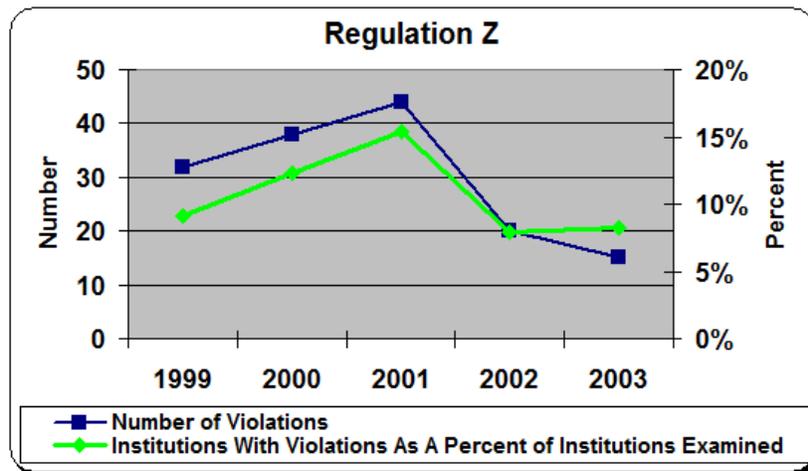
This report summarizes Farm Credit System (FCS) institutions' violations of Regulation Z (Truth in Lending Act), Regulation B (Equal Credit Opportunity Act), Regulation M (Consumer Leasing Act), Regulation U (Securities Exchange Act), Borrower Rights regulations, and Flood Insurance regulations identified in examinations conducted by FCA during fiscal year (FY) 2003 and for the 5-year period FY 1999 through FY 2003.

Information regarding compliance with Regulations Z, B, and M, collectively referred to as consumer regulations, is reported by the Farm Credit Administration (FCA) to the Board of Governors of the Federal Reserve System for its annual Report to Congress.

The types of violations (i.e., sections violated) are described under the individual regulations later in this report. Corrective actions have been required by FCA to ensure compliance. Affected institutions have taken or are in the process of taking corrective action.

### Regulation Z (Truth in Lending Act)

During FY 2003, FCA completed examinations of 73 institutions for compliance with consumer, borrower rights, and flood insurance regulations. In the majority of institutions examined, examiners found no Regulation Z violations. However, examiners did identify 15 Regulation Z violations in 6 institutions. This is a reduction in the number of violations since the previous year. The ratio of institutions with violations as a percent of institutions examined remained steady since the preceding year.

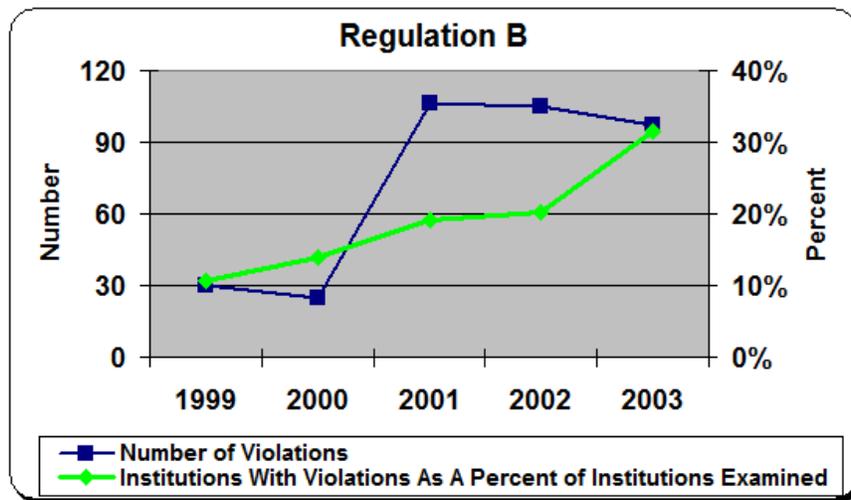


The most frequently violated section was **226.4, Finance Charge**. Forty-seven percent (7 of 15) of the violations involved incorrectly including or excluding various types of charges in the finance charge. Loan officer oversight was cited as the reason for the majority of the violations. During the comparison period, no violations of this section were noted in examinations conducted in FY 1999, 2001 and 2002.

Of the violations identified, 60 percent resulted in corrective actions by the affected institutions. Specifically, these included additional training for lending personnel or redisclosure. The remaining 40 percent required no corrective action because the violations were within regulatory tolerances.

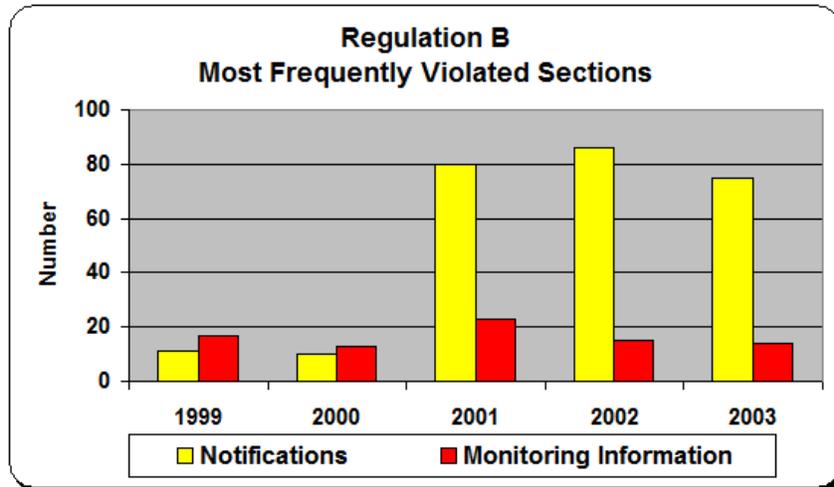
**Regulation B (Equal Credit Opportunity Act)**

During FY 2003, examiners identified 97 violations of Regulation B in 23 institutions. This is a decrease in the number of violations since the previous year and an increase in the ratio of institutions with violations as a percent of institutions examined since the previous year. Figures for FY 2001 and 2002 have been reclassified based on the results of special compliance reviews conducted in selected institutions during FY 2003.



The majority of the violations were concentrated in the areas of monitoring information and notifications.

- **Notifications (202.9):** 77 percent (75 of 97) involved timeliness of adverse action notices, failure to provide the required disclosures, or incomplete disclosures. Loan officer oversight, insufficient training, and weak internal controls were cited as the reasons for the majority of the violations.
- **Information for Monitoring Purposes (202.13):** 14 percent (14 of 97) involved failure to collect monitoring information or to make the required determination based on visual observation or surname. Insufficient training was cited as the major reason for these violations.



Of the violations identified, 97 percent resulted in corrective actions by the affected institutions. Specifically, this included additional training for lending personnel or improved internal controls. The remaining 3 percent required no corrective action due to the nature or timing of the violation.

#### **Regulation M (Consumer Leasing)**

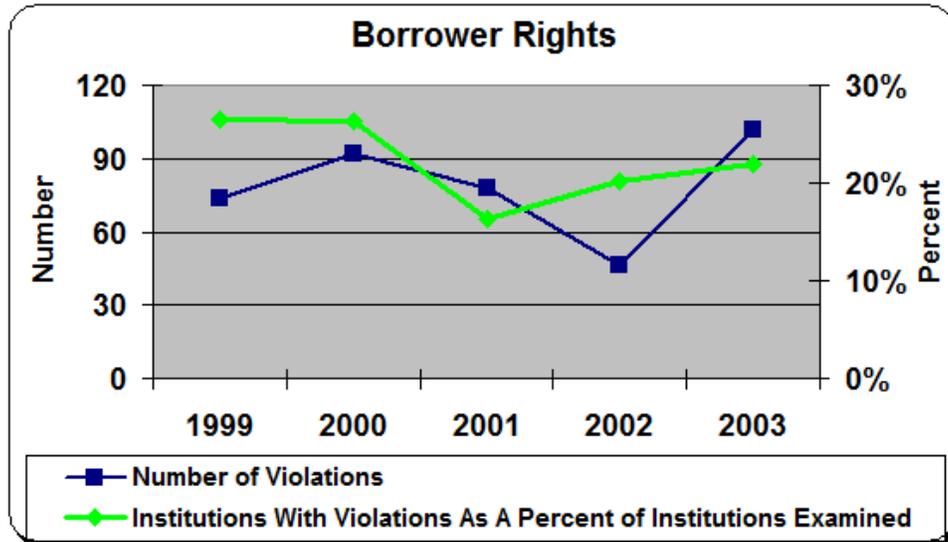
As in previous years, no violations of Regulation M were found. This regulation applies to leases of personal property for personal, family, or household purposes. Most FCS leases are for business purposes. As such, few FCS leases are subject to this regulation.

#### **Regulation U (Margin Credit Extended by Banks)**

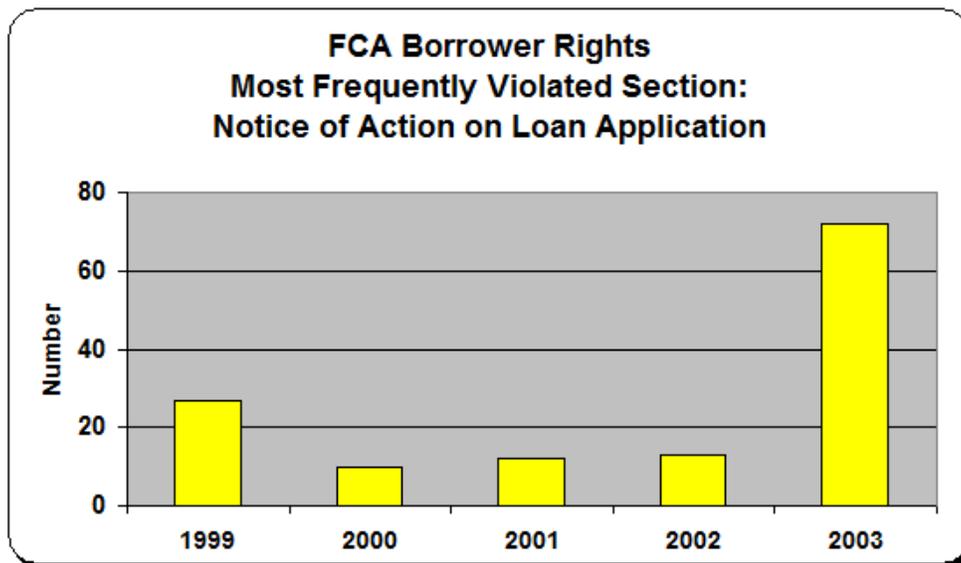
No violations of Regulation U were identified in examinations during FY 2003. During the previous 4 years, examiners identified 5 violations in 4 institutions.

#### **FCA Borrower Rights Regulations**

During FY 2003, while the majority of FCS institutions examined had no violations of FCA borrower rights regulations, there were 102 violations of these regulations identified in 16 institutions. This is an increase in the number of violations since the previous year and a slight increase in the ratio of institutions with violations as a percent of institutions examined since the previous year.



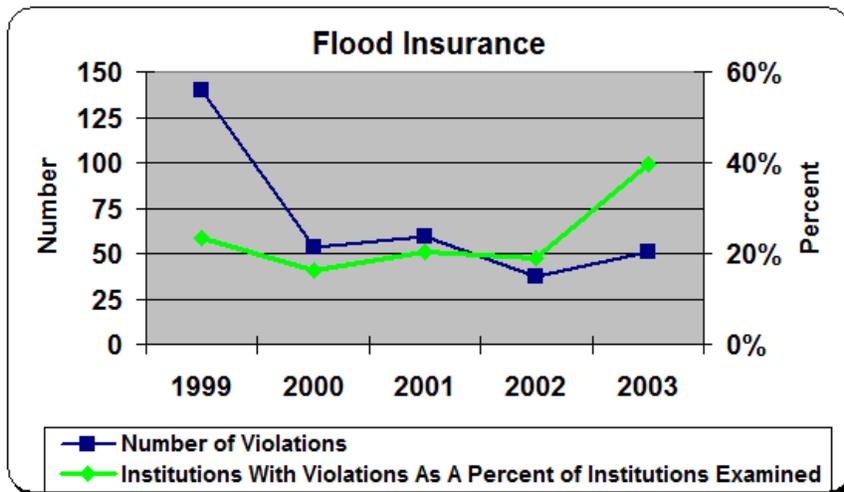
The most frequently violated section was **614.4441, Notice of Action on Loan Application**. Seventy-one percent (72 of 102) involved failure to provide prompt written notice of the decision on the loan application or providing incomplete notices. Insufficient training was the most frequently cited reason for the violations.



Of the violations identified, 98 percent resulted in corrective actions by the affected institutions. Specifically, this included additional training for lending personnel, improved internal controls, and/or redisclosure. The remaining 2 percent required no corrective action due to the nature or timing of the violation.

#### Flood Insurance

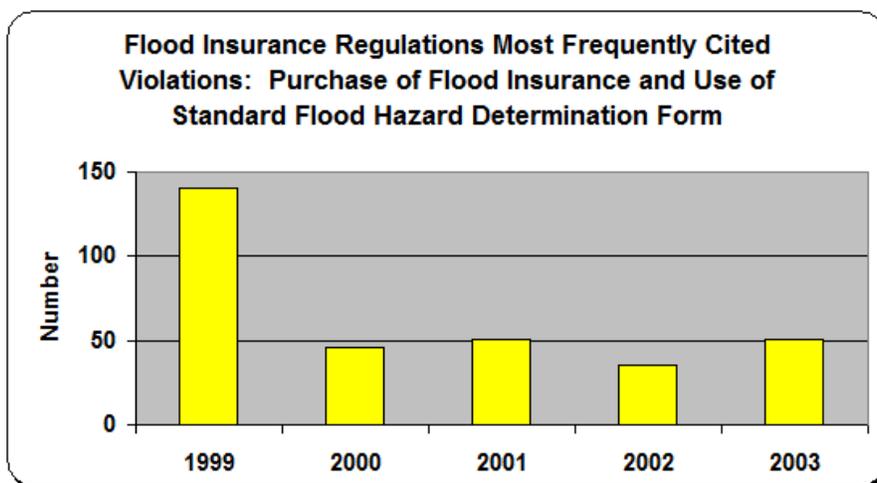
During FY 2003, examiners identified 51 violations of flood insurance regulations in 29 institutions. This is an increase in both the number of violations and the ratio of institutions with violations as a percent of institutions examined since the preceding year.



The majority of the violations were due to the failure to determine if flood insurance needed to be purchased and not using or fully completing the standard flood hazard determination form.

- Requirement to Purchase Flood Insurance Where Available (614.4930(a)):** Flood hazard determinations were not made; consequently, borrowers were not required to purchase flood insurance. Lender oversight was cited as the most frequent cause of the violations, followed by failure of the third-party appraiser to complete the standard flood hazard determination form.
- Required Use of Standard Flood Hazard Determination Form (614.4940(a)):** The determination was not made; thus, the required standard form was not used. Lender oversight was cited as the most frequent cause of the violations, followed by lack of adherence to policy and procedures.

These two sections frequently overlap and result in one count of a violation. Of the 51 violations identified in examinations, 48 (94 percent) were in these two areas.



Of the violations identified, 92 percent resulted in corrective actions by the affected institutions. Specifically, this included revised procedures, additional training for lending personnel, or correction of the violation. The remaining 8 percent required no corrective action due to the nature of the violation.