

GAO Highlights

Highlights of [GAO-18-213](#), a report to the Chairman, Committee on Small Business, House of Representatives

Why GAO Did This Study

In recent decades, many new regulations intended to strengthen financial soundness, improve consumer protections, and aid anti-money laundering efforts were implemented for financial institutions. Smaller community banks and credit unions must comply with some of the regulations, but compliance can be more challenging and costly for these institutions. GAO examined (1) the regulations community banks and credit unions viewed as most burdensome and why, and (2) efforts by depository institution regulators to reduce any regulatory burden. GAO analyzed regulations and interviewed more than 60 community banks and credit unions (selected based on asset size and financial activities), regulators, and industry associations and consumer groups. GAO also analyzed letters and transcripts commenting on regulatory burden that regulators prepared responding to the comments.

What GAO Recommends

GAO makes a total of 10 recommendations to CFPB and the depository institution regulators. CFPB should assess the effectiveness of guidance on mortgage disclosure regulations and publicly issue its plans for the scope and timing of its regulation reviews and coordinate these with the other regulators' review process. As part of their burden reviews, the depository institution regulators should develop plans to report quantitative rationales for their actions and addressing the cumulative burden of regulations. In written comments, CFPB and the four depository institution regulators generally agreed with the recommendations.

View [GAO-18-213](#). For more information, contact Lawrence L. Evans, Jr. at (202) 512-8678 or evansl@gao.gov.

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COMMUNITY BANKS AND CREDIT UNIONS

Regulators Could Take Additional Steps to Address Compliance Burdens

What GAO Found

Interviews and focus groups GAO conducted with representatives of over 60 community banks and credit unions indicated regulations for reporting mortgage characteristics, reviewing transactions for potentially illicit activity, and disclosing mortgage terms and costs to consumers were the most burdensome. Institution representatives said these regulations were time-consuming and costly to comply with, in part because the requirements were complex, required individual reports that had to be reviewed for accuracy, or mandated actions within specific timeframes. However, regulators and others noted that the regulations were essential to preventing lending discrimination and use of the banking system for illicit activity, and they were acting to reduce compliance burdens. Institution representatives also said that the new mortgage disclosure regulations increased compliance costs, added significant time to loan closings, and resulted in institutions absorbing costs when others, such as appraisers and inspectors, changed disclosed fees. The Consumer Financial Protection Bureau (CFPB) issued guidance and conducted other outreach to educate institutions after issuing these regulations in 2013. But GAO found that some compliance burdens arose from misunderstanding the disclosure regulations—which in turn may have led institutions to take actions not actually required. Assessing the effectiveness of the guidance for the disclosure regulations could help mitigate the misunderstandings and thus also reduce compliance burdens.

Regulators of community banks and credit unions—the Board of Governors of the Federal Reserve, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the National Credit Union Administration—conduct decennial reviews to obtain industry comments on regulatory burden. But the reviews, conducted under the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA), had the following limitations:

- CFPB and the consumer financial regulations for which it is responsible were not included.
- Unlike executive branch agencies, the depository institution regulators are not required to analyze and report quantitative-based rationales for their responses to comments.
- Regulators do not assess the cumulative burden of the regulations they administer.

CFPB has formed an internal group that will be tasked with reviewing regulations it administers, but the agency has not publicly announced the scope of regulations included, the timing and frequency of the reviews, and the extent to which they will be coordinated with the other federal banking and credit union regulators as part of their periodic EGRPRA reviews. Congressional intent in mandating that these regulators review their regulations was that the cumulative effect of all federal financial regulations be considered. In addition, sound practices required of other federal agencies require them to analyze and report their assessments when reviewing regulations. Documenting in plans how the depository institution regulators would address these EGRPRA limitations would better ensure that all regulations relevant to community banks and credit unions were reviewed, likely improve the analyses the regulators perform, and potentially result in additional burden reduction.