

Status of Enforcement and Supervisory Matters

CFPB-DOJ Enforcement Matters

- Consent Order Administration
 - Ally
- Settlement Negotiations
 - [REDACTED]
 - Honda
 - [REDACTED]
 - [REDACTED]
- Open Investigations
 - [REDACTED]
 - [REDACTED]
 - [REDACTED]
- Closed Investigations
 - [REDACTED]
 - [REDACTED]

CFPB Supervisory Matters

- MOU/MRA Administration
 - [REDACTED] (DOJ Settle/Suit Authority)
 - [REDACTED] (DOJ Investigation)
 - [REDACTED] (DOJ Deferral)
- MOU Negotiations
 - [REDACTED] (DOJ Investigation)
 - [REDACTED] (DOJ Investigation)
- PARR Process
 - [REDACTED]
 - [REDACTED]
 - [REDACTED]
- No Discrimination
 - [REDACTED]
- 2015 Exams: [REDACTED]
[REDACTED]



Consumer Financial
Protection Bureau

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- Settlement Negotiations
 - [REDACTED]
 - Honda
 - [REDACTED]
 - [REDACTED]
- Open Investigations
 - [REDACTED]
 - [REDACTED]
 - [REDACTED]
- Closed Investigations
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- PARR Process
 - [REDACTED]
 - [REDACTED]
 - [REDACTED]
- No Discrimination
 - [REDACTED]
- 2015 Exams: [REDACTED]
[REDACTED]

Next Steps On Auto Initiative

<u>Enforcement Subjects</u>	<u>Supervisory Subjects</u>	<u>Response to Global Interest</u>
<ul style="list-style-type: none"> ▪ Consent Order: Robust CMS <ul style="list-style-type: none"> ✓ Ally ▪ Consent Order: Lower Caps <ul style="list-style-type: none"> ✓ Honda ▪ CFPB/DOJ letters <ul style="list-style-type: none"> □ <i>Counteroffer</i> <ul style="list-style-type: none"> • [REDACTED] ✓ [REDACTED] • [REDACTED] □ <i>FLORA letter</i> <ul style="list-style-type: none"> ✓ [REDACTED] • [REDACTED] • [REDACTED] ▪ DOJ Referrals <ul style="list-style-type: none"> □ [REDACTED] □ [REDACTED] □ [REDACTED] □ [REDACTED] 	<ul style="list-style-type: none"> ▪ MOU: Non-discretionary compensation program <ul style="list-style-type: none"> ✓ [REDACTED] ▪ MOU: Robust CMS <ul style="list-style-type: none"> ✓ [REDACTED] ▪ MRA: CMS Enhancements <ul style="list-style-type: none"> ✓ [REDACTED] ▪ CFPB contact re: lower caps <ul style="list-style-type: none"> ✓ [REDACTED] ✓ [REDACTED] □ [REDACTED] □ [REDACTED] □ [REDACTED] ✓ [REDACTED] ✓ [REDACTED] ✓ [REDACTED] 	<p data-bbox="1457 402 1787 435">(Week of August 31st)</p> <ol style="list-style-type: none"> 1. Convening of lenders <ul style="list-style-type: none"> □ Update since Indianapolis □ Presentation of lower caps framework □ Dealer viewpoint <ul style="list-style-type: none"> • [REDACTED] • [REDACTED] □ Facilitated discussion?* <ul style="list-style-type: none"> • Reactions? • Key players? 2. Convening of AFSA, CBA, FSR & Clearinghouse 3. CFPB/DOJ Strategy Discussions <ul style="list-style-type: none"> □ Is there sufficient commitment to a global proposal? <ul style="list-style-type: none"> • <i>If yes</i>, move quickly to send term sheets to key players, with an October 1 deadline • <i>If no</i>, consider options

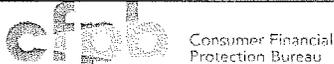


CONFIDENTIAL: ATTORNEY WORK PRODUCT/ATTORNEY CLIENT PRIVILEGE/CSI/CII

**The following have volunteered to facilitate global discussions: Steve Bartlett (Trelant), Rodgin Cohen (Clearinghouse), Bill Himpler (AFSA), and Andy Sandler (Buckley, Sandler).*

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Next Steps On Auto Initiative

CFPB-DOJ Enforcement Activity

- Finalize Honda settlement
- Explore lower caps/flats with
 - [REDACTED]
 - [REDACTED]
 - [REDACTED]
 - [REDACTED]
- Renew dialogue in open investigations
 - [REDACTED]
 - [REDACTED]
 - [REDACTED]
- Ascertain [REDACTED] posture

Industry-led Dialogue

Goal: Global term sheet

- 1st Engagement with [REDACTED] highly-respected [REDACTED] CEOs to react to a draft global term sheet
- 2nd Expanded engagement to include [REDACTED] critical [REDACTED] and AFSA, CBA, and FSR
- 3rd Additional engagement if needed to reach a critical mass
- 4th Execution and announcement

Questions:

- Parallel process with [REDACTED]?
- Engagement by CFPB/DOJ?

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Sensitive and Pre-Decisional/CSI

In its PARR response, ██████████ proposed a non-discretionary dealer compensation plan that will eliminate discretionary dealer markups and instead compensate dealers via a flat-fee arrangement. Under the proposed program, the compensation would be a fixed percentage of the amount financed up to a maximum of ██████████ (████████████████████). This compensation arrangement will apply to loan terms between ██████ and ██████ months; dealers will receive no fee for loan terms less than ██████ months. ██████████ will amend dealer agreements to require that the customer's contract reflect the "buy rate" communicated to the dealer, and dealers will be prohibited from charging consumers any non-Bank-authorized origination or similar fee for arranging the loan. ██████████ intends to notify dealers of the revised program by ██████ ██████████ and to fully implement it on or before ██████ ██████████, "[a]ssuming the CFPB does not object." They also directly requested the CFPB's feedback on the program, and the exam team has provided generally positive feedback.

One potential downside, from a fair lending perspective, is that ██████████ may increase its use of regional and local pricing: while there will be no markup, or indeed any dealer discretion over loan pricing, ██████████ underlying buy rates may vary by market and, in some cases, by dealer. (This is already the case, both for ██████████ and other lenders, but ██████████ predicts that the need for such variation—in particular to respond to competitive pressures—may increase once it eliminates markup.) Geographic variations in price present fair lending risk, given that geography may be associated with prohibited bases such as race and ethnicity. ██████████ acknowledged that this risk would have to be managed on a going-forward basis by analyzing pricing data to identify any disparate impact, assessing the business need for the variations, and evaluating potential alternatives.

BMO's proposal has been vetted internally with the auto lending working group, and the general assessment was positive. We propose further clarifying that the CFPB has no objection to ██████████ ██████████ moving forward with its non-discretionary dealer compensation plan, and then bringing the ██████████ auto lending review to an expeditious conclusion. (The examination team will likely recommend a supervisory resolution, in light of ██████████ proposed shift in its compensation system, among other factors.)