

Fair Lending Hot Topics

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Presentation Hot Topic Overview

Redlining

- Overview
- Redlining Risk Factors
- Case Study

Underwriting – Disability Income

- Overview
- Underwriting Risk Factors
- Case Study

Indirect Auto

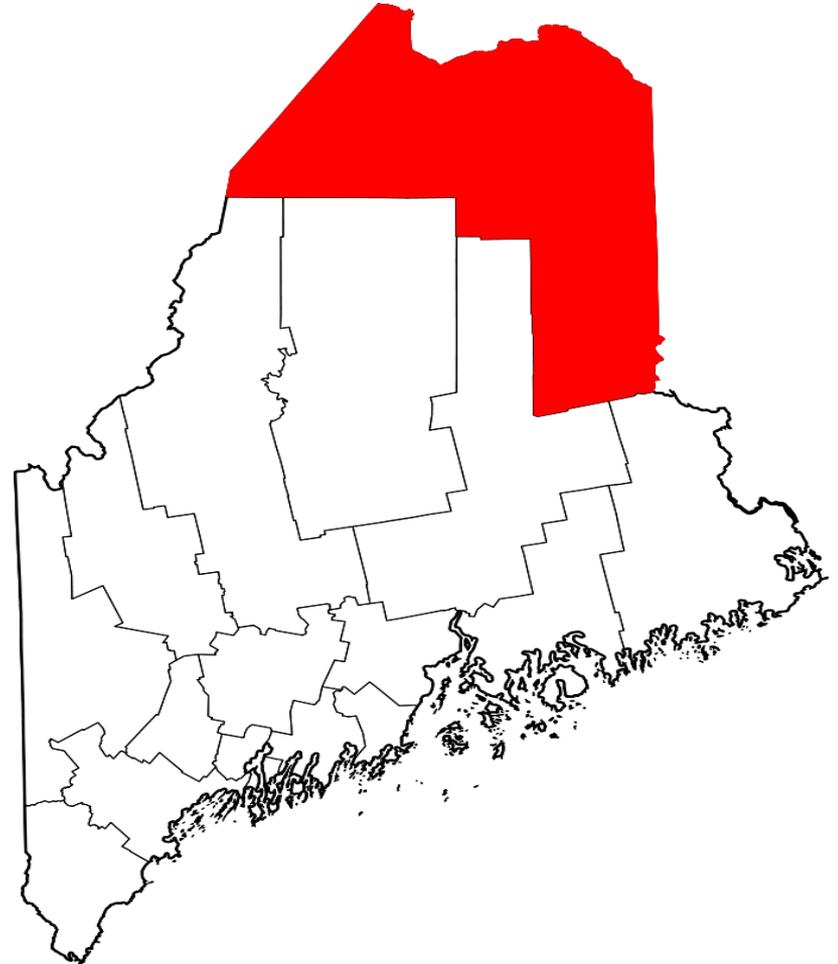
- Fair Lending Monitoring Expectations

Redlining

- Overview

“Redlining is a form of illegal disparate treatment in which an institution provides unequal access to credit, or unequal terms of credit, because of the race, color, national origin, or other prohibited characteristic(s) of the residents of the area...”

Interagency Fair Lending Examination Procedures



Redlining Risk Factors

- Branching
- Lending
- CRA Assessment Area
- Policies & Procedures
- Marketing and Outreach
- Complaints

Branching

Risk Factor

- *R12* – “An institution that has most of its branches in predominantly non-minority neighborhoods [at the same time that the institution’s subprime mortgage subsidiary has branches which are located primarily in predominantly minority neighborhoods.]”
- Examples of Elevated Fair Lending Risk
 - No branches in predominantly minority neighborhoods
 - Limited service branches in predominantly minority neighborhoods (Deposit Only)
 - Closing branches in predominantly minority neighborhoods



Lending

Risk Factors

- *R1* – “Significant differences, as revealed in HMDA data, in the number of applications received in the areas in the institution’s market area that have relatively high concentrations of minority group residents compared with areas with relatively low concentrations.”

EDITION EFFECTIVE JANUARY 1, 2013
(For HMDA Submissions due March 1, 2014)

A GUIDE TO

HMDA Reporting Getting It Right!



Federal Financial Institutions
Examination Council

LOAN/APPLICATION REGISTER		Page ___ of ___
Name of Reporting Institution		City, State, ZIP
All columns (except Reasons for Denial) must be completed for each entry. See the Instru		
Application or Loan Information		
Application or Loan Number	Date Application Received (mm/dd/ccyy)	
Example of Loan Originated Following Preapproval		
L B - 6 8 7 4 3 9	01/15/2012	
Example of Preapproval Request Denied		
5 6 7 8 9 0 4 3 2 1 1 2 3 4 0 9 8 7 6 5	06/01/2012	
Example of Application Denied		
5 6 7 8 9 0 4 3 2 1 1 2 3 4 0 9 8 7 6 5	03/20/2012	

Lending (cont.)

Risk Factors

- *R2* – “Significant differences in approval/denial rates for all applicants (minority and non-minority) in areas with relatively high concentrations of minority group residents compared with areas with relatively low concentrations.”



CRA Assessment Area

Risk Factor

- *R9* – “The institution’s CRA assessment area appears to have been drawn to exclude areas with relatively high concentrations of minority residents.”

- Examples of Elevated Fair Lending Risk
 - Partial County v. Whole County
 - Any “majority minority” census tracts that are excluded from the bank’s assessment area.

Policies & Procedures

Risk Factor

- *R8* – “Policies on receipt and processing of applications, pricing, conditions, or appraisals and valuations, or on any other aspect of providing residential credit that vary between areas with relatively high concentrations of minority residents and those areas with relatively low concentrations of minority residents.”

Examples of Elevated Fair Lending Risk

- Geographic limitation or restrictions
- Minimum loan amount
- Difference of pricing based on geography



Marketing & Outreach

Risk Factors

- **R6** – “Explicit demarcation of credit product markets that excludes MSAs, political subdivisions, census tracts, or other geographic areas within the institution’s lending market or CRA assessment areas and having relatively high concentrations of minority residents.”
- **M1** – “Advertising patterns or practices that a reasonable person would believe indicate prohibited basis customers are less desirable.”
- **M2** – “Advertising only in media serving non-minority areas of the market.”
- **Examples of Elevated Fair Lending Risk**
 - Images used do not represent demographics or housing stock in the bank’s assessment area
 - Marketing plan does not consider fair lending

Complaints

Risk Factor

- *R11* – “Complaints or other allegations by consumers or community representatives that the institution excludes or restricts access to credit for areas with relative high concentrations of minority residents.”



Redlining Case Study

Branching Info

- XYZ Bank has ten full-service branches:
 - Offer deposit products and services and loan products, including home-mortgage lending
 - Located in majority-white census tracts

- XYZ Bank has four partial-service branches:
 - Offer deposit services only
 - Located within retirement communities
 - One located in majority-minority census tracts and three located in majority-white census tracts

Redlining Case Study (cont.)

Lending Activities

- Statistically significant disparities with respect to the residential real estate lending activities when compared with aggregate lenders

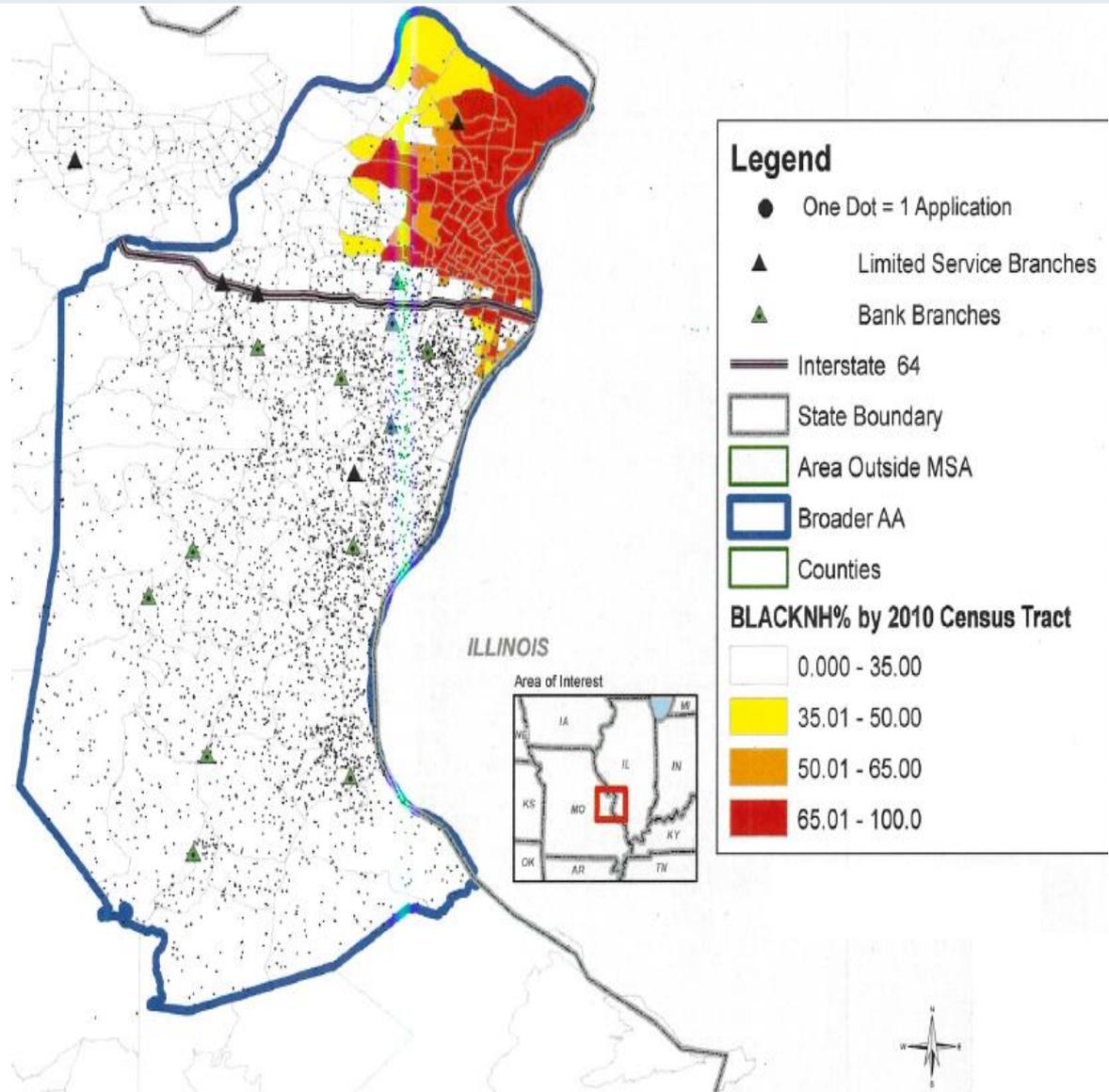
XYZ Bank	Aggregate Lenders in the MSA
98 applications, or 1.8%, were related to residential property located in majority-black census tracts	11.1% of their residential real estate-related loan applications related to residential property located in majority-black census tracts More than five times the rate of XYZ Bank applications
45 loans originated, or 1.5 %, were secured by residential property located in majority-black census tracts	8.4 % of residential loans originated were secured by residential property located in majority-black tracts More than four times that of XYZ Bank

Redlining Case Study (cont.)

CRA Assessment Area

XYZ Bank's CRA assessment area excluded 50 of the 61 majority-black census tracts within the City of St. Louis, and all of the 27 majority-black census tracts in St. Louis County

XYZ Bank delineated its assessment area using a highway as a barrier



Redlining Case Study (cont.)

Marketing Outreach

- XYZ Bank took no affirmative steps to market its mortgage lending services in majority-black census tracts or to African American/Black borrowers

Complaint

- A nonprofit organization sent a letter to the a regulator outlining fair lending concerns regarding XYZ Bank

Redlining Case Study (cont.)

Example of Corrective Actions

- Loan production office or branch opening within a majority-African-American census tract
- Minimum dollar requirement per year and total dollar requirement regarding the targeted advertising and marketing campaign
- Minimum dollar requirement per year and total dollar requirement regarding consumer education and credit repair program
- Minimum total dollar requirement to increase the credit that the bank extends to residents of majority-African-American census tracts

Underwriting – Disability Income

Risk Factor

- *U9* – “Consumer complaints alleging discrimination in loan processing or in approving/denying residential loans”
- *U1* – “Substantial disparities among the approval/denial rates for applicants by monitored prohibited basis characteristic (especially within income categories)”
- *U4* – “Vague or unduly subjective underwriting criteria”

Examples of Elevated Fair Lending Risk

- Articulated v. Written Policies and Procedures
- Lack of Training regarding written Policies and Procedures

Underwriting – Disability Income Case Study

Background

- Borrowers received Social Security Disability Insurance (“SSDI”) income. SSDI benefits are paid to people who are unable to work for a year or more because of their disability.
- Borrower submitted the Social Security award letter, bank statements, tax documents, and other relevant documents to verify income. None of the documents indicate that the SSDI benefits have an expiration date.
- ABC Bank’s practice was to require a letter from a physician indicating the continuance of SSDI or other disability income for at least three years.

Underwriting – Disability Income Case Study (cont.)

Background

- ABC Bank did not require other income earners to provide a letter from their employer stating that employment would continue for at least three years
- A denial notice was sent to borrowers indicating that the loan application had been denied due to “unable to verify income”
- Borrowers filed a complaint with the United States Department of Housing and Urban Development (“HUD”)

Underwriting – Disability Income Case Study (cont.)

Examples of Corrective Actions

- HUD complainants received financial compensation
- Financial Compensations are required for other borrowers affected by the bank's practices relating to disability income
- Enhance Training and Procedures

Indirect Auto – Fair Lending Reviews

Risk Factors

- *P2* – “Presence of broad discretion in loan pricing (including interest rate, fees and points), such as through overages, underages or yield spread premiums. Such discretion may be present even when institutions provide rate sheets and fees schedules, if loan officers or brokers are permitted to deviate from those rates and fees without clear and objective criteria”
- *P4* – “Substantial disparities among prices being quoted or charged to applicants who differ as to their monitored prohibited basis characteristics”

Regulatory Expectation Reminders

- Fair Lending Monitoring for Dealer Markups

Questions

