



Smart decisions. Lasting value.™

Fair Lending

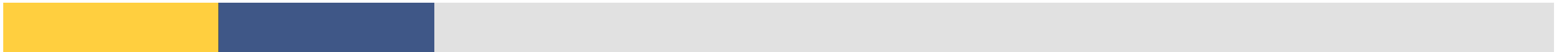
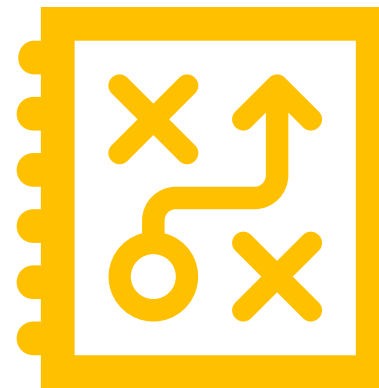


September 2021

SESSION DESCRIPTION

The world has changed quite a bit in the past few years and Fair Lending is no different. A new administration, rising pressure to address racial and social injustices, and increased data accessibility all contribute to heightened fair lending risk for all financial institutions.

This session will discuss key strategies to help get ahead of these risks and build an effective Fair Lending Compliance Program.



YOUR PRESENTERS



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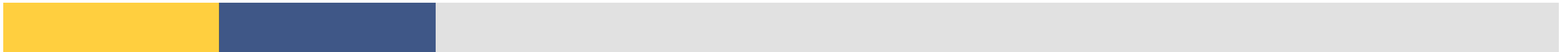


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Agenda

- Current Environment
- Fair Lending Risk Assessment and Key Risks
- Data Analysis
- Fair Lending Complaints
- Board Reporting and Training







Current Fair Lending Environment



Polling Question

What are you most concerned about related to Fair Lending?

-  A Lack of resources to execute desired Fair Lending compliance program
-  B Insufficient understanding of the Institution's data
-  C Increased enforcement
-  D Other

Different factors are ramping up scrutiny on lenders.



New levels of data
accessibility

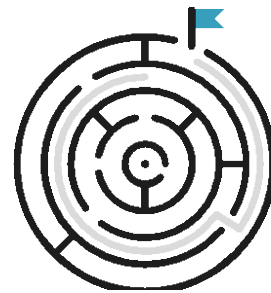
Rising pressure to address racial
and social injustices

Increased enforcement under the
new administration

When it comes to fair lending, what you don't know can hurt you.



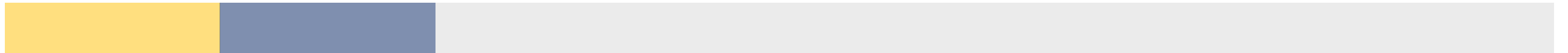
Fines and
penalties



Growth avenues
blocked



Reputational
harm



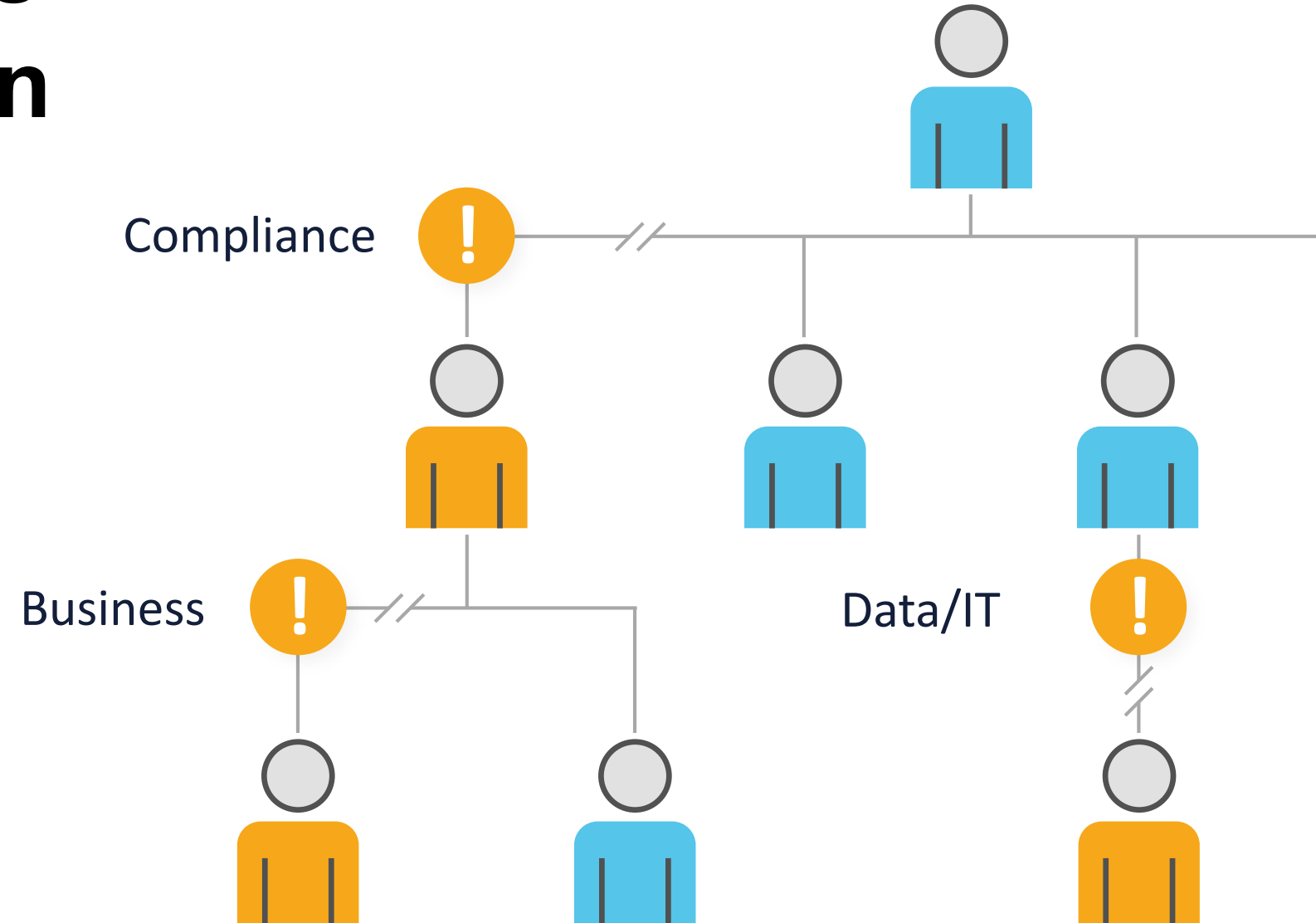
Fair Lending Risk Assessment and Key Risks



Fair lending compliance efforts fail when a single skill set tries to do it all.



**Organizational structures
can make communication
and collaboration
more difficult.**



Building bridges between different skill sets requires communication and transparency.

A collaborative approach to a Fair Lending Risk Assessment can help build these bridges. Identifying risks at the business line level and combining those insights with data analysis can help an institution better understand Fair Lending risk



Fair Lending Risk Assessment – Areas of Focus

- Level of Compliance (History of violations)
- Fair Lending complaints and litigation
- Products
- Loan Pricing
- Delivery Channels
- Underwriting Process
- Lender / Originator Compensation
- Loan Marketing
- Market Area and Demographics
- Results of Data Analysis
- Policy and Procedure Review (at business line/product level)
- Training



Expectations Related to Data Analysis



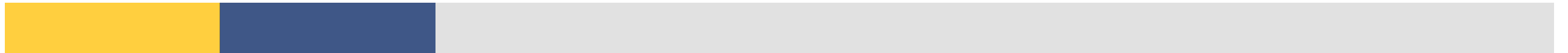
Polling Question

**What are you currently using
to manage your fair lending risk?**

- A** Vendor tool
- B** Excel
- C** Nothing
- D** Not sure

The Fair Lending Landscape is Changing Fast.....

- Your lending data is out in the open.
- Due to new levels of accessibility the Regulators and independent watchdog organizations are constantly combing through HMDA data and other lending information from financial services companies.



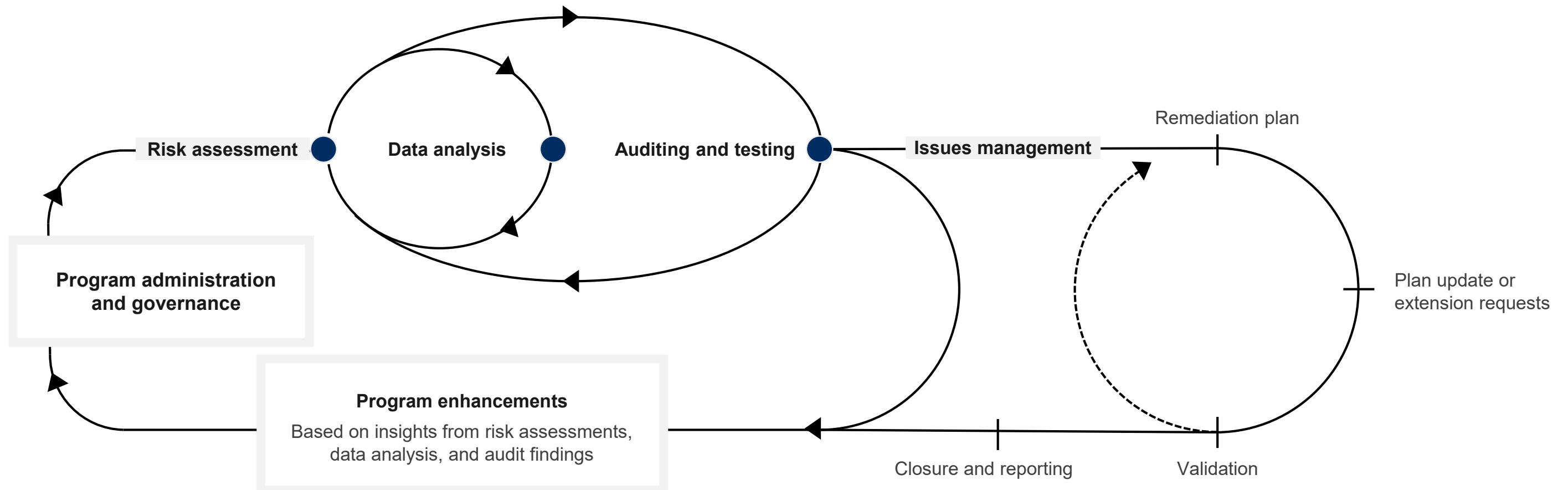
Regulators today don't even need to enter your institution to find a violation.

Do you know what's in your data?

Data analysis matters when it informs a process of continuous examination and improvement.

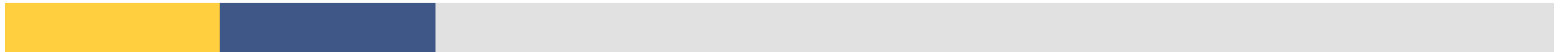
Areas that are impacted :

- Complaint management
- Marketing and social media
- Products and services
- Data governance
- Training (HR)
- Third-party risk



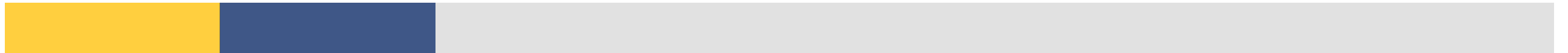
Raw Data VS. Regressed Data

- Raw Data:
 - Can be used as a monitoring tool when combined with the utilization of risk threshold.
 - Create a program that establishes what call to action is to be taken based on threshold level.
 - High-small sample of files tested, Med-Watch List (2 consecutive cycles of Med will result in small sample of files to be tested), Low-No action taken.
 - Establishes a proactive FL Program vs. a 12–18-month rear view mirror view.



Raw Data VS. Regressed Data

- Regressed Data:
 - Can be a very powerful tool for identify Fair Lending disparities when combined with the utilization of risk threshold.
 - Create a program that establishes what call to action is to be taken based on threshold level.
 - Has the ability to assist with identify focal points and matched pair analysis.

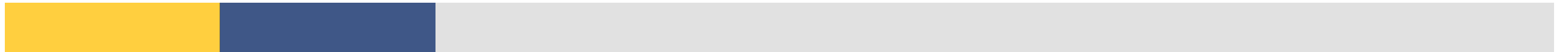


Validation of Fair Lending Data Analysis

Internal Audit – Closing the loop.....

Internal Audit plays a key role in the Fair Lending compliance program, as it provides an independent assessment of the testing and monitoring with specific objectives usually seeking to validate and give credibility to reports produced by Compliance relating to information concerning compliance with governing consumer protection laws and regulations.

Audit results can provide a baseline to aid with setting compliance standards, the identification of vulnerable areas, and associating risk. The results of the audit will help an organization rank specific operational areas of risk – low/medium/high - and monitor accordingly.

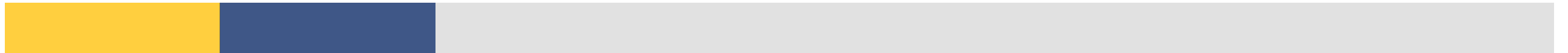


Fair Lending Complaints



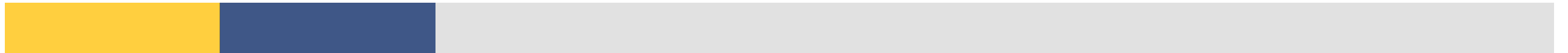
Complaints

- Monitoring complaints provides a proactive tool to identifying potential Fair Lending or Fair Banking issues within your institution.
- Reporting complaints to Line of Business partners, Executive Management, and the Board strengthens your compliance program by bringing awareness.
- Identifies potential system or programming errors.



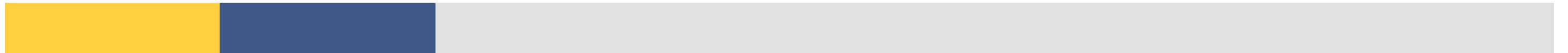
Complaints

- **Unclear or Confusing requirements tied to promotional offers.**
(Potential Fair Lending & UDAAP)
 - Employees may not be explaining correctly.
 - Customers are unable to decipher all they need to do to earn promotional reward(s).
 - Adjustments might need to be made to promotional offer to make it easier to understand and achieve the reward.
 - Identify the need for additional sales training.



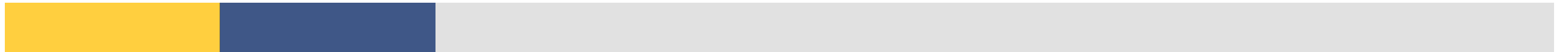
Complaints

- Allegations they were denied based on prohibited basis. (Fair Lending)
 - Employees may not be explaining requirements correctly.
 - Additional Fair Lending training might be needed.
 - If automated underwriting is used, it could indicate a need to review the model and make adjustments if credit criteria is very “tight”.
 - Identify the need for additional partnerships with community partners that focus on financial literacy.



Complaints

- **Claims of slow processing of loan applications because of race or ethnicity.** (Potential FL Discrimination-Disparate Treatment)
 - FL analysis should be performed to compare days taken from application to closing on protected classes vs control group.
 - If testing identifies disparities, root cause analysis should be completed, and action plans put in place to correct.
 - Depending on whether the Fair Lending analysis uncovers common trends in the protected classes, such as geographic or dollar amount of loans, they might have uncovered a need for a Community Banker, who does not have standard sales goals but rather concentrates on assisting customers with the processing of their loans.

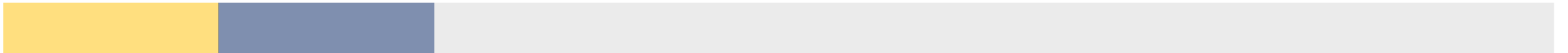


Polling Question

Why is it important that the Board of Directors receive annual training?

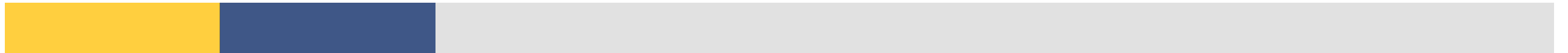
- A** It's required
- B** It will increase their knowledge
- C** To demonstrate that the Board is aware of regulatory requirements and is armed to play their role in the oversight of the compliance program
- D** Because they love training!

What Does The Board Need To Know?



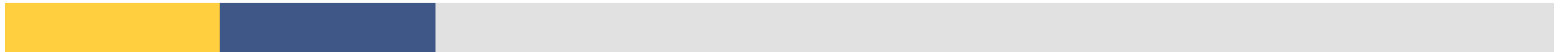
Fair Lending Training

- The Board should receive annual training. Why?
 - It demonstrates that the Board is aware of the regulatory requirements and is armed to play their role in the compliance management program by providing meaningful oversight.
 - Receiving Fair Lending and Fair Banking training assists the Board with understanding the results from Fair Lending monitoring and testing results.
 - It helps the Board understand regulatory risks identified in new product development and decide whether they are comfortable the Lines of Business have appropriately mitigated the risks before product launch.
 - By keeping their regulatory knowledge up to date, this will enable the Board to understand reports prepared by the Compliance Department that allege potential discrimination based on any of the protected classes, unethical sales practice behavior or products or services that were identified as potential UDAAP.



Board Reporting

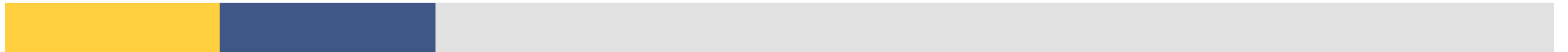
- Fair Lending Monitoring and Testing Results
 - The Board should be kept apprised of when the monitoring & testing results uncover a potential issue(s).
 - This demonstrates that the Board is actively involved.
 - It demonstrates that the Board is aware of how many potential issues exists within the different Lines of Business.
 - It helps the Board understand if the Fair Lending/Compliance teams are adequately staffed.
 - If monitoring issues lead to additional testing and results identify no issues or confirm potential issues, this demonstrates to the Board that the FL program is effectively working, as the purpose of the program is to proactively identify potential issues.



Board Reporting

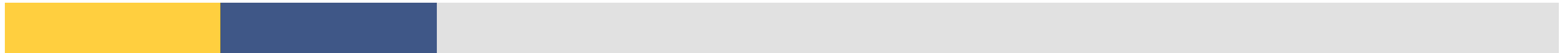
- Fair Lending Complaints

- The Board should receive reports outlining complaints received by customers and consumers.
 - When reports include peer complaint levels, it adds an extra level of context that assists the Board in understanding how you are “performing” compared to your peers.
 - Assists with identifying potential unacceptable sales practice behaviors; to which either additional training needs to occur or the need for adjustments to the sales goals of Branch/Retail Staff.
 - Identifies potential flaws with marketing, product and/or service design. (UDAAP-Customer confusion)
 - It helps the Board understand regulatory risks identified by regulatory agencies such as the CFPB, FRB, FDIC, OCC and other State and Federal agencies via Official Complaints and the sense of urgency required by the 30-day response time.
 - By keeping the Board informed on complaint trends, this will help the Board to understand reports prepared by the Compliance/Compliant Dept that allege discrimination based on any of the protected classes, unethical sales practice behavior or products or services that were identified as potential UDAAP.



Fair Lending Regulatory News

- Regulatory Hot Topics, Enforcement Actions and Corresponding Civil Money Penalties –
 - Keeping the Board well informed of the regulatory environment.
(They Don't Know.....What They Don't Know)
 - May assist with moving outstanding compliance issues to the top of the list in times of short resources.
 - Change their risk appetite when they understand the risks and associated monetary penalties for noncompliance.
 - Understand the level of reputational risk that comes with noncompliance.



QUESTIONS, RESPONSES AND THANK YOU



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