Navigating the Future with Lessons Learned

2023 Directors' and Trustees' College
Fair Lending

FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

Agenda

- What is Redlining?
- Understanding FDIC Redlining Reviews
- Appraisals and Fair Lending Discrimination
- Board Governance and Your Compliance Program
- Redlining Case Study
- Best Practices and Navigating the Future
- Resources

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What is Redlining?

- Redlining: Illegal disparate treatment in which a lender 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 in which the credit seeker resides or will reside or in which the residential property to be mortgaged is located.

- Reverse Redlining: Targeting a borrower or an area with less advantageous products or services based on prohibited characteristics.

Department of Justice (DOJ) - Combatting Redlining Initiative

National Bank

- Proposed Consent Order
  - $3.85 Million in loan subsidy fund
  - Dedicate 4 mortgage loan officers and open Loan Production Office
  - $400,000 for development of community partnerships
  - $200,000 for advertising, consumer financial education, and credit repair initiatives
- $5 Million Civil Money Penalty

Mortgage Company

- $20 Million Settlement
  - $18.4 million in a loan subsidy fund
  - $750,000 for development and community partnerships
  - $875,000 for advertising and outreach
  - $375,000 for consumer financial education
- $4 Million Civil Money Penalty

Understanding FDIC Redlining Reviews

- Risk based reviews utilizing FFIEC Interagency Fair Lending Examination Procedures

- Evaluating inherent risk
  - CRA assessment area or market area and area demographics
  - Services, loan products, hours of operation, branches
  - Product offerings and methods of obtaining loan applications
  - Marketing plans
  - Loan dispersion

Redlining Risk Factors

R1. Significant differences, as revealed in HMDA data, in the number of applications received, withdrawn, approved not accepted, and closed for incompleteness or loans originated in those areas in the institution's market that have relatively high concentrations of minority group residents compared with areas with relatively low concentrations of minority residents.

R2. Significant differences between 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 of minority residents.

R3. Significant differences between denial rates based on insufficient collateral for applicants from areas with relatively high concentrations of minority residents and those areas with relatively low concentrations of minority residents.

Redlining Risk Factors (Continued)

R4. Significant differences in the number of originations of higher-priced loans or loans with potentially negative consequences for borrowers, (i.e., non-traditional mortgages, prepayment penalties, lack of escrow requirements) in areas with relatively high concentrations of minority residents compared with areas with relatively low concentrations of minority residents.

R5. Other patterns of lending identified during the most recent CRA examination that differ by the concentration of minority residents.

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.

Redlining Risk Factors (Continued)

R7. Difference in services available or hours of operation at branch offices located in areas with concentrations of minority residents when compared to branch offices located in areas with concentrations of non-minority residents.

R8. Policies on receipt and processing of applications, pricing, conditions, or appraisals and valuation 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.

R9. The institution's CRA assessment area appears to have been drawn to exclude areas with relatively high concentrations of minority residents.

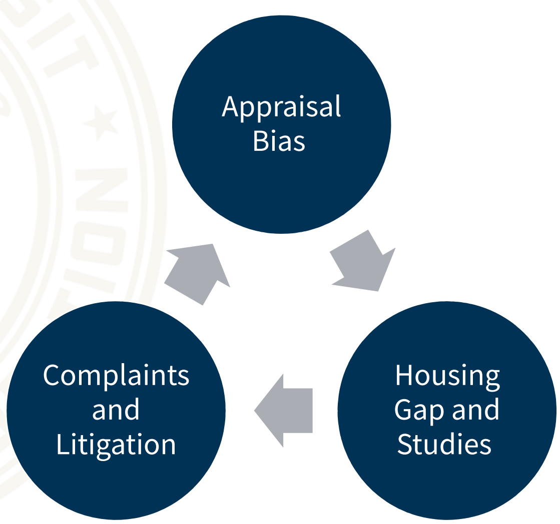
Redlining Risk Factors (Continued)

R10. Employee statements that reflect an aversion to doing business in areas with relatively high concentrations of minority residents.

R11. Complaints or other allegations by consumers or community representatives that the institution excludes or restricts access to credit for areas with relatively high concentrations of minority residents.

R12. An institution that has most of its branches in predominantly non-minority neighborhoods at the same time that the institution's sub-prime mortgage subsidiary has branches which are located primarily in predominantly minority neighborhoods.

Appraisal Bias and Discrimination



Interagency Appraisal and Evaluation Guidelines

Establish appraisal policies and procedures to ensure an effective real estate appraisal and evaluation program

Appraisals program must ensure:

- Independence throughout appraisal process
- Monitoring evaluations and performance of appraisers
- Consistency with supervisory guidance and safe and sound banking practices
- Criteria for using existing appraisals
- Monitoring of collateral values
- Internal controls to promote compliance with program

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PAVE Task Force

Interagency Task Force on Property Appraisal and Valuation Equity (PAVE) and the Task Force Commitments:

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Board Governance and Your Compliance Management System (CMS)

Board Governance

Board and Management Oversight

- Establish oversight of the fair lending program
- Communication between Board/Board level committees and senior management
- Delegation of separate lending authorities
- Establish a marketing plan
- Third-Party Oversight and Risk Management

Compliance Program

- Policies and/or procedures
- Training
- Audit/Monitoring
- Complaint Response

REDLINING CASE STUDY

Redlining Best Practices and Navigating the Future

- Conduct redlining risk assessments and ongoing monitoring to help identify if lending in majority minority areas is low
- Consider offering loan products that would benefit these areas
- Hire loan officers who are familiar with the community
- Work with community organizations, brokers, realtors in these areas
- Provide incentives to loan officers for originating loans in these areas
- Conduct or expand community outreach

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Appraisal Best Practices and Navigating the Future

- Establish procedures for applicants to request a reconsideration of valuation
- Ensure all staff appraisers have appropriate fair lending training
- Ensure outside (fee) appraisers are trained and committed to avoiding appraisal bias
- Consider adding anti-bias language to all appraisal reports that are provided to applicants, and provide a means for applicants to contact the bank to report any concerns or complaints
- Review appraisals for references to a prohibited basis characteristic
- Identify, escalate, and manage complaints

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QUESTIONS?

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Resources

- FDIC Banker Resources – Fair Lending
- FDIC Technical Assistance Videos – Fair Lending
- FDIC – Identifying and Mitigating Potential Redlining Risks
- Interagency Fair Lending Examination Procedures
- Consumer Compliance Supervisory Highlights
- Guidance for Managing Third-Party Risk
- https://pave.hud.gov/
- https://pave.hud.gov/actionplanhttps://pave.hud.gov/sites/pave.hud.gov/files/documents/PAVEActionPlan.pdf

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