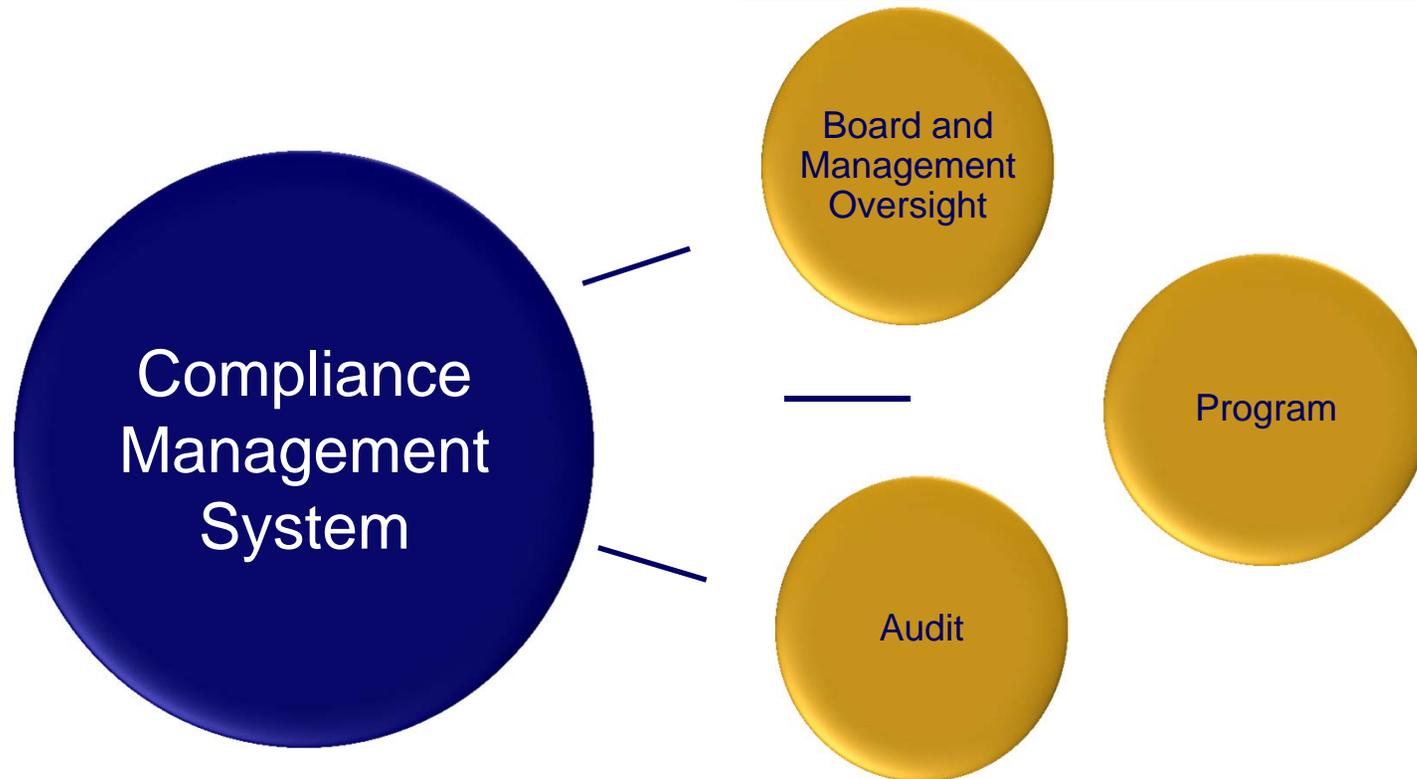




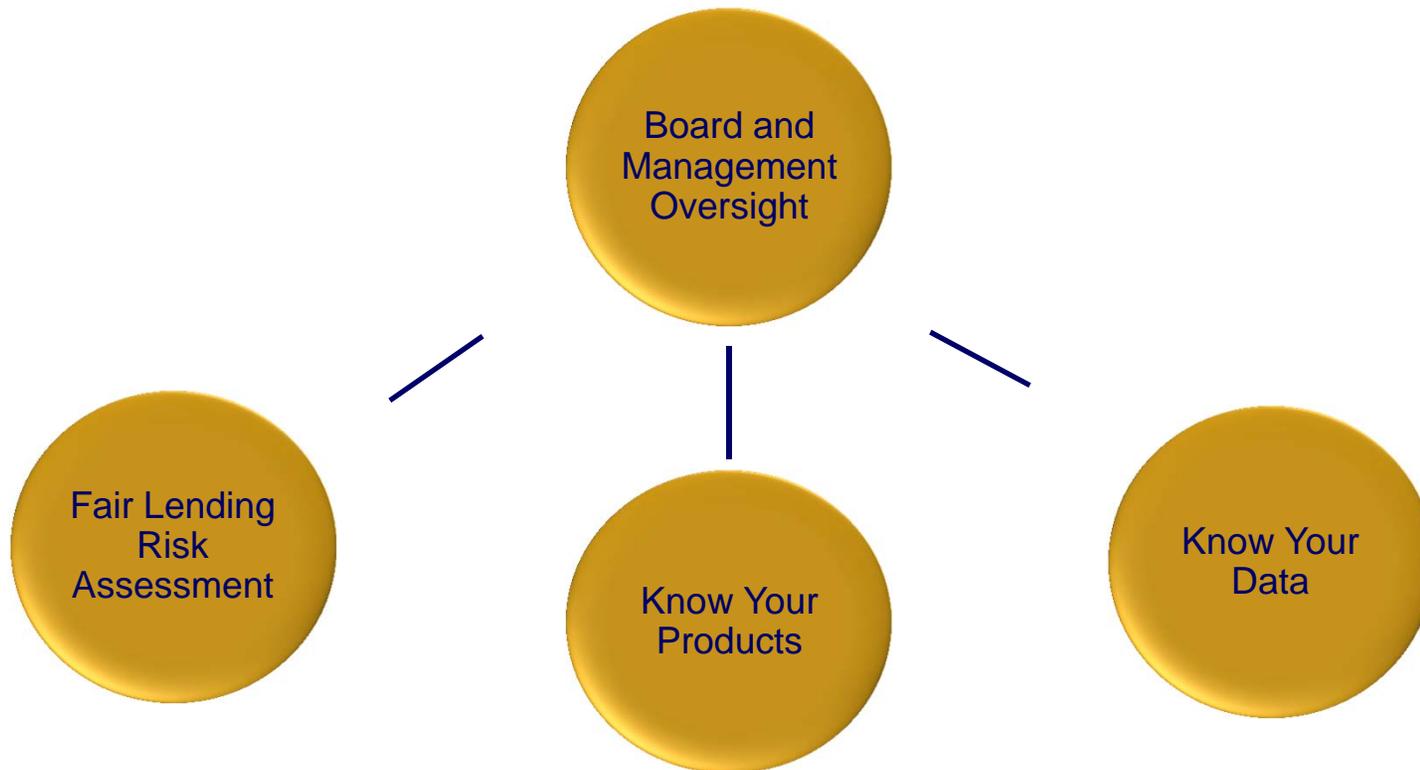
Managing Fair Lending Risk

IV. Developing a Compliance Management System for Fair Lending

Building an Effective Compliance Management System



Board and Management Oversight



Board and Management Oversight

A fair lending risk assessment should be conducted to assist the bank in understanding where risks may be present in the lending process.

Board and Management Oversight

KNOW YOUR PRODUCTS:

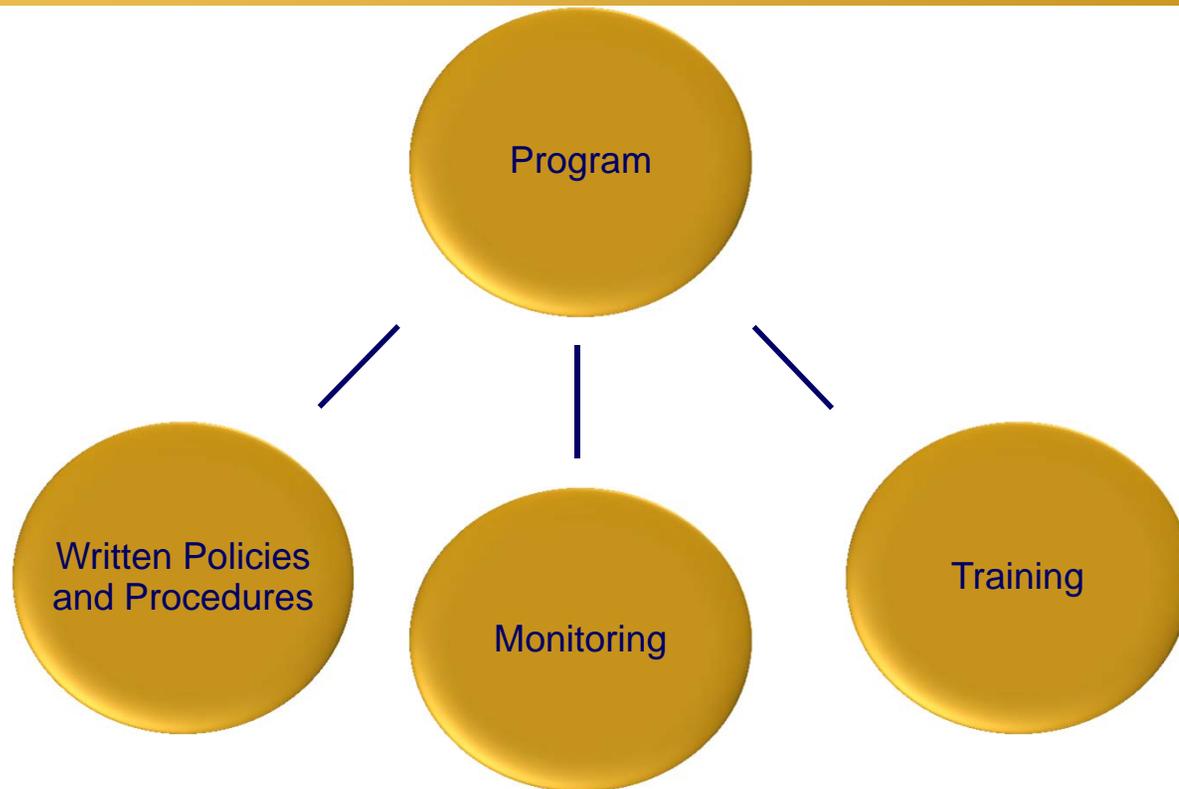
Incorporate a compliance review of all proposed products and services before they are offered.

Board and Management Oversight

KNOW YOUR DATA:

Review loan data and trade area information for any potential fair lending concerns.

Program



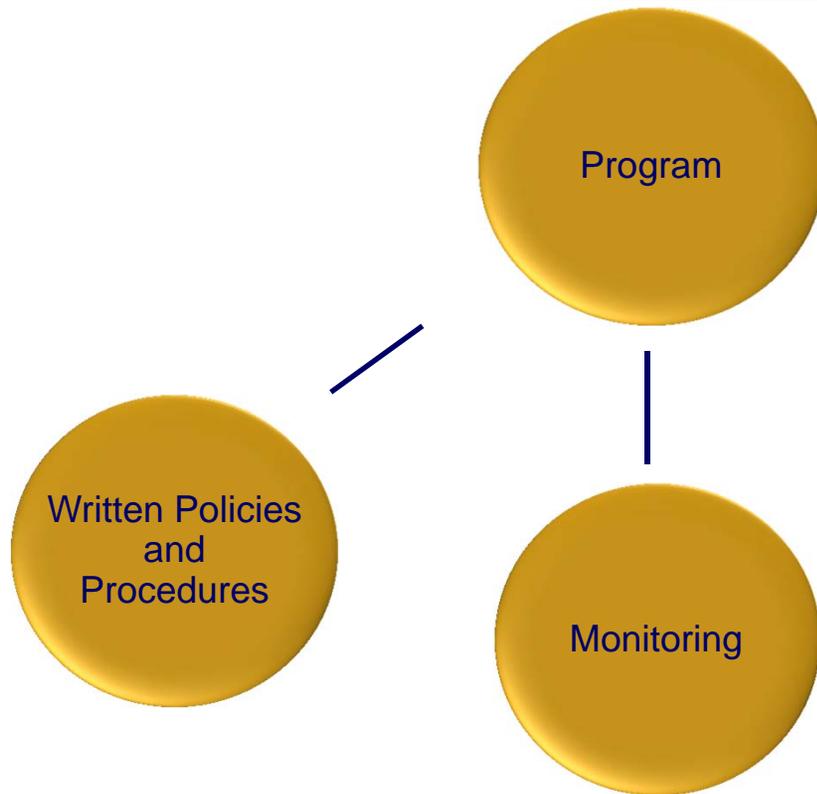
Program

- **Written policies and procedures addressing the credit process should be developed by senior management and approved by the Board of Directors.**
- **The bank's policies and procedures should be widely distributed to ensure that lending personnel provide consistent treatment to all individuals.**

Policies and Procedures Guidelines

- **Identify what qualifying information lenders should request from applicants.**
- **Ensure pre-application and application processes are the same for everyone.**
- **Conduct periodic reviews of policies and procedures.**

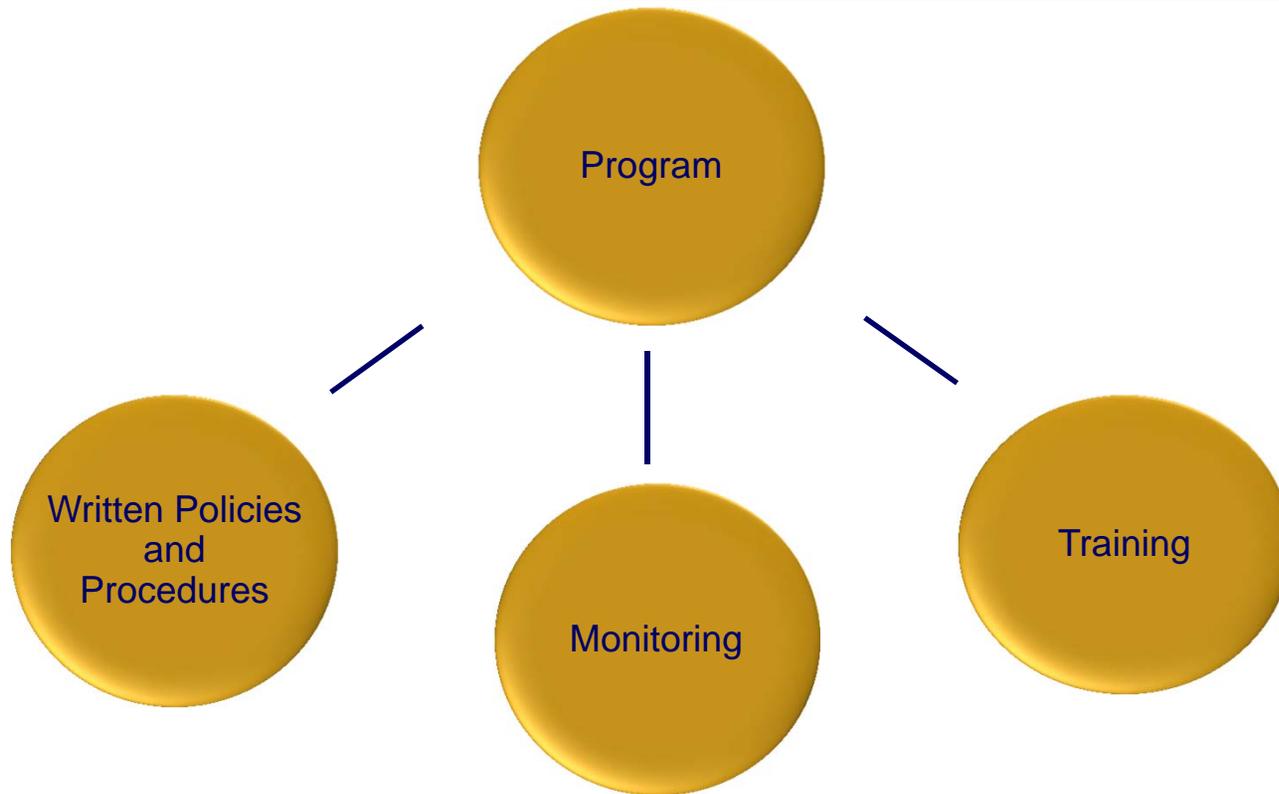
Program



Monitoring

Banks should consider implementing secondary review processes to ensure that credit decisions are consistent with policies and procedures and are not made on a prohibited basis.

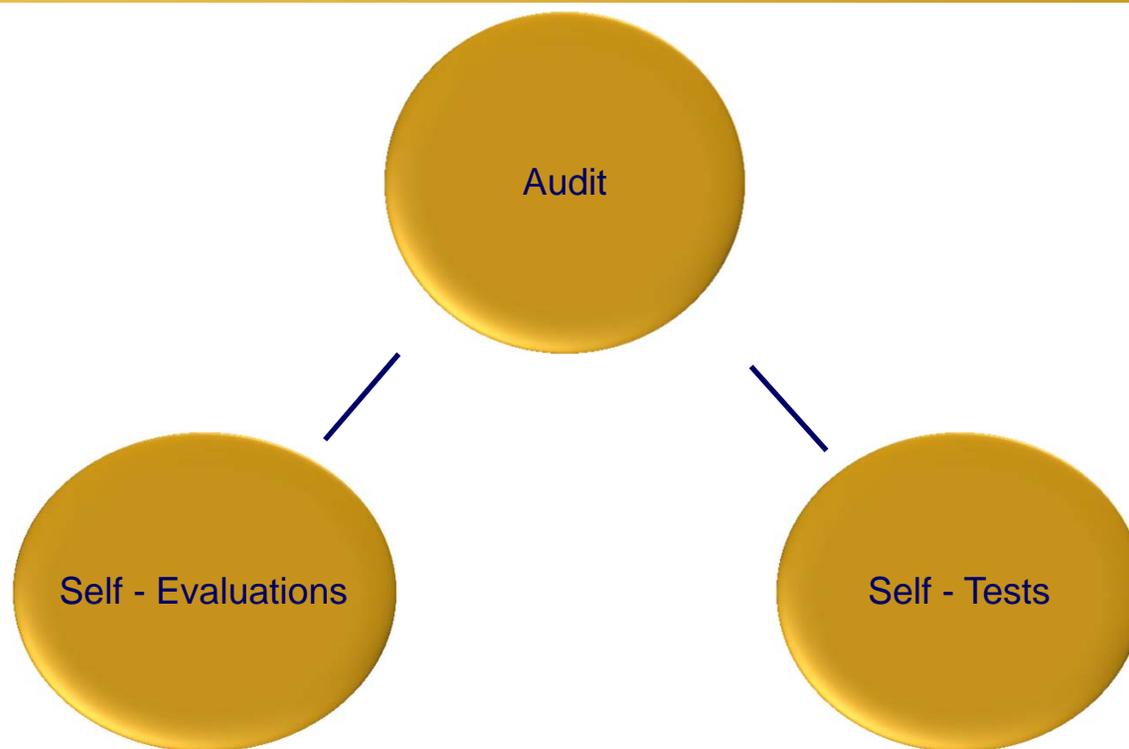
Program



Training

A formal fair lending training program should be implemented to remind employees about the requirements of fair lending laws and to reinforce bank policies and procedures.

Audit



Audit

- **A self-evaluation is recommended for most banks as a way to review the results of the bank's lending activities to identify any risk indicators or areas of concern.**
- **A self-evaluation considers data readily available in loan, application, or other records used in credit transactions.**

Audit – Self-Evaluation Example

12-month review

Female Applicants Interest Rates	Male Applicants Interest Rates
1. 13.00%	1. 6.00%
2. 10.00%	2. 7.00%
3. 9.00%	3. 9.00%
4. 12.00%	4. 8.50%
5. 13.00%	5. 16.00%
 Average: 11.40%	Average: 9.30%

Audit

A self-test is any program, practice or study that is designed and specifically used to determine the extent or effectiveness of the bank's compliance with ECOA and Fair Housing.

Summary

A strong CMS generally consists of three elements:

- **Board and senior management team are ultimately responsible for the bank's fair lending compliance.**
- **Program consisting of policies and procedures, monitoring, and training, will establish the framework for lending operations.**
- **Audit will assist a bank in determining its compliance with the fair lending laws.**