

CONSUMER LENDING

Core Analysis Procedures

Examiners are to consider these procedures but are not expected to perform every procedure at every institution. Examiners should complete only the procedures relevant for the institution's activities, business model, risk profile, and complexity. If needed, based on other identified risks, examiners can complete additional procedures not included below. References to laws, regulations, supervisory guidance, and other resources are not all-inclusive.

References

- *Interagency Guidelines Establishing Standards for Safety and Soundness* (FRB: [12 CFR 208, Appendix D-1](#); FDIC: [12 CFR 364, Appendix A](#))
- *Interagency Lending Principles for Responsible Small-Dollar Loans* (FDIC: [FIL-58-2020](#); FRB: [SR 20-14 / CA 20-8](#))
- *Guidance on Private Student Loans With Graduated Repayment Terms at Origination* (FDIC: [FIL-6-2015](#); FRB: [SR 15-2 / CA 15-1](#))
- *Banking Agencies Encourage Financial Institutions to Work with Student Loan Borrowers Experiencing Financial Difficulties* (FDIC: [FIL-35-2013](#))
- *Uniform Retail Credit Classification and Account Management Policy* (FRB: [SR 00-8](#); FDIC: [FIL 40-2000](#))

Considerations and Background

Consumer lending covers a wide range products, and may include, but are not necessarily limited to, the following:

- Auto loans (direct and indirect)
- Student loans
- Unsecured personal loans and lines of credit
- Small dollar loans

Findings and Conclusions

Document findings and conclusions here, and include a summary of these findings and conclusions in the appropriate Primary or Supplemental modules.

Preliminary Review

1. **Identify previous concerns by reviewing prior examination reports (including those related to compliance and consumer protection), file correspondence (including consumer complaints), and audits.**

2. **Develop a preliminary view of financial trends. Review Uniform Bank Performance Reports (UBPRs), financial statements, and other applicable data to identify material factors (levels, changes, or trends) that may require analysis or help in scoping this review.**

3. Determine the primary responsibilities of the board of directors, board committees,¹ and executive management relating to consumer lending activities.
4. Determine whether any material changes (e.g., strategic, operational, economic) occurred or are expected that may affect consumer lending. Discuss the changes and implications with management.
5. Identify the types of consumer products offered (e.g., direct or indirect auto loans, student loans, unsecured personal loans or lines of credit, and small dollar loans). Consider whether marketing materials and disclosures are clear, accurate, and comply with consumer protection laws (consult with consumer compliance examiners as appropriate).
Policy and Oversight Considerations
6. Determine whether the bank began offering new consumer loan products since the previous examination. Assess the planning process for offering the products and whether management considered the following: <ul style="list-style-type: none">• Impact to business plans• Its overall product knowledge• Product risks
7. Evaluate management's knowledge of economic trends that influence consumer lending.
8. Determine whether the institution is engaged in subprime consumer lending or plans to engage in the future. If subprime lending programs are in place or planned, consider completing the subprime lending examination procedures.²
9. Determine whether the institution has a small dollar lending program. If so, assess the institution's loan policies and risk management practices in accordance with procedure 10 and conduct transaction testing on a sample of loans originated during the review period.

¹ Through discussions with management or by reviewing applicable policies.

² Refer to Subprime Lending Loan Reference Module for additional information.

10. Determine whether policies and procedures are appropriate for managing the volume and types of consumer credit offered.

- **Determine whether policies and procedures conform with the Interagency Safety and Soundness Standards, including, but not limited to:**
 - **Loan documentation practices that identify the purpose of a loan and the source of repayment, and assess the ability of the borrower to repay the indebtedness in a timely manner; and**
 - **Loan underwriting practices that provide for consideration, prior to credit commitment, of the borrower’s overall financial condition and resources, the financial responsibility of any guarantor, the nature and value of any underlying collateral, and the borrower’s character and willingness to repay as agreed.**
- **Appropriate consumer loan policies often additionally include guidelines for:³**
 - **Using credit scoring as an underwriting tool, if applicable**
 - **Approving extensions, renewals, modification of terms, deferral of payments, and capitalization of interest**
 - **Overdraft lending**
 - **Granting loans that do not conform to the organization’s written lending policy or procedures**
 - **Handling and tracking problem loans**
 - **Foreclosing and repossessing collateral**
 - **Charging off loans⁴**

Administration

11. Assess the scope and frequency of internal and external reviews of consumer lending activities. If reviews are inadequate or not completed, assess internal workflows, such as underwriting, approving, servicing, and collecting the loans. Appropriate controls generally prevent:

- **Disbursing proceeds prior to obtaining all necessary documents**
- **Originating officers from controlling loan disbursements**
- **Originating officers from processing payments or altering payment records**
- **Originating officers from underwriting loans for family members, business associates, or other borrowers that create a conflict of interest**

12. Evaluate procedures for identifying and reporting problem consumer loans and consider the timeliness and appropriateness of any remedial actions.

³ Related procedures may be included in other ED modules or examination manuals that examiners can consider when performing this review.

⁴ Institution policies typically reflect consideration of the interagency Uniform Retail Credit Classification and Accounts Management Policy

OPEN-END CREDITS⁵

13. Assess controls relating to open-ended credits. Items to consider include whether:

- **Line overages are permitted per policy and contractual agreement**
- **Line overages are monitored, within internal bank guidelines, and approved**
- **Lines continually at or near their maximum usage are periodically reviewed for collectability**
- **Payments are made by additional draws on the line or other lines of credit within the bank**
- **Management updates credit reports and financial analyses to ensure line amounts are appropriate**

INDIRECT LOANS

14. Review pertinent information for each significant dealer, such as:

- **Outstanding loan balances**
- **Delinquencies**
- **Charge-offs**
- **Collection reports**
- **Extensions, deferrals, and renewals**
- **Dealer reserve balances, including the most recent reserve calculations**

15. Determine whether management performs ongoing analyses of each dealer's (or merchant's) financial condition. Consider whether:

- **Management understands the dealer's business**
- **Borrowing lines are commensurate with the dealer's financial capacity and periodically reaffirmed**

16. Determine whether management employs a risk-based pricing system.

17. Determine whether dealer agreements are adequate and address:

- **Acceptable types of merchandise**
- **Credit requirements for borrowers**
- **Maximum advance and repayment terms**
- **Discount rate**
- **Recourse agreement**
- **Dealer reserve requirements**

⁵ Where appropriate, refer to the Home Equity Lending Reference Module or the Credit Card Activities Module for additional information.

18. Determine whether dealer agreements specify the terms for purchased paper. Common terms include: <ul style="list-style-type: none">• Full recourse• Non-recourse• Repurchase• Limited-recourse
19. Determine whether dealer agreements specify terms for establishing and maintaining dealer reserves, and whether periodic calculations of dealer reserves and holdback agreements are performed.
20. Review a sample of dealer reserve calculations for reasonableness. Determine how management restricts dealer access to reserve accounts and ensures proper controls over reserve fundings and disbursements.
21. Determine whether management conducts independent credit analysis of the borrower rather than relying on the dealer’s credit review. Consider whether management places appropriate emphasis on the borrower’s ability to repay rather than placing excessive reliance on the dealer’s financial capacity.
22. Determine whether the same loan documentation required for direct loans is received on purchased paper.
23. Determine how the bank confirms that dealer selling prices approximate market price.
24. Assess the procedures for ensuring collateral lien perfection, including that the bank is listed as the lienholder.
25. Ascertain whether customer loan payments are made directly to the bank and not through the dealer.

<p>26. Analyze credit quality trends in individual dealer relationships.</p>
<p>CONSUMER LEASE FINANCING⁶</p>
<p>27. Review the bank’s lease accounting for adherence to applicable accounting standards.</p>
<p>28. Assess the bank’s methodology for estimating collateral residual values.</p>
<p>Portfolio Analysis and Transaction Testing</p>
<p>29. Conduct transaction testing on a sample of loans originated since the last examination to assess the effectiveness of underwriting, administration and program terms for conformance with the Interagency Safety and Soundness Standards related to Loan Documentation and Credit Underwriting. Consider whether:</p> <ul style="list-style-type: none"> • Borrowers’ financial condition and resources were considered prior to credit commitment • Loan underwriting uses alternative data sources, such as deposit account activity, to assess a customer’s creditworthiness and to effectively manage credit risk • Loan pricing practices comply with applicable federal and state laws
<p>30. Where applicable, assess management’s oversight of third parties involved in delivering consumer lending products.⁷ In the case of originate-to-distribute business models, assess overall program performance.</p>
<p>Credit Analysis</p>
<p>31. Analyze the level and trend in delinquencies, charge-offs, recoveries, and other key ratios for each type of consumer loan to assess program effectiveness and overall borrowers’ ability to repay in a timely manner.</p>
<p>32. Analyze the level and trends in the volume of loan renewals or modifications.</p>

⁶ When applicable, refer to the Lease Financing Reference Module for additional information.

⁷ When applicable, refer to the Third Party Risk Reference Module for additional information.

33. Determine whether concentrations exist in loans secured by less liquid or unusual collateral (such as planes and boats).

GENERAL

34. Classify consumer loans. Discuss classifications with management and adjust for appropriate exceptions.

End of Core Analysis.