



Using Promontory's RADAR™ to Develop and Maintain a Fair Lending Risk Assessment

2009



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Note: This presentation borrows freely from a recent presentation by FDIC personnel on Fair Lending Risk Assessments.



Fair Lending Risk Assessments

- Fair Lending Act “[r]isk assessment defined: An effort to identify and measure the risk inherent in the bank’s lending processes and to determine what control and monitoring mechanisms are in place to protect against illegal discrimination.
- “Regulatory agencies follow a risk-based fair lending exam process.
- “Goal is to establish scope of the exam, and considers:
 - Loan products
 - Markets
 - Decision centers
 - Time frame
 - Prohibited basis and control groups
- “Combination of these elements = “Focal Point” to be reviewed.
- **“Bank approach should be similar but more in-depth.”**

Source: FDIC webinar on Fair Lending Act risk assessments

Step 1 – Inventory Businesses

- As the FDIC explained in its recent webinar:
- “First step: Inventory all areas where risk is possible.”
 - “Will help develop a strong understanding of the bank’s credit processes.”
- RADAR™ provides a flexible tool to inventory credit products and processes and map them onto businesses.

The image displays three overlapping screenshots of the Promontory RADAR web application interface, illustrating the process of inventorying businesses.

- Left Screenshot:** Shows the "Organization Hierarchy" section. It features a tree view with nodes for "Global Parent Corporation", "First ABC Bank", and "Global Mortgage Loan Corporation". A legend below indicates "Legal Entity" and "Consolidating Reporting Unit".
- Middle Screenshot:** Shows the "Reporting Entities / U" section. It includes fields for "Reporting Entity/Unit:", "Business Category:", "Corporate ID:", and "Legal Entity:". Below these are sections for "Locations/Reporting Line" (Principal City of Operation, Principal State/Province of Operation, Primary Country of Operation, Country of Incorporation, Licensing Country, Reporting Line Country) and "Relationships" (Immediate Parent, Ownership Interest: 100%, Cross Reference to Primary Entity, Assessing Reporting Unit:).
- Right Screenshot:** Shows the "Activities" section. It includes a "Product/Service Name" field (Mortgage Lending), a "Related Reporting Entities" dropdown menu, and a "Selected Reporting Entities" table with columns for "Entity" and "Effective Date (MM/YYYY)". The table lists "First ABC Bank" with an effective date of 1/2009. A "Comments" text area and "Cancel" and "Save Changes" buttons are also visible.

At the bottom of the rightmost screenshot, there is a footer that reads: "PRIVILEGED AND CONFIDENTIAL © Promontory Compliance Solutions 2005-2009".

Step 2 – Review Policies, Reports, Training

- The FDIC continued to explain the next step is to “[r]eview:
 - Written policies and procedures
 - Board and management reports
 - Training records
- RADAR™ helps banks automate and document that review.

The image displays three overlapping screenshots of the Promontory RADAR web application interface. The interface is designed for risk assessment and reporting, featuring a blue header with the Promontory logo and navigation links like 'My Profile | Help Center | Log Out'. A left-hand navigation menu includes sections such as 'Admin', 'Dashboard', 'Inventories', 'Risk Assessments', 'Consolidated Ratings', 'Risk Notes', 'Log', 'Monitoring and Testing', 'Reports', and 'Glossary'. The main content area is titled 'Risk Assessments' and shows details for a specific assessment, including 'Reporting Unit/Entity' information (Name, Category, Parent, Location), 'Obligation' details (Citation, Selected Obligations), 'Related Products' (Product Name, Selected Products), and 'Related Unit/Entity Areas Subject Area'. A bottom section lists 'Contacts / Dates' with fields for 'Compliance Contact' and 'Business Contact'. The right-hand side of the interface features an 'Expand All' section with expandable lists for 'Corporate Manuals (0 Selected)', 'Policies and Procedures (0 Selected)', 'Training (1 Selected)', 'Contacts (0 Selected)', and 'Supporting Documentation (1 Selected)'. The 'Supporting Documentation' section is expanded, showing a document titled 'Report for the Board of Directors - Jan. 2009' with a 'Name' field and an 'Add Selected Document' button. At the bottom of the interface, there is a footer with the text 'PRIVILEGED AND CONFIDENTIAL © Promontory Compliance Solutions 2005-2009'.

Step 3 – Assess Inherent Risk - Likelihood

- Consider volume of lending activity; the nature of the lending activity including demographics, discretion, complexity of product offering; the degree of change such as many new credit officers or a recent merger or acquisition; and history of problems, including recent audit / examination findings or customer complaints.

Promontory My Profile | Help Center | Log Out
Logged in as: mdauston
Entity: First ABC Bank
(change user/entity)

RISK ASSESSING DECISIONING AND REPORTING

Risk Assessments

Obligation: 12 CFR Part 203 (Reg. B) / Equal Credit Opportunity Act (Regulation B)
Reporting Unit/Entity: First ABC Bank

General | Related Items | Evaluations | Annotations

Residual Risk Rating: Medium ⓘ ⊕

Inherent Risk

Inherent Risk Rating: **High** ⓘ

Likelihood of Breach: Medium

Volume of Activity: **High** ⓘ
Nature of Activity: **High** ⓘ
Change in Activity/Obligation: **Low** ⓘ
History of Problems: **Low** ⓘ

Impact

Severity of possible adverse impact

Impact of Violation: **High** ⓘ

Control Effectiveness

Consider: 1. Explicit prohibited basis identifiers; 2. Credit scoring system that considers a prohibited basis; 3. Overtly discriminatory statements; 4. Disparities in denials or application processing times; 5. Disparities in w/drawn or incomplete applications; 6. Vague or subjective underwriting criteria; 7. A lack of guidance on exceptions; 8. Compensation based on loan volume or pricing; 9. Presence of broad discretion; 10. Unreasonable risk-based pricing; 11. Indications of steering or redlining; 12. Customer complaints; 13. Percentage of prohibited basis institution applicants vs. subsidiary applicants; 14. Lack of standards for referring applicants to subsidiaries or offering alternative products; 15. Significant differences in percentages between prime and sub-prime borrowers; 16. Broad loan officer discretion; 17. Location of branches for lender vs. sub-prime mortgage subsidiary; 18. Significant differences between lending in high- vs. low-minority areas; 19. Demarcation of credit product markets that exclude areas with a high concentration of minority residents; 20. Policies relating to the processing of loans that vary between high- and low-minority areas; 21. Employee statements that are discriminatory in nature; 22. Complaints that indicate that the lender restricts access to credit in high-minority areas; 23. Advertising practices; 24. Proportion of prohibited basis applicant is significantly lower than the percentage of these groups in the total population of the market area.

Quality of Risk Management: **Satisfactory** ⓘ Policies and loan applications do not contain



Step 4 – Assess Inherent Risk - Impact

- Consider loss history, third party losses for Fair Lending Act violations; potential legal, regulatory, and reputational consequences.
- RADAR™ allows you to record and document judgments of likelihood and impact.

The screenshot shows the Promontory Risk Assessing Decisioning and Reporting interface. The top navigation bar includes "My Profile | Help Center | Log Out" and "Logged in as: mdawson Entity: Global Parent Corporation (change userfilter)". The left sidebar contains a navigation menu with items like Admin, Dashboard, Inventories, Risk Assessments, Consolidated Ratings, Risk Notes, Log, Monitoring and Testing, Reports, and Glossary. The main content area is titled "Risk Assessments" and shows a "Residual Risk Rating: Medium" and "Inherent Risk Rating: High". The "Inherent Risk" section includes a "Likelihood of Breach" dropdown set to "Medium" and a "Volume of Activity" dropdown set to "High". The "Impact" section includes a "Severity of possible adverse impact" dropdown set to "High". The "Control Effectiveness" section includes a "Quality of Risk Management" dropdown set to "Satisfactory".



Step 5 – Assess Control Effectiveness

- Consider 24 factors identified by the FDIC
- Record and document your assessment of control effectiveness.

My Profile | Help Center | Log Out
Logged in as: mclawson
Entity: Global Parent Corporation
(change user/firm)

RISK ASSESSING DECISIONING AND REPORTING

Nature of Activity: High
Change in Activity/Obligation: Low
History of Problems: Low

The demographics of the assessment area
Rate of employee turnover is low. Lending
No history of FLA violations in audits or exam

Impact
Severity of possible adverse impact
Impact of Violation: High

Control Effectiveness
Consider: 1. Explicit prohibited basis identifiers; 2. Credit scoring system that considers a pro discriminatory statements; 4. Disparities in denials or application processing times; 5. Dispar applications; 6. Vague or subjective underwriting criteria; 7. A lack of guidance on exceptions; volume or pricing; 9. Presence of broad discretion; 10. Unreasonable risk-based pricing; 11. In 12. Customer complaints; 13. Percentage of prohibited basis institution applicants vs. subsidi standards for referring applicants to subsidiaries or offering alternative products; 15. Significant between prime and sub-prime borrowers; 16. Broad loan officer discretion; 17. Location of bran mortgage subsidiary; 18. Significant differences between lending in high- vs. low-minority area product markets that exclude areas with a high concentration of minority residents; 20. Polic loans that vary between high- and low-minority areas; 21. Employee statements that are discr Complaints that indicate that the lender restricts access to credit in high-minority areas; 23. A Proportion of prohibited basis applicant is significantly lower than the percentage of these gro market area.

Quality of Risk Management: Satisfactory
Policies and loan applications any prohibited basis identifiers

Standard of Review: Compliance Obligation
Explanation:

Recommendations
Add a Recommendation

Cancel Audit Trail History Save Changes

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Step 6 – Recommendations (If Needed)

The assessment shows...	Possible action warranted
No monitoring of underwriting discretion.	Implement secondary lender review and periodic audit.
No limitations on compensation incentives linked to higher loan pricing or overages.	Establish annual and per loan caps on lender compensation. Implement self-testing or audit to detect predatory pricing.
No oversight of third-party loan servicing activity.	Implement periodic reviews to determine whether discretionary actions by the third party are consistent without regard to prohibited basis.
Identified instances of discrimination.	Change policies and training program, seek legal advice, compensate victims, take appropriate action against the personnel involved.



- Admin
- Dashboard
- Inventories
- Risk Assessments
- Consolidated Ratings
- Risk Notes
- Log
- Monitoring and Testing
- Reports
- Glossary

Change in Activity/Obligation: Low | Rate of employee turnover is low: Lending

History of Problems: Low | No history of FLA violations in audits or exam:

Impact

Impact of Violation: High

Control Effectiveness

Quality of Risk Management: Satisfactory | Policies and loan applications do not contain any prohibited basis identifiers. Interviews

Standard of Review: Compliance Obligation

Explanation:

Recommendations

Add a Recommendation

Recommendation 1:

Cancel | Audit Trail History | Save Changes

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Add recommendations here.

- Admin
- Dashboard
 - [View by Category](#)
 - [View by Product](#)
 - [Log](#)
 - [Monitoring and Testing](#)
 - [Org. Chart](#)
- Inventories
- Risk Assessments
- Consolidated Ratings

Risk Assessments By Product (Residual Risk)



+ Consulting and Advisory

- Financing

Lending Products

Consumer Loans

Home Mortgages (Consumer)

Import/Export)

(stand-by)

(Cash/Marketable Securities Collateral)

ments

Credit Card Loans (Corporate)

Credit Card Loans (Consumer)

Commercial Mortgage

Lines of Credit

+ Investment

+ Administrative Services and Other Fee Business

+ Other

+ Payments

	High	Medium	Low	Pending
+ Consulting and Advisory	2	16	16	1
- Financing	1	15	49	0
Lending Products	1	15	49	0
Consumer Loans	1	8	4	0
Home Mortgages (Consumer)	0	5	17	0
Import/Export)	0	2	11	0
(stand-by)	0	1	7	0
(Cash/Marketable Securities Collateral)	0	1	6	0
ments	0	1	2	0
	0	1	0	0
Credit Card Loans (Corporate)	0	0	13	0
Credit Card Loans (Consumer)	0	0	13	0
Commercial Mortgage	0	0	3	0
Lines of Credit	0	0	1	0
+ Investment	1	14	21	0
+ Administrative Services and Other Fee Business	0	20	21	0
+ Other	0	11	32	1
+ Payments	0	11	14	0

See the results in inter-active dashboards.

Generate user-friendly reports

Promontory
Compliance Solutions

**Assessment of
Dealing with Customers Risks**

at
First ABC Bank

Medium

by the low volume

Medium

Medium

These products would
emerge as identity theft
opening of a deposit
causal damage to the
In the rarer case of
take over, financial
is significant.
leads to an overall
.

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Keep risk assessment current over time

- Robust security, user permissioning, and audit trails help you keep the risk assessment current over time.
- Avoids problems that arise when institutions try to maintain their risk assessments in excel files or word documents.



Integrates with other risk assessments

- Although institutions can purchase RADAR™ for use only with their Fair Lending Risk Assessment, the system is modular and can be used for other compliance risk assessments, including Identity Theft, AML, and compliance risk assessments generally.



RADAR™ - technological overview

- RADAR™ combines a web-based front end developed using ASP.NET (and C#) with the power of a SQL Server 2005 database on the backend.
- The application is an enterprise system that is highly scalable to accommodate users in the world's largest financial institutions.
- The web interface leverages Ajax to provide a friendly, responsive user experience.
- The system keeps user credentials secure by storing them in an encrypted format.
- Most financial institutions can readily install RADAR™ on their own servers.
- Some institutions, however, choose to host the application on Promontory's servers during initial implementation.



Contact information

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