

**FAIR LENDING EXAMINATION TECHNIQUES (FLET)**

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Federal Reserve Board

Course Description  
for FLET

Course Catalog Detail

## FAIR LENDING EXAMINATION TECHNIQUES (FLET)

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### *Type of Participant Targeted*

The Fair Lending Examination Techniques (FLET) course is designed to equip assistant level examiners with the skills and knowledge to plan and conduct a risk-focused fair lending examination.

This course incorporates the FFIEC fair lending examination procedures. The risk-focused examination approach and the procedures require considerable examiner judgement in the planning stages of an examination. A major focus of this course is to teach these skills. *All assistant examiners involved in the consumer affairs specialty must complete this course before being commissioned.*

### *Prerequisites*

Participants should have:

- Completed the Examiner Orientation Program, Banking and Supervision Elements (BaSE) course, Introduction to Consumer Compliance Examinations (CA I) and Real Estate Lending Examination Techniques (RELET)
- Approximately 18 months of consumer examination experience
- Assist preparing fair lending scope memo and conducting fair lending review for compliance in at least one examination.
- Completed the pre-course computer-based training module, “Fair Lending Examination Techniques” estimated to be three hours in length
- Read the loan policy for the case study associated with the school
- Read the Revised FFIEC fair lending examination procedures (CA 04-8)
- Read the alternative fair lending examination procedures (CA 01-4)
- Read the procedures for referrals of suspected instances of discrimination (CA 93-10, CA 95-2)
- Read the Interagency Policy Statement concerning fair lending, dated April 15, 1994 (CA 94-2)
- Read the statistical analysis procedures for fair lending examinations (CA 99-12)

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- Read the letter addressing issues concerning the ECOA/FHA Enforcement Policy Guide - when to require action under the Policy Guide and how the specific corrective actions in the Policy Guide are to be applied in cases where there is little or no written documentation (CA 82-5).
- Read the ECOA/FHA Enforcement Policy Guide, focusing on: retroactive correction periods, agency discretion, distribution, and effective date (CA 81-9)
- Read the Interagency Guidance on subprime lending (SR 99-6)

*Completing the online module and reviewing the written documents is estimated to be 10-15 hours in length.*

### ***Course Overview***

This course incorporates the FFIEC fair lending examination procedures. The risk-focused examination approach and the procedures require considerable examiner judgment in the planning stages of an examination. A major focus of this course is to teach these skills.

Participants must be familiar with the examination procedures, as well as Regulation B and the Fair Housing Act. Participants will apply this knowledge and understanding to solve problems and assess bank performance. Major course topics include the pre-examination process, on-site examination process, and concluding the examination.

This course will build upon fair lending material introduced in the Examiner Orientation Program, BaSE, CA I, and RELET schools.

### ***Course Objective***

After completing this **9 day** course, the participant, at a minimum, will be able to complete the following objective:

*Upon completion of this course, the participant should be able to effectively conduct a fair lending examination, including development of the fair lending scope memorandum and fair lending analysis and summary memorandum.*

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### FOCUS OF COURSE

- Role of risk-based interagency fair lending examination procedures in the consumer compliance examination process.
- Prohibited bases in ECOA/Reg. B/FHA.
- Three forms of lending discrimination (overt, disparate treatment, and disparate impact).
- Adequacy of a bank's fair lending compliance management program.
- Potential discrimination in a bank's underwriting guidelines.
- Potential steering practices.
- Statistical analysis to identify possible fair lending problems.
- Evaluation of credit-scoring models.
- Risk-based selection of products, markets, decision centers and prohibited basis/control groups and the intensity of the examination.
- Potential redlining practices.
- Analysis of an applicant's creditworthiness (DTI ratios and various credit reports).
- Analysis of terms and conditions, including pricing, for evidence of discrimination.
- Analysis of approved and declined applications for evidence of discrimination in consumer, residential, and commercial lending.
- Adequacy of the bank's responses to findings of potential discrimination.
- Determination of when a fair lending issue requires enforcement action.
- Application of the alternative fair lending procedures in lieu of the FFIEC fair lending examination procedures.

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### *Post-Course Intervention*

After completing the FLET course, the participant should be given on-the-job assignments that will improve the retention of the knowledge and skills obtained during class. On-the-job assignments include the following examples.

- In preparation for an examination, assist in performing the fair lending risk assessment and setting the scope of the exam.
- Assist in performing the onsite comparative file review and discuss their findings with bank management.
- Receive constructive feedback from the EIC or other supervisor on the adequacy of the participant's documentation gathered to support the examination scope and conclusions.

### *Overview of the FLET Curriculum*

| Subject   | Class<br>Hours | Homework |
|---|----------------|----------|
| Introduction/Icebreaker                           | 1.50           | 1        |
| Introduction to Lending Discrimination            | 1.25           |          |
| Fair Lending Compliance Management                | 1.50           |          |
| Determining Articulated Lending Standards         | 2.00           |          |
| Third Party Relationships                         | 1.50           |          |
| Illegal Discriminatory Steering                   | 1.00           |          |
| HMDA and CRA Data                                 | 1.00           |          |
| Credit Scoring Models                             | 1.50           |          |
| Fair Lending Exam Scope and Intensity             | 6.00           |          |
| Redlining Analysis                                | 3.25           |          |
| Phantom Bank Case Study – Scope Memo Exercise     | 4.50           |          |
| Analyzing Applications                            | 1.50           |          |
| Phantom Bank Case Study – Scope Memo Debriefing   | 1.75           |          |
| Underwriting Analysis                             | 4.00           |          |
| Commercial Loans                                  | 2.00           |          |
| Evaluating the Adequacy of Lender Response        | 2.00           |          |
| Phantom Bank Case Study Activities                | 4.50           |          |
| Phantom Bank Case Study – Debriefing              | 1.00           |          |
| Analysis of Pricing & Other Terms & Conditions    | 1.50           |          |
| Concluding the Exam                               | 2.50           |          |
| Phantom Bank Case Study – Summary Memo Exercise   | 3.00           |          |
| Phantom Bank Case Study – Summary Memo Debriefing | 1.50           |          |
| Alternative Fair Lending Exam Procedures          | <u>1.50</u>    |          |
| <b>Total</b>                                      | <b>52.00</b>   |          |

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<sup>1</sup> Homework for this course consists of daily unfinished in-class exercises and case study work

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### *Learning Objectives*

*After completing each subject area, the participant, at a minimum, will be able to demonstrate the following skills and knowledge.*

#### Course Introduction

- Describe how to conduct a fair lending examination, including development of the fair lending scope memorandum and fair lending analysis and summary memorandum

#### Introduction to Lending Discrimination

- Distinguish among the forms of lending discrimination and their related legal tests
- Determine how to identify discrimination during an examination

#### Fair Lending Compliance Management

- Elevate adequacy of the components of a bank's fair lending program
- Recognize the significance of how the risk factors in a bank's compliance management program correlate to setting the scope of the examination
- Recognize how the compliance management program influences the scope, the selection of focal points, the intensity and the size of the samples reviewed

#### Determining Articulated lending Standards

- Review the loan policy and articulated lending standards
- Analyze and document overtly discriminatory written policy or oral statements
- Define acceptable consideration of a prohibited basis
- Participate in underwriter interviews

#### Third Party Relationships

- Identify the major fair lending risks inherent in third party activities
- Describe basic techniques for detecting possible violations regarding third party relationships
- Describe various third party transactions
- Describe scoping process

#### Illegal Discriminatory Steering

- Identify steering risk factors
- Determine whether discriminatory steering has occurred

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### Home Mortgage Disclosure Act (HMDA) and Community Reinvestment Act (CRA) Data

- Discuss two tools used to identify lenders with fair lending risks
- Describe how HMDA and CRA tables can be used to scope fair lending examinations

### Credit Scoring Models

- Explain use of credit scoring systems in underwriting, pricing, and risk management of loans
- Explain basic exam steps in reviewing a scoring system
- Determine how to identify fair lending risks during examinations

### Establishing the Fair Lending Exam Scope and Intensity

- Perform a risk-based selection of products, markets, decision centers, prohibited basis groups, control groups
- Determine the intensity of the fair lending examination

### Redlining Analysis

- Describe and discuss the practice of redlining
- Discuss the redlining scoping process
- Review redlining maps
- Describe the use of HMDA data
- Describe and discuss the twelve redlining risk factors
- Explain the redlining examination procedures
- Review a recent redlining referral case

### Analyzing Applications

- Discuss spousal signature provisions
- Review components of the technical compliance review of applications
- Discuss potential fair lending risks that can be identified during the technical compliance review

### Underwriting Analysis

- Identify underwriting risk factors
- Perform initial analysis
- Perform comparative file review
- Describe a statistical review

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- Discuss how to communicate findings

### Commercial Loans

- Evaluate the bank's articulated lending standards
- Compare the bank's actual underwriting practices with its disclosed policies
- Determine loan sample composition
- Identify apparent disparate treatment

### Evaluating the Adequacy of Lender Responses

- Evaluate the adequacy of lender responses
- Evaluate the nature and extent of problems noted during the examination
- Determine if the sample should be expanded

### Analysis of Pricing and Other Terms and Conditions

- Recognize and be able to evaluate risk factors
- Discuss how to utilize the Board's statistical analysis
- Conduct a comparative file review for statistically derived pricing disparities

### Conducting the Fair Lending Exam and Enforcement of Potential Fair Lending Violations

- Recognize that a fair lending issue could subject the bank to possible enforcement action
- Determine when a fair lending issue requires enforcement action.
- Evaluate the overall adequacy / effectiveness of bank's fair lending compliance management program
- Describe how to properly document the examination results

### Alternative Fair Lending Exam Procedures

- Identify when to apply the alternative fair lending examination procedures
- Recognize how to use streamlined and alternative fair lending exam procedures
- Explain the sampling when to using the alternative procedures
- Recognize that the institution may not always remain a low-risk

### ***Class Size***

The optimal class size for the FLET course is 20 participants. To provide sufficient variety of interaction among class participants, the minimum class size is 12 participants. Accordingly, to ensure a manageable instructor workload and maintain a reasonable participant-to-instructor ratio, a maximum class size is 20 participants.

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### *Instructors*

The FLET course requires one lead instructor and three additional instructors with consumer compliance fair lending examination experience. Because FLET incorporates case studies to present some instructional material, a sufficient number of instructors are necessary to assist small groups. Other instructors may include Board staff and other System examiners who have expertise in specific topics.