YOUR MONTHLY COMPLIANCE NEWSLETTER

CONSUMER COMPLIANCE OUTLOOK – FED'S TOP FOUR FAIR LENDING FINDINGS

For those of you unaware, the Federal Reserve publishes a quarterly *Consumer Compliance Outlook* that is FREE and full of useful information. The Fourth Issue 2024 is full of great thoughts, and one is their common fair lending matters requiring attention (MRAs).

To sign up to receive the Outlook newsletter either by mail or electronically and to find the Q4 issue we reference below, click HERE.

On page 14 of this issue, they list their top four fair lending write ups for state member banks since 2022.

Matter #1 – Failing to conduct fair lending risk assessments
Matter #2 – Failing to conduct fair lending training
Matter #3 – Failing to gross up nontaxable income when underwriting is based on gross income
Matter #4 – Risk monitoring and management information system (exception monitoring)

These all seem like basic level fair lending issues, and they are, but they are finding them again and again. Our fair lending school covers them all, but we wanted to provide you with one right here. Tory filmed a *Fair Lending Training for Board Members* video and posted it free on YouTube last year. This is great for Board members, but it's great for management and lenders too. Check it out HERE.

It is 30 minutes long, but there is a lot to unpack. Someone one asked him to do a 5-minute video. You can't teach fair lending in 5 minutes. We apologize for the ads in the video.

OCC BULLETIN – UPDATE OCC CONTACT INFORMATION FOR CERTAIN NOTICES AND POSTERS

If you are an OCC bank, check out their latest bulletin on possible contact information updates. There are several updates on here for areas such as the Community Reinvestment Act, Equal Credit Opportunity Act, and Fair Housing Posters.

You can find the updates on the link HERE. Read through it, find your region and particular contact information, and make sure your notices are updated. You have 90 days from the publishing date, which was April 8, 2025.

Findings from our Consulting Work

From time to time, we like to add in common issues we find in our consulting work. This month, we want to talk about flood insurance, and the topic is force placed insurance.

When you have to force place flood insurance, you are allowed to add the premium of the force placed policy onto the loan amount. However, sometimes curing the violation (force placing flood insurance) creates a new violation at the same time. It happens when your loan amount is the lesser of your three values.

Flood Insurance 101 tells us that there are three amounts you need to consider when determining the minimum amount of flood insurance to require.

1. Loan Amount
2. Replacement Cost Value of the building
3. Maximum amount of insurance available under the NFIP

Number 1 is what gets us in trouble when that is the number you are using. Let's say you need to force place insurance for $200,000 on a building because that is the loan amount and that is the lesser of your three options. So, you get $200,000 of insurance. Then you take that $4,000 policy amount and add it to your loan amount. That ups your loan amount to $204,000 with only $200,000 of insurance in place. You cured a violation and caused a new one at the same time because you are again underinsured.

To correct this, you need to get enough insurance to account for both the current loan amount AND the insurance premium you are about to add to it. Take your time, find out the amounts, and make sure you increase the flood insurance amount enough to account for the added premium or you need to start force placing all over again.

Fair Lending and Redlining Podcast – Spotting Bias in The Loan Lifecycle

Last summer, Tory was on a podcast put on by the National Mortgage Professionals. Katie Jensen hosts the Gated Communities podcast that centers around redlining, lending discrimination, and helping under-resourced borrowers obtain financing.

Tory and Katie discussed the full loan lifecycle of risks, focused on redlining, and covered so much more on fair lending. The podcast is an hour long, and you can find it HERE.

For those of you that are FLEs, you can listen to the podcast and submit it for 1.5 hours of continuing education credit towards your FLE certification.

ALPHY HARMCHECK.AI SOFTWARE

From time to time, I run across other companies in the industry who serve the same customers as we do but offer different products. I recently came across the Alphy team, and they have a product that I think could help a lot of lenders in their internal communications.

Alphy has built an impressive AI communication compliance technology that detects unfair lending in real time rather than after the harm has occurred. The technology reduces false positives as you type and can be used to "look back"

See SOFTWARE page 3

SOFTWARE

Continued from page 2

and analyze captured data. We've all seen how internal communications, whether intentional or careless, can come back to haunt a company and end in litigation, brand damage, and regulatory fines. Trident Mortgage is a good recent example.

HarmCheck scans internal emails and chats immediately to flag risky and unlawful language, from unfair lending to threats, bullying, and harassment; social biases like racism, sexism, and ageism; workplace discrimination; ECOA-related risks; and document tampering and off-channel communication.

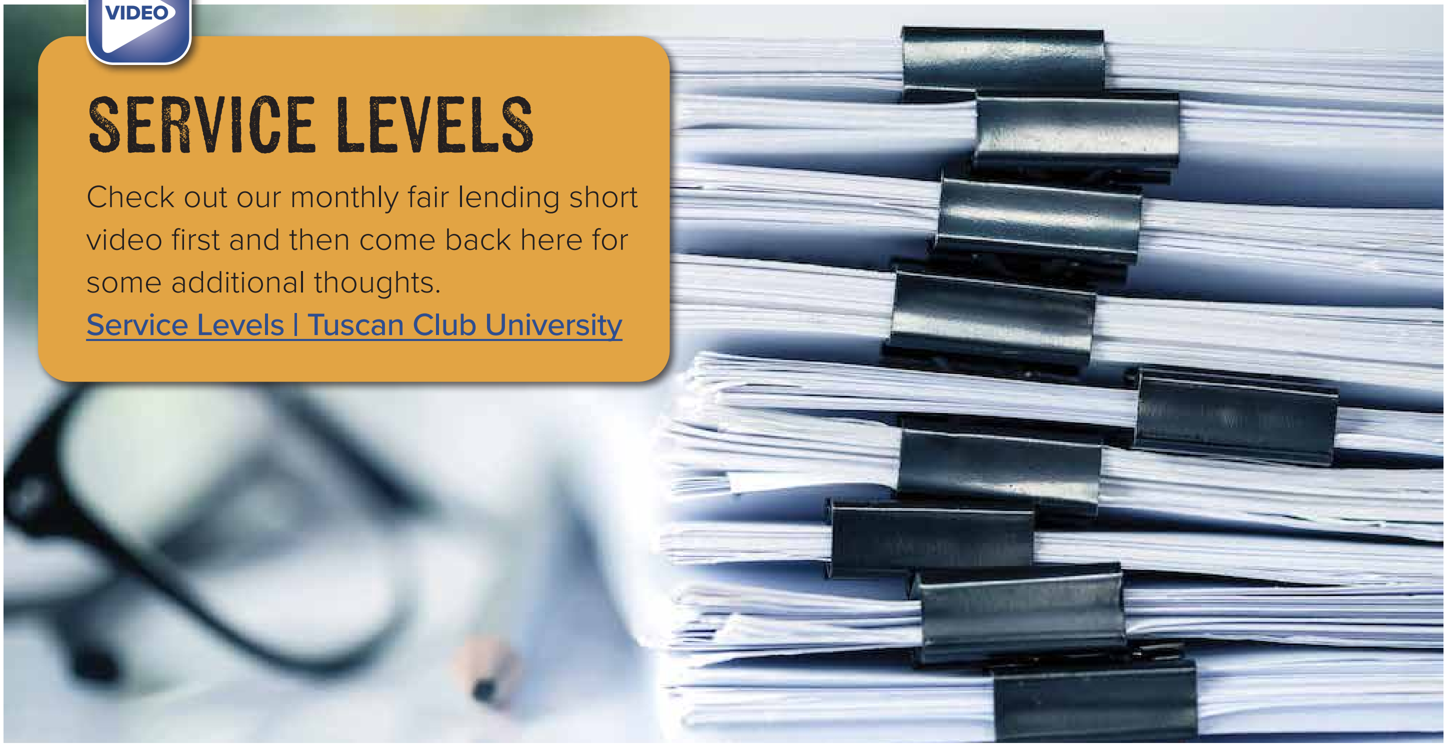
An interesting fact: Alphy's CEO, Julian Guthrie, was a longtime journalist and author of 5 nonfiction books before founding the company. She and her team of self-described "word geeks" have used their journalism and linguistic skills to create proprietary training for over 40 AI models with an overall accuracy detection rate of 95.2%. The unfair lending AI model is gaining a lot of momentum with lenders.

In full disclosure, the Tuscan Club Group does not receive any compensation if you sign up. We are passing along the word because we feel this may help many of you and it's worth checking out. Please see their ad at the end of this newsletter. They even created a coupon code for our newsletter subscribers that gives you three free months' use of the software at no obligation.

SERVICEMEMBERS CIVIL RELIEF ACT NOTICE

The new SCRA notice that you are required to provide to delinquent homeowners is finally available! The notice the industry has been using expired in November 2024, and we have been patiently waiting for them to update that notice. We did a side-by-side comparison, and it looks like the only change is the expiration date which is now 3/31/2028. To find the most recent notice click on the link HERE.

YOUR MONTHLY FAIR LENDING CORNER NEWSLETTER



VIDEO

SERVICE LEVELS

Check out our monthly fair lending short video first and then come back here for some additional thoughts.
[Service Levels | Tuscan Club University]

It's a good idea to keep an eye out for how you are serving loan customers, specifically on a prohibited basis group characteristic. As I mentioned in the video, this can be done by looking at fallout rates using your HMDA data. When you have high fallout rates of HMDA applications to a certain prohibited basis group, this could be an indicator that something is wrong.

Before you get too excited about fallout rates, you need to know if your application rates make sense. In the April newsletter and training video, we looked at peer and demographic data, and you should too. You need to first know if you are even receiving applications from minority applicants at rates that make sense. If peers take three to four times more applications from black borrowers for example, fallout rates really don't matter. You're not receiving enough applications in the first place.

If your application rates make sense, then you get useful fallout data. Now compare your performance to peers. If black borrowers are falling out or leaving the application process four times more often at your organization than your peers, something is wrong. It could take time to figure that out, but it's critical to know why so you can fix it.

When someone leaves the application process, there can be many reasons. They decide not to buy or refinance their home, they got a better deal elsewhere, someone offered a lower rate, or perhaps the service they received was less than flattering and they moved on. Find the root cause before the regulators do, and this will help strengthen your fair lending program.

If your fallout rates are in line with peers – great! Keep monitoring them and keep on serving your customers.

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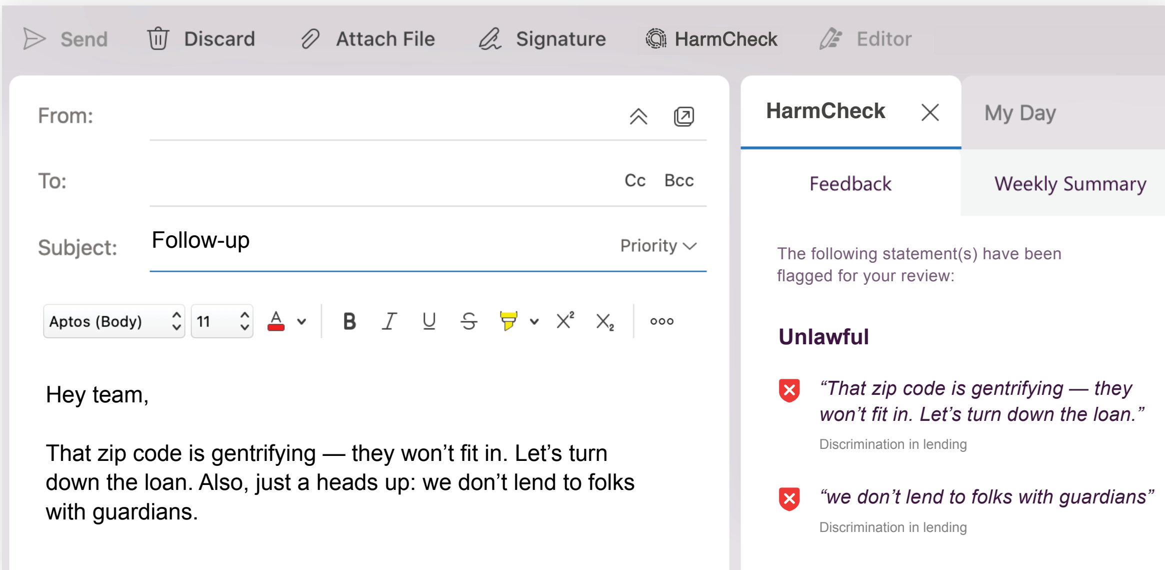

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