




Fair Lending and Responsible Banking Solutions

CONSUMER FINANCIAL SERVICES



■ Inequity in the lending and financial markets continues to be a priority focus of regulators. In addition, communities will soon have more visibility of an institution's lending practices. Whether it's mortgages, small business, automotive or other consumer lending products, entities need to manage their fair lending risks related to pricing, underwriting, redlining, marketing and appraisal bias.

FTI Consulting's Consumer Financial Services ("CFS") is composed of professionals with industry, regulatory and consulting experience providing practical fair lending regulatory compliance insights and support. FTI Consulting experts have significant experience assisting financial institutions of all sizes and complexity levels, often in response to critical fast moving regulatory matters.



Product Based Risks

Small Business Lending

Section 1071 of the Dodd-Frank Act amended the Equal Credit Opportunity Act (“ECOA”)¹ requiring significant operational implementations in the collection and monitoring of demographic and other information of small business lending. Small business lenders should not only begin with implementation of the requirements but should also start reviewing as early as practical their newly acquired data to assess its fair lending risks in preparation for regulatory examinations. FTI Consulting has expertise to provide a full solution in assisting small business lenders to assess their operational risks, implement the requirements of the 1071 Rule and identify any fair lending risks based on the newly gathered data.

Mortgage Lending

Regulators continue to focus on fair lending risk in the mortgage market. Mortgage lenders incur risk throughout the mortgage product life cycle, from gathering the required data under the Home Mortgage Disclosures Act² to assessing fair lending risk in origination and servicing activities. Such risks include pricing, underwriting, redlining, digital marketing, appraisal bias and loss mitigation activities. FTI Consulting experts apply their regulatory and business experience to prepare clients for their next regulatory review or assist with responses to examination findings and enforcement actions.

Consumer Lending

Consumer credit products (e.g., automotive, unsecured, or credit cards) each have unique lending risk which require diligent mitigation controls. Further, unlike mortgage or small business lending, lenders offering consumer products do not have the demographic information for analysis. FTI Consulting understands these complexities in assessing fair lending risk. Our CFS and dedicated Data Analytics teams have extensive experience developing strategic business solutions requiring in-depth analysis of large, disparate sets of financial, operational, and transactional data. Such analysis includes applying Bayesian Improved Surname Geocoding (“BISG”) which employs the applicant’s name and address to proxy for the applicant’s ethnicity/ race and gender.

FTI Consulting has unrestrained capabilities to analyze varying data despite the product type, size or complexity of the lending operations, financial institution or entity.

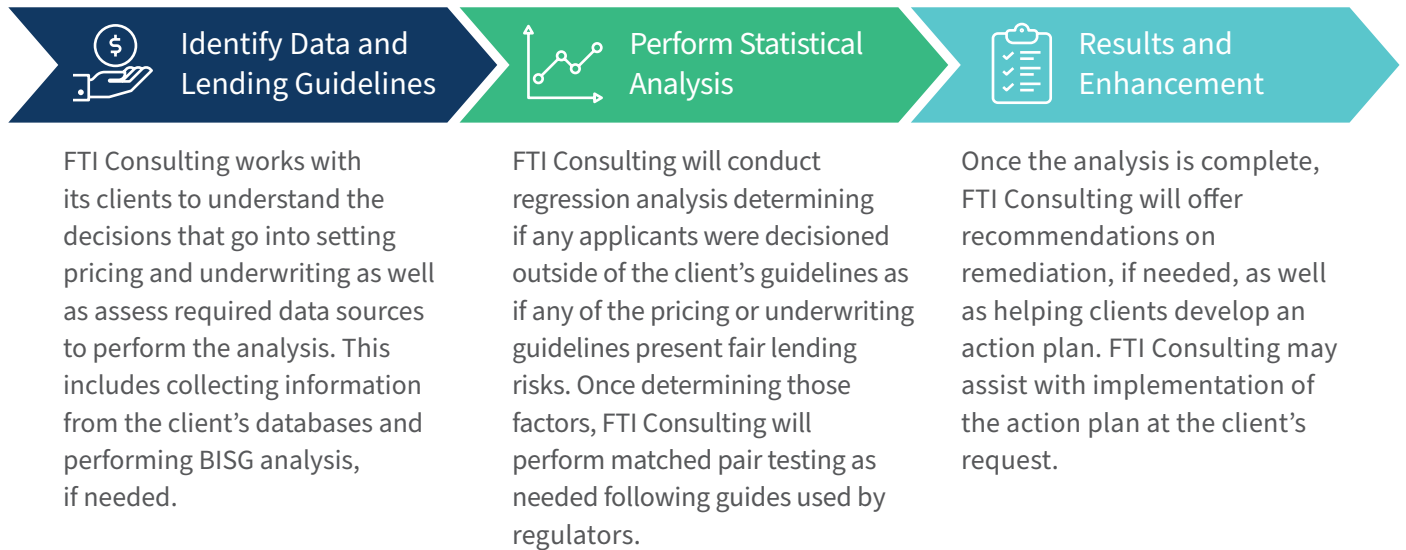
¹ Small business lending rulemaking, CFPB web site, (last accessed May 5, 2023), <https://www.consumerfinance.gov/1071-rule/>

² Home Mortgage Disclosure Act (Regulation C), CFPB web site (last accessed May 5, 2023), <https://www.consumerfinance.gov/rules-policy/final-rules/regulation-c-home-mortgage-disclosure-act/>

Fair Lending Regulatory Solutions

Pricing and Underwriting

FTI Consulting uses a proven methodology when performing pricing and underwriting reviews to determine possible fair lending risks.



Artificial Intelligence and Machine Learning (“AI/ML”) Modeling

Models that use AI/ML are replacing traditional credit and marketing decisions. As these technologies advance, lenders must be conscious of how their models perform. Regulators have expressed concerns around these models, or “Black Boxes”, and have stated that lenders must have adequate controls to reduce fair lending risks.

FTI Consulting's CFS and Data and Analytics teams understand the complexity of these models and has the expertise to assist lenders in establishing model governance which includes fair lending analysis of the model.

Redlining

FTI Consulting recommends analyzing application generation against peer institutions using publicly available data (e.g., HMDA data) or FTI Consulting's industry benchmarks. Additionally, FTI Consulting will review marketing practices (digital and non-digital), branch distribution and other activities (e.g., internal communications) to help identify potential fair lending risks.



1. Select Peer Institutions

Identify institutions of a similar size, portfolio, operations and geographic footprint.



2. Compare Against Peers

Compare application penetration against peer institutions including in areas with large minority census tracts.



3. Document Findings

Document results and findings of peer analysis including any areas of strength and opportunities for enhancement.

1071 Rule

Given the new 1071 Rule and the current focus on inequity in lending by federal regulators, small business lenders should expect scrutiny regarding lending operations. FTI Consulting has the expertise to help lenders implement the data gathering to the rule requirements as well as identifying fair lending risks with the new data points available.



CMS Update

The first phase in implementing the new rule requirements is to ensure the client's Compliance Management System is updated to conduct the regulatory requirements and mitigate the risk involved. This includes updating P&P, training, and monitoring and audit schedules.



Implement and Test

After establishing the controls necessary, the client needs to implement the rule requirements and immediately test the implementation to ensure all required data is collected.



Fair Lending Analysis

While the initial concentration from regulators will be on rule implementation, lenders should not wait to start assessing for fair lending risks using the new data. Such risks include pricing, underwriting and redlining.



Remediate

Should the lender identify disparities, they should quickly develop an action plan and make all necessary actions to remediate applicants.

Appraisal Bias Risk

Appraisal Bias exams and enforcement are novel to the mortgage industry. Regulators are expanding their examinations to include possible discrimination in appraisals. FTI Consulting has a readily available systemic solution to support clients in identifying potential fair lending risks. FTI Consulting's solution performs:

Derogatory Terms

- Performs a keyword search and builds adaptive learning to identify terms not previously considered

Reconsideration of Value

- Performs a review of the entity's Reconsideration of Value Policy, Procedures and Practices

Valuation Differences

- Uses statistical significance tests to compare valuation results against initial sales price or estimated value
- Identifies if any correlation exists between valuation differences and a prohibited basis



CASE STUDY

Discriminatory Lending Practices

SITUATION

A federal regulator made allegations regarding unfair, deceptive, and discriminatory lending practices for a large financial institution. Particularly, the allegations involved its use of background checks in the lending process and whether the practice resulted in discrimination against racial minorities and specific geographic neighborhoods.

OUR ROLE

FTI Consulting experts provided economic and statistical analysis of the discriminatory allegations. FTI Consulting assessed the lending program's geographic differences and correlations with racial minorities. Additionally, FTI Consulting assisted the client and counsel with process improvements and procedures to ensure that the lending processes were not leading to potentially discriminatory outcomes for protected classes.

OUR IMPACT

FTI Consulting's analysis allowed the client to demonstrate their lending practices were not discriminatory and implement process improvements for on-going compliance. Further, FTI Consulting analysis allowed the institution to address reputation risks and provide on-going metrics to senior management regarding its lending program's effectiveness with respect to protected classes.



CASE STUDY

AI/ML Model Bias Review for UDAAP and Fair Lending

SITUATION

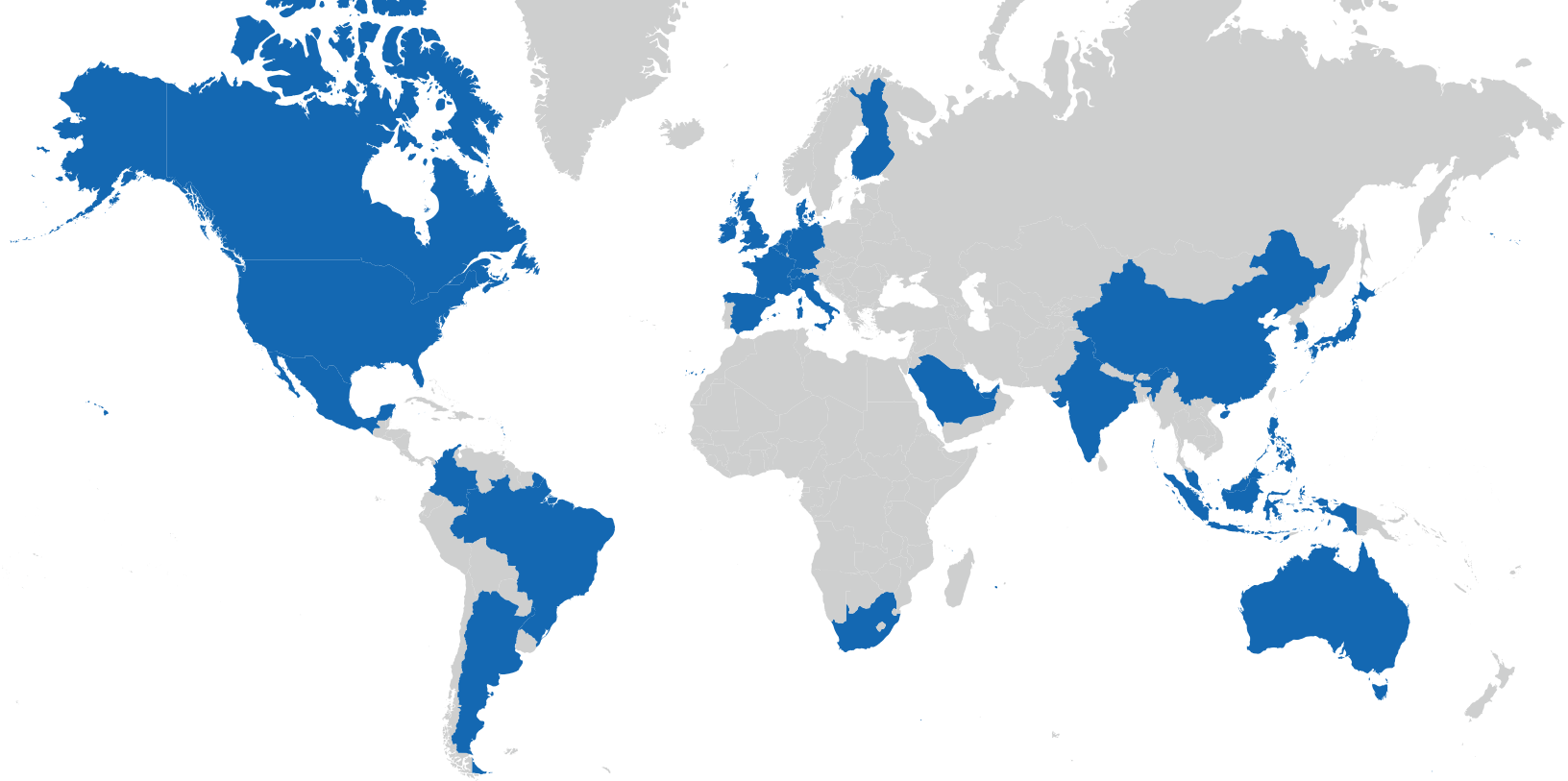
A large digital marketing company that offers advertising, marketing, transaction solutions, customer data and cross-channel campaign management requested assistance in analyzing their models for fair lending risk. FTI Consulting performed regression analysis to review their proprietary predictive AI/ML models and supporting data for risks related to ECOA, FHA and UDAAP.

OUR ROLE

FTI Consulting performed analysis for all data attributes and identified "red-flags" that could be problematic from a fair lending and UDAAP regulatory perspective. Further, FTI Consulting used statistically sound analysis to review use cases, features, model logic and output to determine possible disparate impact and regulatory risk. Where appropriate, data was compared and contrasted regarding loan decisioning and pricing for protected classes and/or majority-minority census tracts.

OUR IMPACT

FTI Consulting's professionals identified various risks within the models and campaign management programs and recommended controls to meet regulatory expectations. FTI Consulting assisted the client in creating model risk management documentation which was made available to the client's financial institution partners and to demonstrate compliance to regulators.



EXPERTS WITH IMPACT™

With offices in every major financial center and every corner of the globe, we successfully serve our clients wherever challenges and opportunities arise.

Our clients include Fortune 500 corporations, FTSE 100 companies, global banks, major and local law firms and state and national governments and agencies in the U.S. and other countries. In addition, major U.S. and international law firms refer us or engage us on behalf of their clients.

31

Countries

1982

Year Founded

8,000+

Employees Worldwide

NYSE:FCN

Publicly traded

Top 50

Advisor to the world's top 50 bank holding companies

99/100

Advisor to 99 of the world's top 100 law firms

\$7.7B

Equity Market Cap*

82/100

82 of Fortune Global 100 corporations are clients

*Number of total shares outstanding as of October 19, 2023, by the closing price per share on October 26, 2023.

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