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Comptroller of the Currency  
Administrator of National Banks

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US Department of the Treasury

# OCC Fair Lending Conference 2008

*Statistical Analysis and Modeling for Risk Assessment*

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# Fair Lending Modeling of Pricing Decisions

## File Reviews

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## ***What is the OCC looking for?***

Evidence of illegal discrimination

- Underwriting decisions
  - Pricing
  - Marketing
- Servicing and Collections



## Overview of a Fair Lending Examination

- Screen public HMDA data
- Collect HMDA+ data for statistical analysis
- Select focal points or targets
- Review loan policies and procedures
- Brokers and purchased loans - OCC AL 2003-3
- Conduct comprehensive underwriter interview



## **Overview of a Fair Lending Examination (continued)**

- Model HMDA++ data to identify matched pairs
- Review files
- Discuss with management
- Summarize preliminary results



## **File Review**

- Identify sample sizes (i.e., 12-month period)
- Focus on only one prohibited basis group at a time
- Eliminate all except marginal applicants



## Summarize Results

- Discuss with management
- Obtain explanations for any instances of potential disparate treatment
- Unless there are legitimate, nondiscriminatory explanations, the institution could be found in violation of ECOA or FHA or both
- DOJ and HUD referral



## Key Points to Remember

- Statistical modeling is crucial in large bank fair lending examinations
- Understanding the underwriting processes and standards is key in understanding the credit decisions
- Discretionary pricing increases risks of disparate pricing on a prohibited basis
- Documentation minimizes questions
- Ongoing monitoring of pricing and underwriting decisions is key to effective compliance management
- A HUD referral only requires one apparent violation of the FHA
- A DOJ referral upon discovery of pattern or practice of ECOA violation



## What have we talked about?

### Overview of the OCC Fair Lending Examination

- Screening public HMDA data
- Statistical analysis to identify areas for review
- Understanding underwriting standards and decision-making processes
- Statistical modeling of target areas and identifying matched pairs
- Reviewing outlier files
- Summarizing preliminary examination findings