

# Fair lending analysis

**Compliance risk is one of the highest-growing and most labor-intensive segments for lenders. Milliman's analytics tools allow you to monitor and manage your exposure by proactively providing your team with actionable information to meet Consumer Financial Protection Bureau (CFPB) and other regulatory requirements for mortgage origination.**

Milliman's Fair Lending Algorithm processes data collected from Home Mortgage Disclosure Act (HMDA) datasets to produce results that identify potential areas where underwriting denial decisions indicate that disparate impact may have occurred. Our results highlight geographic areas with the highest risk of a potential fair lending violation. These geographic areas often warrant further review, including looking at specific loan files or branches.

CFPB may consider "disparity" in differential increments that are very small amounts. This places lenders in a defensive position. Are you prepared to answer their inquiries?

## THE COMPLIANCE LABYRINTH

The Fair Housing Act (adopted in 1968) and the Equal Credit Opportunity Act (enacted in 1974) are "fair lending" laws that make it unlawful to discriminate against "prohibited groups" during the lending process. Prohibited groups are generally defined on the basis of borrower race, ethnicity, sex, marital status, and age.

The Home Mortgage Disclosure Act (HMDA), enacted by Congress in 1975 and implemented by the Federal Reserve Board's Regulation C, requires financial institutions to publicly report certain data related to mortgage applications. This regulation provides the public with loan application data that can be used to analyze lenders for compliance with fair lending laws.

Lenders subject to CFPB's jurisdiction must collect and accurately report data under HMDA. This data can be used to help determine whether financial institutions are serving the housing needs of their communities, to assist in identifying possible discriminatory lending patterns, and to enforce antidiscrimination statutes.

In the Dodd-Frank Act, Congress said that lenders must collect and report specific new information as part of the HMDA process. These new data points include the total points and fees, the term of the loan, the length of any teaser interest rates, and the borrower's age and credit score. This new data may be made available to the public, consistent with the privacy interests of borrowers and applicants.<sup>1</sup>

Lenders are expected to develop and/or maintain appropriate HMDA compliance management systems designed to ensure the accuracy of HMDA data. Lenders will be subject to audits and tests, including written reports, findings, and recommendations for corrective actions. Through a public enforcement action, the CFPB may seek civil money penalties and other correction action as appropriate.<sup>2</sup>

<sup>1</sup> Consumer Financial Protection Bureau website, [www.consumerfinance.gov](http://www.consumerfinance.gov).

<sup>2</sup> Ibid.

## THE MILLIMAN ADVANTAGE

Our models will assist you in evaluating your mortgage origination distribution footprint and identifying any potential areas where further testing or documentation is needed to meet regulatory requirements. Milliman will perform a review of your company's process to report HMDA data. The review may include sampling loan files for consistency in the loan file versus data reported, as well as potential biases in definitions for denial, withdrawal, incomplete application, and others.

Milliman's value proposition includes market-leading actuarial and statistical expertise. We have also been recognized in the industry for our proficiency in sampling and data management processes.

## ABOUT MILLIMAN

Milliman is one of the largest independent consulting firms in the world. For more than 60 years, we have pioneered strategies, tools, and solutions, and we are recognized leaders in the markets we serve. Milliman insight reaches across global boundaries, offering specialized consulting services in mortgage banking, employee benefits, healthcare, life insurance and financial services, and property and casualty insurance.

Our services provide true third-party independence and impartiality that facilitates a critical and unconventional assessment of issues and opportunities. Our consultants bring knowledge, experience, and an unbiased perspective to each assignment. Combining technical prowess with broad-based business expertise, we develop solutions that are practical and actionable—and customized for your organization's needs.

**Contact us to learn about how the Milliman Mortgage Default Score can be tailored to fit your needs.**

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