

How to Profitably Achieve Fair Lending Compliance

How Lenders Can Manage Fair
Lending Risks Efficiently & Effectively

The new pressures of regulatory compliance have irreversibly changed the landscape of lending. Financial institutions face mounting compliance costs and increased regulatory scrutiny. Fair Lending remains a top priority for compliance professionals, management and examiners.

Compliance professionals face a unique set of problems, internally and externally. Not only are they tasked with managing complex regulatory requirements, but they may also face cultural issues. Management may view compliance as a cost center, and their colleagues may see them as naysayers.

Luckily, with unique problems come unique opportunities. If you want to know how you can manage Fair Lending risk efficiently and contribute to the profitability of their institution, you've come to the right place.

In this white paper, we will explore today's compliance reality, the challenges faced by lenders, how the best compliance professionals are solving them, and most importantly, how you can address the challenges at your institution.

Let's jump in!

Today's Compliance Landscape

Today's lending landscape is remarkably different than it was just a decade ago, thanks to the combination of the housing crisis, financial reform, changing demographics and a federal focus on fairness in lending. This is especially clear in compliance and risk management.

The cost of compliance is already high, and expected to rise. Here are some valuable facts and figures that help illustrate this new reality:

More than half of financial service institutions believe they will spend more on compliance next year than this year.

- The six largest banks by asset size collectively spent \$70.2B on compliance in 2013, compared to \$34.7B in 2007¹.
- Since 2010, the DOJ has received 119 Fair Lending referrals. From 2001 to 2008, the DOJ received only 30 referrals total².
- 51% of financial service institutions expect to spend more on senior compliance staff next year than they do this year³.
- 69% expect regulators to publish more info in the next year⁴.
- 54% expect that the total compliance budget will increase over the next 12 months⁵.
- 16% of compliance professionals believe that their personal liability for compliance will significantly increase in the future,

¹ Rafikian, A. (July 30, 2014). Federal Financial Analytics, Inc. [New Study Finds Big-Bank Post-Crisis Bill Rises 102%](#).

² Perez, T. (April 5, 2011). U.S. Justice Dept. [The Attorney General's 2010 Annual Report to Congress Pursuant to the Equal Credit Opportunity Act Amendments of 1976](#).

³ English, S. and Susannah Hammond. (2016). Thompson Reuters. [Cost of Compliance 2016](#).

⁴ *ibid.*

⁵ *ibid.*

while 44% believe that their personal liability will increase only slightly⁶.

- 73% of respondents believe that regulatory focus on managing regulatory risk will increase over the next 12 months⁷.

This changing regulatory environment means that compliance officers face unique challenges. Below, we'll dive into those challenges - for compliance in general, and Fair Lending in particular.

Key Regulatory Challenges of Today's Compliance Landscape

Financial institutions face a number of primary challenges when managing compliance, such as keeping up with regulations, compliance blind spots, time and resource restrictions, and few affordable options for compliance solutions.

Keeping Up with Regulations

More than a third of financial service firms spend at least one whole day per week tracking and analyzing regulatory change⁸. The truth is that compliance teams today are overwhelmed with the pressure of keeping up with regulations.

Just last year, new TRID guidance was released, which required a major overhaul in the policies and processes of many financial institutions. Regulatory changes still hover over the horizon. In Fair Lending, the introduction of HMDA Plus data is one of the biggest impending changes. This will put pressure on compliance resources, as they work to gather, maintain and analyze additional data fields.

While compliance professionals will always need to spend some time on education, it's important to remember that time spent keeping up with regulatory changes is not spent training, analyzing data, improving programs and policies, or managing risk. That's why it's so important to maximize efficiency the rest of the time!

Compliance Blind Spots

Ensuring compliance with key consumer-protection regulations like Fair Lending, CRA (Community Reinvestment Act), HMDA (Home Mortgage Disclosure Act), UDAAP (Unfair, Deceptive or Abusive Acts or Practices) and ECOA (Equal Credit Opportunity Act) requires reporting and analysis—a task that requires both time and people.

Inadequate risk management can lead to compliance blind spots. In Fair Lending, a common root cause of such blind spots is failure to statistically analyze loan and deposit data for risk.

Conducting this Fair Lending data analysis can seem complicated and time-consuming, but neglecting it means operating with compliance blind spots that can impact risk, revenue and profitability.

When the examiners review your institution for Fair Lending risk, they'll start with data analysis. Data analysis is used to identify disparities, which may indicate discrimination. Lenders who neglect Fair Lending analysis do so at their own risk.

⁶ *ibid.*

⁷ *ibid.*

⁸ *ibid.*

Worse yet, it can impact business continuity and growth objectives. Sales and marketing strategies are developed based on insights about market opportunities. Financial institutions also need to ensure they meet the credit needs of the communities they serve. Without timely analysis of loan and deposit data, executives don't have the insight to create effective marketing and development programs that profitably serve all sectors of the community.

Fortunately, new solutions proactively reveal any blind spots and better align sales and marketing with compliance requirements.

Time and Resource Restrictions

Staffing, time and budget are three key restrictions that compliance professionals grapple with daily.

First, there's a shortage of compliance professionals. Because risks are ever-present, scrutiny is high, and penalties are severe, financial institutions desperately need quality compliance personnel. Without senior-level compliance guidance, it can be difficult to effectively manage risk. Luckily, some financial institutions are finding a way around this by hiring third-party vendors to provide insights.

Second, time remains a limiting factor for compliance professionals - there's just so much to do. Again, efficiency is essential.

Finally, even though compliance budgets are increasing, so is the cost of compliance. We'll get into this issue of budget in more detail next.

Analysis can be Complicated and Time-Consuming

Fair Lending analysis doesn't have to be difficult, complicated or time-consuming, but often it is. That's because there are many data points to analyze, and many different perspectives to consider.

There are plenty of solutions that can help you analyze your data, and a small number of institutions decide to analyze their data in-house. However, both of these options tend to be inefficient and costly.

Few Affordable Options

There are a handful of Fair Lending compliance software solutions that can help with data analysis, but not many are affordable.

Some financial institutions believe they have to choose between expensive outsourced analysis and doing the statistical analysis manually. Unfortunately, both of these options are expensive or inefficient and difficult to implement successfully. Here's why:

- Access to compliance software is usually expensive, and additional users often incur additional license fees.

Analyze your data for potential Fair Lending risk in every phase of the crediting process, from marketing to servicing, and everything in-between.

- Most compliance software options require core integration, which can take months or even years.
- Training can be intensive and time-consuming.
- Analysis is often difficult to generate, and even harder to understand.
- Guidance about the reports may come at a price.
- Consultants who will analyze and deliver the data is typically more expensive than the software, and doesn't allow users to analyze their data on their own time, if desired.

One alternative is to conduct this data analysis internally. However, this comes with risks. In today's compliance environment, simple pivot tables are rarely accurate, and are unlikely to be able to provide answers to complex questions. Conducting data analysis internally also means that compliance officers need to act as statisticians or data analysts - something that would challenge even the smartest and most experienced compliance professional.

Data analysis is step one of managing Fair Lending risk.

Compliance officers need a way to conduct data analysis that is sophisticated, easy-to-use, and easy-to-understand. Both of those traditional solutions fall short. Luckily, there is a third option.

Next, we'll discuss that third option, and show how compliance officers can manage Fair Lending efficiently and effectively.

How Lenders Manage Fair Lending Efficiently and Effectively

Reducing your Fair Lending risk starts by knowing your risk exposure. Fair Lending data analysis will show your risk by identifying disparities and potential regulator focal points.

That's why Fair Lending data analysis is the first step of reducing risk. If you have Fair Lending risk, it will show up in your data. If you're not analyzing your data, you should be.

The most efficient and effective way lenders have found for analyzing Fair Lending data is outsourced analysis combined with expert consultative guidance. Why?

Conducting Fair Lending analysis manually and in-house is inefficient at best and inadequate at worst. That means that outsourcing the analysis is the most efficient option.

However, many of the compliance analysis tools are sophisticated but not effective. Simply operating one of these systems is no small feat. Being able to actually understand the results is another matter entirely.

The best Fair Lending data analysis solutions combine powerful analysis with clear guidance.

That's where consultative guidance comes in. By leaning on the guidance of a compliance consultant, lenders get clear insights about their risk, and a real person to help craft an action plan.

Below are some key criteria to consider as you're looking for a compliance solution that balances insight with guidance:

Look for a Fair Lending analysis solution that will reduce the cost, complexity and uncertainty of your compliance.

- **Cloud-Based Solution:** Select a vendor that securely leverages the cloud so that there is no additional software to install. Cloud-hosted solutions often include upgrades, enhancements, maintenance and support without additional fees.
- **Dedicated Team for You:** Seek a solution that assigns a dedicated team to your account, in order to ensure your success. You'll benefit from having an individual expert you can rely on for help, interpretation or coaching. The best companies assign teams that include a day-to-day success manager, an analyst and a senior advisor for more complex guidance.
- **Tested Expertise:** Look for a solution provider that delivers content, reports and analysis from a staff of experienced data analysts, statisticians and compliance professionals. Look for a team that has successfully navigated plenty of exams. You'll benefit from these experts' combined compliance expertise.
- **Collaborative Approach to Development:** Find a solution provider that listens to its users and rapidly releases product features based on industry insight, trends and customer feedback. Avoid companies that release new features less often than quarterly.
- **Little or No Training Required:** Seek a tool that requires little or no training, with an intuitive design that is easy to learn. This ensures your team won't have to be retrained for infrequent uses of the system. Avoid tools that require multi-day or classroom training – it's usually a sign of too much complexity.
- **Value Beyond Compliance:** Look for a solution that enables business intelligence outside of compliance. This ensures the same investment can be used for both compliance and other strategic decision-making such as sales, marketing, branch planning and acquisition analysis.
- **Customizable:** Select a solution that understands the unique compliance needs of different regions and institutions. This ensures a solution more effective for your unique needs. The best solutions enable executives to compare their performance with peers in their region.
- **Consultative Guidance:** Consider providers that offer a consultative review of your data and guidance on how to mitigate risk. This guidance will help you understand your data and the story it tells. Pay particular attention to how much this guidance or support costs. Many charge extra for this service.

There's only one compliance solution that offers this unique combination of powerful analysis and expert guidance: TRUPOINT Analytics.

The best part? It's accessible to anyone, at any financial institution – including you.

The Simple Way You Can Improve Compliance and Reduce Risk

As mentioned above, data analysis is an essential first step. If you don't yet analyze your data for Fair Lending compliance, what are you waiting for? There's really no time to waste, and it doesn't have to be difficult or complicated.

If your Fair Lending analysis process doesn't include both powerful analysis and consultative guidance, your solution is likely less efficient and effective than it could be.

The TRUPOINT Analytics Advantage

TRUPOINT Analytics is the only compliance solution that combines powerful analysis with expert guidance by design, and is an efficient and effective way to analyze your data for Fair Lending compliance. It satisfies all of the guidelines outlined in this white paper.

Regardless of your compliance experience, budget or existing Fair Lending program, you can improve your compliance with TRUPOINT.

- **Compliance Experience:** Whether you're a seasoned compliance expert or new to the role, you'll find the consultant-guided review valuable. We review more than a thousand reports every year, and are happy to answer general and specific questions. We also will help you craft an action plan that is unique to you, and guided by the insights in your data.
- **Budget:** We offer asset-based pricing, so TRUPOINT Analytics is priced to fit any budget. Most institutions we work with think that Analytics would be cheap at any price, but we understand that budgets are limited.
- **New Fair Lending Program:** Data analysis is essential for anyone that must comply with Fair Lending, so even fledgling programs will benefit greatly from this analysis. The guidance that comes with the analysis is especially valuable when developing a new program, or updating an older one.

How It Works

Simply provide your data, and we will upload it into the TRUPOINT Analytics platform. Analysis will be generated in seconds. Then, a compliance expert will guide you through a review of your data, identifying potential regulator focal points and providing insight about the story your data tells.

Beyond that regular review, you'll get access to unlimited support in case you have questions about the platform or the results.

Data You'll Analyze

Your Fair Lending analysis needs to be able to identify risks in every stage of the crediting process, and compare your data to peers and

benchmarks to see how you stack up. TRUPOINT Analytics lets you do all that and more. Here are some things you'll be able to do:

*More than 500
financial
institutions trust
TRUPOINT
Analytics for their
Fair Lending data
analysis.*

- Review loan activity by race, ethnicity, marital status, gender, age, rate and product type.
- Identify lending disparity by application, origination, denial rates, products and pricing.
- Compare the activity of control groups versus protected class individuals.
- Analyze product usage by geography or neighborhood to reveal areas of both risk and unrealized opportunity for growth and community outreach.
- Provide detailed Fair Lending analysis of consumer loan data;
- Determine geographic distribution of loans and deposits by product type for each race, ethnicity and gender.
- Assess your institution's performance when compared to peers, as well as local and national averages.

In addition to Fair Lending, TRUPOINT Analytics can be leveraged to enable more effective branch and ATM planning, to ensure all sectors of the communities are served, detect Redlining, and geocode your data for CRA (Community Reinvestment Act) compliance.

In Conclusion

Today's compliance landscape is full of challenges, from rapidly changing regulations to increased scrutiny. These unique problems need unique solutions.

In Fair Lending, more and more lenders are eschewing the traditional compliance analysis options in favor of a more efficient and effective solution. This solution is combining sophisticated analysis with insightful expertise.

This is accessible to anyone, including you, with the right partner.

About TRUPOINT Partners

TRUPOINT Partners provides compliance software and consulting services to more than 500 financial institutions nationwide. Based in Charlotte, NC, TRUPOINT specializes in Fair Lending, CRA, Redlining, BSA/AML and UDAAP compliance. Our solutions include risk assessments, data analysis, regression, training, program and policy review, branch network optimization and much more.

We combine expert guidance with sophisticated software to help you achieve compliance success through efficient insight.

704.401.1730

info@trupointpartners.com / www.trupointpartners.com

Get Started Improving Your Fair Lending Compliance!
Get this free [TRUPOINT Analytics Info Kit](#), which includes Sample Reports and Dashboards, to learn more.