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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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ENSURING A SAFE AND SOUND  
NATIONAL BANKING SYSTEM  
FOR ALL AMERICANS

Fair Lending Modeling of Pricing Decisions

Pricing and Fair Lending Risk

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## **What Types of Factors go into the Pricing of a Loan?**

- Credit / Risk Factors
- Cost / Profitability Factors
- Competitive Factors
- Compliance / Regulatory Factors
- Other Factors



## **Pricing and Fair Lending Risk:**

### **At Origination:**

- Product Placement
- Program Differences
- Channel Differences
- Geographic Differences
- Loan Officer / Broker Discretion
- Target marketing issues

### **In Servicing:**

- Application of Payments and Fees
- Account Re-price Initiatives
- Associate Discretion

### **In Collections/Loss Mitigation:**

- Modeling/Factors Used
- New approaches to address new environment
- Use of Judgment in the collections process



## Best Practices to Mitigate Fair Lending Pricing Risk:

### ***At Origination:***

- Ensure rates/fees are reasonable and empirically supported
  - Geographic and other differences are business justified
- Develop and implement sales policies / procedures that result in:
  - Consistent outcomes for similarly-situated customers
  - Offering a range of options to meet the customer's credit needs
- Structure compensation plans to support fair lending objectives
- Limit discretion in pricing
  - Caps on overages/underages for retail sales staff
  - Caps on Broker compensation
- Limit, monitor and report pricing exceptions, including fee waivers
- Conduct Fair Lending review of:
  - Marketing solicitations
  - Pricing models



## **Best Practices to Mitigate Fair Lending Pricing Risk (cont'd):**

### ***In Servicing:***

- Install procedures and controls for consistent application of payments/fees
- Ensure appropriate factors are utilized and consistently applied in account re-pricing.
- Limit Associate discretion; monitor exceptions

### ***In Collections / Loss Mitigation:***

- Review collections policies / procedures for potential Fair Lending risk
- Review models (factors) used in the collections process
- Limit judgment in the collections process
- Conduct Fair Lending review of new collections strategies/initiatives



## **Best Practices to Mitigate Fair Lending Pricing Risk (cont'd):**

### ***In All:***

- Provide Fair Lending training to all appropriate personnel
- Involve Fair Lending in new pricing, product, program, service initiatives
- Work with third parties who share and carry out your commitment
- Provide in-language customer support
- Install strong issues management and customer complaint processes
- Conduct monitoring for Fair Lending compliance