



Comptroller of the Currency
Administrator of National Banks

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

Overview of the Fair Lending Process

Statistical Analysis of HMDA data

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Outline

- Screening Process
 - Objectives
 - History
 - Components
 - Identifying banks and areas of potential risk
 - Supplementing HMDA data

- Overview of HMDA data analysis
 - Current mortgage market
 - Implications to fair lending



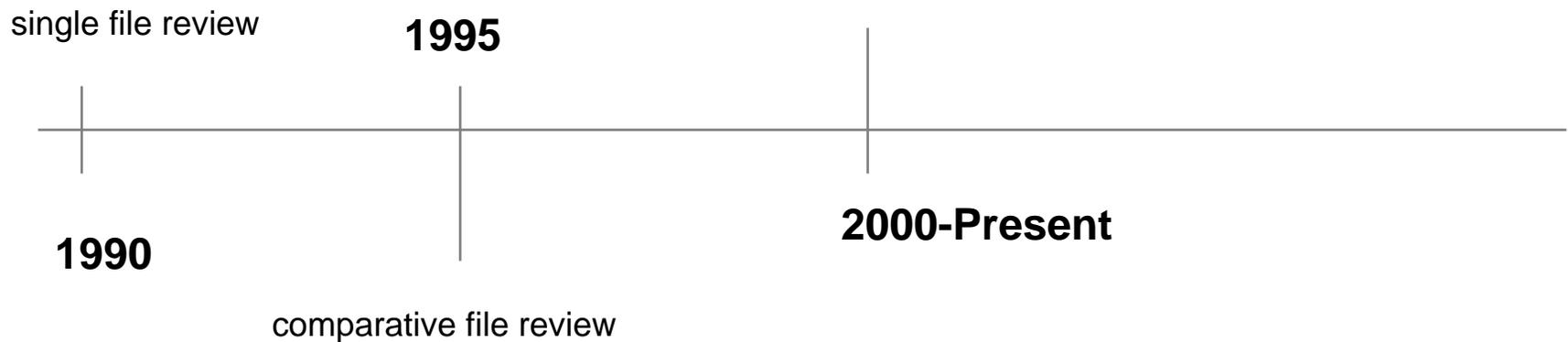
Objectives of Screening Process

- Identify institutions that exhibit high potential fair lending risk
- Assist examiners in the supervisory process
- Allocate resources more efficiently for comprehensive exams



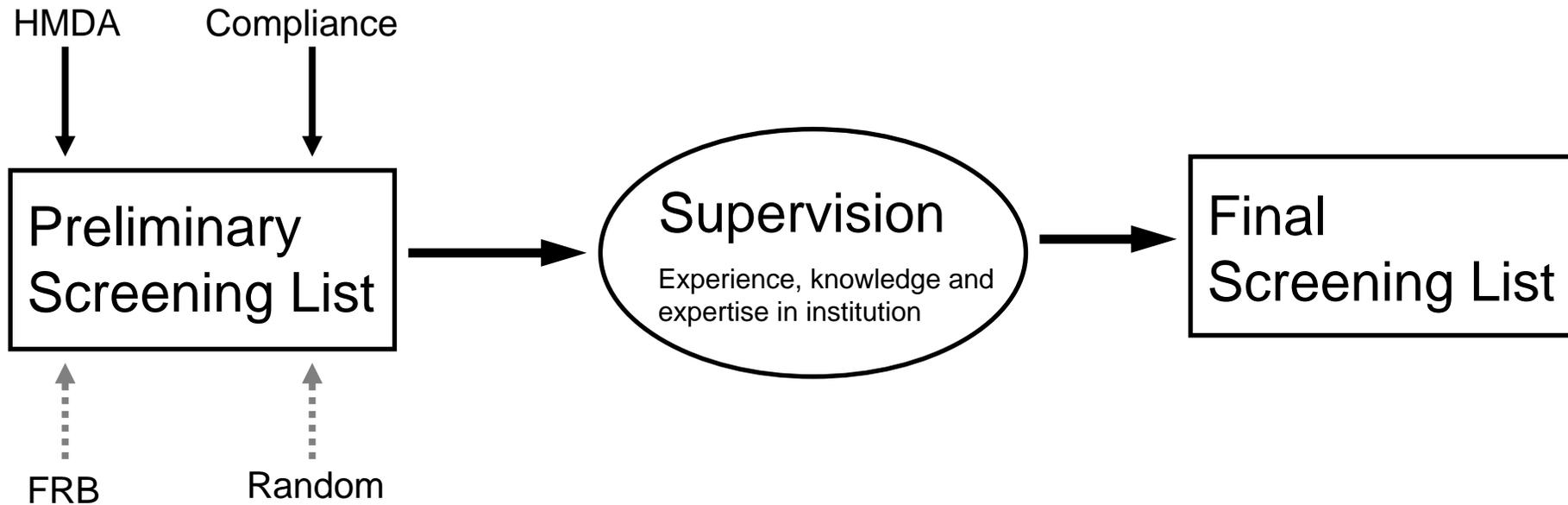
History of Screening Process

Risk-based supervisory process for identifying banks





Screening Process





Defining Risk

- What areas (within a bank) show potential high fair lending risk?
- When does a bank show high fair lending risk?



Identifying Areas of Potential Fair Lending Risk

- Access to loans
- Assistance with the loan
- Underwriting decision
- Pricing the loan



Access To Loans:

What banks have a limited market share in predominately minority geographies within the metropolitan statistical areas reviewed, but a larger presence in low minority geographies relative to the overall mortgage market share?



Assistance With the Loan:

What banks have a high percentage of applications that have HMDA action types:

- Approved not accepted
- Withdrawn
- Closed for incompleteness



Underwriting Decision:

What banks have a high denial rate disparity relative to the average disparity for all OCC banks?



Pricing the Loan:

What banks have a relatively high incidence of rate spreads relative to the average of all OCC banks?

Rate Spread:

Report the spread between the annual percentage rate and the applicable treasury yield if the spread is equal to or greater than 3 percentage points for first lien originations or 5 percentage points for subordinate lien originations.



Identifying Banks for Potential Fair Lending Risk

- Compare each bank to the average bank or market
- Identify banks that are “far away” from the average bank



Importance of Supplementary Information

- HMDA data is always used in conjunction with other information
- Awareness of particular bank's activities
 - By bank
 - By on-site examiners/regulators
- Awareness of overall mortgage activity



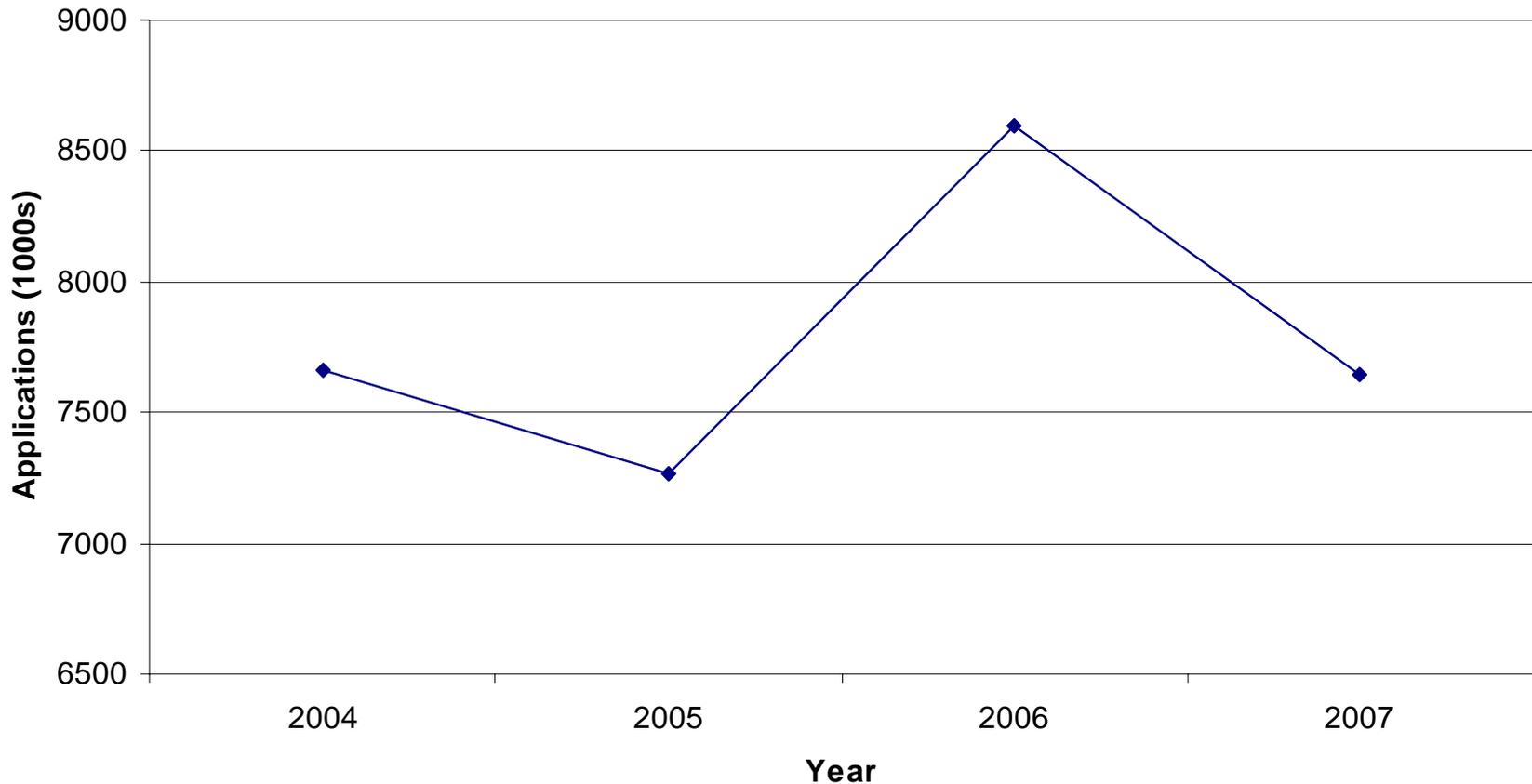
Impact from Mortgage Crisis

- Change in demand
 - Composition of applicants
 - Loan products

- Change in supply
 - Availability of loan products
 - Underwriting standards
 - Pricing
 - Strategic focus



Total Number of Applications Processed in the National Banking System



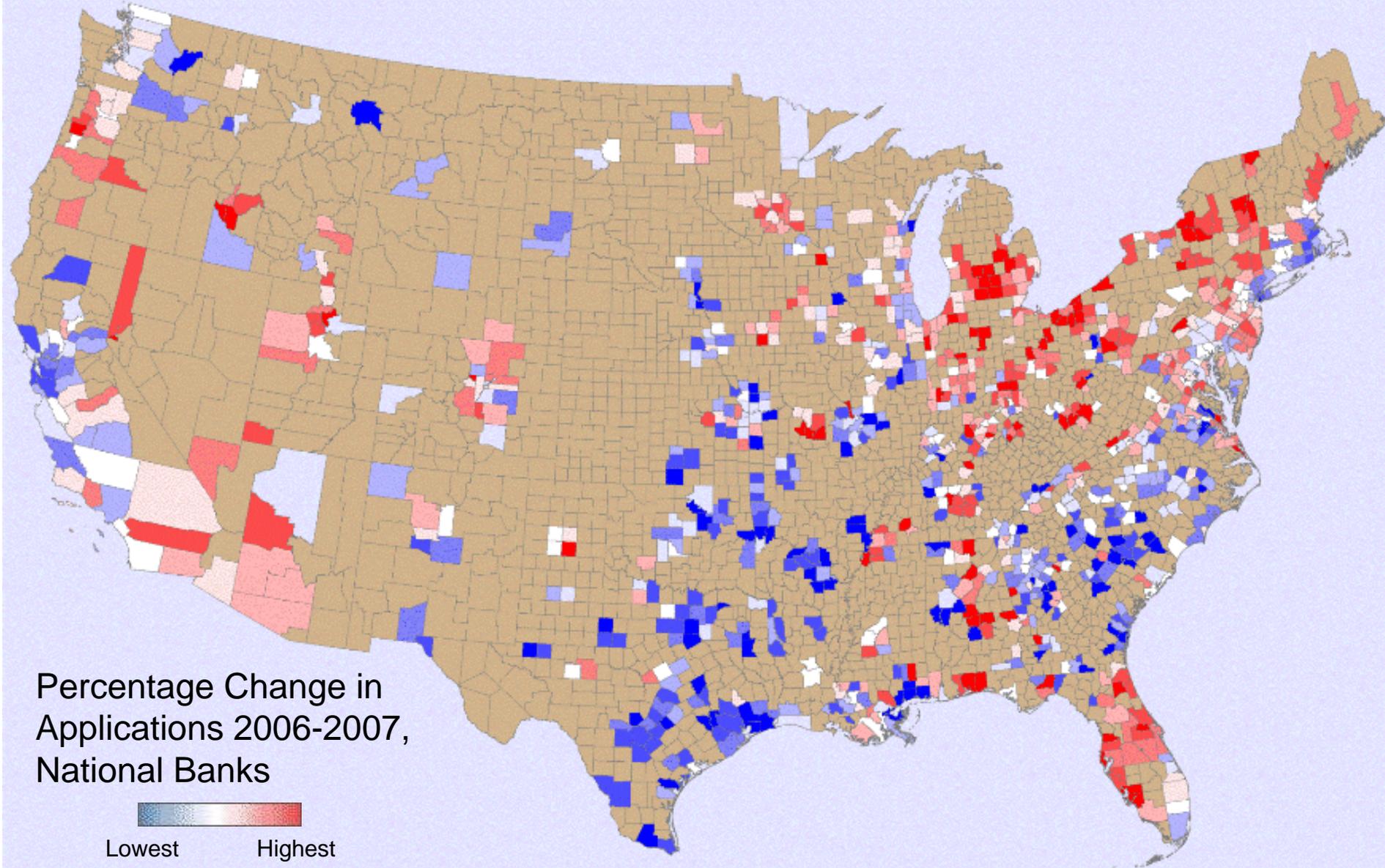


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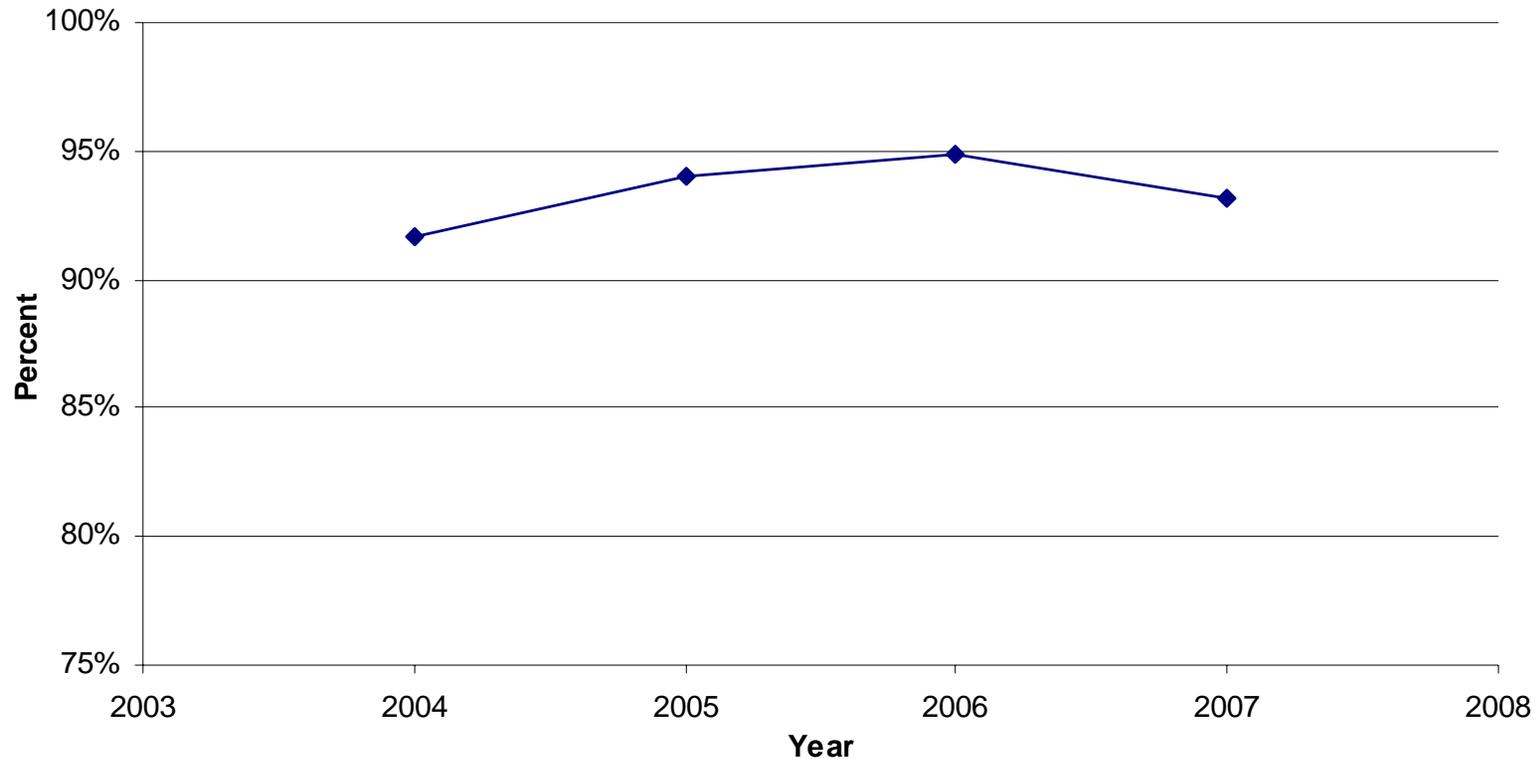
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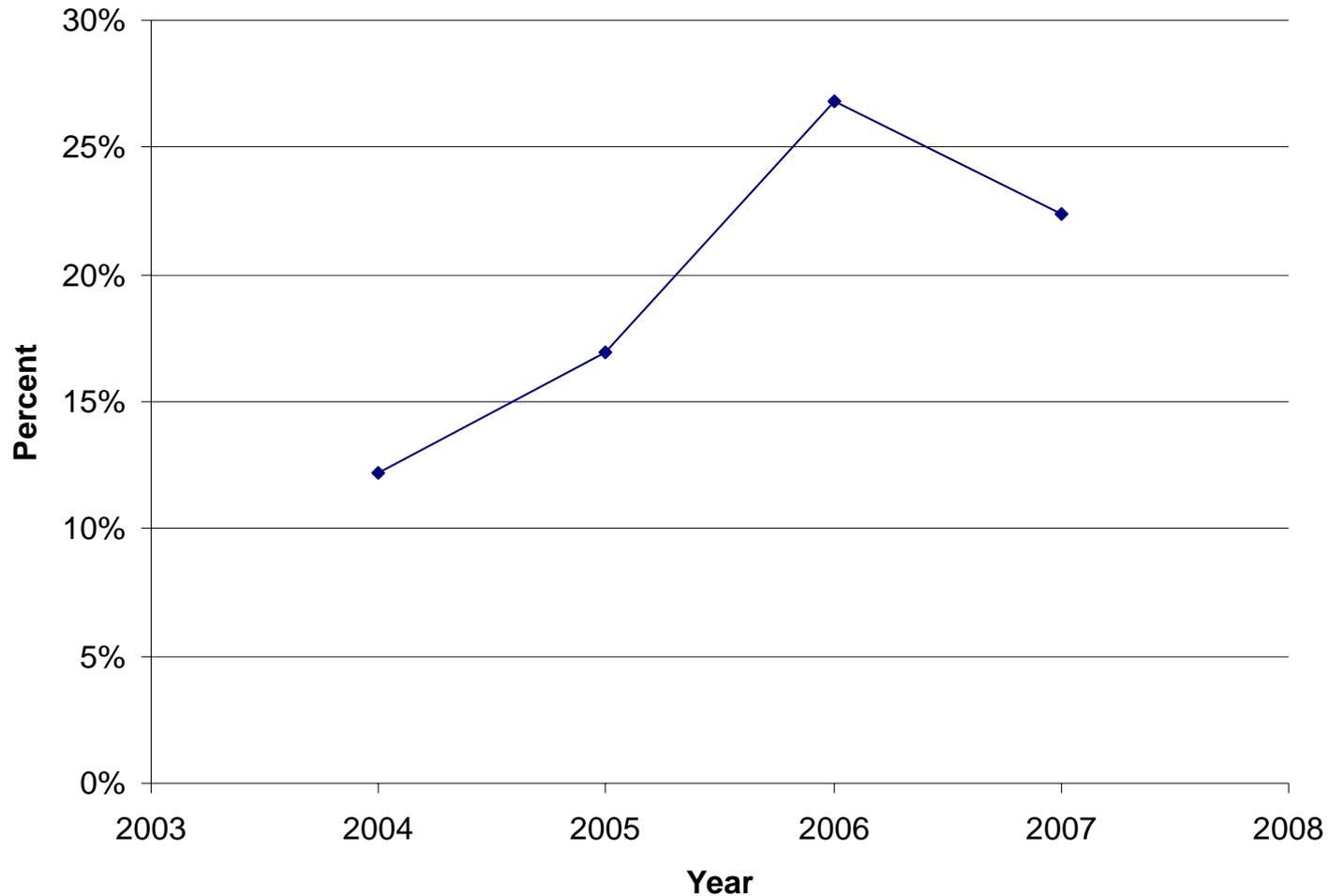


Percentage Share of Conventional Applications, National Banking System



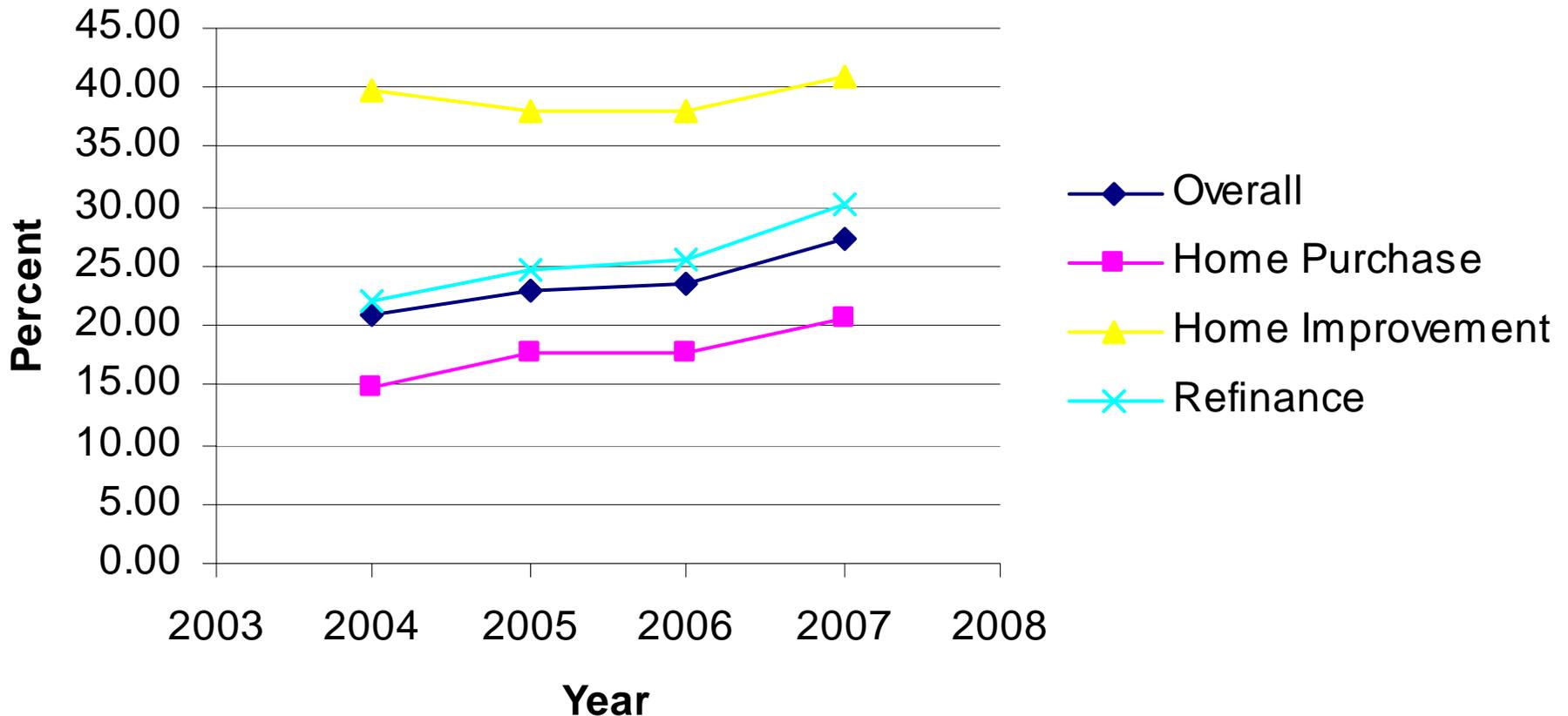


Percentage Share of Subordinate Lien Applications, National Banking System





Denial Rates 2004-2007, National Banks





Implications

- Impact will be observed in HMDA data
- Changes in mortgage market will influence identification of areas of high fair lending risk
 - Will redlining become more important if specific geographies are more affected than others from the mortgage crisis?
 - How will the decrease in demand and supply of different loan products affect fair lending risk?



Take Away Points

- The OCC uses HMDA data in the screening process
- Analysis and use of HMDA data is just one component to the screening process
- Recent events will raise new challenges for analysis and use of HMDA data