

FAIR LENDING LESSONS LEARNED AND STILL LEARNING...

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CONNIE EDWARDS, CRCM, SHAREHOLDER
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Agenda

- HMDA 2018
- Fair Lending Program
- Fair Lending Review Process
- Redlining Review Process

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Fair Lending – What’s it all about?

- Why is it important to discuss equal treatment and fair lending?
 - Treating all customers equally and fairly is **very important**.
 - It is illegal to treat customers differently based on a prohibited bases factor.
 - Fair lending isn’t just the law, it is good business!
- Regulations with fairness (or fair lending) elements:
 - Equal Credit Opportunity Act
 - Fair Housing Act
 - Community Reinvestment Act
 - Home Mortgage Disclosure Act
 - Servicemembers Civil Relief Act
 - UDAAP

ECOA – What are Creditors Responsible for?

- Implementation: Implements the Equal Credit Opportunity Act
- Purpose: The primary purpose of the regulation is to require creditors to:
 - **Promote the availability of credit**
 - Notify applicants of action taken
 - Report credit history in the names of borrowers
 - Record Retention
 - Collect GMI
 - Provide Appraisal Reports
- Coverage: Unlike Regulation Z, which is limited to personal, family or household purpose credit, Regulation B applies to all types of credit subject to some limited exceptions in the Regulation. Generally, Regulation B applies to personal, family, household, business and agricultural purpose credit.

Elements of Regulation B/ Fair Housing Act Prohibited Basis Factors

Prohibit Discrimination on
the basis of:

- Race
- Color
- Religion
- National Origin
- Sex
- Marital Status
- Age

- Public Assistance
 - *If all or part of the applicant's income is derived from any public assistance program*
- Rights under Consumer Credit Protection Act
 - *If the applicant has in good faith exercised any right under the Consumer Credit Protection Act*
- Fair Housing Act – same factors but adds 2 additional:
 - *Familial Status*
 - *Disability/Handicap Status*

HMDA Background and Purpose

HMDA DATA can be used to:

- Help determine whether institutions are meeting the housing credit needs of their communities.
- ***Identify possible discriminatory lending patterns and help enforce anti-discrimination laws.***
- Help public officials target investments to attract private investment to areas where it is needed.

The purpose of HMDA is not to prohibit certain lending activity or encourage unsound lending practices or credit allocation.

HMDA 2018

- 2018 HMDA Data is filed - You're done, right? Wrong!
- You need to analyze it for fair lending risks/trends/strategic planning purposes!
- Aggregate Data released end of August 2019 –delayed due to resubmissions. 30% rejection rate
- What are the risks w/2018 HMDA?
 - Public availability of expanded data including pricing, credit score, age, etc.
 - Very easy to obtain LAR data – available for download from FFIEC website (<https://ffiec.cfpb.gov/data-browser/>)
 - You have no idea who has your data – consumer groups, peers, etc.
 - Ease of putting it into a spreadsheet or a fair lending program for you to compare to peers on an expanded level – using more data
 - Expanded exams have begun – focusing on data integrity

HMDA 2018

- Announcements from CFPB and Prudential Regulators (12/2017) on 2018 HMDA Data Examinations
 - Will we see violations for data integrity? Exam Criticism? What about resubmissions?
 - Define “material problem” – do we know?
 - Do you know the status of your data integrity? Did you scrub the data before submission?
 - Do you feel comfortable that your data is accurate to draw conclusions?
 - If not, stop, rescrub, resubmit and then begin FL review
 - Know your data!

Where is HMDA headed?

- CFPB NPRM addresses reporting thresholds and the ANPR addresses data points
 - Will you still be a HMDA Reporter? Plan ahead—
 - Are you already exempt from the new data points, but collected the data until May 2018? What did you do with that data?
 - **Partially Exempt HMDA Reporters – Examiners expecting you to have access to at least credit score, DTI, LTV, age**
- Can't predict the future –what will happen w/the new data points?
 - CFPB eliminating them all?
 - Can't do that – only the data points that were added through their “discretionary authority” given by Congress as part of DFA.
- Comment period extended to 10/15/19 – don't delay!

Fair Lending Program

Fair Lending CMS - what's required?

Program Governance -

- ✓ Roles and Responsibilities – Board and Management Oversight
- ✓ Fair Lending Risk Assessment

Preventive Controls –

- ✓ Policies and Procedures
- ✓ Fair Lending Training

Detective Controls –

- ✓ Robust Monitoring Program
- ✓ Audit Program
- ✓ Performance Analysis
- ✓ Complaint Management

Fair Lending Program

- No two Fair Lending Programs will be the same-
 - different banks, demographics are different, different risks, different market share, competition, different strategies.
- Fair Lending CMS – what’s the purpose?
 - *Prevention* –
 - Policies/Procedures review – looking for any overt discrimination or disparate impact statements within your policies/procedures/guidelines.
 - Fair Lending Training – At least annually
 - Consider face-to-face method of communicating risks/issues/trends/awareness where participants can ask questions of a human being for a change, instead of computer-based
 - Make sure BOD and Senior Management are also trained on FL/keep them up-to-date on the current FL risks in the industry
 - CO seat at the Table – Compliance needs to be at the table when products are being designed, CRA AA changing, strategic planning
 - Communication – BOD and Senior Management need to be aware of results and details of your FL compliance efforts

Fair Lending Program

- Fair Lending CMS – what’s the purpose?
 - *Prevention* – (Board and Management Oversight/Training/Policies/Procedures)
 - Operational Controls – LO systems are designed to keep you in compliance.
 - ✓ Don’t allow too many hands in the admin side of your LO system (i.e. changing compliance rules in the software)
 - ✓ Be aware of issues with systems that exist out there with certain vendors - participate in user calls with your vendor. (ask about list of Encompass HMDA fields that are user-defined – scary!)
 - ✓ If using HMDA reporting software imbedded in your LO system and utilizing a separate doc prep system (DocMagic), be aware that updates made to documents in the document preparation software will not update back to your HMDA reporting system within your LO system. You will need some type of mechanism to alert you to these changes. Very manual process!

Fair Lending Program

– *Detection*

○ Robust Monitoring System –

- ✓ Examiners are expecting that you are analyzing your data for FL purposes or you are utilizing a third-party to accomplish it
- ✓ **Even if you are subject to partial exemption for HMDA, examiners expecting you to have access to at least credit score, DTI, LTV, age**
- ✓ Even if you don't have a FL software program, it can be accomplished utilizing Excel pivot tables
- ✓ Slice and dice your data various ways based on the new HMDA data. Filters are important and helpful – be careful to compare apples to apples
- ✓ Important to understand your underwriting criteria and how it applies to your specific products – you will have different set of criteria for a home purchase loan vs. refinance transaction.
- ✓ Equally important to understand your pricing methodology/rate sheet/pricing engine for mortgage shops – fixed rate vs. ARM loans, affordable housing loans, etc.
- ✓ If you are a HMDA reporter, you need to conduct a redlining review as part of your FL testing.

Fair Lending Program

– *Correction*

- If you detect FL issues with policies/procedures/guidelines that are having a disproportionate impact on a prohibited group of people, you need to revise/correct/educate on why changes are necessary.
- If you detect LO issues with discriminatory practices or preferences, you must deal with that immediately to lessen the consumer harm/impact.
- If you determine that you have potential redlining issues or were criticized during last exam with MRAs, you need to put a strategic plan in place to prevent it from occurring in the future. Don't delay! (FRB Banks see me about list of items to monitor for the next exam)

FL Review Planning Process

- Develop your FL Risk Profile – have you completed a FL Risk Assessment that encompasses the whole institution?
 - Identify your inherent risks - examples
 - Highly diverse population in your trade area (marketing risk)
 - Presence of racially or ethnically designated geographies in trade area or wherever you are lending. Higher risk geographies can impact exam focus (redlining risk)
 - Multiple lending channels that offer similar credit products, including pricing risk in same geography/different channels (steering risk)
 - Discretion in lending processes (underwriting and pricing risk)
- If not, stop and complete the FL Risk Assessment

FL Review Planning Process

- Once you know your inherent risks, then you can identify the lending products for scoping.
 - Largest volume and highest risk product(s)
 - HMDA Reporter – HMDA LAR data analysis
 - Residential Lending – must review for underwriting, pricing, steering, redlining, levels of assistance, including average days from application to action and marketing FL risk factors. Examiners are currently looking at lowest and highest number of days to decide on a prohibited basis
- FRB scoping priority
 - HMDA
 - Consumer Secured/Consumer Unsecured
 - Student Lending (if applicable)
 - Commercial Lending (small business emphasis)

FL Review Planning Process

- Once you have done your scoping, identify risk factors, risk controls and residual risk based on the FFIEC Interagency FL Procedures-
 - ✓ Residential Mortgage Lending – need to address FL risk factors – U1, U2, U3, U9, P1, P2, P3, P4, P5, P6, P7 (if applicable), S1, S2, S4, S5, S5, S6, S7, S8 (if applicable), R1, R2, R3, R4, R8, R9
 - ✓ Consumer Secured/Unsecured/Student Lending/Indirect Auto Lending - need to address FL risk factors – U1, U2, U3, U4, U5, U6, U7, P1, P2, P3, P4

<https://www.ffiec.gov/pdf/fairlend.pdf>

FL Review Process

- Scope determined – HMDA Reporter –Portfolio ARM Mortgage Lending – largest volume other than secondary/biggest risk area-greatest opportunity for discretion
- FL Risk Factors to be reviewed for Mortgage Lending – Underwriting, Pricing, Redlining (if in an MSA), Steering, Levels of Assistance, including average days from application to action and Marketing FL risk factors, if redlining risk is found. Caveat – consideration will be given to business model – if you have a high volume of manufactured housing, investment property, reverse mortgages or open-end LOCs, they will include.
 - ✓ Select loan product for review – most commonly used by examiners – FDIC, FRB
 - Home Purchase loans, Conventional, Owner Occupied, 1st Lien, Site Built, 1 unit
 - ✓ Prepare your file – Pull from a validated HMDA LAR--
 - Extract the following – put in a separate file for analysis later if needed
 - HELOCs
 - Business/commercial
 - Interest-only feature
 - Balloon payment feature
 - Construction/permanent
 - Manufactured homes
 - Non-owner occupied and investment homes
 - Secondary market loans (if applicable)
 - ARM loans
 - Fixed rate loans

FL Review Process

- File is ready and import into your FL software
- Run HMDA Exception report within your software – determine if you have any validity or syntactical edits.
 - CFPB HMDA reporting system-fewer quality edits compared to 2017 – created issues during submission this year. (800% rate spread/\$990,000,000 loan amount)
 - Any geocoding issues – re-geocode those that didn't upon import
 - Resolve any geocoding issues – must be correct for valid redlining analysis

UW FL Review Process

- I began with underwriting test - Let the filtering begin –
 - **Lesson #1 learned** – pay attention to your filtering process – some issues ended up in the AA files – sometimes, you don't have all the information for an adverse action file (i.e. filtered based on 6-AUS system)
 - Matched Pair Testing - where your underwriting and pricing knowledge will be most needed
 - Case Study –
 - Pulled all white only, HP, OO, 1st lien, site built, 1 unit originated loans – ended up with 42 in my sample – *control group*
 - Pulled all races HP, OO, 1st lien, site built, 1 unit declined loans – ended up with 1 – *target group – too small of TG*
 - Tips --Never include non-Hispanic when designating white male – issue because of disaggregated race/ethnicity categories.
 - *Do not use joint race (the joint category is one borrower is white and the other borrower is a single minority race) with the 2018 HMDA data.*
 - *If you are testing for ethnicity, you would make the control group – non-Hispanic and the target group Hispanic*
 - Also need to consider age ...based on your demographic profile, added field (calculated) for >62
 - **Lesson #2 learned** – filtered to a specific product type with a loan product set – too narrow (i.e. looking at ARMs – look at all ARMs if the underwriting criteria is the same between products – 5/1, 3/1, 7/1, etc.)

UW FL Review Process

- Not enough minorities in sample – changed to test by gender – what other indicator does that tell you?
 - Case Study –
 - Pulled all male only, HP, OO, 1st lien, site built, 1 unit originated loans – still ended up with 42 in my sample – *control group*
 - *Most commonly used by FRB/FDIC – white male only, no co-applicant originated for CG and black female only, no co-applicant declined – make sure you select same product.*
 - *Per FRB, never compare joint borrowers with single borrowers!*
 - Pulled all female only, OO, 1st lien, site built, 1 unit declined loans – ended up with 3 – *target group*

UW Matched Pair Testing

- FL Software will allow you to set tolerance settings for matched pair testing—to identify not marginal transactions, but “better situated” targets
 - Credit Score, DTI, LTV
 - Applicant CS >-10
 - DTI <5.00
 - LTV <5.00
 - Once you run the MP testing, cast your net wide or narrow – start wide and narrow as you go.
 - Determined 9 matched pair files - loan amounts all over the board – not similarly situated – included loan amount
 - **Lesson Learned #3** - Case Study - didn't include the loan amount in the tolerance setting – (FRB stated that the loan amounts should be close in amount -- opinions differ on this topic)

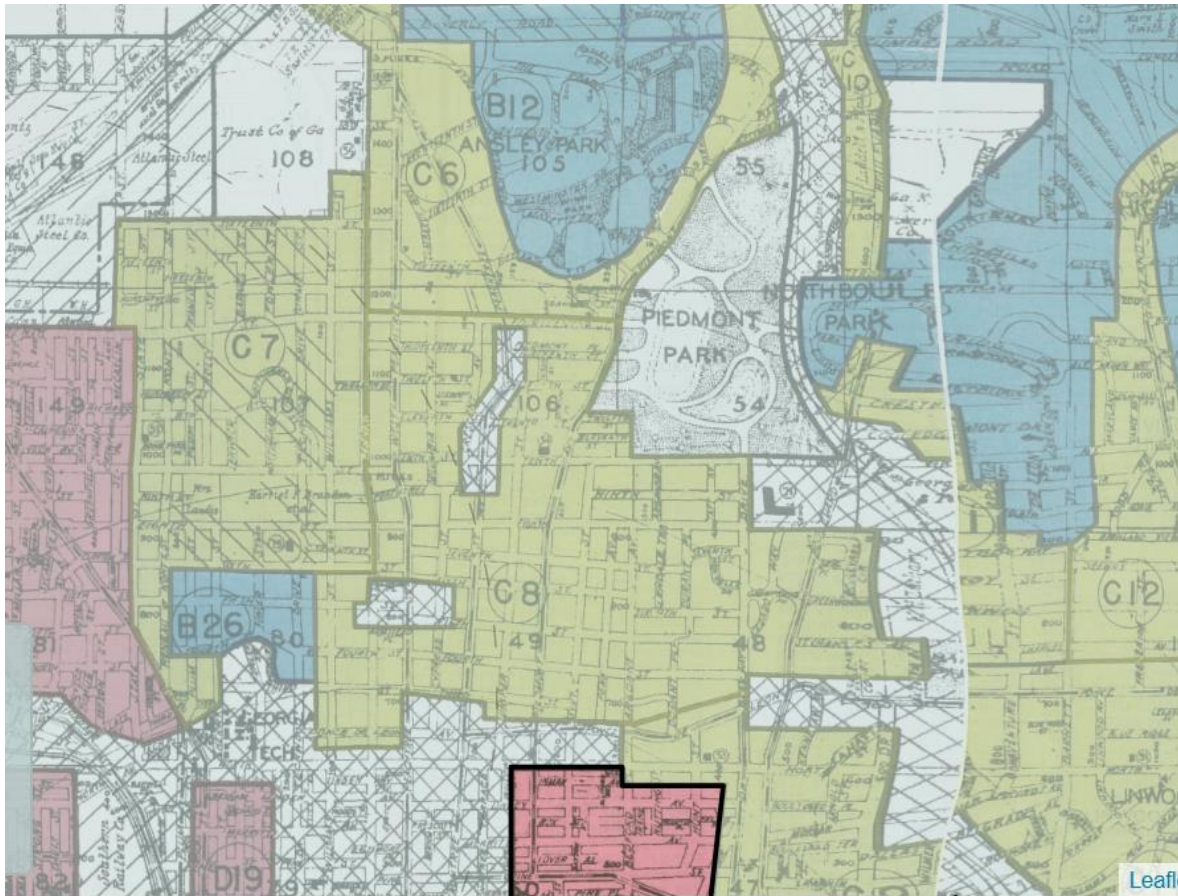
UW Matched Pair/ Comparative File Analysis

- Added loan amount and it came down to 5 for control group
 - Matched with one target group denial
 - Added all credit characteristics to my FL software and re-ran MP testing – same results – 5 CG files to 1 TG file
- Manageable comparative file analysis -
 - Reviewed entire file and all lender notes, any overrides, underwriter notes, etc.
 - Reviewed entire denial, including AA Notice, credit report, application, underwriting transmittal, if applicable, appraisal, etc.

Pricing FL Review Process

- Moved to Pricing test -
 - Case Study –
 - Pulled all male only, HP, OO, 1st lien, site built, 1 unit originated loans – ended up with 42 in my sample – *control group*
 - Pulled all female only HP, OO, 1st lien, site built, 1 unit originated loans ended up with 21 – *target group*
 - Case Study - No pricing disparities found
- For HMDA Reporters, remember to look at rate spread differentials >15 bps
- If there are any pricing differences found by geography, you must have a business justification.
- Run all pricing reports by MSA and your peers within that MSA – analyze different geographies due to demographic characteristics (i.e. Memphis vs. Omaha)
- If you have non-MSA areas as part of your CRA AA -- do not combine w/MSA areas

Redlining History



1930 Home Owners' Loan Corporation maps

- Later adopted by the FHA and VA

Outlawed by 1968 FHA, 1974 ECOA

Still feeling effects



Interactive maps:

<https://dsl.richmond.edu/panorama/redlining/#loc=4/36.71/-96.93&opacity=0.8>

AREA DESCRIPTION - SECURITY MAP OF Atlanta, Georgia.

1. AREA CHARACTERISTICS:

a. Description of Terrain. Level to rolling

Proximity to center of city and occupants' sources of employment. Negre schools, churches and community business centers throughout area. Good street car transportation facilities.

b. Favorable Influences.

c. Detrimental Influences. Age and dilapidated condition of many properties. Difficulty of rental collections. High juvenile delinquency, infant mortality, tuberculosis incidence, death rate, and adult crime rate. Heavy vehicular traffic throughout area. Different racial groups

d. Percentage of land improved 100%; e. Trend of desirability next 10-15 yrs. Down for white
Static for negroes.

5. CLARIFYING REMARKS: Property in this area, if acquired, should be sold as quickly as possible.

Although this area is considered a good negre rental area from an investment standpoint, it also contains one of the city's worst slum areas.

North Avenue to Edgewood Avenue, between

6. NAME AND LOCATION Piedmont Avenue and Southern R R SECURITY GRADE D AREA NO. 20
belt line

Redlining

Redlining = A form of illegal discrimination in which an institution provides unequal access to credit, or unequal terms of credit, because of the race, color, national origin, or other prohibited characteristic(s) of the ***residents of the area*** in which the credit seeker resides or will reside or in which the ***residential property to be mortgaged is located***

Reverse redlining = the practice of **targeting** certain borrowers or areas with **less advantageous products or services** based on prohibited characteristics

Identifying Redlining

County Code	Tract Code	Tract Income Level	Distressed or Under-served Tract	Tract Median Family Income %	2019 FFIEC Est. MSA/MD non-MSA/MD Median Family Income	2019 Est. Tract Median Family Income	2015 Tract Median Family Income	Tract Population	Tract Minority %	Minority Population	Owner Occupied Units	1- to 4- Family Units
103	0201.01	Moderate	No	50.81	\$66,900	\$33,992	\$29,939	4885	80.96	3955	988	1965
103	0201.05	Upper	No	153.58	\$66,900	\$102,745	\$90,486	5102	22.70	1158	1359	1293

- High Minority Census Tract (HMCT) - census tract with a minority population of 80% or more
- Majority Minority Census Tract (MMCT) - census tract with a minority population of 50% or more
- Recent settlements have focused on specific minorities, e.g., majority Black, majority Hispanic tracts – check the demographics of your CRA AA and know which minorities to focus on.

Redlining Risk

- Potential Redlining Risk Indicators –
 - Lack of applications and lending in MMCTs & HMCTs (R1)
 - Taking partial counties as CRA assessment areas (R9)
 - Qualifying borrowers in majority minority tracts (R2)
 - Lack of branches in majority minority areas (R12)
 - Not drawing business from majority minority tracts (R1)
 - Lack of information on affordable home program information or convenience on bank website (R8)
 - Lack of a strategy to compete with mortgage entities using technology (R8)

Identifying Redlining

Analyze Lending Patterns

- Review lending patterns visually – Examiners use publicly available HMDA data (applications and originations) as compared to 2010 census data “demographic profiles” as compared to other lenders in the same MSA
- To identify institutions that received significantly fewer applications and originations relative to other lenders in the MSA
- When historical risk is noted, periodically track rather than waiting for the annual HMDA data
- Evaluate what lending policies, procedures or practices are driving the lending numbers and make sure that you don’t have some type of policy that could cause risk for disparate impact
- Think about how changes correlate to the numbers before implementing changes
- Take action – implement changes and reevaluate

Why is the REMA Important?

- The “Reasonably Expected Market Area” (REMA) is used to evaluate redlining risk
- The analysis will determine whether a bank is providing equal access to credit to those in its REMA. This will involve looking at whether the bank is:
 - Not extending credit in certain areas
 - Targeting certain areas with less advantageous products (reverse redlining)
 - Offering different loans to different areas
 - Not marketing residential loans to certain areas

Identifying Redlining - REMA

FFIEC defines a REMA as *"an expected market area where the institution **actually marketed and provided credit** and where it **could reasonably be expected to have marketed and provided credit**"...*

...based on institution's distribution of applications and loans as well as its marketing and outreach efforts (10/16 FDIC Banker Call)

- REMAs do not always coincide with CRA assessment areas
- REMA is not defined in fair lending laws
- REMA would not be written in report of examination unless there was a redlining issue

Identifying Redlining - REMA

CRA Assessment Area is determined by the institution

- includes whole geographies where an institution has its main office and branches and deposit-taking ATMs
- may not extend substantially outside of these
- consists of one metropolitan statistical area (MSA); metropolitan divisions; census tracts; or one or more contiguous political subdivisions, such as counties, cities, or towns
- risk is arbitrarily excluding low- or moderate-income geographies from your AA

Identifying Redlining - REMA

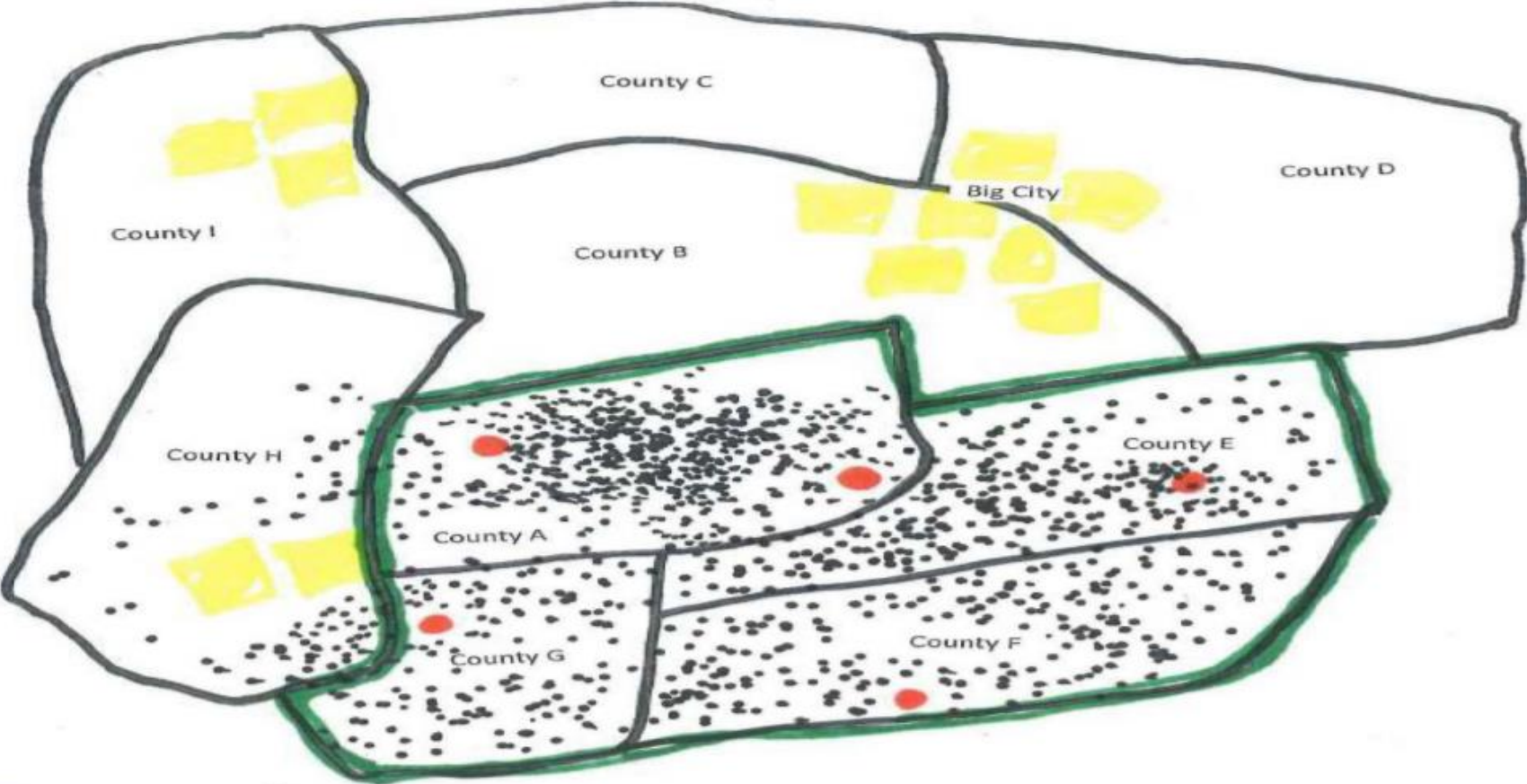
REMA is determined by the examiner and considers:

- Where institution received applications, originated loans, took deposits
- All assessment factors, *i.e.*, *history of mergers and acquisitions; market/trade area as defined in policies; branching structure and history (closures & relocations); relationships with realtors and brokers; advertising and marketing; significant geographic barriers;*
- Inappropriate exclusion of MMCTs from the assessment area

REMA can include areas where the institution has not originated loans or took few numbers of loans or applications.

This is from the FDIC Atlanta's 10/16 Call. The AA is in green; the REMA would add County H

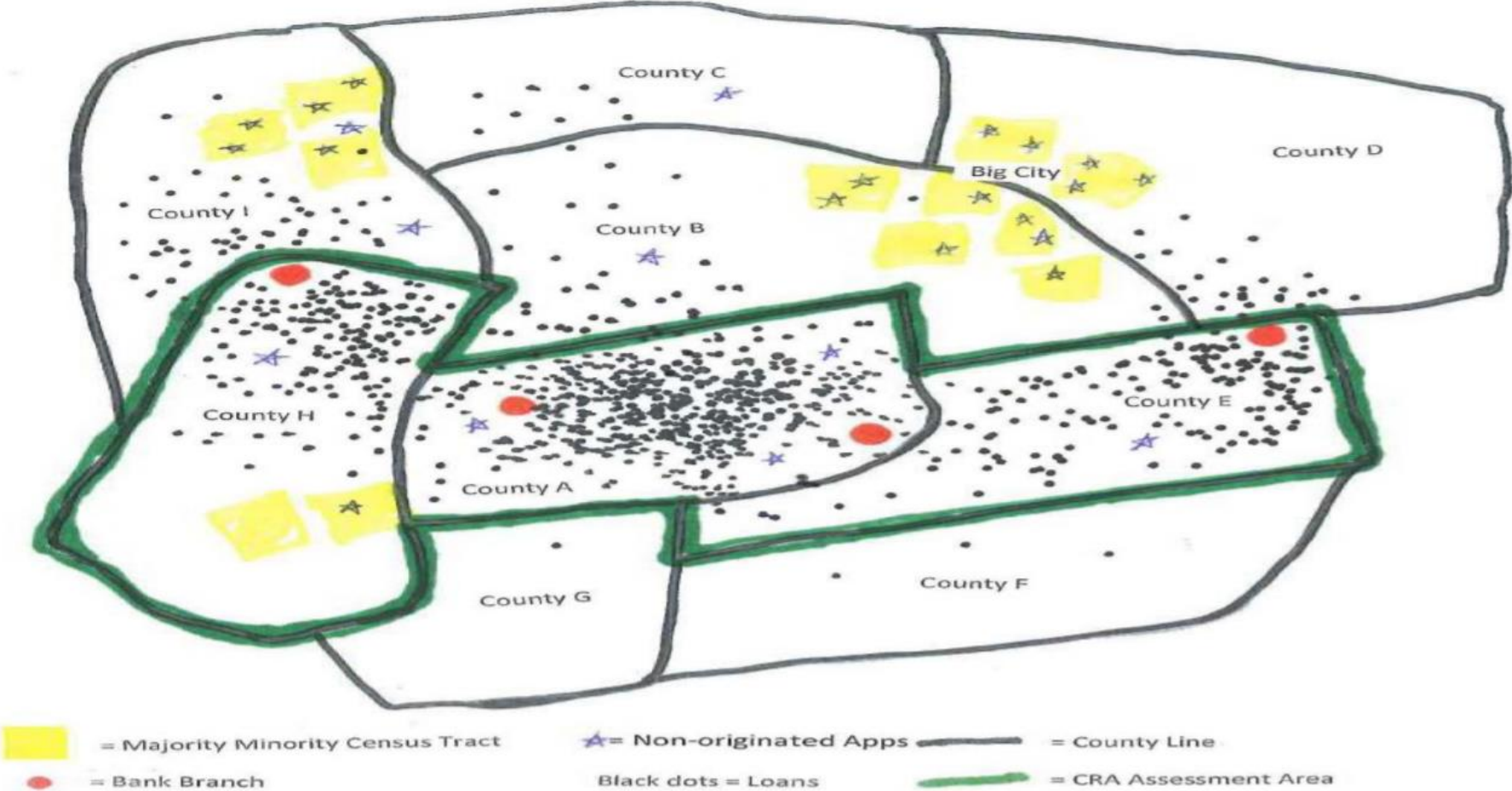
ABC MSA



-  = Majority Minority Census Tract
-  = Bank Branch
-  = Loans
-  = County Line
-  = CRA Assessment Area

This is from the FDIC Atlanta's 10/16 Call. The AA is in green; the REMA would add Counties B, C, D and I. Notice this looks at applications.

ABC MSA



Redlining – Analyzing Peers

- FRB and FDIC use the following numbers to compare your bank's lending numbers to a similar situated HMDA group and demographics:
 - Typically 50 to 200% of your bank's HMDA volume
 - You need to make arguments why you aren't like your peers – you tell the examiners who you believe are your peers
 - This data can be pulled either through most FL software programs or through the FFIEC website and calculated without FL software.
 - FFIEC HMDA Flat Files Data for Similar Situated HMDA group through 2016: <https://www.ffiec.gov/hmda/hmdaflat.htm> For years 2017, 2018 and forward, you will need to use this link <https://ffiec.cfpb.gov/data-browser/> You can filter data by geography levels (nationwide, state & MSA/MD) and then you can select two variables like loan type, purpose, etc. - many to choose from-
 - Keep in mind that your lending volume changes annually and your peers' data will change each year as well

Excellent Article on the effect of peer selection: ABA Compliance Magazine "How to Assess Redlining Risk by Analyzing Peers"
http://magazines.aba.com/bcmag/november_december_2017?pg=28#pg28

Sample Redlining Report

HMDA Tract Penetration Summary

BY TRACT GROUP: MSA

Geography or Applicant Characteristics	Tracts/BNAs				1-4 Family Owner-Occupied Housing Units								Multi (5 or More)-Family Housing Units											
	%	# of Owner Occ. Units	Home Purchase		Home Improvement		Refinancing		Total		# of	%	Total											
Tract Income Level																								
Low	11	0.0	4,380	2.4	0	0	0	0	0	0	0	0	0	0.0	4,148 8.7	0	0	0.0						
Moderate	39	0.0	30,627	17.1	0	0	0	0	0	0	0	0	0	0.0	11,350 23.8	0	0	0.0						
Middle	64	3.1	78,640	43.8	1	14	270	12	0	0	1	33	1,200	26	2	20	1,470	22	3.1	13,390 28.1	0	0	0.0	
Upper	48	12.5	65,230	36.4	6	86	1,921	88	0	0	2	67	3,360	74	8	80	5,281	78	12.5	18,628 39.1	0	0	0.0	
Unclassified	2	0.0	463	0.3	0	0	0	0	0	0	0	0	0	0	0	0	0	0.0	99	0.2	0	0	0	0.0
Not available		0.0		0.0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.0	0.0		0	0	0	0.0
Tract Minority Level																								
Less than 10%	35	5.7	46,503	25.9	0	0	0	0	2	67	1,840	40	2	20	1,840	27	5.7	2,710 5.7		0	0	0	0.0	
10 to < 20%	28	7.1	37,564	20.9	2	29	647	30	0	0	0	0	2	20	647	10	7.1	5,388 11.3		0	0	0	0.0	
20 to < 50%	61	6.6	65,983	36.8	5	71	1,544	71	0	0	1	33	2,720	60	6	60	4,264	63	6.6	26,053 54.7	0	0	0	0.0
50 to < 80%	19	0.0	15,471	8.6	0	0	0	0	0	0	0	0	0	0	0	0	0.0	6,666 14.0		0	0	0	0.0	
80% or more	21	0.0	13,819	7.7	0	0	0	0	0	0	0	0	0	0	0	0	0.0	6,798 14.3		0	0	0	0.0	
Unclassified		0.0		0.0	0	0	0	0	0	0	0	0	0	0	0	0	0.0	0.0		0	0	0	0.0	
Not available		0.0		0.0	0	0	0	0	0	0	0	0	0	0	0	0	0.0	0.0		0	0	0	0.0	
HMDA Applicant Income Level**																								
Less than 50%			38,199		0	0	0	0	0	0	0	0	0	0	0	0	0.0			0	0	0	0.0	
50% to < 80%			31,450		1	14	219	10	0	0	0	0	1	10	219	3	0.0			0	0	0	0.0	
80% to < 100%			35,716		0	0	0	0	0	0	0	0	0	0	0	0	0.0			0	0	0	0.0	
100% to < 120%			**		0	0	0	0	0	0	0	0	0	0	0	0	0.0			0	0	0	0.0	
120% or more			73,730		6	86	1,972	90	0	0	3	100	4,560	100	9	90	6,532	97	0.0		0	0	0.0	
Not available					0	0	0	0	0	0	0	0	0	0	0	0	0.0			0	0	0	0.0	
CRA Applicant Income Level**																								
Less than 50%			38,199	21.3	0	0	0	0	0	0	0	0	0	0	0	0	0.0			0	0	0	0.0	
50% to < 80%			31,450	17.6	1	14	219	10	0	0	0	0	1	10	219	3	0.0			0	0	0	0.0	
80% to < 120%			35,716	19.9	0	0	0	0	0	0	0	0	0	0	0	0	0.0			0	0	0	0.0	
120% or more			73,730	41.2	6	86	1,972	90	0	0	3	100	4,560	100	9	90	6,532	97	0.0		0	0	0.0	
Not available				0.0	0	0	0	0	0	0	0	0	0	0	0	0	0.0			0	0	0	0.0	
TOTALS	164	0.0		7	2,191		3	4,560	10	6,751	0.0													

* Totals include purchased loans. Balances are shown in thousands

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** Housing units data in this section reflects number of low, moderate, middle and upper income households in the selected geography.

The family breakout is based on CRA family income levels.

Redlining – FFIEC Assessment Factors

If redlining is found, then the examiners must evaluate this list of Redlining Assessment Factors:

1. Geographic area's demographics, credit profiles, housing needs
2. Community Reinvestment Act (CRA) AA and REMA
3. Physical presence & services offered (*full-service branches, ATM-only branches, brokers, correspondents, loan production offices, online apps*)
4. Marketing & outreach
5. Lending patterns: applications, originations, denials
6. Mapping against census data
7. Peer and market comparisons
8. Strength of CMS; underwriting & pricing guidelines and policies
9. Complaints, whistleblower tips, loan officer diversity, testing evidence, comparative file reviews
10. An institution's explanations for apparent differences in treatment

Recent Redlining Issuances

1. CFPB Fair Lending Report, June 2019
2. FRB Consumer Compliance Supervision Bulletin, July 2018
3. CFPB Supervisory Highlights Issue 13, Fall 2016
4. Outlook Live 2016 Interagency Fair Lending Hot Topics, 10/4/16
5. FDIC Atlanta Region Regulatory Conference Call, 10/27/16
“Reasonably Expected Market Area, Trade Area, and Assessment Area: Where Do they Fit under CRA and Fair Lending?” Including
“Determining the Reasonable Expected Market Area for Redlining Analysis” by Gary Clayton.
6. FDIC Regional Regulatory Conference Calls “Are you at Risk for Redlining? Understanding your Reasonably Expected Market Area (REMA) and CRA Assessment Area” San Francisco, 3/14/18; New York 3/30/17

Recent DOJ Settlement/ DOJ vs. First Merchants Bank

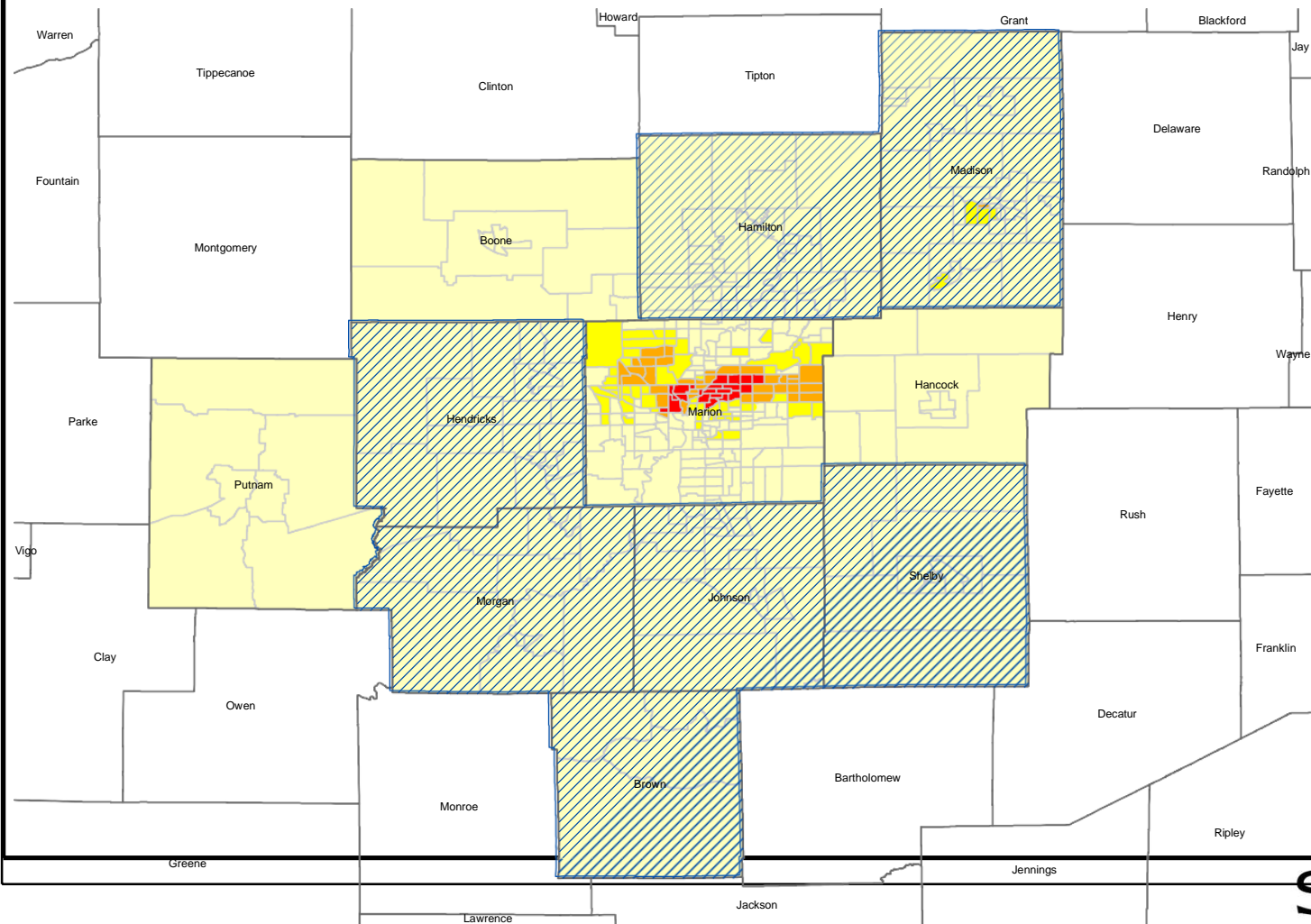
Department of Justice filed Complaint on June 13, 2019, alleging that First Merchants Bank, Muncie, IN engaged in unlawful redlining of majority-Black areas of Indianapolis-Marion County, along with disparate impact . No CMPs as part of this settlement similar to KleinBank settlement. DOJ and First Merchants Bank settled on August 9, 2019 and First Merchants must comply with the following terms of the Settlement Agreement and Agreed Order:

- Retaining an independent third-party consultant to conduct an assessment of the bank's fair lending risk management program and providing a report to the DOJ regarding the bank's plans to adopt or implement the consultant's recommendations
- **Maintaining a fair lending monitoring program**
- Providing training to all employees with significant involvement in mortgage lending, marketing, or CRA compliance within the lending area, all senior management, and all board members to ensure that their activities are conducted in a non-discriminatory manner
- **Engaging an independent third-party consultant to conduct a community credit needs assessment**
- Designating a full-time Director of Community Development for the duration of the order (which is four years)
- Having modified its CRA assessment area after the 2016 acquisition to include Indianapolis-Marion County, serving a lending area that includes the entire county

Recent DOJ Settlement/ DOJ vs. First Merchants Bank Settlement Terms

- **Opening one new full-service branch in a majority-Black census tract in Indianapolis-Marion County**
- Opening one loan production office in Indianapolis-Marion County that is centrally located to multiple majority-Black census tracts and accessible to residents of those tracts through public transportation, advertising this location in a manner similar to which the bank advertises other branches, providing visible signage indicating the office's location, placing a full-service ATM at the office, and maintaining regular business hours at the office
- **Spending a minimum of \$125,000 per year on advertising, outreach, consumer financial education, and credit repair counseling, for a total of \$500,000 over the term of the order**
- Meeting certain minimum requirements set forth in the order for advertising and conducting outreach within majority-Black census tracts during the term of the order, including, but not limited to: advertising each year in at least one print medium directed to African American readers in Indianapolis-Marion County; providing two outreach programs annually for real estate brokers and agents, developers, and others engaged in residential real estate-related business in majority-Black census tracts; developing a consumer education program for loan applicants from majority-Black census tracts in Indianapolis-Marion County on consumer finance and/or credit repair; and providing at least four outreach seminars annually targeted at residents of majority-Black census tracts in Indianapolis-Marion County
- Investing a minimum of \$1.12 million in a special subsidy fund to be used to increase the amount of credit that the bank extends to residents in majority-Black census tracts in Indianapolis-Marion County for home mortgage loans, home improvement loans, and home refinances, with a qualified applicant eligible for a subsidy of up to \$7,500

First Merchants Bank Assessment Areas 2011-2015 Indianapolis MSA



Legend

- Assessment Area 2011-2015
- Indiana 2010 Counties

Percent Black Population by Census Tract

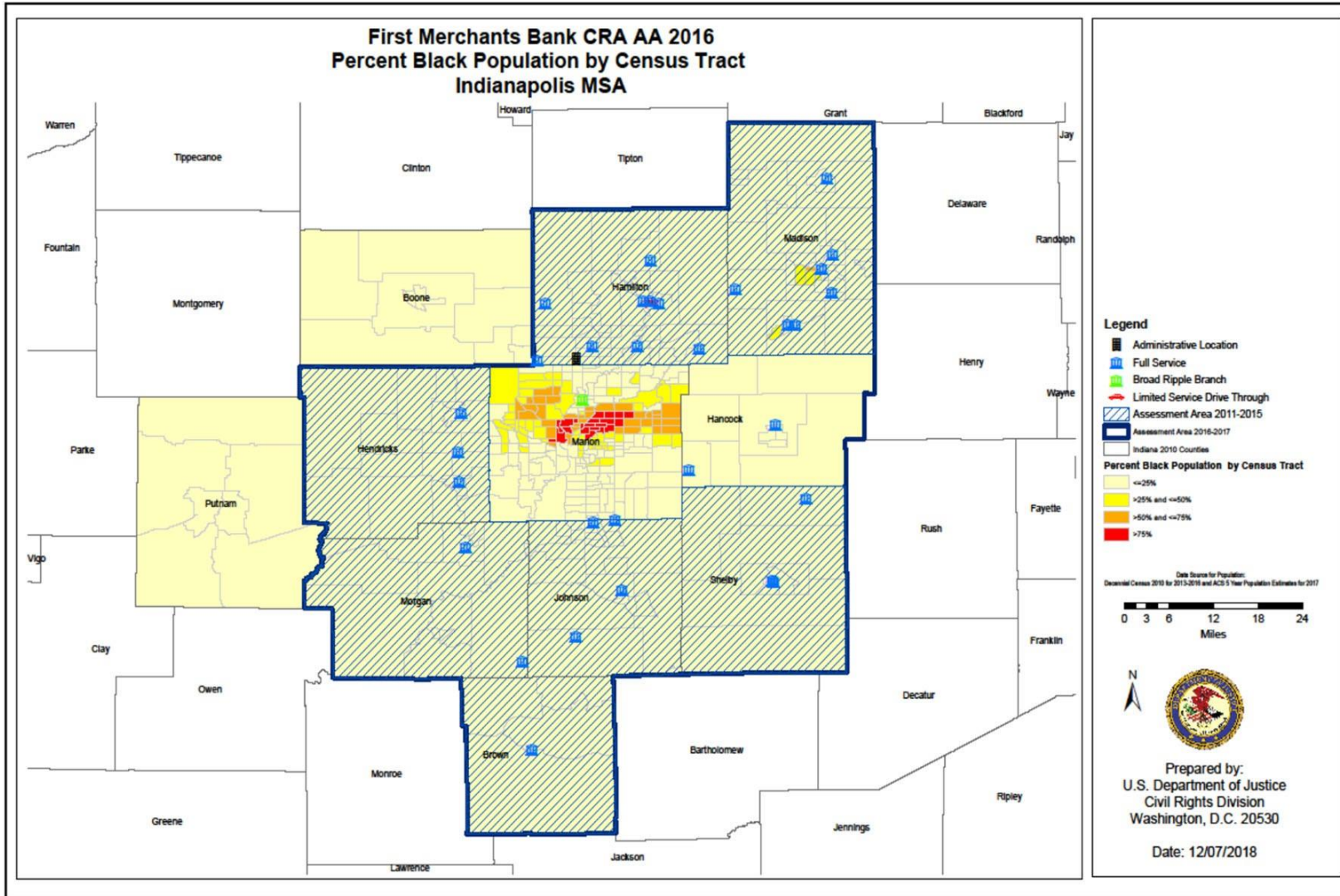
- ≤25%
- >25% and ≤50%
- >50% and ≤75%
- >75%

Data Source for Population:
Decennial Census 2010 for 2013-2016 and ACS 5 Year Population Estimates for 2017

0 3 6 12 18 24
Miles



Prepared by:
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Civil Rights Division
Washington, D.C. 20530



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Questions??

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