



Fair Lending Policy

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SECTION 1

Purpose and Scope

1.1 Corporate Mission Statement

The institution, its directors, executives, and managers recognize the importance and significance of an articulated fair lending policy. This policy serves as a core element of the institution's compliance management system (CMS). The mission statement of the institution compels corporate-wide awareness that any form of discrimination in consumer credit transactions is prohibited. Every employee or entity representing the institution in any capacity must ensure that all mortgage applicants are given equal and impartial treatment in the marketing, origination, processing, approval, closing, and servicing of their home loan.

The institution is committed to the highest level of service standards, quality of assistance, and supportive underwriting to help foster homeownership opportunities throughout institution's reasonably expected marketplace. This policy includes directives that ensure loan programs align with the affordability, household characteristics, and cultural diversity throughout all communities. This policy sets forth a number of imperatives for marketing, outreach, and product enhancements low-to-moderate income (LMI) households, majority-minority census tracts, known as MMTs or MMCTs, and neighborhoods with diverse populations and limited English language proficiency.

1.2 Applicability

The institution obligates every employee and every third-party service provider to comply with the imperatives outlined in this policy. Policy and procedures apply to all origination business platforms and service delivery channels including in-person applications, telephone applications, web-based applications, and applications received by mail. Compliance to this policy is applicable to the advertising, solicitation, pre-qualification, application submission, rate lock, loan approval, underwriting conditions, adverse action, loan closing, post-closing, and loan servicing.

Covered transactions include all property types, owner-occupancy, and all locations within the institution's reasonably expected marketplace, including certain outlying areas and communities within a 5-mile radius of the institution's retail branches. Covered loans include conventional and government-insured loans sold to secondary market enterprises, including Fannie Mae and Freddie Mac, loan guarantors, including Ginnie Mae, institutional investors, and loans originated in collaboration with a housing partnership agency.



1.3 Implementation

This policy implements enterprise-wide compliance to consumer protection laws and mechanisms as required by federal statute and related federal regulations administered by the Consumer Financial Protection Bureau (CFPB) and other prudential regulators including the Board of Governors of the Federal Reserve System (FRS), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), and the Office of the Comptroller of the Currency (OCC). Wherever state or local regulations overlap and are stricter than the requirements set out in this policy, the institution shall apply the stricter rule. Should this policy conflict with the requirements of any prudential regulator or law, the institution shall consult with the appropriate legal counsel to resolve the conflict.

1.4 Required Review

The institution requires this policy to be distributed to every employee and updated at least annually, and/or prior to the effective date of any applicable Federal Act or Amendment. Updates must include changes to policies applicable to the institution, its employees, vendors, and third-party relationships.

1.5 Accountability

This policy prohibits the institution's officers, employees, or agents to discriminate in granting or fixing the terms of credit against any applicant on a prohibited basis, in accordance with state and federal regulations, including the Equal Credit Opportunity Act (ECOA), Fair Housing Act (FHA), Dodd-Frank Wall Street Reform and Consumer Protection Act, Credit Reporting Act (FCRA), Home Owners Equity Protection Act (HOEPA), Flood Disclosure Act, Home Mortgage Disclosure Act (HMDA), Truth in Lending / RESPA Integrated Disclosures (TRID) Rule, Mortgage Disclosure Improvement Act (MDIA), Mortgage Acts and Practices Advertising Rule (MAP Rule), SAFE Licensing Act, Appraiser Independence Requirements (AIR), ECOA Valuations Rule, Unfair, Deceptive, Abusive Acts and Practices (UDAAP), and Fair and Accurate Transactions Act (FACTA), including the FACTA Red Flags requirements to identify, detect, and mitigate identity theft. Non-compliance with the provisions of this policy, including but not limited to state and federal laws, may result in suspension or termination of the responsible party.



SECTION 2

Forms of Discrimination

2.1 Discriminatory Effects Standard

The institution shall comply with provisions of the **Discriminatory Effects Standard**, which was restored in March 2023 and implemented under the Fair Housing Act (FHAAct). FHAAct prohibits discrimination in housing and housing-related services based on an applicant(s)' race, color, religion, national origin, sex (including sexual orientation and gender identity), familial status, and disability. The standard prohibits practices of housing-related activities which cause systemic inequality in housing, regardless of whether they were adopted with discriminatory intent.

This policy prohibits any type of communication or action which directly or indirectly expresses unequal access to credit (or unequal terms of credit) based on the applicant(s)' race, color, national origin, or other prohibited characteristics.

Note: Topics 2.2 thru 2.9 are adaptations of legal commentary from prudential regulators for the purposes of identifying forms of discrimination.

2.2 Disparate Impact / Unintentional Bias

Disparate impact occurs when a facially neutral policy or practice burdens certain persons on a prohibited basis. Facially neutral means that—on the surface, or face value—no one is expressly excluded, however the lender's standards are found to disproportionately exclude protected groups. Because there is no actual intent to discriminate, disparate impact is *unintentional*.

2.3 Disparate Treatment / Intentional Bias

Disparate treatment is found when applicants of a protected group—when compared with white applicants with similarly-situated credit and transaction characteristics—were charged higher loan costs, less favorable loan terms, approved with stricter underwriting conditions, or received a lower level of service standards. Disparate treatment is generally a regular practice rather than an isolated instance and considered to be *intentional*.



2.4 Overt Disparate Treatment

Overt disparate treatment occurs when a lender openly treats applicants differently on a prohibited basis, such as when a policy explicitly limits access to credit based on an applicant's age, source of income, or marital status.

2.5 Comparative Disparate Treatment

Comparative disparate treatment occurs when a lender treats applicants differently on a prohibited basis in the absence of an explicit policy, and without a credible non-discriminatory reason. Fair lending laws may have been violated if a legitimate nondiscriminatory reason for the disparity is not provided.

2.6 Redlining

Redlining is defined as when an institution provides unequal access to credit (or unequal terms of credit) within a certain geographic area based on the applicant(s)' race, color, national origin, or other prohibited characteristics. This type of redlining is also referred to as historical redlining. The institution shall employ the FDIC's published definition whereby the geographic location in question is based on the subject property of the mortgage and based on the borrower(s)' primary residence for second homes or investment properties.

2.7 Modern-day Redlining

Modern-day redlining pertains to the activities, policies, and practices of the institution, including the institution's location of branches, advertising efforts, and where loan officers are placed. On the surface, activities appear to not discriminate— but have a discriminatory effect.

2.8 Digital Redlining

Digital redlining pertains to marketing techniques which employ algorithms to determine the recipients of digital advertisements, since such activities can exclude minorities or protected classes from viewing the advertisements. Digital redlining can result from any type of on-line advertising or social media campaign that excludes minority populations.

2.9 Reverse Redlining

Reverse redlining refers to the practice of targeting minority borrowers (or another prohibited basis) or targeting certain geographic areas with products or services that are less advantageous to the customer.



2.10 Credit Discretion

The institution shall ensure that appropriate controls are in place to ensure that all personnel exercise good judgment in assessing credit risk. This policy restricts mortgage underwriters from deviating from credit standards, or making credit decisions in circumstances where procedures are unclear. Policies apply to underwriting and pricing decisions as well as other origination, loan servicing, collections, and post-maturity processes.

In circumstances where use of discretion is approved by senior management, any use of such discretion must ensure the credit decision is not based on any of the prohibited bases set forth in either the Equal Credit Opportunity Act or the Fair Housing Act. Management shall periodically complete comparative reviews of application and servicing documents to monitor compliance to this policy.

2.11 Algorithms and Artificial Intelligence

The institution is committed to managing discrimination risk resulting from use of artificial intelligence (AI) and algorithms in digital marketing, loan qualification, collateral assessment, and mortgage underwriting. This policy establishes requirements for investigating and testing decision-modeling criteria to ensure methodologies are consistently justified and do not cause a disparate impact on a prohibited basis.

Technology vendors must provide the institution with sufficient explanations as to how the modeling system works and explain the vendor's testing procedures. Under no circumstances will the institution utilize a solution that is formulated with uninterpretable technology, otherwise known as a black-box system.

The institution is committed to the utilizing of AI that provides the maximum amount of transparency and "explainable" artificial intelligence, known as XAI. Methodologies must be explainable with respect to how decisions are made—and based on what criteria. Models must be understandable to management personnel, as well as board members and stakeholders.

The institution shall complete random testing that compares the decisioning outcome of the vendor with manual steps. If such testing demonstrates a disproportionately adverse effect on protected class applicants, the institution shall take steps to modify or terminate the criterion.



2.12 Borrower Immigration Status

The institution recognizes that consideration of immigration status, citizens status, or alienage may be considered discrimination on a prohibited basis, and a violation of the Equal Credit Opportunity Act (ECOA) and Regulation B. The institution is mindful of its obligations related to noncitizen borrowers and shall comply with the provisions of this policy to ensure that credit decisions are solely based on non-discriminatory criteria. Consideration of an applicant's immigration status is only permitted when necessary to ascertain the institution's rights and remedies regarding repayment, or the rights and remedies of the secondary market investors or insurers for the loan program requested.

2.13 Institutional Risk

This policy addresses applicable best practices and operational strategies necessary to identify and mitigate fair lending risk. As appropriate and in accordance with the institution's business model and loan programs, the procedures outlined in this policy align with recommendations published in the OCC January 2023 *Fair Lending Handbook*. Inherent risks outlined in the OCC handbook are summarized below.

Compliance Risk

The risk to current or projected financial condition and resilience arising from violations of laws, rules, or regulations, or from nonconformance with prescribed practices, internal bank policies and procedures, or ethical standards is considered a compliance risk. This risk exposes a bank to referrals to other agencies, enforcement actions, litigation, civil money penalties, payment of damages, restitution, and the voiding of contracts. A bank may be at increased risk of engaging in discriminatory practices when it introduces new, modified, or expanded bank products and services. Compliance risk can also increase when the bank implements new delivery channels, new practices such as underwriting methods, modeling techniques, or significant staff turnover. Compliance risk can increase when a bank offers products or services through third parties such as mortgage brokers and third-party originators.

Credit Risk

Vague underwriting and pricing policies, which may result in different credit decisions for applicants with similar credit profiles, contributes to credit risk. Vague underwriting and pricing policies also increase subjectivity that could result in approving or declining loan requests that do not align with the bank's credit policy. Banks with violations of fair lending laws and regulations can also have credit risk and related profitability concerns. For example, banks with elevated fair lending underwriting or redlining risk can potentially miss opportunities to extend credit to individuals who have the ability to service debt.



Operational Risk

Effective operational risk management practices include maintaining an appropriate risk management system that incorporates risk management principles commensurate with the bank's size, complexity, and risk profile. High volumes of loans, large numbers of transactions processed, extensive use of automation, and complexity of technology often elevate operational risk exposure. A bank may also be at increased risk of engaging in discriminatory practices when it uses manual loan origination practices and services. Highly automated systems can compound the exposure to errors or violations if such systems lack appropriate controls for fair lending oversight. Operational risk also can arise when a bank engages a third party for operational functions such as loan origination, account management, collections, payment processing, data input, and legal assistance.

Strategic Risk

Strategic risk is the risk to current or projected financial condition and resilience arising from adverse business decisions, poor implementation of business decisions, or lack of responsiveness to changes in the banking industry and operating environment. A bank's strategic decisions can pose increased strategic risk. Examples include entering, exiting, or otherwise changing the bank's loan products; marketing techniques; underwriting processes; pricing decisions; and loan officer compensation structure. Strategic risk can increase if a bank deploys additional loan products, expands the geographic areas where the bank lends, or introduces new or revised lending practices without proper risk management oversight.

Reputation Risk

The risk to current or projected financial condition and resilience arising from negative public opinion is considered reputation risk. This risk may impair a bank's competitiveness by affecting its ability to establish new relationships or services or continue servicing existing relationships. Inadequate policies and procedures, operational breakdowns, or general weaknesses in any aspect of the bank's fair lending activities can harm the bank's reputation. Failing to employ appropriate measures to conduct activities in compliance with fair lending laws and regulations can expose the bank to heightened adverse publicity. Given the important societal interests that the fair lending laws are designed to protect, such failures can result in enforcement actions or litigation.



2.14 Third-party Risk

The institution shall appropriately assess, measure, monitor, and control risks associated with its third-party relationships. Relationships related to fair lending include marketing, processing of loan applications, loan servicing, and loss mitigation, regardless of whether the activity is performed internally or through third parties. All activities must be performed in a safe and sound manner and in compliance with applicable laws. The use of third parties shall require an initial risk assessment, due diligence in the selection process, contract structuring and review, and on-going oversight.

2.15 Indicators of Discrimination

This policy establishes a number of internal and external policies and procedures to manage discrimination risk. Managers and supervisors must refer to the examples outlined below for monitoring discrimination risk. Criteria outlined below are adapted from the *Interagency Fair Lending Examination Procedures*.

Overt Indicators of Discrimination

1. The institution includes explicit prohibited basis identifiers in written or oral policies and procedures, such as underwriting criteria and pricing standards.
2. Collecting information, conducting inquiries, or imposing conditions contrary to express requirements of ECOA.
3. Including variables in a credit scoring system that constitute a basis or factor prohibited by ECOA, or (for residential loan scoring systems) the Fair Housing Act (FHAAct).
4. Statements made by the institution's officers, employees or agents which indicate discrimination on a prohibited basis in any aspect of a credit transaction.
5. Employee or institutional statements that evidence attitudes based on prohibited basis prejudices or stereotypes.



Indicators of Potential Disparate Treatment in Underwriting

1. Substantial disparities among the approval/denial rates for applicants by monitored prohibited basis characteristic, (especially within income categories).
2. Substantial disparities among the application processing times for applicants by monitored prohibited basis characteristic (especially within denial reason groups).
3. Substantially higher proportion of withdrawn/incomplete applications from prohibited basis group applicants than from other applicants.
4. Vague or unduly subjective underwriting criteria; lack of clear guidance regarding the allowance of exceptions to underwriting criteria, including credit scoring overrides.
5. Lack of clear loan file documentation regarding reasons for any exceptions to standard underwriting criteria, including credit scoring overrides.
6. Relatively high percentages of either exceptions to underwriting criteria or overrides of credit score cut-offs.
7. Loan officer or broker compensation based on loan volume (especially loans approved per period of time).
8. Consumer complaints alleging discrimination in loan processing or in approving or denying residential loans.

Indicators of Potential Disparate Treatment in Pricing (Interest Rates, Fees, or Points)

1. Financial incentives for loan officers or brokers to charge higher prices (including interest rate, fees, and points).
2. Presence of broad discretion in loan pricing (including interest rate, fees, and points), such as through overages, underages, or yield spread premiums.
3. Use of risk-based pricing that is not based on objective criteria or applied consistently.
4. Substantial disparities among prices being quoted or charged to applicants who differ as to their monitored prohibited basis characteristics.
5. Consumer complaints alleging discrimination in residential loan pricing.
6. In mortgage pricing, disparities in the incidence or rate spreads of higher-priced lending by prohibited basis characteristics as reported in the HMDA data.
7. A loan program that contains only borrowers from a prohibited basis group or has significant differences in the percentages of prohibited basis groups.



Indicators of Potential Disparate Treatment by Steering

1. Lack of clear, objective and consistently implemented standards for referring applicants to affiliates, classifying applicants as “prime” or “sub-prime” borrowers, or deciding what kinds of alternative loan products should be offered.
2. Financial incentives for loan officers or brokers to place applicants in nontraditional products.
3. Significant differences in percentages of prohibited basis groups in each of the alternative loan product categories.
4. Significant differences in the percentage of prohibited basis applicants in loan products or products with specific features relative to other applicants.
5. Significant differences in the percentage of prohibited basis applicants in one of the lending channels compared to other lending channels.
6. Consumer complaints alleging discrimination in residential loan pricing or product placement.

Indicators of Potential Discriminatory Redlining

1. Significant differences in the number of applications received, withdrawn, approved not accepted, and closed for incompleteness, or loans originated in areas with high concentrations of minority group residents.
2. Significant differences between approval/denial rates for all applicants (minority and non-minority) in areas with relatively high concentrations of minority group residents.
3. Significant differences between denial rates based on insufficient collateral for applicants from areas with relatively high concentrations of minority residents.
4. Significant differences in the number of originations of higher-priced loans or loans with potentially negative consequences for borrowers residing in areas with high concentrations of minority residents.
5. Other patterns of lending identified during the most recent CRA examination that differ by the concentration of minority residents.
6. Explicit demarcation of credit product markets that excludes MSAs, political subdivisions, census tracts, or other geographic areas within the institution's lending market or CRA assessment areas and having relatively high concentrations of minority residents.



INSTITUTION LOGO

7. Difference in services available or hours of operation at branch offices located in areas with concentrations of minority residents when compared to branch offices located in areas with concentrations of non-minority residents.
8. Policies on receipt and processing of applications, pricing, conditions, or appraisals and valuation, or on any other aspect of providing residential credit that vary between areas with relatively high concentrations of minority residents and those areas with relatively low concentrations of minority residents.
9. The institution's CRA assessment area appears to have been drawn to exclude areas with relatively high concentrations of minority residents.
10. Employee statements that reflect an aversion to doing business in areas with relatively high concentrations of minority residents.
11. Complaints or other allegations by consumers or community representatives that the institution excludes or restricts access to credit for areas with relatively high concentrations of minority residents.
12. An institution that has most of its branches in predominantly non-minority neighborhoods while the institution's sub-prime mortgage subsidiary has branches which are located primarily in predominantly minority neighborhoods.

Indicators of Potential Disparate Treatment in Marketing of Residential Products

1. Advertising patterns or practices that a reasonable person would believe indicate prohibited basis customers are less desirable.
2. Advertising only in media serving non-minority areas of the market.
3. Marketing through brokers or other agents that the institution knows (or has reason to know) would serve only one racial or ethnic group in the market.
4. Use of marketing programs or procedures for residential loan products that exclude one or more regions or geographies within the institution's assessment or marketing area that have significantly higher percentages of minority group residents.
5. Using mailing or other distribution lists or other marketing techniques for pre-screened or other offerings of residential loan products that explicitly exclude groups of prospective borrowers on a prohibited basis; or exclude geographies that have significantly higher percentages of minority group residents.
6. Proportion of prohibited basis applicants is significantly lower than that group's representation in the total population of the market area.



SECTION 3

Fair and Inclusive Outreach

3.1 Reasonably Expected Market Area

The institution's fair lending goals and objectives are based on the institution's reasonably expected market area (REMA), defined by the FDIC as "where the institution could reasonably be expected to market and provide credit, and where it plans to conduct business." Fair lending outreach strategies address the institution's method of attracting business, including branch or loan production office locations, mortgage subsidiaries, online applications, and use of third-party brokers or realtors; and where the institution has received loan applications and originated loans. Objectives of this policy align with the institution's Community Reinvestment Act (CRA) plan as follows:

- Demonstrated efforts to ascertain the credit needs of its community, including low-to-moderate income (LMI) neighborhoods;
- Utilization of innovative and flexible lending in a safe and sound manner;
- Participation in community outreach and education;
- Monitoring the geographic distribution of loan originations and credit denials; and
- Participation in government-insured, guaranteed, or subsidized loan programs.

3.2 Population Demographics

The institution shall research and periodically update the demographic data of its assessment area based on the most recent U.S. Census Bureau tables. Census information shall be quantified for the purposes of formulating a community credit needs assessment that aligns with the culture and financial capacity of each geo-segment (city, town, zip code, or census tract) throughout the assessment area. For each geo-segment, data shall include the following:

- Population Demographics (Race and Hispanic Origin)
- Housing Costs and Property Characteristics
- Median Household Income

To help assess the need for appropriate mortgage programs and to estimate potential borrower affordability in certain market segments, the institution shall obtain supplemental demographic data from the U.S. Census Bureau's American Community Survey (ACS) and/or other statistical sources.



The following householder characteristics may be considered, where applicable:

- Households by Type
- Educational Attainment
- Veteran Status
- Disability Status
- Ancestry
- Foreign Born
- English Proficiency
- Other Language Spoken at Home

3.3 Household Income

The institution shall refer to the FFIEC Geocoding System tool published by the Federal Financial Institutions Examination Council and/or comparable data sources for the purposes of obtaining and updating census tract income. Income figures used as a criterion in community credit needs assessments, performance goals, and performance monitoring shall correspond to income classifications employed by the HMDA and CRA regulations. Such classifications of tract median family income (MFI) % are defined below:

- < 50% (but not 0%), then the income level is Low.
- \geq 50% but < 80%, then the income level is Moderate.
- \geq 80% but < 120%, then the income level is Middle.
- \geq 120%, then the income level is Upper.
- 0%, then the income level is Not Known.

3.4 Socioeconomics

The institution shall research and periodically update the socioeconomic data of its assessment area from the U.S. Census Bureau data and other sources of statistical information for the purposes of product development and business forecasting. Socioeconomic data should cover trends in population, labor, unemployment, home construction, household education, transportation, and areas involving the health and wellbeing of the community. The institution shall additionally monitor homebuyer and homeowner migration patterns and adjust its reasonably expected market area to address borrower need in outlier areas.



3.5 Housing Characteristics

The institution shall research and periodically update housing data for each community throughout the assessment area. Property values and housing characteristics shall be derived from the most recently available data from the U.S. Census Bureau, American Community Survey, or other comparable sources. For suburban and metropolitan areas, data shall be segmented according to city, town, or zip code. For rural areas, data may be segmented by county. For low-to-moderate income and majority-minority neighborhoods, data may additionally be segmented on a census tract basis. Information to be correlated should include the following housing characteristics, where applicable:

- Number of Housing Units
- % Year Built (by decade)
- % Owner-occupied
- % Rented
- % Single family
- % Multi-unit
- Median Home Value
- Median Rent

3.6 Credit Needs Assessment

The institution's community credit needs assessment shall be treated as an ongoing process that is essential to fine-tuning lending strategies, as well as business and community development goals. The institution shall continually assess the assessment area to ensure the institution provides appropriate programs and consumer resources. Outlined below are descriptions as how certain categories of information can be useful in formulating a credit needs assessment.

1. Population growth and 5-year projections— to plan branch expansion, hiring, advertising, outreach, and community lending initiatives.
2. Number of households within the geographic segment— to help estimate the share of residential neighborhoods vs. business and government districts.
3. Segmented income data— household income that is available in incremental brackets can help project the population share of qualified applicants, such as:
 - Income-eligible for jumbo mortgages
 - Income-eligible for conforming conventional, FHA, or VA
 - Income-eligible for LMI or Rural Housing loans
 - Not income-eligible



4. Race and ethnicity— necessary for outreach planning and risk monitoring for appraisal equality and disparate impact.
5. Householder age— can factor into planning innovative mortgage programs such as reverse mortgages, or financing age-restricted housing developments.
6. Educational attainment— can be useful in preparing educational materials and to estimate potential earnings for mortgage affordability.
7. Owner-occupancy— determine which areas have greater share of homeownership vs. rental properties.
8. Property type— helps assess inventory for first-time homebuyers and tailor product offerings due to share of single-family homes, condominiums, and multi-unit homes.
9. Year built— helps identify potential inventory of new construction homes for first-time homebuyers, as well as assess potential need for renovation or energy retrofit loans in older homes.
10. Median home value— helps project loan volume as well as define need for product enhancements or affordable mortgages subject to maximum home value/loan limits.
11. Median rent— helps estimate prior housing expense for potential applicants.
12. Armed Forces— population % is important in projecting need for VA-insured mortgages as well as personnel training.
13. Occupation data (blue collar vs. white collar)— helps assess projected level of borrowers with salaried vs. hourly wages, as well as personnel training regarding acceptable sources of non-traditional income.

3.7 Measurable Goals

This policy sets forth a requisite for establishing a set of measurable goals for helping to meet the credit needs of the institution's marketplace. Specific goals shall be established for meeting the needs of low- and moderate-income households, majority-minority census tracts, and communities with foreign-language needs. In addition, the distribution of lending must encompass the entire assessment area, and with lending patterns to minority borrowers consistent with population racial and ethnic characteristics. Performance factors shall adequately address borrower distribution of loans originated both in and outside of the assessment area. Other factors include borrower income levels, loan diffusion throughout LMI and minority tracts, and percentage of owner-occupied housing units. Performance goals can be structured to compare the share of minority loan origination to the region's minority homeownership gap.



3.8 Community Outreach

This policy sets forth a requirement for the institution to develop relationships with third parties, such as state housing finance agencies, local housing partnerships, real estate agents, homebuilders, and other business entities. The institution shall institute and maintain a continuous level of corporate presence through advertising, direct marketing, and outreach activities to communities with diverse populations. Marketing campaigns shall be periodically assessed to evaluate success in reaching such communities, and to ensure that certain populations are not excluded.

The institution shall meet with business and civic leaders in the community to hear what types of financial services and mortgage programs will benefit the needs of its residents. The institution shall also monitor the state's legislative agenda with respect to affordable housing as well as initiatives by local municipal offices. State or local initiatives can include any of the following:

- Down payment assistance
- Tax abatements
- Financial incentives for seniors, veterans, and households with handicapped persons
- Energy-efficiency incentives

Community lending officers are required to participate in events and networking activities involving local realtors and builders in applicable geographic territories. The institution is committed to supporting membership in organizations such as the Chamber of Commerce, Lions Club, Rotary Club, or other civic association. Lending officers are encouraged to engage with neighborhood-based organizations, ethnic clubs, faith-based groups, environmental groups, and other community associations.

The institution is committed to employee participation and sponsorship opportunities for community events such as parades, marathons, athletic games, and fundraising events. Where possible, the institution may install a pop-up loan center so that loan officers can introduce themselves at public settings and describe the types of mortgage programs the institution has to offer.

3.9 Housing Partnership Agencies

The institution shall maintain its status as an approved lender with the official state-chartered housing finance agency for each state where the institution markets mortgage products. The institution shall collaborate with the agency for the purposes of providing affordable mortgage terms and/or down payment assistance that may be offered by the housing agency.



All lending personnel are required to participate in educational programs and/or obtain instructional materials regarding the loan programs and incentives offered by housing partnership agencies. All loan originators and operations staff are required to be versed on the following topics:

1. Maximum income eligibility.
2. Maximum purchase price or loan amount.
3. Down payment assistance.
4. Down payment assistance + closing costs.
5. Financing post-closing renovation costs.
6. Financing post-closing energy improvements.
7. Zero percent loans.
8. Forgivable loans.
9. Deferred payment loans.
10. Soft seconds (or silent seconds).
11. Fannie Mae *Community Seconds* program.
12. Freddie Mac *Affordable Seconds* program.
13. Incentives for active military, veterans, and households with handicapped persons.
14. Incentives for locally employed teachers, law enforcement members, firefighters, health care workers, first responders, etc.

3.10 Local and Municipal Initiatives

The institution shall require community lending officers to maintain a current list of financial incentives offered by local municipal offices. Incentives may be offered to qualified individuals or households who are purchasing or renovating a home within a certain county, city, or other jurisdiction. Incentives may include down payment and/or closing cost assistance as well as grants requiring no repayment. Lending officers are required to regularly explore municipal websites for postings of any type of incentive, eligibility guidelines, and application procedures. Community lending officers are encouraged to make inquiries with local municipal housing authorities regarding affordable housing initiatives. Income-restricted units may apply to all units or a portion of units within a single-family home or condominium development. Lending officers must gather information regarding unit costs, projected taxes, homeowners' association dues, etc. Information should include specific covenants such as shared equity, restrictive re-sale deed, or community land trust.



3.11 Product Enhancement

The institution is committed to providing innovative mortgages and flexible underwriting practices. The institution shall monitor the success and effectiveness of loan programs that address the credit needs of people living in diverse or lower income communities and make modifications if necessary. The institution shall employ all applicable underwriting flexibilities available from secondary market investors, including the most recently published expanded qualifying rules from Fannie Mae and Freddie Mac, such as:

- Mortgages for homebuyers with little or no cash.
- No credit score or limited credit history.
- Eased qualifying rules for student loans, alimony, and self-employed borrowers.
- Loans structured to include renovation costs, builder, or seller contributions.
- Sweat equity for borrowers to complete certain home renovations.
- Energy-efficient mortgages.
- Qualifying household income from a family member or health aid.

3.12 Special Purpose Credit Programs

The institution is committed to helping increase credit access through special purpose credit programs (SPCPs) to better serve historically disadvantaged individuals and communities. The institution shall comply with federal laws in the design and implementation of any SPCP. For each SPCP, the institution shall develop the following specifications:

1. The class of persons that the program is designed to benefit who would otherwise be denied credit or would receive it on less favorable terms;
2. The procedures and standards for extending credit pursuant to the program including modification of the terms, eligibility guidelines of an existing program;
3. The time period during which the program will last, or when the program will be reevaluated to determine if there is a continuing need for it, which may include a set of circumstances, a set date, or a combined approach;
4. A description of the analysis the institution conducted to determine the need for the program which can include HMDA data, demographic data, or other research.



SECTION 4

Appraisal Equality

4.1 Commitment to Appraisal Equality

The institution is committed to full compliance of the Fair Housing Act and the Equal Credit Opportunity Act and recognizes that the institution can be held liable under federal law for relying upon discriminatory appraisals from third-party appraisers. Compliance obligations shall include the federal Appraiser Independence Rule (AIR) which prohibits lenders from relying upon an appraisal if the mortgage originator or broker had a role in the selecting, retaining, or compensating the appraiser. Compliance shall also include the ECOA Valuations Rule which requires the institution to furnish applicants with a copy of their appraisal report. The institution's vendor management program and third-party monitoring procedures include an on-going process to ensure that professional appraisers are actively licensed and certificated in their geographic state, and that services are completed in compliance with the Uniform Standards of Professional Appraisal Practice (USPAP).

4.2 Uniform Residential Appraisal Report (URAR)

The institution requires that processors and underwriters carefully review the complete contents of the Uniform Residential Appraisal Report (URAR) to ensure the report is fair and free of bias. All employees should be aware that the following statement is included at the beginning of the "Neighborhood" section of the report on page 1: *"Race and the racial composition of the neighborhood are not appraisal factors."*

In preparing the report, appraisers must certify that they did not base—either partially or completely—the analysis and/or opinion of market value in the appraisal report on the race, color, religion, sex, age, marital status, handicap, familial status, or national origin of either the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property, or on any other basis prohibited by law. In the review of appraisals, employees must carefully observe any references to race and ethnicity in the "Neighborhood Description" and other free-form text fields in the appraisal form. The institution shall take necessary action to mitigate references to race, ethnicity, and other prohibited bases in appraisals and property descriptions.



4.3 Under-contract Appraisals

The Uniform Residential Appraisal Report (URAR) includes a "Census Tract" field in the Subject Property section of the report. Processors are instructed to research the population demographics using the FFIEC census tract identifier lookup tool for any appraisal report resulting in a valuation which is lower than the purchase price indicated on the sales contract. If the property is located in a majority-minority census tract (e.g. 50% or greater minority population), the file must immediately be presented to a supervisor for further instructions, which may include any of the steps outlined below.

1. As an initial step, processors will be instructed to carefully review the comparable sales data, and to research recently sold properties in the area using internet-based tools such as Realtor.com or Zillow.
2. Processors will be instructed to obtain a copy of the current tax assessment. If the document is not available from the municipal tax office, the loan originator can submit a request to the seller or real estate broker. If the tax assessment is not based on 100% of property value, an estimated market value can be derived by multiplying the tax assessment by the municipal "mil rate."
3. Underwriters are authorized to order supplemental appraisal data to support the loan request, should tax records or other research demonstrate a value greater than the appraisal report.
4. Supplemental information may include any of the following, depending upon the loan program: two additional comps, a drive-by appraisal, automated valuation model (AVM) report.
5. Underwriters are authorized to lower the mortgage loan amount if supplemental appraisal data did not support the value of the requested loan or if none of the parties to the transaction agreed to pay for supplemental appraisal information.
6. Depending upon management policy for the specific loan program, loan originators must provide a written confirmation that the cost of supplemental appraisal information will be paid at closing by the borrower or other party to the transaction.
7. The cost of supplemental appraisal information must be included in the final Closing Disclosure (CD) figures as paid by the borrower (or) paid outside of closing (POC) by another party.



4.4 Artificial Intelligence in Appraisals

The institution recognizes that artificial intelligence (AI) and algorithmic systems often have disproportionately produced negative effects on people and communities of color. This policy establishes a set of steps and procedures for the institution to ensure that algorithmic appraisals are fair and nondiscriminatory. All vendors providing any type of service related to valuation of 1-4 residential properties must complete a vendor approval assessment process. The institution's process requires the vendor to provide sufficient information on the design, development, modeling, and algorithmic functions of the program, and identify data sources.

Pre-funding and post-closing quality control procedures shall include mechanisms to ensure all appraisals and collateral valuations are accurately and fairly assessing home values. Quality control steps include, but are not limited to, desk reviews, field reviews, and tracking of inaccuracies, inconsistencies, and other appraisal deficiencies.

4.5 Automated Valuation Models (AVMs)

The institution has implemented quality control steps and procedures recommended in the *Interagency Proposed Rule for Quality Control Standards for Automated Valuation Models*. The proposed rule implements the quality control standards mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act for the use of automated valuation models in determining the collateral worth of a mortgage secured by a consumer's principal dwelling. The institution shall adhere to quality control standards that ensure:

1. High level of confidence in estimates produced;
2. Protect against the manipulation of data;
3. Avoid conflicts of interest;
4. Require random sample testing and reviews;
5. Compliance with applicable nondiscrimination laws.

The institution shall remain responsible for ensuring that its third-party vendors comply with applicable nondiscrimination laws and regulations in the design and implementation of AVMs. The institution's procedures for vendor approval and third-party monitoring requires AVM service providers to furnish sufficient information regarding data sources, ageing of data, and assurance that historic patterns of property valuations do not produce bias on a prohibited basis.



4.6 Reinstatement of Value (ROVs)

The institution shall comply with the policy and procedures outlined below regarding requests from mortgage applicants or other parties to the transaction for a reinstatement of value (ROV) on the subject property for the requested loan. The foregoing procedures align with the interagency proposed rule to establish policies and procedures to help identify, address, and mitigate valuation discrimination risk. The rule requires a process for responding to ROV requests and determine whether deficiencies or other information may affect the estimated value. The institution shall comply with the steps and procedures outlined below:

- A. Every ROV request shall be reviewed by a designated team comprised of staff members which include both underwriting and fair lending compliance specialists. The team may consist of the same individuals who provide second reviews of denied loans, or handle complaint resolution.
- B. The ROV team shall assign a specific set of procedures based on the loan program and other criteria. Outlined below are examples:
 1. Establish protocols for communicating with the consumer.
 2. Establish protocols for escalating the ROV request if discrimination is alleged.
 3. Establish conditions for which a fee will be paid to the appraiser or other valuation service provided for an ROV.
 4. Establish conditions for which the appraiser should provide an ROV and waive their fee due to deficiencies found in the initial report.
 5. Establish responsibility for the payment of the ROV.
 6. Establish which parties to the transaction can pay the fee, when the fee shall be paid, and any required TRID re-disclosure.
 7. Establish a process for ordering a second appraisal from a different service provider in lieu of an ROV, and related conditions for payment and disclosure.
 8. Establish a timeline for handling requests.
 9. Establish a complaint resolution process.



4.7 Unacceptable Appraisal Practices

Contents of the Uniform Residential Appraisal Report (URAR) must comply to the institution's internal policy as well as underwriting requirements of secondary market agencies and investors. The institution shall enforce updated procedures and implement staff training to ensure that all appraisals meet fair lending requirements. Outlined below are lists of unacceptable practices of Fannie Mae and Freddie Mac.

Fannie Mae Unacceptable Practices

1. Development of or reporting an opinion of market value that is not supportable by market data or is misleading;
2. Development of a valuation conclusion based either partially or completely on the sex, race, color, religion, disability, national origin, familial status, or including a reference to any protected class of either the prospective owners or occupants of the subject property or the present owners or occupants of the properties in the vicinity of the subject property;
3. Use of unsupported assumptions, interjections of personal opinion, or perceptions about factors in the valuation process and the use of subjective terminology, including, but not limited to:
 - a. "pride of ownership," "no pride of ownership," and "lack of pride of ownership;"
 - b. "poor neighborhood;"
 - c. "good neighborhood;"
 - d. "crime-ridden area;"
 - e. "desirable neighborhood or location;" or
 - f. "undesirable neighborhood or location;"
4. Development of a valuation conclusion based on factors that local, state, or federal law designate as discriminatory, and thus, prohibited;
5. Misrepresentation of the physical characteristics of the subject property, improvements, or comparable sales;
6. Failure to comment on negative factors with respect to the subject neighborhood, the subject property, or proximity of the subject property to adverse influences;
7. Failure to adequately analyze and report any current contract of sale, option, offering, or listing of the subject property and the prior sales of the subject property and the comparable sales;



8. Selection and use of inappropriate comparable sales;
9. Failure to use comparable sales that are the most locationally and physically similar to the subject property;
10. Creation of comparable sales by combining vacant land sales with the contract purchase price of a home that has been built or will be built on the land;
11. Failure to personally inspect the exterior of the comparable property when required by the scope of work in the appraisal report;
12. Use of adjustments to comparable sales that do not reflect market reaction to the differences between the subject property and the comparable sales;
13. Not supporting adjustments in the sales comparison approach;
14. Failure to make adjustments when they are clearly indicated;
15. Use of data, particularly comparable sales data, provided by parties that have a financial interest in the sale or in the financing of the subject property without the appraiser's verification of the information from a disinterested source;
16. Development of an appraisal or reporting an appraisal in a manner or direction that favors the cause of either the client or any related party, the amount of the opinion of value, the attainment of a specific result, or the occurrence of a subsequent event in order to receive compensation or employment for performing the appraisal or in anticipation of receiving future assignments; or
17. Development of or reporting an appraisal in a manner that is inconsistent with the requirements of USPAP.

Freddie Mac Unacceptable Practices

1. Consideration of the race, color, religion, sex, sexual orientation, gender identity, age, marital status, disability, familial status, exercise of any federally protected civil right, receipt of income derived from any public assistance program, birthplaces of residents at the property or in the neighborhood, national origin of the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property.
2. Use of unsupported or subjective terms or statements to assess or rate, such as, but not limited to, "high," "low," "good," "bad," "fair," "poor," "strong," "weak," "rapid," "slow," "fast" or "average" without providing a foundation for analysis and contextual information.



3. Incorporating terminology or veiled language that could indicate underlying bias, including but not limited to, "pride of ownership," "crime-ridden area," "desirable neighborhood or location" or "undesirable neighborhood or location," "gentrified," "working class," "inner city," "preferred community," "up and coming," predominantly Hispanic or Black neighborhood, substantial amount of Black or Hispanic residents at the property, diverse school system, amenities specifically geared to a race, ethnic or religious group or using terms such as Millennials, Generation X or Baby Boomers.
4. Development of an appraisal using inaccurate or incomplete data about the subject property, the neighborhood, the market area, or any comparable property used in the appraisal analysis or report.
5. Inclusion of references, statements or comparisons about crime rates or crime statistics, whether objective or subjective, in the appraisal analysis or report.
6. Consideration of the age or location of a dwelling or the age of the neighborhood or census tract where the dwelling is located in a manner that has a discriminatory effect.
7. Basing the development of an opinion of value on factors that local, state or federal law designates as discriminatory.
8. Reliance in the appraisal analysis on comparable properties that were not personally inspected by the appraiser when required by the appraisal's scope of work. A personal inspection requires at least a visual inspection of the exterior of the comparable property.
9. Reliance in any appraisal analysis on inappropriate comparable properties, or the failure to use comparable properties that are more similar to or nearer to the subject property without adequate explanation.
10. Use of comparable property data provided by any interested party to the transaction without verification by a disinterested party.
11. Use of inordinate adjustments for differences between the subject property and the comparable properties that do not reflect the market's reaction to such differences, or the failure to make proper adjustments when necessary.
12. Development of an opinion of value and/or marketability conclusions that is not supported by available market data.
13. Breach by the appraiser or supervisory appraiser of a certification or Statement of Assumptions and Limiting Conditions or comparable statements on any Freddie Mac approved appraisal report form or addendum.



SECTION 5

Loan Origination

5.1 Rate Inquiries

The institution encourages all originators and other sales representatives to utilize the system's comparative shopping tool for researching eligible loan product options based on the information provided by the loan prospect. Each loan product presented must be appropriate to the customer's financing needs and real estate transaction. Applicants must be provided with the necessary information regarding loan terms and available rate lock options. For first-time homebuyers applying for an affordable mortgage program, eligibility criteria should be explained, such as maximum income, maximum purchase price, or eligibility for down payment assistance.

Originators must ensure applicants fully understand their requested loan program, and acknowledge the requested product meets their needs and circumstances. Customers may be told that uniform processing standards are followed on all loan applications, and will include income verification, a property appraisal, credit report, and confirmation there are sufficient funds to cover the down payment and closing costs. After the applicant confirms they wish to continue with the application, originators may direct the consumer to complete an on-line application or proceed with other options for submitting a loan application.

5.2 Prequalification

A request from a consumer for a preliminary estimation of their mortgage affordability is considered a prequalification from a "prospective applicant." Prequalifications do not trigger the need for an adverse action when consumers are simply asking for an approximation of their qualified mortgage amount. Based on the combined gross income of all borrowers, originators may provide a potential "loan amount range." Originators must inform customers that loan eligibility is based on a number of factors which include credit history, verification of funds, income, and a professional property appraisal.

Prequalification requests are not required to be reported on the Home Mortgage Disclosure Loan Application Register (HMDA-LAR). Originators must follow the institution's established procedure for utilizing the LOS system for prequalification steps and documenting the information exchange. As long as the originator is not evaluating any consumer information, an adverse action notice does not have to be issued to non-qualifying applicants, explained further below.



INSTITUTION LOGO

If a loan application cannot be accepted, information gathered from the consumer must be documented, along with a statement regarding the reasons. Whether or not the prequalification triggers an adverse action is based upon how the originator responds to information provided by the applicant. Below are examples:

Does not trigger adverse action notice:

- Based upon income disclosed, applicant may be eligible for [X loan amount or range].
- Collateral (as described) does not meet the criteria for any loan program.
- Transaction characteristics described do not meet criteria for any loan program (such as LTV%, owner occupancy, subordinate liens, non-occupant co-borrower, or request for title to be held in the name of a business, nonprofit, trust, etc.)

May trigger adverse action notice:

- Originator states that the sources of income and/or liquid assets (as described) are not from acceptable or verifiable sources.
- Originator states that the applicant(s)' credit history does not meet the institution's underwriting guidelines for any loan program. Information may be orally presented by the applicant or based on a review of documents provided by the applicant.

5.3 Preapproval

A request from a consumer for a "letter of preapproval" is considered an application for credit and is reported on the HMDA LAR as a preapproval request. Applicants must be told that the preapproval is subject to the following:

1. Preapproval is subject to verification of qualifying income, transaction funds, and satisfactory credit history.
2. Preapproval loan amount [or range] is based on the current mortgage interest rate [of X percent] for a [30-year fixed rate mortgage].
3. The subject property must meet the institution's underwriting standards and at a valuation that supports the loan-to-value requirement for the mortgage.
4. Verification steps completed in conjunction with the issuance of a preapproval letter shall be updated prior to closing to ascertain no change in qualifying circumstances.
5. Mortgage interest rate may be locked after submission of a home purchase contract.



5.4 Borrower Identity Requirements

Originators are required to request borrower identity information that complies with the institution or applicable agency or investor for the requested loan program. Identity must be confirmed for each borrower listed on the loan application (and promissory note or deed of trust, if applicable) prior to the extension of credit. Identity verification must be completed in accordance with existing federal laws requiring information and document verification, including the Department of Treasury's Office of Foreign Assets Control (OFAC) regulations and the U.S.A. Patriot Act.

5.5 Foreign Language Preference

In compliance with the requirement issued for loan applications taken after March 1, 2023, all conventional mortgages sold to government sponsored enterprises must include the *Supplemental Consumer Information Form* (SCIF, Form 1103) to obtain the following information:

- Homeownership education and housing counseling
- Language preference

Loan originators and processors are required to take note of the "foreign language preference" that the applicant has indicated and proceed accordingly. Employees are encouraged to refer to one of the *Multi-language Resources for Lenders* sites provided by the Federal Housing Finance Agency, Fannie Mae, and Freddie Mac. Personnel may obtain the *Uniform Loan Application Form* and other resources from the agency sites in the following languages:

- Arabic
- Chinese
- Haitian Creole
- Korean
- Russian
- Spanish
- Tagalog
- Vietnamese

Other resources are available for all of the above-listed languages from the website of the Consumer Financial Protection Bureau. The CFPB's multi-language resources site includes translated disclosures, glossaries, and legal documents. Freddie Mac provides the booklet, *Your Step-by-Step Mortgage Guide*, in all of the above languages.



5.6 Homeownership Education

Loan originators and processors must take note of the information provided on the *Supplemental Consumer Information Form* (SCIF, Form 1103) regarding homeownership education and housing counselling. Form 1103 specifically refers to educational programs completed the 12 months prior to submission of a loan application. A completion certificate must be submitted to the institution for educational courses completed during the previous 12 months, or for any counseling that is required prior to loan closing. Outlined below are three policy examples:

- A. Homeownership education is mandatory based on the requested program and transaction characteristics, requiring borrowers to complete a course (such as Fannie Mae's *Home View*) which is free.
- B. Homeownership education is mandatory based on the requested program and transaction characteristics, and borrowers must complete a course from a specific provider (such as *Framework*) which costs \$75. The fee will be disclosed on the *Loan Estimate* in the section, "Services You Cannot Shop for."
- C. Homeownership education may be required based on the qualified loan program. If the borrower can choose from a list of counselling agencies, the fee range (such as \$0 to \$125) will be disclosed as "Services You Can Shop for." Applicants may be directed to use the *Find a Counseling Tool* on the CFPB website to search by zip code at <https://www.consumerfinance.gov/find-a-housing-counselor/>

5.7 Instructions for Collecting Race and Ethnicity

Response to questions regarding the ethnicity, race, and sex of the applicant may be provided on the loan application form, or on a separate form that refers to the application. The instructions outlined below are adapted from the CFPB, Appendix B to Part 1003.

1. Lenders must ask the applicant for information regarding their race, ethnicity, and sex—but cannot require the applicant to provide it. This rule applies to applications taken in person, by mail, telephone, or on the internet. For applications taken by telephone, lenders must ask questions verbally.
2. Applicants should be informed that federal law requires this information to be collected in order to protect consumers and to monitor compliance with laws that prohibit discrimination. Applicants should also be told that if the information is not provided when the application is taken in person, the lender is required to note the information on the basis of visual observation or surname.



3. If an application is submitted through electronic media with a video component, the lender must treat the application as taken in person. If the application is accepted through electronic media without a video component, (for example, by fax) the lender must treat the application as accepted by mail.
4. If the loan application includes a guarantor, the guarantor's ethnicity, race, and sex are not reported.
5. If there are no co-applicants, the application is reported there is no co-applicant. If there is more than one co-applicant, lenders must provide the ethnicity, race, and sex only for the first co-applicant listed on the collection form.
6. When a lender purchases a covered loan from another institution and chooses not to report the applicant's or co-applicant's ethnicity, race, and sex, the lender must report that the requirement is not applicable.
7. Lenders must report that the requirement to report the applicant's or co-applicant's ethnicity, race, and sex is not applicable if the applicant or co-applicant is not a natural person, such as a corporation, partnership, or trust.
8. Lenders must report the ethnicity, race, and sex of an applicant as provided by the applicant. If an applicant selects the "Asian" box, the institution reports "Asian" for the race. Only an applicant may self-identify as being of a particular Hispanic or Latino, a particular Asian subcategory, or of a particular Native Hawaiian or Other Pacific Islander subcategory.
9. Applicants must be offered the option of selecting more than one ethnicity or race. If an applicant selects more than one ethnicity or race, the lender must report each selected designation (subject to the limits provided by the regulation).
10. If the applicant chooses not to provide the information for an application taken in person, this fact must be noted on the collection form. Lenders must then collect the applicant's ethnicity, race, and sex on the basis of visual observation or surname and report the basis of collection on the form.
11. If the applicant declines to answer the questions by checking the "I do not wish to provide this information" box on an application that is taken by mail or on the internet, or declines to provide this information by stating orally that he or she does not wish to provide this information on an application that is taken by telephone, lenders must report "information not provided by applicant" in mail, internet, or telephone applications.



12. If the applicant begins an application by mail, internet, or telephone, and does not provide the requested information on the application but does not check the box "I do not wish to provide this information," the lender must request the applicant's race, ethnicity, and sex if the applicant is meeting the lender in person to complete the application. Visual observation steps are completed if the applicant does not provide the information.
13. When an applicant provides the requested information for some but not all fields, lenders must report the information that was provided by the applicant, whether partial or complete. If an applicant provides partial or complete information on ethnicity, race, and sex and also checks the "I do not wish to provide this information" box on an application that is taken by mail or on the internet, or makes that selection when applying by telephone, lenders must report the information on ethnicity, race, and sex that was provided by the applicant.

5.8 Collateral Eligibility

The mortgaged premises must conform to the specific residential property requirements of the institution, applicable agency, or investor. Properties must be zoned as legal-use residential as defined by appraisal report, with minimum square footage, and constructed as a single-unit condominium, townhouse, or planned unit development (PUD), or detached 1- to 4-unit home.

Properties must be suitable for year-round use, be constructed as stick-built, modular, or meet investor requirements for a manufactured home. Unless alternative options are available, long-term residential mortgages on mobile homes must have a permanent foundation. For all transactions, land must be held in fee simple or meet the institution's requirements for leaseholds. All properties must conform to local zoning standards, and homes must be served by utilities that meet community standards.



5.9 Ability to Repay

Originators are required to assess the borrower(s)' ability to repay the mortgage based on the projected monthly payment for the loan requested. The ability to repay (ATR) assessment shall be based upon review of supporting documents submitted with the loan application and/or verbal discussion. Originators must enter all details communicated by the applicant into the LOS system. In assessing the ATR, the following information must be considered:

1. Qualifying income and transaction funds are from acceptable and verifiable sources.
2. Qualifying income is based on at least a two-year history unless circumstances justify an exception (such as recent completion of vocational program).
3. Income from non-salaried sources, alimony, child support, separate maintenance, overtime, bonuses, commissions, or interim employment must be likely to continue.
4. Monthly qualifying income for self-employed applicants is based on net taxable figures (minus business expenses).
5. Debt ratios include fixed monthly expenses with ten or more remaining payments, and 5% of combined credit card balances.
6. Housing payment ratio includes a monthly reserve for the following items, whether or not escrowed: property taxes, hazard insurance, and (if applicable) homeowners association dues, flood insurance, FHA, or PMI insurance.
7. If applicable, monthly payments for subordinate liens, with the exception of down payment assistance funds provided through a soft second mortgage or a loan with payments deferred for three years or more.
8. For adjustable-rate mortgages, projected payments are based on the fully indexed rate.

Presumed Ability to Repay

An applicant is *presumed* to have the ability to repay if the requested loan meets the eligibility requirements of any of the following enterprises and agencies:

- Fannie Mae
- Freddie Mac
- Federal Housing Administration
- U.S. Department of Veterans Affairs
- USDA Rural Housing
- State housing finance agency



5.10 Tangible Net Benefit

For refinance transactions, the loan program selected should provide a tangible net benefit to the applicant such as a lower interest rate, lower payment, or equity cash out. Originators must consider the applicant's specific requests based on their circumstances, such as an equity buyout, need for cash due to family emergency, or financing of property repairs. In such cases, the applicant's circumstances may take priority over the interest rate or more favorable terms. In all cases the applicant's ability to pay must be documented.

For a rate/term (no cash out) refinance, the borrower is considered to have a net tangible benefit when the reduction of the monthly housing payment is fairly significant. If the borrower is consolidating debt and lowering their total monthly obligations, the loan may be considered a net tangible benefit, even if the principal and interest payment is increased due to a higher loan amount. The borrower is considered to have a tangible net benefit if amortization will be revised to a more favorable program, such as the change from an adjustable-rate mortgage to a fixed rate mortgage. Comparative calculations should be based on the fully indexed rate. For all refinance applications taken, originators must complete the institution's "tangible net benefit worksheet," and any required state-mandated compliance form.

5.11 Alternative Product Options

Originators may present alternative loan options when the applicant(s)' information indicates they are ineligible for the requested loan program but may be eligible for a different program. Explanations must be documented, explaining why the alternative option may be suitable. Listed below are 10 examples of explanations.

1. Alternative option has a lower credit score requirement.
2. Alternative option allows higher DTI ratios.
3. Alternative option enables borrowers to close quickly and meet their required closing date on a home purchase, or emergency cash-out needs on a refinance.
4. Alternative option has reduced asset and income documentation requirements.
5. Alternative option does not have a loan seasoning requirement.
6. Alternative option permits title ownership criteria and/or title exceptions.
7. Alternative option has expanded qualifying criteria for applicants relying upon retirement, rental, investment, or other type of non-salaried income.



8. Alternative option does not have U.S. citizenship or another residency requirement.
9. Alternative option accepts the type of manufactured or mobile home, lot size, leased land, cooperative apartment, non-agency approved condominium, seasonal property, or dwelling-to-land value ratio.
10. Borrower has ten existing mortgages on investment 1-4-unit properties with Fannie Mae and/or Freddie Mac.

5.12 Private Mortgage Insurance

The institution requires private mortgage insurance for all transactions with a loan-to-value greater than 80%, with the exception of certain programs which may be structured differently for affordable mortgage initiatives offered by the institution or housing finance agencies. The determination of whether mortgage insurance is required shall be based solely on the appraised value of the property, and the LTV ratio shall be based on the lesser of the sales price or appraised value.

The LTV shall be used for determining the level of insurance required for the loan, and in compliance to the specific agency or investor program. Originators are required to present all available options to applicants regarding upfront costs and monthly premiums. Applicants must be told that they will receive a document explaining their right to cancel PMI insurance after two years subject to meeting certain requirements, including verification that the existing loan balance is not greater than 80% of the property value. The institution shall comply with any specific state laws to determine the LTV ratio, such as the New York statute which differentiates "fair market value" from "appraised value."

5.13 Hazard Insurance

Originators are required to inform applicants they have the right to choose their hazard insurance provider, and the monthly cost of hazard insurance is factored into qualifying ratios, whether or not the insurance is paid directly by them or escrowed by the lender. The amount of insurance coverage must meet the requirements of the institution, agency, or investor. Borrowers should be informed that their approval letter will list all of the necessary requirements for hazard insurance, however, the loan processor is available to answer questions regarding the customary steps and procedures. If applicable, they should be told that insurance escrows are mandatory for the requested program and/or transaction characteristics. If applicable, applicants must be made aware of any potential requirement for flood insurance.



SECTION 9

Federal Regulations

FOR GENERAL REFERENCE AND TRAINING PURPOSES

9.1 Equal Credit Opportunity Act (ECOA – Regulation B)

The Equal Credit Opportunity Act prohibits lenders from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age, whether they are a recipient of public assistance, and whether they have exercised their rights under the Consumer Credit Protection Act.

This subject matter covers Title 12, Chapter II, Subchapter A, Code of Federal Regulations, published by the National Archives, last amended February 1, 2024. Topics included are listed below.

- § 202.4 General rules.
- § 202.5 Rules concerning requests for information.
- § 202.6 Rules concerning evaluation of applications.
- § 202.7 Rules concerning extensions of credit.
- § 202.8 Special purpose credit programs.
- § 202.9 Notifications.
- § 202.10 Furnishing of credit information.
- § 202.11 Relation to state law.
- § 202.12 Record retention.
- § 202.13 Information for monitoring purposes.
- § 202.14 Rules on providing appraisal reports.
- § 202.15 Incentives for self-testing and self-correction.



§ 202.4 General rules

Discouragement.

A creditor shall not make any oral or written statement, in advertising or otherwise, to applicants or prospective applicants that would discourage on a prohibited basis a reasonable person from making or pursuing an application.

Form of disclosures.

A creditor that provides in writing any disclosures or information required by this regulation must provide the disclosures in a clear and conspicuous manner and in a form the applicant may retain, except for the disclosures required by the regulation in §202.5 and §202.13. Disclosures required by this part that are required to be given in writing may be provided to the applicant in electronic form, subject to compliance with the consumer consent and other applicable provisions of the Electronic Signatures in Global and National Commerce Act (E-Sign Act).

§ 202.5 Rules concerning requests for information

A creditor may inquire about the race, color, religion, national origin, or sex of an applicant or any other person in connection with a credit transaction for the purpose of conducting a self-test that meets the requirements of §202.15. A creditor that makes such an inquiry shall disclose orally or in writing, at the time the information is requested, that:

1. The applicant will not be required to provide the information;
2. The creditor is requesting the information to monitor its compliance with the federal Equal Credit Opportunity Act;
3. Federal law prohibits the creditor from discriminating on the basis of this information, or on the basis of an applicant's decision not to furnish the information; and
4. If applicable, certain information will be collected based on visual observation or surname if not provided by the applicant or other person.



Other limitations on information requests.

Marital status.

If an applicant applies for individual unsecured credit, a creditor shall not inquire about the applicant's marital status unless the applicant resides in a community property state or is relying on property located in such a state as a basis for repayment of the credit requested. If an application is for other than individual unsecured credit, a creditor may inquire about the applicant's marital status, but shall use only the following terms: *married*, *unmarried*, and *separated*. A creditor may explain that the category *unmarried* includes single, divorced, and widowed persons.

Disclosure about income from alimony, child support, or separate maintenance.

A creditor shall not inquire whether income stated in an application is derived from alimony, child support, or separate maintenance payments unless the creditor discloses to the applicant that such income need not be revealed if the applicant does not want the creditor to consider it in determining the applicant's creditworthiness.

Childbearing, childrearing.

A creditor shall not inquire about birth control practices, intentions concerning the bearing or rearing of children, or capability to bear children. A creditor may inquire about the number and ages of an applicant's dependents or about dependent-related financial obligations or expenditures, provided such information is requested without regard to sex, marital status, or any other prohibited basis.



§ 202.6 Rules concerning evaluation of applications.

General rule concerning use of information.

Except as otherwise provided in the Act and this regulation, a creditor may consider any information obtained, so long as the information is not used to discriminate against an applicant on a prohibited basis.

Specific rules concerning use of information.

Except as provided in the Act and this regulation, a creditor shall not take a prohibited basis into account in any system of evaluating the creditworthiness of applicants.

Age, receipt of public assistance.

Except as permitted in this paragraph, a creditor shall not take into account an applicant's age (provided that the applicant has the capacity to enter into a binding contract) or whether an applicant's income derives from any public assistance program.

- (i) In an empirically derived, demonstrably, and statistically sound credit scoring system, a creditor may use an applicant's age as a predictive variable, provided that the age of an elderly applicant is not assigned a negative factor or value.
- (ii) In a judgmental system of evaluating creditworthiness, a creditor may consider an applicant's age or whether an applicant's income derives from any public assistance program only for the purpose of determining a pertinent element of creditworthiness.
- (iii) In any system of evaluating creditworthiness, a creditor may consider the age of an elderly applicant when such age is used to favor the elderly applicant in extending credit.

Childbearing, childrearing.

In evaluating creditworthiness, a creditor shall not make assumptions or use aggregate statistics relating to the likelihood that any category of persons will bear or rear children or will, for that reason, receive diminished or interrupted income in the future.

Telephone listing.

A creditor shall not take into account whether there is a telephone listing in the name of an applicant for consumer credit but may take into account whether there is a telephone in the applicant's residence.



Income.

A creditor shall not discount or exclude from consideration the income of an applicant or the spouse of an applicant because of a prohibited basis or because the income is derived from part-time employment or is an annuity, pension, or other retirement benefit; a creditor may consider the amount and probable continuance of any income in evaluating an applicant's creditworthiness. When an applicant relies on alimony, child support, or separate maintenance payments in applying for credit, the creditor shall consider such payments as income to the extent that they are likely to be consistently made.

Credit history.

To the extent that a creditor considers credit history in evaluating the creditworthiness of similarly qualified applicants for a similar type and amount of credit, in evaluating an applicant's creditworthiness a creditor shall consider:

- (i) The credit history, when available, of accounts designated as accounts that the applicant and the applicant's spouse are permitted to use or for which both are contractually liable;
- (ii) On the applicant's request, any information the applicant may present that tends to indicate the credit history being considered by the creditor does not accurately reflect the applicant's creditworthiness; and
- (iii) On the applicant's request, the credit history, when available, of any account reported in the name of the applicant's spouse or former spouse that the applicant can demonstrate accurately reflects the applicant's creditworthiness.

Immigration status.

A creditor may consider the applicant's immigration status or status as a permanent resident of the United States, and any additional information that may be necessary to ascertain the creditor's rights and remedies regarding repayment.

Marital status.

Except as otherwise permitted or required by law, a creditor shall evaluate married and unmarried applicants by the same standards; and in evaluating joint applicants, a creditor shall not treat applicants differently based on the existence, absence, or likelihood of a marital relationship between the parties.

Race, color, religion, national origin, sex.

Except as otherwise permitted or required by law, a creditor shall not consider race, color, religion, national origin, or sex (or an applicant's or other person's decision not to provide the information) in any aspect of a credit transaction.



§ 202.7 Rules concerning extensions of credit.

Requiring reapplication.

A creditor may require a reapplication for an open-end account on the basis of a change in the marital status of an applicant who is contractually liable if the credit granted was based in whole or in part on income of the applicant's spouse and if information available to the creditor indicates that the applicant's income may not support the amount of credit currently available.

Signature of spouse or other person.

Rule for qualified applicant.

Except as provided in this paragraph, a creditor shall not require the signature of an applicant's spouse or other person, other than a joint applicant, on any credit instrument if the applicant qualifies under the creditor's standards of creditworthiness for the amount and terms of the credit requested. A creditor shall not deem the submission of a joint financial statement or other evidence of jointly held assets as an application for joint credit.

Unsecured credit.

If an applicant requests unsecured credit and relies in part upon property that the applicant owns jointly with another person to satisfy the creditor's standards of creditworthiness, the creditor may require the signature of the other person only on the instrument(s) necessary, or reasonably believed by the creditor to be necessary, under the law of the state in which the property is located, to enable the creditor to reach the property being relied upon in the event of the death or default of the applicant.

Unsecured credit —community property states.

If a married applicant requests unsecured credit and resides in a community property state, or if the applicant is relying on property located in such a state, a creditor may require the signature of the spouse on any instrument necessary, or reasonably believed by the creditor to be necessary, under applicable state law to make the community property available to satisfy the debt in the event of default if:

- (i) Applicable state law denies the applicant power to manage or control sufficient community property to qualify for the credit requested under the creditor's standards of creditworthiness; and
- (ii) The applicant does not have sufficient separate property to qualify for the credit requested without regard to community property.



9.2 Fair Housing Act

Subpart C

Discrimination in Residential Real Estate-Related Transactions

A civil rights law, the Fair Housing Act prohibits discrimination in the sale, rental or advertising of a residential property on the basis of race, color, religion, handicap, sex, familial status or national origin. Any person who is in the business of selling, brokering, appraising, or lending money on real property must comply with the Fair Housing Act. This policy manual covers key sections of Title 24, Subtitle 24, Subtitle B, Part 100, and Subpart G, Discriminatory Effect; Code of Federal Regulations, published by the National Archives, last amended on 2/12/2024. The following key sections of the Act are included:

- § 100.110 Discriminatory practices in residential real estate-related transactions.
- § 100.115 Residential real estate-related transactions.
- § 100.120 Discrimination in the making of loans and the provision of other financial assistance.
- § 100.125 Discrimination in the purchasing of loans.
- § 100.130 Discrimination in the terms and conditions for making available loans or other financial assistance.
- § 100.135 Unlawful practices in the selling, brokering, or appraising of residential real property.
- § 100.140 Self-testing – General rules.
- § 100.141 Self-testing – Definitions.
- § 100.142 Self-testing – Types of information.
- § 100.143 Self-testing – Appropriate corrective action.
- § 100.144 Self-testing – Scope of privilege.
- § 100.145 Self-testing – Loss of privilege.
- § 100.146 Self-testing – Limited use of privileged information.
- § 100.147 Self-testing – Adjudication.
- § 100.148 Self-testing – Effective date.
- § 100.500 Subpart G – Discriminatory Effect.



§ 100.110 Discriminatory practices in residential real estate-related transactions.

- a) This subpart provides the Department's interpretation of the conduct that is unlawful housing discrimination under section 805 of the Fair Housing Act.
- b) It shall be unlawful for any person or other entity whose business includes engaging in residential real estate-related transactions to discriminate against any person in making available such a transaction, or in the terms or conditions of such a transaction, because of race, color, religion, sex, handicap, familial status, or national origin.

§ 100.115 Residential real estate-related transactions.

The term residential *real estate-related transactions* means:

- a) The making or purchasing of loans or providing other financial assistance—
 - 1) For purchasing, constructing, improving, repairing or maintaining a dwelling; or
 - 2) Secured by residential real estate; or
- b) The selling, brokering or appraising of residential real property.

§ 100.120 Discrimination in the making of loans and in the provision of other financial assistance.

- a) It shall be unlawful for any person or entity whose business includes engaging in residential real estate-related transactions to discriminate against any person in making available loans or other financial assistance for a dwelling, or which is or is to be secured by a dwelling, because of race, color, religion, sex, handicap, familial status, or national origin.
- b) Practices prohibited under this section in connection with a residential real estate-related transaction include, but are not limited to:
 - 1) Failing or refusing to provide to any person information regarding the availability of loans or other financial assistance, application requirements, procedures or standards for the review and approval of loans or financial assistance or providing information which is inaccurate or different from that provided to others, because of race, color, religion, sex, handicap, familial status, or national origin.
 - 2) Providing, failing to provide, or discouraging the receipt of loans or other financial assistance in a manner that discriminates in their denial rate or otherwise discriminates in their availability because of race, color, religion, sex, handicap, familial status, or national origin.



- 3) Conditioning the availability of a loan or other financial assistance on a person's response to harassment because of race, color, religion, sex, handicap, familial status, or national origin.
- 4) Subjecting a person to harassment because of race, color, religion, sex, handicap, familial status, or national origin that affects the availability of a loan or other financial assistance.

§ 100.125 Discrimination in the purchasing of loans.

- a) It shall be unlawful for any person or entity engaged in the purchasing of loans or other debts or securities which support the purchase, construction, improvement, repair or maintenance of a dwelling, or which are secured by residential real estate, to refuse to purchase such loans, debts, or securities, or to impose different terms or conditions for such purchases, because of race, color, religion, sex, handicap, familial status, or national origin.
- b) Unlawful conduct under this section includes, but is not limited to:
 - 1) Purchasing loans or other debts or securities which relate to, or which are secured by dwellings in certain communities or neighborhoods but not in others because of the race, color, religion, sex, handicap, familial status, or national origin of persons in such neighborhoods or communities.
 - 2) Pooling or packaging loans or other debts or securities which relate to, or which are secured by, dwellings differently because of race, color, religion, sex, handicap, familial status, or national origin.
 - 3) Imposing or using different terms or conditions on the marketing or sale of securities issued on the basis of loans or other debts or securities which relate to, or which are secured by, dwellings because of race, color, religion, sex, handicap, familial status, or national origin.
- c) This section does not prevent consideration, in the purchasing of loans, of factors justified by business necessity, including requirements of Federal law, relating to a transaction's financial security or to protection against default or reduction of the value of the security. Thus, this provision would not preclude considerations employed in normal and prudent transactions, provided that no such factor may in any way relate to race, color, religion, sex, handicap, familial status or national origin.



§ 100.130 Discrimination in the terms and conditions for making available loans or other financial assistance.

- a) It shall be unlawful for any person or entity engaged in the making of loans or in the provision of other financial assistance relating to the purchase, construction, improvement, repair or maintenance of dwellings or which are secured by residential real estate to impose different terms or conditions for the availability of such loans or other financial assistance because of race, color, religion, sex, handicap, familial status, or national origin.
- b) Unlawful conduct under this section includes, but is not limited to:
 - 1) Using different policies, practices or procedures in evaluating or in determining creditworthiness of any person in connection with the provision of any loan or other financial assistance for a dwelling or for any loan or other financial assistance which is secured by residential real estate because of race, color, religion, sex, handicap, familial status, or national origin.
 - 2) Determining the type of loan or other financial assistance to be provided with respect to a dwelling, or fixing the amount, interest rate, cost, duration or other terms or conditions for a loan or other financial assistance for a dwelling or which is secured by residential real estate, because of race, color, religion, sex, handicap, familial status, or national origin.
 - 3) Servicing of loans or other financial assistance with respect to dwellings in a manner that discriminates, or servicing of loans or other financial assistance which are secured by residential real estate in a manner that discriminates, or providing such loans or financial assistance with other terms or conditions that discriminate, because of race, color, religion, sex, handicap, familial status, or national origin.
 - 4) Conditioning an aspect of a loan or other financial assistance to be provided with respect to a dwelling, or the terms or conditions thereof, on a person's response to harassment because of race, color, religion, sex, handicap, familial status, or national origin.
 - 5) Subjecting a person to harassment because of race, color, religion, sex, handicap, familial status, or national origin that has the effect of imposing different terms or conditions for the availability of such loans or other financial assistance.



§ 100.135 Unlawful practices in the selling, brokering, or appraising of residential real property.

- a) It shall be unlawful for any person or other entity whose business includes engaging in the selling, brokering or appraising of residential real property to discriminate against any person in making available such services, or in the performance of such services, because of race, color, religion, sex, handicap, familial status, or national origin.
- b) For the purposes of this section, the term appraisal means an estimate or opinion of the value of a specified residential real property made in a business context in connection with the sale, rental, financing or refinancing of a dwelling or in connection with any activity that otherwise affects the availability of a residential real estate-related transaction, whether the appraisal is oral or written, or transmitted formally or informally. The appraisal includes all written comments and other documents submitted as support for the estimate or opinion of value.
- c) Nothing in this section prohibits a person engaged in the business of making or furnishing appraisals of residential real property from taking into consideration factors other than race, color, religion, sex, handicap, familial status, or national origin.
- d) Practices which are unlawful under this section include, but are not limited to:
 - 1) Using an appraisal of residential real property in connection with the sale, rental, or financing of any dwelling where the person knows or reasonably should know that the appraisal improperly takes into consideration race, color, religion, sex, handicap, familial status, or national origin.
 - 2) Conditioning the terms of an appraisal of residential real property in connection with the sale, rental, or financing of a dwelling on a person's response to harassment because of race, color, religion, sex, handicap, familial status, or national origin.



§ 100.140 Self-testing - General rules.

- a) **Voluntary self-testing and correction.** The report or results of a self-test a lender voluntarily conducts or authorizes are privileged as provided in this subpart if the lender has taken or is taking appropriate corrective action to address likely violations identified by the self-test. Data collection required by law or any governmental authority (federal, state, or local) is not voluntary.
- b) **Other privileges.** This subpart does not abrogate any evidentiary privilege otherwise provided by law.

§ 100.141 Definitions.

As used in this subpart:

Lender means a person who engages in a residential real estate-related lending transaction.

Residential real estate-related lending transaction means the making of a loan:

- 1) For purchasing, constructing, improving, repairing, or maintaining a dwelling; or
- 2) Secured by residential real estate.

Self-test means any program, practice or study a lender voluntarily conducts or authorizes which is designed and used specifically to determine the extent or effectiveness of compliance with the Fair Housing Act. The self-test must create data or factual information that is not available and cannot be derived from loan files, application files, or other residential real estate-related lending transaction records. Self-testing includes, but is not limited to, using fictitious credit applicants (testers) or conducting surveys of applicants or customers, nor is it limited to the pre-application stage of loan processing.

§ 100.142 Types of information.

- a) The privilege under this subpart covers:
 - 1) The report or results of the self-test;
 - 2) Data or factual information created by the self-test;
 - 3) Workpapers, draft documents and final documents;
 - 4) Analyses, opinions, and conclusions if they directly result from the self-test report or results.