Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

MEMORANDUM

DATE: February 5, 2025

TO: Eric Belsky
Director, Division of Consumer and Community Affairs
Board of Governors of the Federal Reserve System

FROM: Michael VanHuysen
Associate Inspector General for Audits and Evaluations

SUBJECT: OIG Report 2025-SR-B-001: *The Board and the Reserve Banks Generally Met the Revised Timing Goals for Certain Fair Lending Matters*

Executive Summary

In January 2021, the Board of Governors of the Federal Reserve System's Division of Consumer and Community Affairs (DCCA) implemented a revised review process for submitting and reviewing high-risk redlining matters to improve efficiency. *Redlining* is illegal discrimination that occurs when a lender provides unequal access to credit, or unequal terms of credit, because of the race, color, national origin, or other prohibited characteristic(s) of the residents of the area in which the applicant resides or will reside or in which the residential property to be mortgaged is located.

We initiated this evaluation in April 2024 to assess DCCA's implementation of its revised review process for high-risk redlining matters, including delegating certain matters to the Federal Reserve Banks. The scope of our evaluation included high-risk redlining matters from examinations opened in 2022 and 2023. To accomplish our objective, we reviewed relevant documentation, analyzed data on the completion times for submitting and reviewing high-risk redlining matters, and interviewed responsible DCCA stakeholders as well as stakeholders from certain Reserve Banks. Our scope did not include assessing the appropriateness of the Reserve Banks' redlining risk assessments or DCCA's review of high-risk redlining matters.

We found that the Reserve Banks and DCCA generally met the revised timing goals for submitting and reviewing high-risk redlining matters. Therefore, our report does not have any recommendations.

Office of Inspector General
Board of Governors of the Federal Reserve System
Consumer Financial Protection Bureau

Recommendations, 2025-SR-B-001, February 5, 2025

The Board and the Reserve Banks Generally Met the Revised Timing Goals for Certain Fair Lending Matters

Finding: The Reserve Banks and the Fair Lending Enforcement Section Generally Met the Revised Timing Goals for Submitting and Reviewing High-Risk Redlining Matters

Number	Recommendation	Responsible office
	No recommendations.	

Objective, Scope, and Methodology

We initiated this evaluation to assess DCCA's implementation of its revised review process for high-risk redlining matters, including delegating certain matters to the Reserve Banks. The scope of our evaluation included high-risk redlining matters from examinations opened in 2022 and 2023. To accomplish our objective, we reviewed relevant policies, procedures, guidance, and training materials, and we interviewed responsible DCCA stakeholders as well as stakeholders from certain Reserve Banks.[1] We also assessed the timeliness of the revised review process by analyzing the completion times for submitting and reviewing high-risk redlining matters. In addition, we sent a questionnaire to relevant stakeholders at all 12 Reserve Banks to gather perspectives about the revised review process. Our scope did not include assessing the appropriateness of the Reserve Banks' redlining risk assessments or DCCA's review of high-risk redlining matters. We conducted this evaluation in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*. We conducted this work from April 2024 to November 2024.

Background

One of the Federal Reserve System's functions is to promote consumer protection and community development through consumer-focused supervision and examination and through the administration of consumer laws and regulations. As part of those responsibilities, the System evaluates compliance with all federal consumer financial protection laws and regulations for state member banks with total assets of $10 billion or less.[2]

DCCA's Fair Lending Enforcement section ensures that supervised institutions across the System comply with federal fair lending laws and regulations, including the Equal Credit Opportunity Act, Regulation B, and the Fair Housing Act, to protect consumers from illegal discrimination. *Redlining* is illegal discrimination that occurs when a lender provides unequal access to credit, or unequal terms of credit, because of the race, color, national origin, or other prohibited characteristic(s) of the residents of the area in which the applicant resides or will reside or in which the residential property to be mortgaged is located.

The Reserve Banks, under delegated authority from the Board, conduct consumer compliance examinations of supervised institutions located within their respective Districts to ensure compliance with federal fair lending laws and regulations. During a consumer compliance examination, Reserve Bank examination staff perform redlining risk assessments to determine whether to conduct a low-, moderate-, or high-risk redlining review.[3] For moderate- and high-risk redlining reviews, Reserve Bank examination

[1] We interviewed stakeholders from the Federal Reserve Banks of Chicago, Richmond, San Francisco, and St. Louis.

[2] With respect to certain unfair or deceptive acts or practices and fair lending laws and regulations, the System has supervisory authority for all state member banks regardless of asset size. The System also evaluates compliance with certain other federal consumer financial protection laws that are not specifically under the Consumer Financial Protection Bureau's authority for state member banks with total assets greater than $10 billion. In addition, the System conducts Community Reinvestment Act examinations for state member banks regardless of asset size and is the consolidated supervisor for all bank holding companies.

[3] *Low risk* indicates that no additional analysis is needed. *Moderate risk* indicates that additional analysis is needed to fully evaluate the fair lending risk but that no additional statistical analysis is needed. *High risk* indicates that additional analysis is needed and that additional statistical analysis may also be needed.

staff summarize their assessment of an institution's redlining risk and may, in certain instances, recommend a potential supervisory action in a redlining analysis memorandum (RAM).

Before 2021, DCCA generally delegated responsibility for conducting low- and moderate-risk redlining reviews to the Reserve Banks but required the Reserve Banks to send all high-risk redlining matters to the Fair Lending Enforcement section for review before closing an examination. Before 2021, the Fair Lending Enforcement section and the Reserve Banks had a combined 20-week goal from the start of an examination to determine whether to notify an institution of a potential violation.

Revised Review Process for High-Risk Redlining Matters

In January 2021, DCCA expanded the criteria for delegating redlining matters so that certain high-risk matters would also be delegated to the Reserve Banks. In addition, DCCA reduced timing goals for submitting and reviewing RAMs to improve the efficiency of the process. For all high-risk redlining reviews that do not meet the criteria for this expanded delegation, which we refer to as *nondelegated*, the Fair Lending Enforcement section must continue to review and approve the Reserve Banks' RAMs before the Reserve Banks close the examinations.

As part of implementing revised timing goals in 2021, DCCA established separate, interim goals for the Reserve Banks and the Fair Lending Enforcement section. DCCA reduced the 20-week timing goal to 11 or 15 weeks, depending on the number of high-risk assessment areas at a supervised institution. Further, Reserve Banks must submit a RAM to the Fair Lending Enforcement section within 6 or 8 weeks of the examination open date, and the Fair Lending Enforcement section must complete its review within 5 or 7 weeks.[4]

DCCA Support on the Revised Review Process

To support the Reserve Banks as they implemented the revised review process for high-risk redlining matters, the Fair Lending Enforcement section provided them with in-depth guidance and training. For example, the Fair Lending Enforcement section issued RAM guidance and a sample RAM, which together provide Reserve Bank staff a tool for analyzing redlining risk. The Fair Lending Enforcement section also provided training to Reserve Bank staff on assessing redlining risk and applying the expanded delegation criteria to determine how the high-risk redlining matter should be handled.

In addition, the Fair Lending Enforcement section and the Reserve Banks maintained multiple touchpoints to communicate and coordinate on high-risk redlining matters. For example, DCCA continued the Fair Lending Community of Practice monthly meetings, which consist of stakeholders from the Board and each Reserve Bank; interviewees indicated that this group discusses fair lending cases, procedures, and industry trends. Additionally, interviewees shared that the Fair Lending Enforcement section has regular calls with Reserve Bank staff to discuss any concerns or questions regarding high-risk redlining matters.

Reserve Bank stakeholders generally indicated that they have the necessary tools, guidance, and training to effectively implement the revised review process for high-risk redlining matters. In addition, Reserve

[4] These timing goals also vary based on the number of high-risk assessment areas at a supervised institution.

Bank stakeholders indicated that the communication and coordination between the Fair Lending Enforcement section and the Reserve Banks have strengthened.

Monitoring Program for the Revised Review Process

In June 2021, the Fair Lending Enforcement section implemented a monitoring program to (1) ensure consistent treatment of high-risk redlining matters across the System, (2) evaluate the effectiveness of the Reserve Banks' handling of newly delegated matters, and (3) identify any additional examiner training or tool needs. The Fair Lending Enforcement section also defined criteria that trigger a monitoring review of a delegated matter. When the monitoring criteria are met, the Fair Lending Enforcement section coordinates with the respective Reserve Bank during its monitoring review. The Fair Lending Enforcement section conducts the review, provides feedback to the Reserve Bank, and records a summary of its review. The Fair Lending Enforcement section also maintains a monitoring tracker to document the status and outcome of the redlining matters it reviewed.

Finding: The Reserve Banks and the Fair Lending Enforcement Section Generally Met the Revised Timing Goals for Submitting and Reviewing High-Risk Redlining Matters

During our scope period, the Reserve Banks and the Fair Lending Enforcement section generally met the revised timing goals for submitting and reviewing high-risk RAMs. We analyzed 77 high-risk redlining matters—25 delegated and 52 nondelegated—from examinations opened in 2022 and 2023 and found that the Reserve Banks met timing goals for 64 of 77 high-risk redlining matters (83 percent), while the Fair Lending Enforcement section met timing goals for 51 of 52 nondelegated high-risk redlining matters (98 percent).

Of the 13 high-risk RAMs for which the Reserve Banks did not meet the deadline, 4 RAMs met the deadline, but the Fair Lending Enforcement section sent them back to the Reserve Bank to obtain additional information, and 6 RAMs missed the deadline because Reserve Bank staff identified other consumer compliance issues unrelated to redlining, such as compliance management system issues and unfair or deceptive acts or practices matters. For the other 3 RAMs, the Reserve Banks missed the timing goal by 3 days or less. Additionally, Reserve Bank and DCCA stakeholders generally indicated that the timing goals are effective and reasonable.

Management Response

In response to our draft memorandum report, the director of DCCA stated that DCCA is pleased that we found that the Reserve Banks and DCCA generally met the revised timing goals for submitting and reviewing high-risk redlining matters.

Closing

Our report does not contain recommendations because the Board and the Reserve Banks generally met the revised timing goals for submitting and reviewing high-risk redlining matters. We provided you with a draft of our memorandum report for review and comment, and your response, summarized above, is included in its entirety as an attachment.

We appreciate the cooperation we received from DCCA and the Reserve Banks during the evaluation. Please contact me if you would like to discuss this memorandum report or any related issues.

cc: Nicole Bynum
Benjamin Olson
Drew Kohan
Susan Torzilli
Westra Miller

Attachment

Management Response

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

ERIC S. BELSKY
DIRECTOR
DIVISION OF CONSUMER
AND COMMUNITY AFFAIRS

January 14, 2025

Michael VanHuysen
Associate Inspector General
Audits and Evaluations
Board of Governors of the Federal Reserve System
20^{th} Street and Constitution Avenue, NW
Washington, DC 20551

Dear Mr. VanHuysen:

Thank you for the opportunity to comment on your report, *The Board and the Reserve Banks Generally Met the Revised Timing Goals for Certain Fair Lending Matters*. DCCA appreciates the Office of the Inspector General's (OIG) review and concurs with the results described in the report.

Fair lending is an important area of consumer protection. DCCA is committed to ensuring that institutions it supervises comply fully with the federal fair lending laws. Fair lending examinations are our primary method of ensuring compliance. As part of our continuous improvement approach to supervision, we have regularly reviewed and refined our processes to improve, among other things, the efficiency and effectiveness of the fair lending supervision program. We are proud of these efforts and are pleased that your review found that the Reserve Banks and DCCA generally met the revised timing goals for submitting and reviewing high-risk redlining matters.

We appreciate the effort that OIG put into this report. Thank you for your review.

Regards,

Eric S. Belsky

Eric Belsky
Director
Division of Consumer and Community Affairs

www.federalreserve.gov