2017 ABA Issue Summary

Fair Lending

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The banking industry is committed to a color-blind, discrimination-free lending environment.

- In all communities, banks are actively seeking borrowers. Banks are in business to make loans and they want to make credit available to all qualified borrowers on fair and reasonable terms.
- Banks must, however, make safe and sound loans to borrowers that are prepared to take on the financial burdens.
- To evaluate credit risk, lenders assess a variety of factors, including the applicant's income, debt and credit score information. These factors are objective and unbiased, and meant to measure readiness to repay and possibility of default. They do not, and should not, take into consideration race, gender or ethnicity information.
- Banks are fully committed to laws that protect consumers against unfair and discriminatory lending practices. State and federal laws prohibit lending discrimination based on race or color, national origin, religion, sex, familial status or handicap. Banks establish lending programs that are in full accord with these protections and bank lending standards are constantly tested and examined to ensure they do not inadvertently violate fair lending principles.
- Community banks pride themselves in their history of working with regulators and groups committed to affordable lending to determine why any disparities may exist so that they can take necessary steps to eliminate them.
- Loan denial rates alone do not reflect banks' efforts to provide services to minorities and low-income members of the community. Outreach to underserved areas can inadvertently result in marginally qualified applicants seeking loans before they are fully prepared for the financial burdens that come with that decision. Good faith efforts by banks to increase fair lending to low and moderate income communities can drive up denial rates in the short run as bankers support efforts to help consumers become responsible borrowers.

Banks have become more prudent about who they lend to in an effort to ensure no one gets a loan they can't repay.

- The financial crisis has caused banks to adopt more conservative underwriting standards.
- A host of new regulations, including overhauls of mortgage disclosures and restrictions on underwriting, have also affected banks' capacity to lend. Increased regulatory oversight, including sanctions for bad loans and higher capital requirements, have forced many banks to scale back lending.
- Bankers deem it a top priority to ensure that borrowers do not over-extend their financial capabilities with financial products. This is generally a legal duty, but most importantly, a duty to do what is right.

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Banks have a history of reaching out to their communities and are leaders in community development lending.

- The Community Reinvestment Act requires a bank to help meet the credit needs of its entire community, including low-and moderate-income neighborhoods, consistent with the safe and sound operation of the bank.

- See the CRA and Community Development Lending page for more.