Statement of

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Chairman Watt, Ranking Member Miller, and members of the Subcommitee, I am Calvin Hagins, the Director for Compliance Policy at the Office of the Comptroller of the Currency (OCC). I'm pleased to be with you to discuss the OCC's commitment to ensuring compliance with fair lending laws.

Let me begin by saying that there is no room in the national banking system for illegal discrimination. I have been a national bank examiner for over 20 years and I have participated in dozens of fair lending exams during that time. I can assure you that the OCC is looking hard at fair lending , and has not hesitated to take action when we have found evidence of illegal discrimination.

The OCC has developed a supervisory approach that drills down into those institutions, markets and loan products that appear at greatest risk for discriminatory practices. We rely heavily on HMDA data to help target our supervisory activities. But we also make use of consumer complaints, academic and community organization studies, and Census Bureau data for risk-screening purposes. We conduct targeted fair lending examinations to determine whether different outcomes in lending decisions are the result of unlawful discrimination. If we find that they are, we take appropriate steps to address that problem.

Since 1993, we have made dozens of referrals of matters involving discrimination to the Department of Justice or HUD. These actions resulted in several highly publicized multi-million dollar settlements for consumers.

Since then, the number of referrals by the OCC -- has dropped. Referrals alone can be misleading, however. Our fair lending supervision involves a four-pronged approach.

- First, we have fair lending risk assessment and screening processes to identify banks exhibiting higher fair lending risks.
- Second, we conduct fair lending examinations of those banks.
- Third, we seek corrective actions to address deficiencies.
- And, fourth, where necessary, we take enforcement actions to address violations of law.

Formal enforcement actions involving referrals generally should be necessary only if these preventive measures have failed to ensure compliance with the fair lending laws.

We believe that's why the fair lending exams we have conducted to follow up on disparities shown in the HMDA pricing data have found that the disparities were the result of legitimate non-discriminatory factors, such as applicant credit scores and debt-to-income ratios. I also believe national banks got the message that their compliance with the fair lending laws would be carefully scrutinized, and many adopted systems and procedures to improve their fair lending compliance because they knew that we would be looking. Regular and rigorous oversight by the OCC may also explain why national banks today are not major players in the market for high-cost mortgages – just as it explains why they are relatively minor players in the subprime lending market.

Nevertheless, we remain committed to fully investigating pricing disparities for unlawful discrimination, and we will continue to refine our fair lending strategies and techniques.

The OCC is working with the other banking agencies and on our own, to improve our supervisory capabilities. We routinely coordinate and share information so that we can learn from each other. We recently initiated a review through the FFIEC to evaluate whether the interagency fair lending exam procedures need to be refined to better deal with pricing disparities. And, to address two risk areas that are an increasing concern, the OCC will also conduct intensified reviews of bank controls over brokers and reviews of practices that <u>might</u> involve discriminatory steering.

We will continue to review and enhance our fair lending supervisory process to ensure that the institutions we supervise do not engage in unlawful discrimination.

I look forward to answering your questions.