

Proactive Approaches to Fair Lending Risks in 2025

Adhering to fair lending regulations is an ongoing process for mortgage lenders, so staying updated on the latest regulatory enforcements and updates is crucial. The [Interagency Fair Lending webinar](#) released last December featured presentations from eight federal agencies that focused on essential compliance areas that mortgage lenders should prioritize to avoid pitfalls.

Let's look at the key areas that should be on your institution's fair lending radar now and in the coming years. Additionally, we'll discuss how you can better identify and mitigate fair lending risks to ensure compliance and effectively serve your community.

HMDA compliance

The Consumer Financial Protection Bureau (CFPB) is ramping up its efforts to address Home Mortgage Disclosure Act (HMDA) compliance, emphasizing its focus on ensuring lenders prioritize accurate reporting. Notable enforcement actions—including a case against [Bank of America](#), which led to a \$12 million penalty, and another, the first [litigated case](#) under the HMDA since its passing nearly 50 years ago—underscore the Bureau's commitment to HMDA compliance.

So, what are regulators paying attention to and how can lenders meet these requirements?

- **Provide accurate and complete data.** No financial institution is too big to report accurate data. Ensure all demographic information is correct. Systemic errors or intentional misreporting can lead to significant regulatory consequences, as Bank of America learned.
- **Provide proper training.** Loan officers are responsible for collecting complete demographic data, but compliance problems can pop up without adequate training. The [Bureau's research](#) reveals that the worst-performing lenders are far more likely to neglect collecting this essential information, creating a heightened risk of penalties.
- **Establish an effective CMS.** It is critical to have a compliance management system with standardized and repeatable processes for data gathering, reviewing, and reporting to reinforce HMDA compliance.

Regulatory updates

Regulatory agencies, including the CFPB, the Federal Housing Finance Agency (FHFA), and others, are partnering to enforce fair lending laws more rigorously.

To ensure compliance, mortgage lenders should consider these takeaways shared during the webinar:

- **Oversee CRA performance.** The Community Reinvestment Act underscores the importance of serving all community segments, specifically low- to moderate-income individuals and majority-minority neighborhoods. Regularly assess your institution's performance to ensure it aligns with fair lending laws such as the Equal Credit Opportunity Act and the Fair Housing Act and does not involve discriminatory practices.
- **Note CRA Assessment Areas.** AAs must meet current and new requirements under CRA modernization. Pay careful attention to the inclusivity of vulnerable populations to maintain compliance and promote equitable access to credit.
- **Integrate fair lending into business decisions.** Incorporating fair lending principles into operational decisions can have a positive impact on both your institution and the communities you serve, while also enhancing compliance.

Redlining risk

Redlining cases, including the Justice Department's [first-ever redlining settlement](#) with a credit union, made headlines in 2024. Given the increased scrutiny surrounding redlining, lenders must be proactive in evaluating and managing redlining risks by:

- **Monitoring loan applications.** The Federal Reserve highlighted that banks' dependence on Mortgage Loan Originators (MLOs) is a significant reason why outreach efforts often overlook majority Black and Hispanic communities. To monitor MLO activities and mortgage loan applications effectively, ensure your institution has the right policies and procedures, including risk assessments, to mitigate fair lending risk.
- **Taking action quickly.** When redlining risk emerges, institutions must immediately address the cited issues. The Justice Department noted that the credit union involved in the first redlining settlement demonstrated a "pattern or practice of lending discrimination" despite knowing since at least 2016 that it wasn't adequately serving minority home mortgage borrowers. Failing to address redlining risk can lead to regulatory consequences, including violations of the Fair Housing Act (FHA) and the Equal Credit Opportunity Act (ECOA).
- **Broadening marketing and outreach efforts.** Marketing and outreach can make or break your fair lending efforts. If not conducted following fair lending guidelines, they are a source of significant risk. As you perform activities focused on mortgage lending, ensure you're marketing mortgage credit or holding outreach events in minority-majority and low-income neighborhoods.

Staying vigilant in an evolving fair lending landscape

Compliance regulations are constantly evolving, but busy lenders can easily fall behind if they lack efficient compliance management software to streamline the risk management and compliance process.

Having the right [compliance risk management software](#) can streamline the fair lending risk management process by:

- **Sending relevant updates.** A solution that sends regulatory updates ensures your financial institution is always equipped with accurate, relevant regulatory guidance.
- **Unlocking insights.** Comprehensive reporting and change management tools can unlock findings your institution may not have discovered with a manual compliance management process.
- **Expediting compliance tasks.** Creating compliance checklists and pinpointing applicable regulations can take minutes instead of days with the right compliance management software.
- **Consolidating policy management.** Having a central hub for your institution's policies makes tracking changes, conducting reviews, and generating audit trail reports easier and more efficient.

By ensuring accurate HMDA reporting, incorporating fair lending principles into decision-making, enhancing outreach efforts, and establishing a robust compliance management system, lenders can protect themselves from compliance pitfalls while positively impacting their communities. As we move into 2025 and beyond, the mortgage sector must commit to continuous improvement in fair lending practices.