

July 31, 2000

Joseph G. Reed, Vice President
Southern Security Federal Credit Union
P.O. Box 22365
Memphis, Tennessee 38122

Re: ECOA and Risk-Based Loan Pricing Adjustments for Similarly Situated Applicants.

Dear Mr. Reed:

You have asked whether your federal credit union (FCU) may grant a risk-based loan at a lower interest rate to an applicant with the same credit score as other applicants, if the loan officer determines that other factors reduce the FCU's risk. A FCU is not prohibited from adjusting loan interest rates provided it does not make the decision on the basis of race, color, religion, national origin, sex, marital status, or age (provided the applicant has capacity to contract) and does not otherwise establish a policy with a discriminatory effect. Equal Credit Opportunity Act (ECOA), 15 U.S.C. §1691 *et seq.*; 12 C.F.R. Part 202.

You propose that the FCU's loan officers be given the discretion to lower the interest rate on a loan below the tier for which the member's credit score qualifies if the member meets an exception to the FCU's risk-based lending policy. You provide the following examples of allowable exceptions: an unusually low debt-to-income ratio, exceptionally stable employment history, substantial personal assets, or a long history of good credit with the credit union. While on their face these factors are not within the ambit of ECOA, the implementation of this new policy may have an impermissible, discriminatory effect. NCUA Letter to Credit Unions No. 174 discusses the approach courts have taken in adjudicating discrimination cases under ECOA and, also, some steps an FCU can take to reduce the possibility of fair lending violations. We suggest you review this information when revising your risk-based lending policy. A copy of Letter 174 is enclosed and is also available on our website at nua.gov.

Sincerely,

Sheila A. Albin
Associate General Counsel

GC/CJL:bhs
SSIC 3228
00-0654
Enclosure

