

Fair Lending Policy

Most Recent Review/Edit: April 25, 2024

This Fair Lending Policy ("Policy") applies to Pittsford Federal Credit Union ("PFCU"). This Policy has been formally adopted by the Board of Directors (the "Board") of the Company, effective as of the date of this Policy as documented in the Board minutes.

1. Purpose of policy. It is the policy of PFCU to comply with fair lending laws and regulations, in particular the Equal Credit Opportunity Act, the Fair Housing Act, and the Home Mortgage Disclosure Act, to emphasize fair treatment of all consumers of credit transactions and to continue efforts to ensure such treatment. As described in the Policy, PFCU seeks to treat all consumers consistently, fairly and in compliance with fair lending laws, statutes, and regulations.

2. Persons covered by policy. The Board is committed to ensuring that all employees and agents adhere to the best practices of fair and equitable lending in their dealings with all consumers. The Board will not tolerate discriminatory behavior by any employee, temporary agency employee, vendor, contractor or other third party. Employees participating in such behavior will be subject to disciplinary action up to and including termination of employment. Agents, independent contractors or other third parties who engage in activities inconsistent with this Policy will be dealt with accordingly.

3. Overview of fair lending laws and regulations. The NCUA and the Consumer Financial Protection Bureau (CFPB) emphasize fair treatment of all consumers of credit transactions. These agencies enforce the following anti-discrimination statutes and regulations:

- Equal Credit Opportunity Act (ECOA) - prohibits discrimination in any aspect of a credit transaction.
- Fair Housing Act (FHA) -prohibits discrimination in all aspects of housing and residential real estate-related transactions.
- Home Mortgage Disclosure Act (HMDA) - seeks to prevent lending discrimination and redlining by requiring public disclosure of certain information about mortgage loan applications.

Under these statutes and regulations, a lender may not, because of a prohibited factor:

- Fail to provide information or services or provide different information or services regarding any aspect of the lending process, including credit availability, application procedures, or lending standards;
- Discourage or selectively encourage applicants with respect to inquiries about or applications for credit;
- Refuse to extend credit or use different standards in determining whether to extend credit;
- Vary the terms of credit offered, including the amount, interest rate, duration, or type of loan;

- Use different standards to evaluate collateral;
- Treat a borrower differently in servicing a loan or invoking default remedies;
- Use different standards for pooling or packaging a loan in the secondary market;
- Express, orally or in writing, a preference or indicate that it will treat applicants differently; or
- Discriminate because of the characteristics of a person associated with a credit applicant (for example, a co-applicant, spouse, business partner, or live-in aide) or the present or prospective occupants of the area where property to be financed is located.

The federal agencies may use the full range of their enforcement authority to address discriminatory lending practices, including through enforcement actions or administrative sanctions. In addition, the agencies may consider evidence of discriminatory lending practices when considering an institution's application to establish a branch office, relocate the main office or a branch, grant a thrift charter, and approval of merger, acquisition, or consolidation activities.

3.1 Equal Credit Opportunity Act. ECOA was enacted in 1974 following a finding that there was a need to ensure that the various financial institutions and other firms that extend credit exercise their responsibility to make credit available with fairness, impartiality, and without discrimination on the basis of sex or marital status. ECOA is implemented by Regulation B, which governs every aspect of an applicant's dealings with a creditor regarding an application for credit or an existing extension of credit. PFCU must comply with Regulation B in all aspects of the credit transaction, including the advertising, approval, origination, and servicing of loans.

Regulation B prohibits discrimination against any loan applicant on a prohibited basis regarding any aspect of a credit transaction. The prohibited bases are: (i) race; (ii) color; (iii) religion; (iv) national origin; (v) marital status; (vi) sex; (vii) age (provided the applicant has the capacity to enter into a binding contract); (viii) the fact that all or part of an applicant's income derives from any public assistance program; and (ix) the fact that an applicant has in good faith exercised any right under the Consumer Credit Protection Act or any state law on which an exemption has been granted by the CFPB. ECOA is primarily enforced by the CFPB, though a "pattern or practice" of ECOA violations may be referred to the United States Department of Justice.

3.2 Fair Housing Act. The FHA and its implementing regulations make it unlawful for any lender to discriminate in its housing and real estate-related activities, including lending and servicing activities, against any person on a prohibited basis. The prohibited bases are: (i) race; (ii) color; (iii) religion; (iv) national origin; (v) sex; (vi) handicap; and (vii) familial status (defined as children under the ages of 18 living with a parent or legal custodian, pregnant women, and people securing custody of children under 18). The FHA is enforced by the United States Department of Housing and Urban Development (HUD), though a "pattern or practice" of FHA violations may be referred to the United States Department of Justice.

3.3 Home Mortgage Disclosure Act. HMDA and its implementing Regulation C require certain financial institutions to report information about certain residential real estate-secured loans to their supervisory agencies on an annual basis. A covered financial institution must report data on loan applications, originations and home purchase loans, and home improvement loans. The institution must report the required information about its applications on a Loan/Application Register (LAR) and submit this LAR to its supervisory agency by March 1 of the following year. The information is aggregated into reports made available to the public by the Federal Financial Institutions Examination Council (FFIEC). The FFIEC also sends a compiled report of the institution's lending back to each individual institution. Within three business days of receiving the report, the institution must make available to the public upon request a written notice that conveys that the report may be obtained on the CFPB's website.

A covered financial institution must include the following loan application information on its LAR: (i) application number or loan number; (ii) date application was received; (iii) loan type; (iv) purpose of loan; (v) owner-occupancy data; (vi) loan amount; (vii) action taken and date; (viii) property location (census tract); (ix) applicant information (ethnicity, race, sex, age, and income); (x) type of purchaser; (xi) reason(s) for denial; (xii) difference between annual percentage rate (APR) and average prime offer rate (rate spread); (xiii) credit score; (xiv) total points and fees charged; (xv) value of collateral; (xvi) contractual terms that would allow payments that are not fully amortizing; (xvii) number of months after which an introductory rate may change; (xviii) unique identifier for the originator. The NCUA enforces HMDA compliance. The CFPB also exercises principal authority to examine and enforce an institution's compliance with HMDA.

4. Types of Discrimination.

4.1 Overt discrimination. A lender engages in overt discrimination when it openly acts on a preference based on a prohibited basis. A lender overtly discriminates even when it only expresses, but does not act on, a discriminatory preference.

4.2 Intentional discrimination (disparate treatment). A lender engages in intentional discrimination, or disparate treatment, when it treats a consumer engaged in a credit transaction differently based on one of the prohibited bases. Disparate treatment does not require evidence of prejudicial motive or conscious intent to discriminate. Instead, a lender engages in disparate treatment where no credible, nondiscriminatory reason explains the difference in treatment on a prohibited basis. Examples of disparate treatment include:

- *Redlining.* Redlining refers to the illegal practice of refusing to make residential loans, or imposing more onerous terms on loans, because of the predominant race or national origin of the residents

of the neighborhood in which the property is located. Redlining violates both the FHA and the ECOA.

- *Reverse redlining.* Reverse redlining refers to the illegal practice of targeting and placing borrowers in higher-priced or inferior loan products on the basis of race or national origin, while placing similarly situated non-minority borrowers or borrowers in non-minority neighborhoods in more favorably-priced products. Reverse redlining sometimes is referred to as a type of steering or predatory lending, though these are broader terms that do not necessarily require the conduct to have been motivated by a prohibited basis.

4.3 Disparate impact discrimination. When a lender applies a policy or practice equally to consumers, but the policy or practice has a disproportionate adverse impact on consumers from a group protected against discrimination, the policy or practice may be described as having a "disparate impact." In other words, a lending policy that is facially neutral and consistently applied may still disproportionately and adversely affect a person's access to credit on a prohibited basis. Generally, a lender with a policy resulting in a disparate impact must prove that: (i) the policy is supported by a "business justification" or "business necessity," and (ii) no less discriminatory alternative to the policy exists.

5. Policy Guidelines.

5.1 Underwriting. This Policy applies to all of PFCU's credit underwriting activities. PFCU and its agents must treat all prospective and existing borrowers consistently and fairly. Employees may not discriminate against a prospective borrower on the basis of a prohibited factor in the underwriting of a loan. For example, employees may not consider a borrower's race or ethnicity, or the race or ethnicity of the neighborhood in which the property is located, in determining whether to approve or deny a prospective borrower's loan application or whether to make an exception to underwriting criteria.

Employees may not subject prospective borrowers to vague or unduly subjective underwriting criteria. If an employee makes an exception to a normal underwriting standard, such as a credit score override, the exception must be consistent with PFCU's underwriting policy. Further, the person making the exception must document in the loan file the legitimate, nondiscriminatory business reason for the exception. Examiners typically consider the following as indicators of discrimination in underwriting:

- Substantial disparities among the approval/denial rates for applicants by monitored prohibited basis characteristic (especially within income categories).
- Substantial disparities among the application processing times for applicants by monitored prohibited basis characteristics (especially within denial reason groups).

- Substantially higher proportion of withdrawn/incomplete applications from prohibited basis group applicants than from other applicants.
- Vague or unduly subjective underwriting criteria.
- Lack of clear guidance on making exceptions to underwriting criteria, including credit scoring overrides.
- Lack of clear loan file documentation regarding reasons for any exceptions to normal underwriting standards, including credit scoring overrides.
- Relatively high percentages of either exceptions to underwriting criteria or overrides of credit score cutoffs.
- Loan officer or broker compensation based on loan volume (especially loans approved per period of time).
- Consumer complaints alleging discrimination in loan processing or in approving/denying residential loans.

5.2 Pricing (and other terms and conditions of loan products). This Policy applies to all of PFCU's pricing activities. PFCU and its agents must treat all prospective and existing borrowers consistently and fairly. Employees may not discriminate against a prospective or existing borrower on the basis of a prohibited factor in the making or pricing of a loan or loan modification. For example, employees may not consider a prohibited factor in determining whether to offer a particular interest rate to a borrower, place the borrower in a certain loan product, or impose a prepayment penalty or other loan feature.

Employees may not subject prospective or existing borrowers to vague or unduly subjective pricing criteria. If an employee or agent makes an exception to a normal pricing standard, such as the offering of a reduced interest rate, the exception must be consistent with the Company's pricing policy. Further, the person making the exception must document in the loan file the legitimate, nondiscriminatory business reason for the exception. If the reason for the exception is related to negotiation or other competitive factors, the employee must include in the loan file any supporting documentation, such as a competing good faith estimate.

Examiners typically consider the following as indicators of discrimination in pricing:

- Relationship between loan pricing and compensation of loan officers or brokers.
- Presence of broad discretion in pricing or other transaction costs.
- Use of a system of risk-based pricing that is not empirically based and statistically sound.
- Substantial disparities among prices being quoted or charged to applicants who differ as to their monitored prohibited basis characteristics.
- Consumer complaints alleging discrimination in residential loan pricing.

5.3 Marketing. This Policy applies to all of PFCU's marketing and advertising activities. Employees must treat all prospective and existing borrowers consistently and fairly. Employees may

not discriminate against a prospective borrower on the basis of a prohibited factor in the marketing of a loan. For example, employees may not consider a prohibited factor in the marketing of certain loan products or use marketing techniques to target certain loan products to certain communities based on a prohibited factor. Employees also may not use marketing to exclude prospective borrowers on a prohibited basis. Employees must follow the Company's approved marketing and advertising strategies to meet the needs of all communities within the defined assessment areas.

Examiners consider the following as indicators of discrimination in marketing:

- Advertising patterns or practices that a reasonable person would believe indicate prohibited basis customers are less desirable.
- Advertising only in media serving non-minority areas of the market.
- Marketing through brokers or other agents that the lender knows (or has reason to know) would serve only one racial or ethnic group in the market.
- Use of marketing programs or procedures for loan products that exclude regions or geographies within the institution's assessment area or marketing area that have significantly higher percentages of minority group residents than the rest of the area.
- Using mailing or other distribution lists or other marketing techniques that explicitly exclude:
 - groups of prospective borrowers on a prohibited basis; or
 - exclude geographies, such as certain Census tracts or ZIP codes, within the institution's assessment area or marketing area that have significantly higher percentages of minority group residents than the rest of the area.
- Proportion of monitored prohibited basis applicants that is significantly lower than that group's representation in the total population of the market area.
- Consumer complaints alleging discrimination in advertising or marketing loans.

5.4 Servicing. This Policy applies to all of PFCU's servicing activities, including those related to collection of payments or unpaid debt, loss mitigation and foreclosure. PFCU and its agents must treat all prospective and existing borrowers consistently and fairly. Employees may not discriminate against a prospective or existing borrower on the basis of a prohibited factor in the servicing of a loan. For example, employees may not consider a prohibited factor in the offering of a loan modification or other loss mitigation option, or proceed to foreclosure on an accelerated basis due to a prohibited factor. If an employee makes an exception to a servicing guideline, such as the offering of a different loan modification product than expected under investor guidelines, the exception must be consistent with the Company's servicing policy. Further, the employee must document in the loan file the legitimate, nondiscriminatory business reason for the exception.

Examiners typically consider the following as indicators of discrimination in servicing:

- Failing or refusing to provide information regarding the availability of other loss mitigation options or financial assistance on a prohibited basis, or otherwise treating a borrower differently in servicing a loan or invoking default remedies on a prohibited basis.
- Providing information concerning alternative loss mitigation options or financial assistance that is inaccurate or different from that provided to others on a prohibited basis.
- Adopting and/or applying different policies, practices, or procedures in evaluating creditworthiness or eligibility for particular loss mitigation options or other financial assistance on a prohibited basis.
- Setting different terms for loss mitigation options or other financial assistance based on a prohibited basis.
- Improperly taking into consideration prohibited factors when appraising residential real property.
- Refusing to provide property or hazard insurance for dwellings, or providing such services differently, on a prohibited basis.
- Using different standards for pooling or packaging a loan in the secondary market on a prohibited basis.

5.5 Risk Mitigation based on Business Practices. PFCU is committed to compliance with the fair lending laws and regulations. One way that PFCU mitigates fair lending risk is through its strict business practices that materially limit the potential for fair lending violations. Such business practices include, but are not limited to:

- Streamlined pricing strategies that are not risk-based;
- Exclusion of data specific to prohibited bases when discussing applications with Senior Management that may require exception consideration;
- The absence of any sales goals of any sort
- The absence of any performance incentive of any sort related to loan underwriting activity

6. Roles and Responsibilities.

6.1 Employees. PFCU shall ensure that all employees engaged in any activities related to lending or servicing will have unfettered access to this Policy. Additionally, PFCU will ensure that all employees engaged in any lending or servicing activities will receive a copy of this Policy at the time of employment and at periodic training sessions.

6.2 Compliance. The Compliance Administrator, in cooperation with Lending Managers, will be responsible for evaluating and updating this Policy to reflect any changes to applicable laws and regulations. The Compliance Administrator and Lending Managers report to the General Manager. The Senior Management Team is committed to ensuring employee compliance with fair

lending laws and will take corrective action against any employee found to have discriminated against a prospective or existing borrower.

7. Complaint Resolution. PFCU has a centralized process to track and resolve complaints from prospective and existing borrowers. The General Manager, in coordination with the each business unit, will be responsible for evaluating complaints and ensuring that they are completely resolved in a timely manner. PFCU mandates that employees handle the complaint resolution process in a consistent, fair, and non-discriminatory manner.

8. Data Integrity. The Mortgage Servicing Manager is responsible for ensuring that the loan data subject to HMDA requirements is accurately collected and recorded. Each of the business units engaged in lending activity covered by HMDA and Regulation C will ensure that information about reportable loans is transferred to the LAR within 30 days of the end of each reporting period. Before the information is submitted, the Mortgage Servicing Department will perform a review of the data to ensure that it has been accurately collected and recorded.

9. Training. All employees engaged in any lending or servicing activities must read this Policy and uphold the Policy and the fair lending principles discussed throughout. In addition, those employees engaged in any lending or servicing activities will attend, or have attended, a fair lending training session provided by an approved vendor on at least an annual basis. In addition to the annual fair lending training sessions, employees must attend an initial fair lending training session within a reasonable timeframe at the start of their employment, along with occasional training sessions triggered by changes in fair lending law and regulation. The materials used in the training sessions will be available to all employees on the employee intranet and will be updated periodically to ensure that they are consistent with current fair lending laws and regulations. A copy of this Policy will be available at all times on the PFCU Intranet.

10. Monitoring. Each business unit, at the direction and under the supervision of legal counsel, will monitor its lending and/or servicing activity on an ongoing basis. The monitoring will include a follow-up loan-level review if needed, of the underwriting activities for that unit. The loan-level review will supplement any statistical analysis revealing the existence of statistically significant disparities, trends, or activity. Any statistically significant disparities in lending or servicing, along with any suspected misconduct uncovered by loan-level reviews, will be escalated to the General Manager. The results of this review will be discussed with the Senior Management Team.