

BREAKING DOWN THE SECTION 1071 RULE

WHAT'S COMING AND HOW BANKS SHOULD PREPARE



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COURSE HIGHLIGHTS

When should we begin collecting data?

What should we collect?

How should we prepare?



WHEN SHOULD I BEGIN COLLECTING DATA?



COVERED FINANCIAL INSTITUTIONS

Any partnership, company, corporation, association
(incorporated or unincorporated), trust, estate, cooperative
organization or other entity that engages in any financial
activity

+

Originated at least 100 covered credit transactions for
small businesses **in each** of the two preceding calendar
years



COVERED FINANCIAL INSTITUTIONS

TIER ONE

- ◀ At least 2,500 covered originations in both 2022 and 2023
- ◀ Collection begins October 1, 2024
- ◀ Initial submission June 1, 2025



COVERED FINANCIAL INSTITUTIONS

TIER TWO

- ◀ At least 500 covered originations in both 2022 and 2023 *and* at least 100 in 2024
- ◀ Collection begins April 1, 2025
- ◀ Initial submission June 1, 2026



COVERED FINANCIAL INSTITUTIONS

TIER THREE

- ◀ At least 100 covered originations in both 2024 and 2025
- ◀ Collection begins January 1, 2026
- ◀ Initial submission June 1, 2027



SMALL BUSINESS

- ◀ Gross annual revenue (GAR) for preceding fiscal year was \$5 million or less
- ◀ GAR will adjust every five years after January 1, 2025, based on changes to the Consumer Price Index
- ◀ “Small Business Concern” organized for profit, including sole proprietors, partnerships, trusts, LLCs, corporations, joint ventures, etc.



COVERED ORIGINATIONS

INCLUDED IN THE COUNT



Close-End Loans



Open-End Lines
of Credit



Credit Cards



Merchant Cash
Services



COVERED ORIGINATIONS

EXCLUDED FROM THE COUNT



Reevaluations, extensions,
modifications and renewals



HMDA-reportable
transactions



Trade credit, insurance premium
financing, public utilities credit,
securities credit and incidental
credit



MATHEMATICS 1071

OPTION 1

- ◀ Count EVERYTHING!!!
- ◀ EVERYTHING = every covered non-consumer, non-HMDA reportable origination



MATHEMATICS 1071

OPTION 2

- ◀ I have revenue information available for 2022 and 2023
- ◀ Count only originations to small businesses



MATHEMATICS 1071

OPTION 3

- ◀ Annualize 2023 fourth quarter data
- ◀ Implement a methodology for collecting GAR
- ◀ Results apply to both 2022 and 2023



MATHEMATICS 1071

OPTION 4

- ◀ Other reasonable methodology
- ◀ Must be reasonable and documented in writing
- ◀ Be ready to be convincing



WHAT SHOULD I COLLECT?



COVERED APPLICATIONS

WHAT'S INCLUDED



Oral or written request for a non-consumer credit extension (originations + non-originations)



A reevaluation, extension or renewal **which increases the amount granted**



Any non-HMDA reportable commercial purpose transaction



Agricultural transactions



COVERED APPLICATIONS

WHAT'S EXCLUDED



A reevaluation, extension or renewal which does **NOT** increase the amount granted



Inquiries and preapproval requests



Participation loans when your institution was not the originating institution



DATA FIELDS



UNIQUE IDENTIFIER

APPLICATION DATE

APPLICATION METHOD

APPLICATION RECIPIENT



DATA FIELDS



ACTION TAKEN

ACTION DATE

CREDIT TYPE

CREDIT PURPOSE

GUARANTY TYPE



DATA FIELDS



LOAN TERM

AMOUNT APPLIED FOR

AMOUNT APPROVED OR ORIGINATED

DENIAL REASONS



DATA FIELDS



CENSUS TRACT

CENSUS TRACT ADDRESS TYPE

NAICS CODE (FIRST THREE DIGITS)

NUMBER OF WORKERS

TIME IN BUSINESS



DATA FIELDS



GROSS ANNUAL REVENUE

INTEREST RATE TYPE AND PERIOD

INTEREST RATE

INDEX NAME AND VALUE

MARGIN VALUE



DATA FIELDS



ORIGINATION CHARGES

BROKER FEES

INITIAL ANNUAL CHARGES

PREPAYMENT PENALTY



DATA FIELDS

NUMBER OF PRINCIPAL OWNERS

PRINCIPAL OWNERS' ETHNICITY, RACE AND SEX

BUSINESS OWNERSHIP STATUS

MINORITY OWNED WOMEN OWNED LGBTQI+ OWNED

COLLECTION FORM

Sample data collection form

Federal law requires that we request the following information to help ensure that all small businesses applying for loans and other kinds of credit are treated fairly and that communities' small business credit needs are met.

One or more employees or officers involved in making a determination concerning your application may have access to the information provided on this form. However, **FEDERAL LAW PROHIBITS DISCRIMINATION** on the basis of your answers on this form. Additionally, we cannot discriminate on the basis of whether you provide this information.

While you are not required to provide this information, we encourage you to do so. Importantly, our staff are not permitted to discourage you in any way from responding to these questions.

Filling out this form will help to ensure that ALL small business owners are treated fairly.

Business ownership status

Please indicate the business ownership status of your small business. For the purposes of this form, your business is a minority-owned, women-owned, or LGBTQI+-owned business if one or more minorities,* women, or LGBTQI+ individuals (i) directly or indirectly own or control more than 50 percent of the business AND (ii) receive more than 50 percent of the net profits/losses of the business.

What is your business ownership status?

(Check one or more of the options below)

- ☐ **Minority-owned business**
☐ **Women-owned business**
☐ **LGBTQI+-owned business**

– or –

- ☐ **None of these apply**

– or –

- ☐ **I do not wish to provide this information**

*Minority means Hispanic or Latino, American Indian or Alaska Native, Asian, Black or African American, or Native Hawaiian or Other Pacific Islander. A multi-racial or multi-ethnic individual is a minority for this purpose.

Number of principal owners

For purposes of this form, a principal owner is any individual who owns 25 percent or more of the equity interest of a business. A business might not have any principal owners if, for example, it is not directly owned by any individuals (i.e., if it is owned by another entity or entities) or if no individual directly owns at least 25 percent of the business.

How many principal owners does your business have? *(Check one)*

- ☐ 0
☐ 1
☐ 2
☐ 3
☐ 4

Demographic information about principal owners

As a reminder, applicants are not required to provide this information but are encouraged to do so. We cannot discriminate on the basis of any person's ethnicity, race, or sex/gender. Additionally, we cannot discriminate on the basis of whether you provide this information.

Please fill out one sheet for each principal owner.

1 Are you Hispanic or Latino?

i.e., What's your ethnicity? (Check one or more)

- ☐ **Hispanic or Latino**

- ☐ Cuban
☐ Mexican
☐ Puerto Rican

- ☐ **Other Hispanic or Latino** *(Please specify your origin, for example, Argentinean, Colombian, Dominican, Nicaraguan, Salvadoran, Spaniard, and so on):*

- ☐ **Not Hispanic or Latino**

– or –

- ☐ **I do not wish to provide my ethnicity**

2 What is your sex/gender?

(Please specify):

– or –

- ☐ **I do not wish to provide my sex/gender**

3 What is your race?

(Check one or more)

- ☐ **American Indian or Alaska Native** *(Please specify the name of your enrolled or principal tribe):*

- ☐ **Asian**

- ☐ Asian Indian
☐ Chinese
☐ Filipino
☐ Japanese
☐ Korean
☐ Vietnamese

- ☐ **Other Asian** *(Please specify your race, for example, Cambodian, Hmong, Laotian, Pakistani, Thai, and so on):*

- ☐ **Black or African American**

- ☐ African American
☐ Ethiopian
☐ Haitian
☐ Jamaican
☐ Nigerian
☐ Somali

- ☐ **Other Black or African American** *(Please specify your race, for example, Barbadian, Ghanaian, South African, and so on):*

- ☐ **Native Hawaiian or Other Pacific Islander**

- ☐ Guamanian or Chamorro
☐ Native Hawaiian
☐ Samoan

- ☐ **Other Pacific Islander** *(Please specify your race, for example, Fijian, Tongan, and so on):*

- ☐ **White**

– or –

- ☐ **I do not wish to provide my race**



HOW SHOULD I PREPARE?

SEPARATION OF DEMOGRAPHIC INFORMATION AND DECISION MAKERS

- ◀ Involved in making any determination
- ◀ Not involved in making a determination
- ◀ Feasibility Exception
- ◀ Firewall Notice



CONSIDERATIONS

- ◀ Build a timeline based on your tier
- ◀ Discuss with your staff early and often
- ◀ How do we collect and document all this data
- ◀ How will we report the data
- ◀ How will our data appear to examiners and the public
- ◀ Who should be on the implementation team



RESOURCES

Final Rule:

www.files.consumerfinance.gov/f/documents/cfpb_1071-final-rule.pdf

Executive Summary:

www.files.consumerfinance.gov/f/documents/cfpb_sbl_executive-summary.pdf

Small Entity Compliance Guide:

www.files.consumerfinance.gov/f/documents/cfpb_small-business-lending-rule_small-entity-compliance-guide.pdf

Data Points Chart:

www.files.consumerfinance.gov/f/documents/cfpb_small-business-lending-data-points-chart.pdf

Filing Instructions Guide:

www.consumerfinance.gov/data-research/small-business-lending/filing-instructions-guide/2024-guide/

For Additional Information:

www.consumerfinance.gov/1071-rule/

YOU CAN DO THIS!

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THANK YOU!