



CFPB's Small Business Lending Data Collection Rule: What to Know

small business regulatory CFPB lending

Summary: The CFPB has finalized a data collection rule for lenders that extend credit to small businesses. The regulations aim to find patterns in small business lending that enhance CRA initiatives and make lending practices more equitable. However, trade groups like the ICBA and the CUNA have concerns that the additional burdens of compliance could impede CFIs' ability to make as many loans as they do. We explain what CFIs should be aware of as this issue unfolds.

Small businesses are the backbone of every economy and have been for centuries. Even some of the largest corporations in the world started out as small businesses. For instance, Walmart grew out of Walton's 5 & 10 in what was then the very tiny town of Bentonville, Arkansas (all of 2.9K people). Harley-Davidson's William Harvey and Arthur Davidson built their first motorcycle in a wooden shed. Small businesses can breed legends — or they can stay small and provide the necessary essentials to their local communities or serve novel niches. Where would the world be without them?

Small businesses are now very much on the minds of those leading the Consumer Financial Protection Bureau (CFPB). The [CFPB has finalized a rule](#) required by Congress to increase transparency in small business lending, promote economic development, and combat unlawful discrimination. Lenders will collect and report information about the small business credit applications they receive, including geographic and demographic data, lending decisions, and the price of credit.

The Basics of the New Rule

The rule covers lenders making more than 100 small business loans per year, which, for community financial institutions (CFIs), includes term loans, lines of credit, business credit cards, and online credit products. The rule defines a small business as one with gross revenue under \$5MM in its most recent fiscal year.

Implementation will be in phases, starting on Oct. 1, 2024 for lenders making 2.5K or more small business loans annually; April 1, 2025 for lenders that originate at least 500 loans annually; and Jan. 1, 2026 for lenders that originate at least 100 loans annually.

The aim of the new rule is to gather data to “help policymakers measure the effectiveness of any government programs, and provide a data-driven approach to detect potential discrimination.” This would likely inform any changes to related legislation, such as the Community Reinvestment Act (CRA) or fair lending laws to make them more effective. The data could also help regulators and lenders home in on any demographics or regions that could use more support to spur economic growth.

Opposition from Trade Groups

Trade groups such as the Independent Community Bankers of America (ICBA) and the Credit Union National Association (CUNA) have strong concerns about the CFPB's new rule. In an [April letter to the CFPB](#), the ICBA asked the agency to reconsider the scope of financial institutions that would have to comply with the new rule. The ICBA leadership requested that the CFPB either exempt CFIs with less than \$1.384B in assets or small and

intermediate institutions with “outstanding” or “satisfactory” CRA ratings. Banks with these ratings have already demonstrated a record of serving the needs of low- and moderate- income customers and census tracts and of lending to small businesses. Thus, opponents of the new rule contend that its goal would be redundant for many CFIs and that the costs of compliance, estimated by the ICBA to be hundreds of thousands of dollars, would cause financial hardship for CFIs.

Currently, the press release on the data collection rule from the CFPB acknowledges that some of the CFIs that would need to comply already have a strong record. The agency mentions its intention to provide an extension to those institutions so that they will have more time to establish any partnerships or processes needed to comply with the new rule, but does not excuse them from compliance.

Actions CFIs Can Take

Although the rule is finalized, implementation is still far off for CFIs. As recent years have shown, situations can change in an instant, so there’s plenty of time to prepare for either changes to the rule or compliance with the rule as it currently stands. Here are some steps you might consider while the financial world awaits a possible response from the CFPB and Congress:

- **Talk to your regulators.** Reach out to your regulators about any concerns you have with the impending rule. Perhaps you or someone in your institution has a question that should be addressed in the rule or clarified further.
- **Do research.** The [ICBA has posted a page full of resources](#), including FAQs, a compliance guide from the CFPB, and more to help you learn about the rule’s potential impact on your CFI.
- **Speak out.** The ICBA has also included a customizable op-ed that you can access through your ICBA account on [the Tell Your Story page](#) to help spread the word within your community or nationally on how the rule will impact your institution.
- **Keep an eye on big banks.** Since the largest banks will be the first to reach the compliance deadline in October 2024, smaller institutions could have over a year to observe those institutions’ SMB data collection practices. Your CFI will benefit from leveraging any solutions these industry leaders create or any partnerships they announce that can make compliance easier.

We’ll keep you updated on the latest developments with the CFPB’s new rule, and if the agency is able to achieve its desired goals without adding burdens onto those CFIs who are already doing their part in extending credit to small businesses and under-served communities.

AMERICAN EXPRESS EXITS FX BUSINESS OUTSIDE OF US

American Express has announced it will decommission foreign exchange services to business customers outside of the US by year end. Your CFI doesn’t have to be impacted by this—PCBB offers a variety of [foreign payments services](#). Contact info@pcbb.com to learn more.

ECONOMY & RATES

Rates As Of: 08/03/2023 06:39AM (GMT-0700)			
Treasury	Yields	MTD Chg	YTD Chg
3M	5.53	-0.02	1.11
6M	5.52	-0.01	0.76
1Y	5.36	0.00	0.65
2Y	4.91	0.03	0.48

5Y	4.30	0.12	0.30
10Y	4.18	0.22	0.30
30Y	4.29	0.28	0.32
FF Market	FF Disc	IORB	
5.33	5.50	5.40	
SOFR	Prime	ORER	
5.30	8.50	5.32	

Copyright 2021 PCBB. Information contained herein is based on sources we believe to be reliable, but its accuracy is not guaranteed. Customers should rely on their own outside counsel or accounting firm to address specific circumstances. This document cannot be reproduced or redistributed outside of your institution without the written consent of PCBB.