



New Regulations for Minority- and Women-Owned Small Businesses

small business regulatory lending DEI

Summary: Compliance under Section 1071 of the Dodd-Frank Act will likely pose the biggest burdens on the smallest institutions subject to the new rule. While there are still efforts to block it, the compliance deadline is quickly approaching. We delve into what you should know to start compliance efforts before the regulations take effect.

Although hourglasses today are more commonly used for decoration than for telling time, the device was once [the most reliable method of telling time at sea](#). Ships logs from 14th-century Europe show that marine hourglasses were the only method of telling time that could not be adversely affected by the waves of the sea and were more resistant to cold temperatures and moisture. The grains were often made of fine sand and optimized to be a ratio of between 1/12 and 1/2 of the width of the neck of the bulbs to ensure a steady flow of material between bulbs. Much like the grains of sand in an hourglass, time is dwindling while lawmakers debate a regulation that's set for a compliance deadline of October — [Section 1071 of the Dodd-Frank Act](#).

Section 1071 amends the Equal Credit Opportunity Act (ECOA) in a way that requires financial institutions to collect and submit data regarding credit applications for women- and minority-owned small businesses. The goal of the new rule is to provide a clearer picture of financial institutions' lending practices for women and minorities who are trying to start and grow businesses and hopefully stimulate more lending to these groups. The first compliance deadline for reporting to the Consumer Financial Protection Bureau (CFPB) is October 2024, but that has been caught up in political debates in Washington, as well as in a Texas lawsuit that could delay or scrap it. Still, banks have little choice at this point but to begin preparing to comply.

Compliance Weighs on Smaller Financial Institutions

Basically, institutions need to collect additional data on loans while ensuring the data is not disclosed to others. That means centralizing data from diverse sources in the lending process, then properly organizing and reporting the data to regulators.

That shouldn't be too hard for large institutions with centralized data systems. However, smaller institutions may find it more difficult, which means the biggest burdens will likely fall on smaller community financial institutions (CFIs). They could be on the hook for [expensive tech upgrades](#) to help with compliance.

One main exclusion from the new rule is for institutions placing fewer than 100 small business loans or credit products per year. For the rest, implementation comes in phases, with the first compliance deadline coming in October for institutions making at least 2.5K loans a year.

The Road to Compliance

To comply, lenders will need to [collect and report lots of data](#), as we relayed in an earlier BID, including geographic and demographic data, as well as details on individual loan applications like loan prices and decision reasons.

While it might at first look like compliance just means filling out a few extra forms, it is far more complex than that. The [new rule covers 900 pages](#). That’s a lot of new regulation to work through. Keeping in contact with regulators and talking to neighboring institutions about solutions can help make the process smoother.

Remaining Opposition

The added cost and complexity of section 1071 have some trade groups and members of Congress concerned. Congress passed a resolution backed by banking trade groups to overturn the rule, but it was vetoed in December. Barring a move by Congress to override the veto, which isn’t expected, the rule remains in place.

There is still a chance that a court challenge by financial institutions in Texas will prevent the rule from coming to fruition. The court issued a preliminary injunction halting implementation of the new rule and in October 2023 expanded the injunction nationwide. That may push back or block the compliance start date of October 2024, if the injunction holds.

The first compliance deadline for a new reporting rule for SMB loans is fast approaching. While there are efforts to block the new rule, CFIs that delay compliance implementation may wind up in a pinch, should opposition fail. Preparing now will help prevent any last-minute pushes toward compliance and can allow your CFI to avoid any mistakes made in a rushed effort.

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ECONOMY & RATES

Rates As Of: 03/04/2024 05:40AM (GMT-0800)			
Treasury	Yields	MTD Chg	YTD Chg
3M	5.42	-0.03	0.02
6M	5.27	-0.03	0.01
1Y	4.94	-0.06	0.17
2Y	4.57	-0.05	0.32
5Y	4.20	-0.05	0.35
10Y	4.22	-0.03	0.34
30Y	4.37	-0.01	0.34
FF Market	FF Disc	IORR	
5.33	5.50	5.40	
SOFR	Prime	OBER	
5.31	8.50	5.32	

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