

Section 1071: What It Means for Your Institution

Key Takeaways

- “Supersized” HMDA for small business lending
- Demands a significant data collection effort
- Time to begin preparation is now

What is Section 1071?

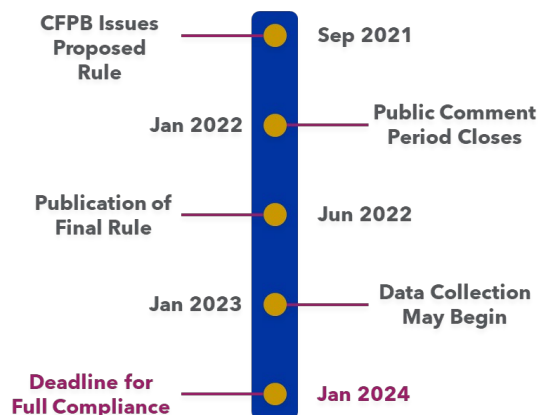
On September 1, 2021, the Consumer Financial Protection Bureau (CFPB) issued a proposed rule for Section 1071 that would require covered financial institutions to collect and report small business credit application data to the CFPB. The rule can be thought of as a supersized Home Mortgage Disclosure Act (HMDA) for small business lending. Like HMDA, 1071 will impose a substantial burden on financial institutions in terms of data collection and reporting. However, 1071 will apply to a wider range of products and institutions and require a more robust data collection effort to ensure compliance.

What Challenges Does This Present?

Compliance with 1071 will demand a significant data governance and management operation by financial institutions. While HMDA policy requires the collection of 110 data fields, the language in the CFPB proposed rule suggests 1071 could require more than 200. Data collection will be more burdensome due to the diversification of small business loan products. Small businesses may also have multiple owners, and 1071 will require the identification of race/ethnicity and gender for each individual. Collection of this data will be more difficult due to 1071’s unique “firewall” provision, which restricts the access of underwriters to such information.

Tentative Timeline

While there are efforts to eliminate or reduce the scope of Section 1071, all signs point to its eventual implementation. The timeline below is a projection based on the implementation of the 2015 HMDA rule.



How to Prepare:

The time to begin preparation for compliance with 1071 is now. Early steps can be taken to identify relevant stakeholders needed to organize data collection, assess the scope of impact based on product offerings, and evaluate the aptitude of existing technology to accommodate compliance needs. It is critical that your institution understands its current state, identifies gaps, and maps a path to a future state of compliance.

Nathan Associates

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