



The Deloitte Download: CFPB 1071 and CRA for You



Understanding CFPB section 1071

The CFPB made the collection and reporting of certain small business lending data mandatory for “**covered financial institutions**,” (including **banks and nonbanks**). Requirements set in the agency’s Final Rule represent a **significant modification in credit life cycle management** for small business lending. Initial collections begin on October 1, 2024 with initial reports due on June 1, 2025. Noncompliance could impair banks from a **reputational and legal risk perspective**.

- » **Covered financial institutions and covered credit transactions:** The Final Rule expanded applicability to in-scope financial institutions (banks and nonbanks) based on the level of activity (originating at least 100 covered credit transactions) and established several small business transaction types (i.e., loans, lines of credit, credit cards, merchant cash advances, and credit products used for agricultural purposes).
- » **Tiered compliance date:** The tiered compliance dates are dependent on the number of covered transactions that a financial institution originated in 2022 and 2023. The first reports are due on October 1, 2024 for those in-scope institutions with at least 2,500 covered transactions. Financial institutions with lower origination volumes begin collection and reporting activities in later years.
- » **Data field expansion:** Demographic data points related to the applicant’s ownership have been extended to include (1) minority-, women-, and LGBTQI+-owned businesses and (2) the ethnicity, race, and gender of the applicant’s principal owners. While these data points have remained categorically consistent, there is substantial increase in expectations on the level of detail required collection.
- » **Cross-regulation intersections:** The Final Rule reduced duplicative data collection and reporting by excluding Home Mortgage Disclosure Act (-reportable transactions as covered credit transactions and creating linkages with the modernization of Community Reinvestment Act (CRA) reporting for census tract information.
- » **Firewall and reporting requirements:** The Final Rule requires limiting access to demographic-related data to persons involved in making any determination on the application (i.e., firewall). This, combined with regulatory submission requirements, creates a need to manage and protect multiple data sets, including the use of up-front (full), middle (masked), and end (enriched) data.

5 actions to take now

- 01 **Confirm applicability of institution:** Determine and document covered transactions completed in the two preceding calendar years.
- 02 **Determine your tier:** Understand what data is available today to assess the total number of small business originations from businesses with gross revenues of \$5 million or less.
- 03 **Detailed impact analysis:** Utilizing the Final Rule requirements, conduct a detailed product-level impact analysis to identify potential gaps and deficiencies.
- 04 **Stand-up multidisciplinary program management:** Establish a well-governed program that determines active engagement of first-line product and process owners, technology system administrators, data infrastructure and controls professionals, and support provided by risk and compliance oversight and challenge.
- 05 **Engage technology and data vendors and understand actions:** Understand what solutions vendors are developing and determine what gaps will remain to be solved through idiosyncratic configurations or other vendor and internal solutions.

Key modernizations of community reinvestment act (CRA)

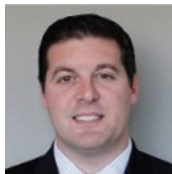
On October 24, 2023, Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (collectively, “the agencies”) modernized the Community Reinvestment Act (CRA). The Final Rule refined expectations for **how banks meet the credit needs of the communities in which they do business**, through a tailored evaluation framework. It also included significant changes to better align regulatory requirements to the growth of mobile and online banking and provides more guidelines around banks achieving a satisfactory rating with a more granular rating scale for individual performance tests. **The Final Rule takes effect on April 1, 2024 with staggered compliance dates of January 1, 2026 and 2027.**

- » **Tailored evaluation framework:** The Final Rule implements tailored performance standards based on bank asset size and business models to evaluate institutions meeting the credit needs of their communities. There are four weighted performance tests (compared to current three tests): (i) Retail Lending Test, (ii) Retail Services and Products Test, (iii) Community Development Financing Test, and (iv) the Community Development Services Test. Large banks will be measured under all four tests, while intermediate and small banks will have optionality.
- » **Increased scope of assessment areas:** To better align with the changes in the banking industry, including increased digital banking and hybrid models, the Final Rule shifts from the strictly geographic footprint approach (Facility-Based Assessment Areas) to include additional assessment areas for certain large banks (Retail Lending Assessment Areas).
- » **Expanded product and services scope:** The scope of covered products and services expands beyond traditional credit products and programs to include community development services, bank services delivery, consumer loans, and deposits. The Final Rule also attempts to reduce complexity by defining “major product lines” for evaluation (e.g., 15% standard) and limiting automobile lending.
- » **Data collection and reporting:** While the Final Rule does not change data collection and reporting requirements for small and intermediate banks, large banks are subject to expanded customer-level data collection, maintenance, and reporting requirements. This data will be critical to inform the establishment of standardized metrics for retail lending, community development financing, and retail services and products.
- » **Community development activities:** To encourage community development activities that are responsive to the needs of low-and-moderate-income individuals and communities and enhance financial inclusion, the Final Rule outlines 11 different categories of community development activities (e.g., loans, investments, and services), with the agencies planning to provide a publicly available illustrative list of qualifying activities.

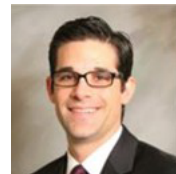
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