

### 1071 - Fairness in Small Business Lending

The Consumer Financial Protection Bureau (CFPB), in the exercise of its congressionally delegated authority, adopted regulation 1071 to govern the collection of small business lending data pursuant to the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Section 1071 of that legislation requires financial institutions to compile, maintain, and submit specific data to the CFPB on applications for credit for small businesses, women-owned, and minority-owned businesses. 1071 implements this statutory mandate.

### How will 1071 impact lenders?

- **Submission threshold:** Financial institutions making at least 25 small business loans in each of the two preceding calendar years must submit.
- **Small business:** For-profit business with gross annual revenue of \$5 million or less, in prior fiscal year, including farms/agricultural businesses.
- **Transactions covered:** Loans, lines of credit, credit cards, merchant cash advances – secured and unsecured. Pre-approvals are not covered. Applications and originations are reportable, but not purchased loans. Most credit line increases are covered.

### How can lenders prepare?

- **Getting Started** – Develop a plan of action:
  - Assign personnel and/or engage a partner to assess and manage
  - Scope processing and data controls
  - Conduct gap and impact analyses
  - Assess technology by evaluating your LOS provider and other front-line vendors for readiness
  - Identify training opportunities for 1071 data collection, submission and ongoing analysis

Let our domain experts help you formulate the plan.

### RiskExec Services

- **Organizational Readiness Assessment**
  - Review data elements and availability
  - Evaluate existing resources and identify constraints
  - Conduct technology impact assessment
  - Create mock reviews, self-assessments and launch plans
- **Implementation of 1071 Compliance Capabilities**
  - Technology/infrastructure – data capture and build
  - Process and procedure design
  - Control framework, including compliance, privacy
  - Results/compliance testing, pilot period
  - Define ongoing governance and monitoring



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# Fair Lending = Technology + Expertise

## Data Collection At-A-Glance (Illustrative)

- Unique Identifier
- Application Date
- Credit Type
- Credit Purpose
- Application Amount
- Amount Approved / Originated
- Action Taken
- Action Taken Date
- Denial Reasons
- Census Tract
- Gross Annual Revenue
- Minority-Owned Business Status
- Women-Owned Business Status
- Ethnicity of Principal Owner(s)
- Race of Principal Owner(s)
- Sex of Principal Owner(s)
- Number of Principal Owners
- Address and Regulatory Grade Geocode
- NAICS Code
- Application Method & Recipient
- Time in Business
- Number of "Workers"
- Rate: Index, Value, Margin
- Fees/Broker Fees
- Prepayment Penalty Information

Data Process:

Capture

Verify

Store

Protect

Comply

Submit

## QUICK NOTE

The Final 1071 Rule is scheduled for publication on or before March 31, 2023. Once publication is finalized, there will be an 18-month implementation period prior to data submission.

## RiskExec 1071 Software Features

- Single point of compliance data capture and aggregation across product verticals
- Data preparation
  - Data quality (edit checks) and scrubbing
  - Apply geocoding
  - Apply proxy model for gender, ethnicity testing/validation
- Analytics and compliance reporting
  - Analyze pricing and underwriting decisions by race, ethnicity, gender and other variables
  - Compare loan records on a matched pairs basis, and by branch, time period, geography
  - Report results and progress to senior management
  - Conduct independent QA and Audit utilizing the same toolset
- Submission to CFPB
  - Review submission files against regulatory import standard
  - Submit

Leverage RiskExec to help automate your 1071 efforts.



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