
Banking Compliance

Advisory Services

To support compliance with the Consumer Financial Protection Bureau's Small Business Lending Rules for Section 1071 of the Dodd-Frank Act.

As your financial institution focuses on understanding and implementing the new Small Business Lending Data Collection (Section 1071) compliance requirements, our experts are here to help.

Our Advisory Services team offers consultative expertise to help you comply with federal regulatory requirements for lending, deposits, and other banking activities. The team consists of former regulators, bankers, compliance officers, analysts, and attorneys.

The cost of noncompliance can be high. We understand how to evaluate the effectiveness of your program and ensure you successfully meet regulatory performance expectations. Our Advisory Services can help you navigate a wide range of complex challenges, including compliance management, Community Reinvestment Act, fair and responsible banking, third-party risk management, and operational risk management. Contracting with Wolters Kluwer's Advisory Services Group also offers an effective opportunity to offset costs inherent to managing this work internally.

On March 30, 2023, the Consumer Financial Protection Bureau ("CFPB") issued a final rule amending Regulation B to implement changes to the Equal Credit Opportunity Act ("ECOA") under Section 1071 of the Dodd-Frank Act. Financial institutions covered by this requirement must collect and report to the CFPB data on applications for credit to small businesses and small farms, including those that are owned by women or minorities. The rule also addresses privacy interests in connection with the publication of the data; the shielding of certain demographic data from underwriters and other persons' record keeping requirements; enforcement provisions; and effective dates.

Wolters Kluwer offers consulting services including data preparation and file scrubs, submission support, staff training, regulatory interpretation, operational planning, Compliance Management System (CMS) oversight, and small business Fair Lending risk reviews utilizing industry proven strategies to ensure compliance with complicated regulatory requirements.








Compliance Management System Review





Each review can be customized to focus on a specific law or regulation or provide a comprehensive assessment of all legal and regulatory requirements.

Wolters Kluwer CMS reviews help financial institutions identify gaps in their compliance risk management framework. Each review is unique and can focus on a single law or regulation, or expanded to provide an over-arching assessment across all legal and regulatory requirements. Each CMS review involves an assessment of board and management compliance oversight and reporting, policies, procedures, training, second and third line of defense compliance monitoring and testing, customer complaint escalation, response and resolution processes, and third-party risk management.

Our consultants can help to develop and implement standards for a comprehensive compliance process by:

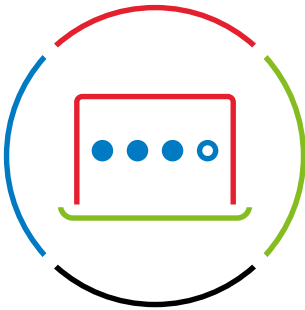
-  Reviewing the efficacy of the existing CMS framework
-  Conducting exam readiness risk assessments
-  Reviewing complaint management processes
-  Reviewing existing compliance documentation and evaluating current policies and procedures, monitoring, training and reporting including, but not limited to defining:
 - Whether an institution is covered under the Small Business Lending rules
 - To what extent transactions are covered, and under what mandated tier for compliance
 - The transitional provisions and standards for Safe Harbor
-  Conducting third-party Vendor Management program reviews
-  Evaluating compliance testing program to test effectiveness and compliance with policies
-  Advising on change management systems for anticipating rule changes impacting compliance obligations

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-  **Deliverable:**
A written report summarizing the findings and recommendations to improve any noted deficiencies (as applicable).
 -  **Frequency:**
As needed before, during, or after a covered institution's tiered compliance date.

Small Business Lending CRA & Fair Lending requirements: Operational and technical guidance

Wolters Kluwer can provide operational guidance to ensure applicable lines of business are collecting and aggregating data in advance of the rule's implementation date. Data collected under Section 1071 will require complex analysis for Fair Lending risk and understanding of performance under the Community Reinvestment Act ("CRA") like current requirements for HMDA-reportable transactions. For these reasons, it is imperative that on a go-forward basis, reportable data must be collected accurately consistent with data integrity guidelines.

Geocoding Services



Utilizing Wolters Kluwer proprietary software, small business and farm data can be batch geocoded to assist covered institutions understand lending by geography that will be subject to Section 1071 using State, MSA, County, Census Tract, and tract income level per transaction. This exercise may be extremely helpful for financial institutions that have commercial or farming customers with multiple addresses associated with the same identification number (e.g., a headquarters, a satellite office, or a location housing collateral) that would like to know how to best comply with the "waterfall" approach for geocoding as set forth in Section 1071.



Deliverable:

A fully geocoded file.



Frequency:

As needed before, during, or after a covered institution's tiered compliance date (quarterly, semi-annually, or yearly).

Over/Under Tables



Wolters Kluwer can provide an overview of a covered institution's small business and small farm lending activity in low- and moderate-income areas and to small businesses and small farms by Gross Annual Revenue (less than or equal to \$5 million and greater than \$5 million) at the assessment area level for each assessment area(s).



Deliverable:

Tables outlining the covered institution's small business and small farm lending by assessment areas(s).



Frequency:

As needed before, during, or after a covered tiered compliance date (quarterly, semi-annually, or yearly).

Business Demographics Overview



Wolters Kluwer can provide business demographic information on a covered institution's assessment area(s) based on the business information from Dun & Bradstreet. Wolters Kluwer can provide business demographics at the county or tract level highlighting the number of small businesses, number of small farms, number of businesses women owned, number of businesses minority owned, and number of businesses with revenue less than \$5 million and greater than \$5 million. This exercise is critical to understand where there is an unmet market need to minority- and women-owned businesses and farms in a given geographical area(s).



Deliverable:

Tables outlining the covered institution's small business and small farm lending by assessment areas(s) compared to demographics.



Frequency:

As needed before, during, or after a covered tiered compliance date (quarterly, semi-annually, or yearly).

No Activity Report



Wolters Kluwer will identify census tracts within a covered institution's assessment area(s) that have little to no small business or small farm loan activity. The tracts without activity will be listed, including key demographics, assisting covered institutions with understanding census tracts with additional opportunity to lend.



Deliverable:

Tables outlining the covered institution's small business and small farm lending by assessment areas(s) compared to demographics.



Frequency:

As needed before, during, or after a covered tiered compliance date (quarterly, semi-annually, or yearly).

Distribution Map(s)



Wolters Kluwer can create a visual representation of a covered institution's assessment area(s). Maps can be created highlighting census tracts with a 50% and higher minority population, those census tracts designated at low- or moderate-income, using 2010 or 2020 census data (for comparison purposes, as needed). Maps are often used in conjunction with Over/Under Tables and No Activity Reports.



Deliverable:

Maps outlining the covered institution's small business and small farm lending by assessment areas(s) compared to demographics.



Frequency:

As needed before, during, or after a covered tiered compliance date (quarterly, semi-annually, or yearly).

Fair Lending Risk Review (by Proxy)



Wolters Kluwer will review the covered institution's (pre-Section 1071) small business and/or small farm data to identify statistically significant disparities in raw and reported data relative to proxy demographic data, identifying disparate treatment by protected class and potential redlining risks. In addition, Wolters Kluwer will assess data collection required for Section 1071 compliance, identifying potential disparities and advising on remediation actions. This exercise will be crucial for covered institutions wanting to better understand what their lending tells them before they file their first record under Section 1071. Note that because demographic data is not captured today, such work is done by race proxy.

Fair Lending Risk Reviews include:



Data Review - a review data formats and volumes for export.



Performance v. Demographics - identification of disparities in the lending performance as compared to the lending demographics of the institution's lending area and the lending done by aggregate peers in their lending area.



Small Business Lending and Demographics - identification of small business and small farm loan breakouts by low- and-moderate income (LMI) tracts, revenue category, and minority tract distribution.



Focal Point Review - identification, by prohibited basis group, denial rates (if available) or prices that differ materially from denial rates (if available) or prices exhibited by their respective control group comparators.



Regression Analysis - where volumes allow, testing for disparate impact and for the existence of any statistically significant differences in underwriting or pricing that appear to disproportionately impact prohibited-basis applicants and/or borrowers.



Preliminary Comparative File Review - testing for disparate treatment using comparative file testing which identifies, to the extent possible, control group applicants whose applications we approved; similarly, prohibited-basis group approvals who received a higher price than equally qualified, or less-qualified control group borrowers will be identified as well.

The Fair Lending Risk Review (FLRR) is an essential step to quantifying statistically significant disparate treatment in an institution's lending. At least annually institutions should conduct a FLRR for each lending product to understand and mitigate regulatory risk. This exercise will be crucial for covered institutions wanting to better understand what their lending tells them before they file their first record under the new rules. Note that because demographic data on specific small business and small farms is not captured today, this work is done by race proxy.

To find out more about Small Business Lending Advisory Services, Small Biz Wiz®, and other Wolters Kluwer solutions and services, please visit [wolterskluwer.com](https://www.wolterskluwer.com) or contact us at 800-261-3111.

About Wolters Kluwer Governance, Risk & Compliance

Wolters Kluwer (EURONEXT: WKL) is a global leader in information, software, and services for professionals in healthcare, tax and accounting, financial and corporate compliance, legal and regulatory, and corporate performance and ESG. We help our customers make critical decisions every day by providing expert solutions that combine deep domain knowledge with specialized technology and services.

Wolters Kluwer reported 2022 annual revenues of €5.5 billion. The group serves customers in over 180 countries, maintains operations in over 40 countries, and employs approximately 20,000 people worldwide. The company is headquartered in Alphen aan den Rijn, the Netherlands.

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