

WASHINGTON SHOULD BLOCK DATA COLLECTION RULE TO PRESERVE SMALL-BUSINESS LENDING



By Troy Peters, President & Chief Executive Officer, Jonestown Bank & Trust Co.

At a time of growing threats to privacy and security in an increasingly plugged-in world, a new federal regulation threatens to make the problem worse for the residents and small businesses of the Susquehanna Valley and other communities nationwide. The Consumer Financial Protection Bureau recently finalized a rule that will require financial institutions to burden small-business customers with invasive questions and then publicly report the data they collect to the federal agency.

As I recently told Congress in testimony before the House Small Business Committee, Washington should block this misguided rule given its harmful impact on privacy and its potential to restrict access to credit, particularly for the women- and minority-owned businesses this rule is designed to help.

Big Rule for Small Businesses

The CFPB's new rule implements a section of federal law requiring lenders to collect and report data on credit applicants. The law specifies several data points financial institutions must compile on applications from women-owned and minority-owned businesses, including the race, sex, and ethnicity of the principal owners as well as gross annual revenue.

While these requirements are mandated by Section 1071 of the *Dodd-Frank Act of 2010*, the CFPB has the authority to exempt any class of financial institutions from the standards it develops and to limit mandatory data points to those required by the law. Unfortunately for applicants served by community banks — which

make roughly 60 percent of the nation's small-business loans and are leaders in meeting the credit needs of women- and minority-owned businesses — the CFPB has opted to apply the rule to the vast majority of local financial institutions and the businesses they serve. And the data points it requires these institutions to collect and report far exceed those required by law, compounding its impact on small businesses and community banks.

Harming Local Economies

The CFPB's rule will have a substantial negative impact on small-business lending for several reasons.

First, the rule raises significant concerns about the privacy of applicants for commercial credit, particularly in smaller communities and rural areas. Community bankers are concerned for small-business customers that are the only business of their type in their local community, such as the town dentist or auto repair shop — a significant concern in the Susquehanna Valley and many other areas of Pennsylvania.

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OP-Ed

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Requiring financial institutions to collect and report data on loan applicants will make it possible for them to be identified, potentially driving small businesses away from local communities.

Second, the CFPB's rigid data collection requirements will hamper the ability of Jonestown Bank & Trust Co. and other community banks to tailor loans to meet the unique needs of local businesses. While community banks look at each small business individually and make highly customized loans, the CFPB's rule requires a homogenized approach that will degrade their ability to offer small businesses the type of credit they need in a timely and efficient manner.

Third, these requirements and their chilling effect on small-business lending will ultimately harm the borrowers the bureau is trying to help — women-owned and minority-owned businesses. By targeting the community banks that are outpacing larger institutions in serving minority and women borrowers, the CFPB's self-defeating rule threatens to undermine a part of the banking sector that is working as it should.

With the U.S. Supreme Court consid-

ering a case challenging the constitutionality of the CFPB's funding structure, the bureau should first issue a stay on the rule's effective date until the high court issues a decision, which will likely come next year. Meanwhile, the CFPB should use its authority to exempt more community banks and small businesses from its rule and limit mandatory data points to those required by law. Finally, Congress should step in and pass legislation to eliminate these harmful requirements once and for all.

Community bank small-business lending is a complex process that cannot be commoditized like consumer or mortgage lending, which would have a chilling effect on access to credit, particularly for the borrowers Washington is seeking to help. To avoid disadvantaging small businesses in local communities, including right here in the Susquehanna Valley, Washington should suspend and ultimately block this misguided policy.

Troy Peters is president and CEO of the Jonestown Bank & Trust Co. He recently testified on the small-business data collection issue before the House Small Business Committee's Subcommittee on Economic Growth, Tax, and Capital Access.