

February 2018

Consumer Advisory Board Mortgages and Small Business Lending Markets Subcommittee

February 21, 2018

Meeting of the Consumer Advisory Board (CAB) Mortgages and Small Business Lending Markets Subcommittee

The CAB's Mortgages and Small Business Lending Markets Subcommittee of the Consumer Financial Protection Bureau (CFPB) convened via conference call at 1:00 p.m. Eastern on February 21, 2018 to engage in a small business lending and mortgage origination discussion.

Board members present	CFPB staff present
Subcommittee Chair, Lynn Drysdale	Zixta Martinez
Sylvia Alvarez	Anthony Welcher
Patricia Arvielo	Delicia Hand
Kathleen Engel	Manny Mañón
Paulina Gonzalez	Grady Hedgespeth
Neil Hall	Nicole Shea
Ruhi Maker	Julie Vore
Chi Chi Wu	James Wylie

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Welcome

Delicia Hand, Assistant Director, Advisory Board and Councils Office

Lynn Drysdale, Chair, CAB Mortgages and Small Business Lending Markets Subcommittee

Assistant Director Delicia Hand called the meeting to order at 1:05 p.m. Eastern and welcomed CAB Subcommittee members, CFPB staff, and members of the public. She provided background information about the Consumer Advisory Board (CAB) and the vital role the CAB's subcommittees play in fulfilling the CAB's statutory responsibility to advise and consult with the Bureau.

Following Mrs. Hand's remarks, CAB Mortgages and Small Business Lending Markets Subcommittee Chair Lynn Drysdale provided introductory remarks, highlighted the topics being discussed and invited Assistant Director Grady Hedgespeth to provide background on the Bureau's work to date on small business lending. Assistant Director Hedgespeth welcomed attendees and thanked the Subcommittee members for their participation and suggestions on policy matters relating to the ongoing rulemaking process as it pertains to Dodd Frank Act's Section 1071. Section 1071 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) amends the Equal Credit Opportunity Act (ECOA) to require financial institutions to compile, maintain, and report information concerning credit applications made by women-owned, minority-owned, and small businesses. Mr. Hedgespeth provided a brief update on the Bureau's Section 1071 work and interacted with CAB subcommittee member in a fruitful policy discussion.

CAB Members reminded the Bureau of the importance of a new small business lending data collection as it provides critical consumer demographic information that is not available today. Members stated that financial markets work better when financial institutions share critical lending information to interested stakeholders such as regulators and consumers alike. Members did emphasize that once the rule is final, the data should be available to the public. The little data that is available out there suggests that half of the business lending is conducted by the use of credit cards and other nontraditional banking models.

Members highlighted that consumers had the right to access small business lending products regardless of their race, gender or ethnic background. Other members stated that recent data

analysis show that 50% of business owners rely on credit cards in order to fund their business due to the lack of brick and mortar small business lending presence. These consumers cannot pay back these loans unless the loans are priced affordably rates and have reasonable terms. These types of loans must be available.

Other members suggested that the Bureau should also focus on analyzing the availability of credit and not solely focus on fair lending issues. Members stated that a 2016 Federal Reserve survey revealed that the top financial challenge for small business owners was credit availability. The same survey demonstrated that credit card lending is prevalent in the small business lending space. The Bureau must analyze if current credit card usage meets supply and demand needs. Additionally, members suggested that the Bureau should consider paying close attention to online lenders; recent data suggests that these loans are predatory in nature with excessive annual percentage rates and may put consumers' businesses at risk.

Members noted that any new regulation should explicitly define what a small business is. There is no consistency on the definition of a small business, banks looks at the specific geographic marketplace and the small businesses' sales to determine to attempt to define the term. From an industry perspective, the challenge lies with the lack of products for very small business loans. Often small businesses secure their loans by using their principal dwellings as collateral; like, for example, applying for home equity lines of credit (HELOC). Banks do offer credit cards for small business use in order to meet Community Reinvestment Act (CRA) requirements. A member emphasized that the CRA must be modernized in order to effectively track small business lending activity. A member inquired if the Bureau is engaging the Small Business Administration during the Section 1071 rulemaking process and what is the SBA's role.

During the Mortgage Origination conversation, a member noted that the Bureau has done an excellent job in creating rules for larger Mortgage Originators. However, the Bureau should do more on regulating smaller originators, like Mortgage Brokers. These institutions are flying under the radar and need to be held accountable when they do not adhere to Bureau rules. Before the meeting adjourned, Nicole Shea, New Media Specialist with the Office of Consumer Engagement, provided an overview of a recent Bureau [blog post](#) on tools and resources for homebuyers. The purpose of the 'Thinking about buying a house in 2018' blog is to educate consumers before they buy a house and prepare them for the road ahead.

Adjournment

CAB Mortgages and Small Business Lending Markets Subcommittee Chair Lynn Drysdale adjourned the meeting of the CFPB Consumer Advisory Board on February 21, 2018 at 2:18 p.m. Eastern.

Certification

I hereby certify that, to the best of my knowledge, the foregoing minutes are accurate and complete.

A handwritten signature in black ink, appearing to read "D. Hand", written over a horizontal line.

Delicia Reynolds Hand
Assistant Director, Office of Advisory Board and Councils
Bureau of Consumer Financial Protection