

7/10/17

To: Bureau of Consumer Financial Protection

From: David Ludwig (davidl@securityfirstbank.com)

RE: Docket No.: CFPB-2017-0011

I reviewed the information request by the CFPB regarding small business lending.

I went through all of the questions and prepared answers for most of the questions. By the time I was done, it was clear that the questions and my answers would provide no useful information for anyone. I have provided the following comments:

The Bureau is looking for a definition of Small Business. The SBA definitions with NAICS limits are only used when using SBA programs. Small banks have legal lending limits and so generally are only able to make small business loans. Small banks are small businesses. If these banks make 50% of small business loans, what happens with the number of banks down 30% since the great recession? Should the CFPB add more regulation to these over regulated banks? Should there only be one definition for small business. Should the definition be the same for Jamestown, ND as it is for New York, NY?

I believe strongly that there is no good that comes out of inquiring about race and sex. I support existing rules and would prefer that eliminating reporting with residential loans. We should not single out and target women-owned and minority-owned small businesses.

There are 9 data points that the CFPB wants submitted annually. The last is information about race, sex and ethnicity of the principal owners. This last point should be eliminated and replaced with relevant information. If the CFPB truly wants to understand equal credit opportunities, they should want the right information. Why not ask about personal history, work history, education, credit history, veteran status, disabilities, equity and purpose. The bureau appears to only want to know the applicants income, sex, race, amount of request and if the loan was approved or not. Some people have less education, less ability, less equity and not so good credit history. These are not sex or race issues.

A couple examples are a female with a \$500,000 request and a male with a \$500,000 request. Both are new requests for a business loan. The first has a 2 year nursing degree, has no money down and wants to lease a \$4,000,000 building to operate a day care and recreation center. The second is an engineer with an MBA, strong background for the business, plenty of equity, will keep his job and is buying an existing business. The first has two pages of a hand written business plan. The

second has financial statements, tax returns and an appraisal of the business. All the CFPB wants to know is the loan was not made for the woman-owned business and it was made for the male-owned business.

What would the CFPB learn from the 9 data points? If these were the only 2 loan requests of the bank over a period of time, the CFPB would conclude that the bank turned down 100% of the female applicants and approved 100% of the male applicants. The CFPB would not have enough information to determine that the bank did not discriminate under ECOA.

I believe there is no place for discrimination and the vast majority of lenders are only interested in making good loans. They are in business to make money and only do this if they make good loans. If CFPB adds significant costs and work to the process because they want race and sex information, could this cause resentment toward the people who only seek equal credit opportunity?