

## Reg B - Commercial Loan Info Sheet (Regulation B - Equal Credit Opportunity Act)

### **Background:**

Regulation B is the implementing regulation of the Equal Credit Opportunity Act passed by Congress in 1974. While this has been generally considered a consumer protection act, Reg B was amended in 1989 to require creditors to give business applicants a notice of the right to a written statement of the reasons for a credit denial and to impose a record retention requirement for certain business credit applications. The notice must be in a form the applicant may keep. The regulation also requires creditors to notify the applicant of the decision within 30 days of receipt of a completed application. The regulation treats applications from business with revenues of \$1MM and less slightly differently from businesses with revenues over \$1MM. It is expected that our regulators will be focusing on Reg B and business credit. Reg B was recently revised effective April 2003 (mandatory April 2004) to make it clearer as to when a joint application is being received. Actually, all that was made clear is what is not considered a joint application. A forthcoming session will outline this and the other major provisions of Reg B as it specifically pertains to business credit.

As an additional note, HMDA has been revised effective January 1, 2004, to include loans based upon collateral types. In certain instances, the information for HMDA and Reg B will overlap on business applications and our procedures will have to take this into consideration. (HMDA training to cover the revisions will be scheduled soon.)

### **Possible Procedures:**

There are several methods we could use in an attempt to comply with the regulation-

1. *Require that all business applications be in writing on a two-part form with the applicant keeping a copy that provides the required notice.* For PAB, this is not a viable solution. We do not want to require repeat borrowers to have to fill out applications.
2. *We could print notices to hand out or mail to all business loan applicants.* This is also not viable for us as we do not want to have to give a good customer a notice that if we turn them down, they have a right to a written statement of the reason why. The fact is that we intend to make the loan for a good customer and the notice may signal something we do not intend. Additionally, it could be embarrassing to the lender and the good customer.
3. *We could implement a policy and procedure that requires a written notice of denial for all declined applications.* By doing this, we could avoid having to give the notice to good customers and also following-up to make sure we send the letter if a declined applicant notifies us they want the denial in writing. This seems the most viable and practicable solution that reasonably assures compliance without placing an undue burden on lenders.

### **Procedures: "Reg B- Commercial Loan Input Sheet" (see attachment)**

1. The form allows PAB lenders to document and track from the date initiated to the dates approved, withdrawn, declined due to incomplete application or declined due to other reasons.
2. The sheet will help with HMDA reporting and compliance. Currently, commercial residential real estate loans, such as multi-family dwellings fall under HMDA. Beginning in 2004, not only will HMDA be purpose driven, but also collateral driven. This input sheet will help to keep these requirements in mind as well as give us needed documentation for proper HMDA reporting.
3. Lastly, much time and effort is put into loan requests that never make the books. The input sheet, with ultimate input onto the loan application register, will give lenders a better record of their overall efforts and production.

Much thought and effort went into attempting to make this process as painless as possible for lenders. Please review the attached Reg B- Commercial Loan Info Sheet and the procedures on the second sheet.