



Online Lenders Response to Consumer Financial Protection Bureau Request for Information Regarding Use of Alternative Data Modeling Techniques in the Credit Process; Records Docket No.: CFPB-2017-0005

VIA ELECTRONIC SUBMISSION

May 19, 2017

Monica Jackson
Office of the Executive Secretary
Consumer Financial Protection Bureau
1700 G Street, NW Washington, DC 20552

Dear Ms. Jackson:

The Online Lenders Alliance (OLA) is pleased to submit comments in response to the Consumer Financial Protection Bureau's (CFPB) Request for Information Regarding Use of Alternative Data Modeling Techniques in the Credit Process. We appreciate the opportunity to provide our perspective on this topic that is of critical importance to consumers.

About OLA and its Members

OLA is the center for lending, technology and innovation, representing the growing industry of companies offering loans online. OLA members abide by a rigorous set of Best Practices and Code of Conduct to ensure their customers are fully informed and fairly treated.

As the center for lending, technology and innovation, OLA sets industry standards and best practices by which our members operate, ensuring that customers have access to the most responsible, innovative products in the market. OLA also serves as a resource to federal and state policymakers on issues related to access to credit.

Beyond our role in serving and leading our members, OLA informs borrowers about online lending and provides resources including a consumer hotline, a portal to report fraud and consumer tips.

As a result of tightening credit conditions, increased regulatory pressures on traditional banks, and market turmoil resulting from the “Great Recession,” online lenders have filled the growing need for access to credit in a safe, secure environment.

We would encourage the CFPB, as you evaluate the role that alternative data plays in credit decisions, that strong consideration is given to developing clear and practical guidelines that fosters the growth of alternative data and lowers unnecessary barriers that currently limit its use.

Types of Alternative Data

Alternative data is an important element in creating an environment that gives consumers greater opportunity to access credit, finding products that best suit their needs, protecting against fraud, and avoiding unnecessary costs. This data can take many forms.

ID Verification: Shopping for financial products online has become a virtual experience with much of the traditional face-to-face interactions disappearing. Gone are the days when perspective borrowers go to their bank for a loan. This served many purposes including allowing the institution to determine some level of proof that the individual was who they said they were. While the elimination of this step has given consumers more flexibility, it has also created an element of uncertainty for the lender. Alternative data has filled this void. Through modeling that compares ID elements used across applications; examines transaction details, such as the type of device used and time of day; and checks social security numbers against birth dates, addresses and death records, these forms of alternative data aid the process to determine the validity of the potential borrower.

Performance Data: OLA members have lead the way in using everyday transaction items such as cell phones and internet payments, coupled with rent and other utilities, to develop patterns that have shown to be very predictive with respect to a borrower’s ability and willingness to repay.

Bank Account Information: By examining account balances, activity and items such as returned checks, teamed with the right algorithms, it is possible to construct a more definitive picture of a potential borrower’s ability and willingness to repay.

Social Media: While the most cited example of alternative data, social media, including Facebook, has had limited impact. Many in the alternative data community are still working to gauge how best to utilize this vast data set in a manner that is fair and transparent for consumers.

How Alternative Data is Playing into Credit Decisions

lenders are all looking for opportunities to extend credit to more deserving consumers. Alternative data is helping lenders augment a borrowers’ credit file to create a more predictive profile of a potential loan applicants’ ability to repay.

Impact on Credit Score: Alternative data allows lenders to approve loan applications for borrowers whose FICO scores are below a banking institutions traditional threshold.

Role in Credit Determinations: For the short-term lending market, alternative data may be a primary determinant because, unlike mortgage or auto lenders, short-term lenders are not pulling traditional credit report information. This makes the alternative data set a key component in credit determinations in the short-term credit market.

Industry's use of Alternative Data

The benefits of alternative data extend beyond increased credit availability to consumers. There are also benefits to the industry that aid in cost savings, efficiencies and improved risk management.

Fraud Prevention: in addition to using social security numbers when cross referenced with the borrower's date of birth, addresses and death records to fight fraud, fintech companies have developed models to look at patterns of credit applications that can many times potentially flag fraudulent activity.

Enhancement of Credit Models: Currently, most lenders using alternative data have employed it to tailor credit scores, enhancing a lender's ability to approve a borrowers' application.

Improved Risk Detection: While alternative data is not a component that factors into a borrowers' failure to secure a loan, it has been useful in identifying marketplace trends that lenders are using to insulate against future losses. These trends include review of credit shopping history and loan performance, aiding in a better understanding of portions of the credit market.

Benefit to Consumers

Alternative data will extend credit to a broader range of consumers, expand credit markets and offer new products.

Improved Terms and Conditions: Alternative data can be used in conjunction with traditional credit scores to round out a borrowers' profile. Recent research by LexisNexis found that when alternative data is factored into a borrowers' existing credit history, 20 percent of those borrowers qualify for a loan with better terms and conditions. This can aid in providing greater financial flexibility to the consumer.

Financial Inclusion: One of the unique aspects of alternative data is the ability to layer varying levels of data to expand the universe or "swap in" a customer whose credit history in previous years would not have enabled them to qualify for credit.

Access to Broader Range of Products: With the increased data points, the use of alternative data provides improved customer profiles, allowing financial institutions to anticipate customer needs. Alternative data can also play a role in developing new products - it has spawned partnerships between banks and online lenders, offering new products and providing greater consumers choices.

Education: A key component for alternative data to reach its full potential will be educating consumers on the fact that alternative data increases their chances of getting credit and moving up in the credit spectrum. Most underbanked consumers need this financial education. It will be incumbent on the industry, consumer groups and regulators working in concert to ensure greater emphasis is placed on helping consumers understand the role that alternative data plays in their financial health.

Risks

It is important that the data used is fair, accurate and verifiable.

Quality of Data: One of the early concerns identified over alternative data was the quality of data. As the internet has become more and more ubiquitous, the quality of data has improved along with the sources of information. This increased flow of information and development of next generation systems created exclusively to work with alternative data has addressed many of the earlier challenges. Still, unlike the traditional data used by the big three credit bureaus, alternative data may vary in the type of information captured. One solution to this challenge – something that OLA members have pioneered -- is partnering with consumers, empowering them to have control over their own data. This is accomplished through instituted mechanisms by which consumers can input data that may be missing. This increases the ability for a complete and comprehensive alternative data picture, improving the overall quality of data.

Unintended Impact on Protected Classes: The online lending process, based on its models and algorithms, can guard against some of the unintended bias that may creep into traditional lending transactions. Still, it is important to constantly monitor how data is used to ensure it is not having a negative impact on a particular group of borrowers.

Impact on Markets

Alternative data helped to realign lending markets and provide growth opportunities.

Access to New Borrowers: Alternative data can open more applicants to mainstream lenders. The group that this has had the most significant impact on are younger consumers, ages 18-25, who are new to the credit world and do not yet have a traditional credit history. Alternative data has allowed lenders to gain a better understanding of changes in this group's borrowing habits, that if examined exclusively through traditional credit models, can skew the profile of

these borrowers. Alternative data has allowed this group to build credit histories, changing the way that lenders view this segment of the market.

Improved Competitive Positioning: No one institution's course of action in the use of alternative data is quite the same. Different models are developed predicated on varying data points and approaches. Each company is looking to strike the right balance that will unlock potential new lending opportunities and expand the institution's borrower pool. This defines much of the proprietary approach companies pursue in the mix and types of mined data.

Secondary Market: Many online lenders, especially those engaging in small business lending, rely on the ability to sell loans or portions of loans, to replenish capital. Alternative data is being employed to help increase investor confidence on the secondary market providing additional information on the potential performance of a loan.

Barriers to Future Growth

While alternative data is playing a significant role in making credit available to millions with limited credit options, there are potential barriers to reaching its full potential. Regulators have at times been overly cautious and communicated inconsistently with lenders on the role that alternative data can play, creating uncertainty, discouraging lenders from finding new and creative uses for alternative data, and ultimately limiting availability of credit to consumers.

Conclusion

The use of alternative data in credit decisions and scoring models can play an invaluable role for the entire financial service ecosystem. Cell phone payments, rent, or checking account activity can be key in helping lenders understand the credit history of a potential borrower.

Alternative data can increase access to services, reduce fraud, lower defaults, and improve efficiencies reducing overall costs of providing loans. While labeled "alternative," when examined closely, the data that has become commonly known in this group is not all that "alternative." These are transactional items that are found in everyday life. Where the paradigm shift has occurred is in how this data is being employed, and the modeling techniques that have successfully been developed, many pioneered by OLA members. Greater use of alternative data and modeling can be a valuable tool in helping lenders make more accurate credit decisions that will translate into better credit options for consumers.

OLA members support the growing use of alternative data and a balanced regulatory approach to govern its use. This will be a critical component to enabling greater consumer control over their financial choices, ultimately improving their financial health. The members of OLA appreciate the opportunity to share our views. We look forward to working in a collaborative manner to reduce barriers and enhance consumer financial options.

If you have questions or would like additional information, I can be reached at lmcgreevy@oladc.org.

Very Truly Yours,

A handwritten signature in blue ink that reads "Lisa McGreevy". The signature is written in a cursive, flowing style.

Lisa S. McGreevy

President and CEO