ONLINE LENDING: FINTECH INNOVATION DRIVES CREDIT INCLUSION

Online Lenders Alliance

WWW.ONLINELENDERSALLIANCE.ORG

EXECUTIVE SUMMARY

The financial crisis of 2007–2008 altered the environment in which banks compete to provide financial services. Many traditional financial companies such as banks and credit unions experienced significant distress during the crisis. The government responded by passing far-reaching laws and mandating compliance with hundreds of new regulations. This drove some activity outside the banking sector and created opportunities for emerging nonbank financial firms to address unmet market demands.[1]

At the same time, there was enormous growth in technological capabilities and processes at increasing levels of cost effectiveness and speed. The U.S. Department of the Treasury explains, "The use of data, the speed of communication, the proliferation of mobile devices and applications, and the expansion of information flow all have broken down barriers to entry for a wide range of startups and other technology-based financial services firms that are now competing or partnering with traditional providers in nearly every aspect of the industry."[2]

Consequently, fintech businesses multiplied and expanded to offer a wide variety of online products. These products have been particularly attractive to non-prime credit-seeking customers. Fintech lenders and their partners are providing increasingly more innovation, access, and ultimately inclusion.

As with any developing sector, progress often outstrips general understanding of what is actually happening. Therefore, this report aims to explain the vital role that online lending plays in the American economy and in individual people's lives. It is guided by the idea that increased innovation, access, and inclusion should be societal goals. Ultimately, when innovation and access are nurtured as key economic values, online lending flourishes and allows more people to be included in the economic activity of the United States and to pursue the American Dream.

This report covers common online loan products, recent fintech innovations, and typical online borrowers. It also discusses the regulatory landscape for fintech businesses, because regulation plays a significant role on how such an industry operates, and because one of the challenges is to determine how to achieve a healthy, well-regulated, inclusive industry.

This paper is guided by the following principles—the first three are hallmarks of the fintech industry, and the fourth, implemented smartly, strengthens the first three and the overall industry:

INCLUSION

ACCESS

INNOVATION

STRONG REGULATION

INTRODUCTION

Online lenders provide safe, reliable credit options to non-prime creditworthy consumers who otherwise lack access to credit.

Compared to alternatives like bouncing a check, bankruptcy, or piling up debt on a credit card and paying only the monthly minimum, or worse, online loans can be an affordable and attractive form of credit for many Americans whose credit scores are non-prime.

When non-prime consumers need credit, the best policy prescriptions are ones that allow for the greatest innovation and access. Innovation provides competition for customers, and access provides comfort. Together, they provide inclusion. Any regulatory framework or policy change should seek to support, expand, and nurture innovation, access, and ultimately inclusion.

WHAT IS FINTECH?

The term is used to describe new technology that seeks to automate the delivery and use of financial services. Fintech helps corporations, small businesses, and individuals manage their financial operations, processes, and lives by using specialized software and algorithms on computers and smartphones.[3]

The term fintech originally was applied to technology employed at the back-end systems of established financial institutions—in other words, fintech operations were behind the scenes, not customer-facing. Since then, however, there has been a shift to more consumer-oriented services.[4]

Indeed, fintech has expanded to include any technological innovation from wealth management and retail banking to money transfers/payments to investment management and insurance to cryptocurrencies and what is most relevant to this paper: lending and borrowing.[5]

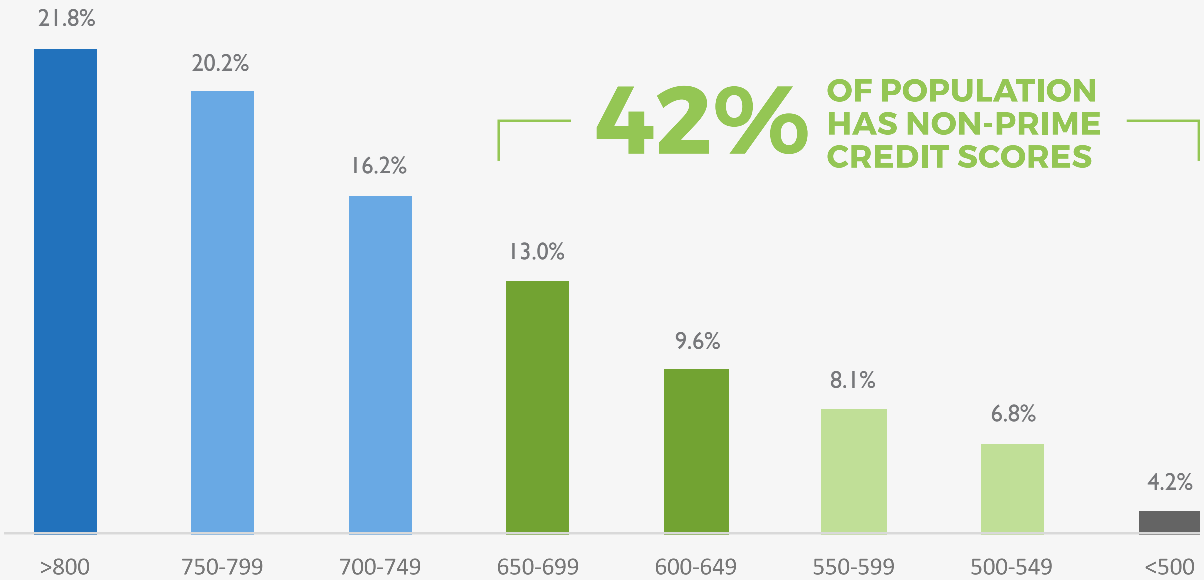
Deloitte reports that from 2010 to 2017, more than 3,330 new technology-based firms serving the financial services industry were founded, 40 percent of which focus on banking and capital markets.[6] Some digital financial services reach up to 80 million members.[7]

FINTECH INNOVATIONS DRIVE CREDIT INCLUSION AND BUILD A PATHWAY TO PRIME

Millions of creditworthy Americans have a credit score below prime. Using the FICO scale of 300 to 850, a score below 700 is considered poor or only fair, with scores at 700 or above rated good or excellent, or "prime".[8] Having a non-prime credit score makes it difficult or impossible to obtain needed short-term, small-dollar credit from traditional financial institutions. This credit exclusion is self-perpetuating, as consumers can find it difficult to address financial challenges without credit access and can suffer further deterioration of their credit profile.

Fintech lenders and their partners have leveraged innovations to improve credit inclusion vastly. They do so by employing alternative credit data in addition to data from the big three credit reporting agencies—Equifax, Experian, and TransUnion—to provide more precise risk assessments for lenders and to align nonprime consumers with suitable credit products.[9] Their innovations also help reach borrowers with thin credit files employing systems that process application data, look at a borrower's loan history and can pull in data from more than a dozen different external sources to make an underwriting decision in a matter of seconds.

FICO SCORE DISTRIBUTION

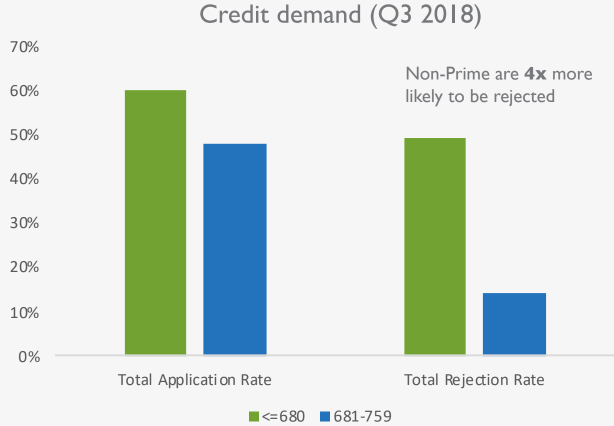


Source: https://www.fico.com/blogs/risk-compliance/average-u-s-fico-score-hits-new-high/

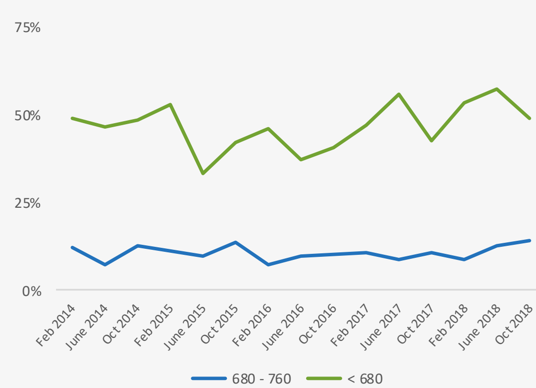
In reaching creditworthy consumers that traditional lenders do not and providing credit opportunity, online lenders provide a pathway to build a stronger credit profile.

49.1% OF AMERICANS WITH CREDIT SCORE UNDER 680 WERE REJECTED FOR SOME TYPE IF CREDIT IN Q3 2018

Credit demand (Q3 2018)



Credit rejection rates (2014–2018)

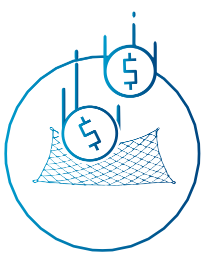


Credit Applications and Rejections include: Auto Loan, Credit Card, Credit Card Limit Increase, Mortgage, and Mortgage Refinancing
Source: Federal Reserve Bank of New York, Center for Microeconomic Data, SCE Credit Access Survey

CONSUMER LENDING IN FINTECH

The online lending industry is rapidly expanding to meet America's growing credit needs. Fintech firms accounted for over $52 billion in unsecured personal loan balances in 2018.[10] In 2010, Fintech lending made up less than one percent of U.S. personal loan balances; it now makes up more than 38 percent of such balances, compared with banks, credit unions and traditional finance companies.[11] The online lending industry has doubled in size every year since 2010 and is expected to grow to $90 billion by 2020, according to the U.S. Treasury.[12]

The availability of credit through online lending should be popular with the public for the market need it provides. The most important things lenders provide to lower-and middle-income families are:



A SAFETY NET IN EMERGENCIES

ASSISTANCE DURING HARDSHIP

FINANCIAL OPTIONS

Online lending gives consumers privacy, speed, convenience, and flexibility. Online lenders offer a streamlined application process, prompt decisions, and rapid fund disbursal with superior degrees of service, security, and fraud protection.

Fintech companies are willing to provide new and innovative loan products that people need, and can apply advanced technology to meet consumers' borrowing needs. With the pullback in services and increased regulatory challenges placed on traditional financial institutions, nonbanks have stepped in with innovative solutions.[13] Thus, online lenders have filled a gap for many consumers, providing services where traditional financial institutions would leave them unserved.

ONLINE LOAN PRODUCTS

LINE OF CREDIT

This is a preset amount of money that a lender has agreed to make available to a customer. The customer can draw from the line of credit when needed, up to a maximum amount and, in turn, only pay interest on the amount borrowed. Traditionally more typically available to borrowers with a prime credit rating, innovation has seen the line of credit emerge as one of the most popular and important fintech products for non-prime consumers. The main advantage of using a line of credit is flexibility- the ability to readily borrow only the amount needed and avoid the cost of interest associated with a large loan.

UNSECURED CONSUMER INSTALLMENT LOAN

This is also known as a personal loan. Consumers often access this type of loan to manage variable expenses, to pay down higher-interest debt, or to finance a special purchase.[14] One benefit of using an unsecured consumer installment loan is that it can help someone with little or no credit history to establish a credit rating. The demand for these loans, which are often short- to medium-term, is strong because many households struggle with income volatility, thin or non-existent credit files or a subprime score, or lack of access to mainstream financial products that meet their needs.[15]. An advantage of the unsecured personal loans is that they allow consumers to break down large costs and divide their outflows of cash into even, predictable amounts.

POINT OF SALE FINANCING

This type of personal loan is tied to a particular purchase or transaction such as appliances, cell phones, medical or dental procedures, or home services, like a roof replacement or replacing an old heating system. With this type of loan, the lender provides financing to consumers only for a particular product or service, as opposed to having a credit card or a personal loan where the lender doesn't know the specific purpose of the loan. Besides providing consumers with more credit options, point of sale financing decisions are usually made, on the spot, thanks to fintech innovations, and without a cumbersome application process. And For consumers who are reluctant or unable to get credit cards, point of sale financing is an appealing way to finance purchases.

CHARACTERISTICS OF INSTALLMENT LOANS

Terms from 3 months to 2 or more years give borrowers the option of smaller monthly payments spread over a longer time period.

Borrowers agree to a payment schedule at the time an installment loan is made and may either abide by this schedule or choose to accelerate repayment by making additional payments to the principal, which reduces their debt faster and reduces their overall loan costs.

Installment loans are fully amortized, ensuring that a portion of each payment pays down the borrower's principal.

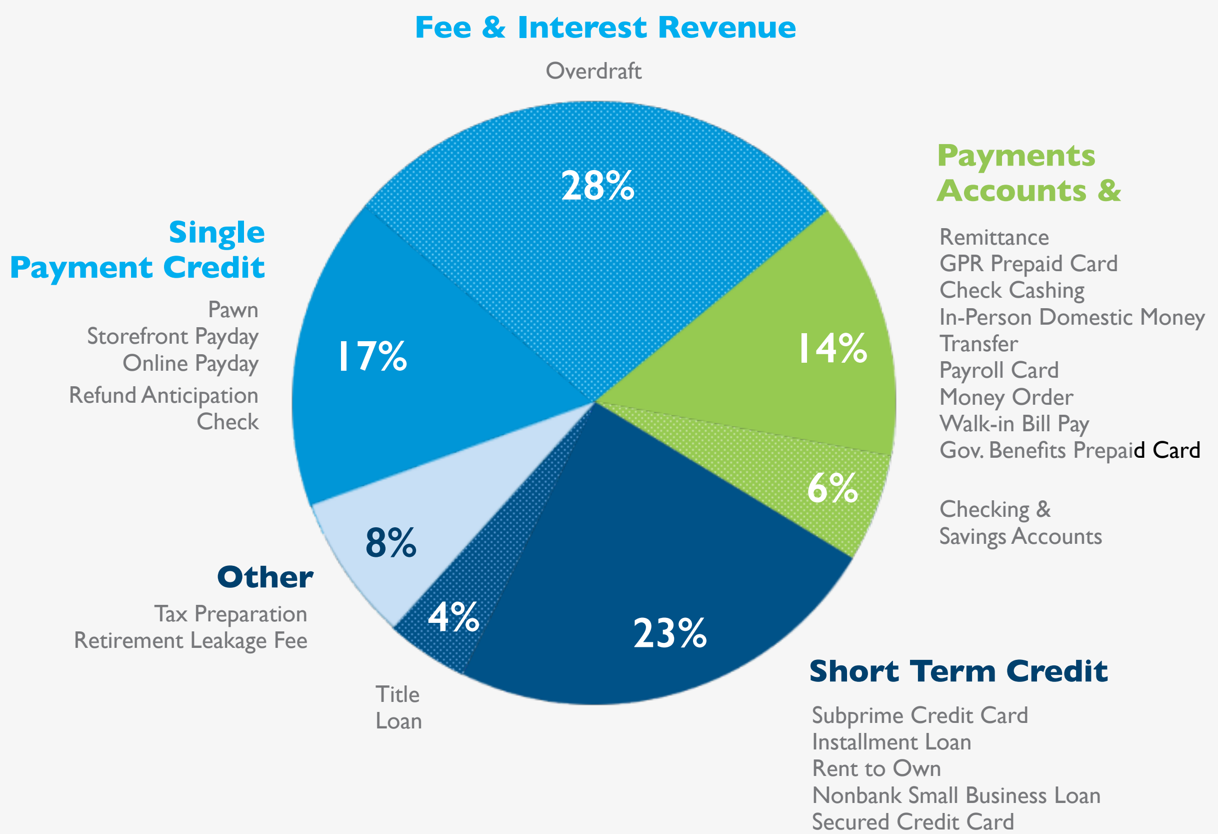
SINGLE-PAY LOAN

This is usually a short-term loan, generally for $500 or less, that is typically due on the borrower's next payday or when regular income is received from another source. The single-pay share of the market has been declining as other innovative products gain traction, but it remains an appealing option for many consumers. The loans are for small amounts, and many states set a limit on single-pay loan size with $500 being a common limit, though there is a range. These loans are repaid in a lump sum, and rather than interest, borrowers pay a fee, commonly about $15 per $100 borrowed. A benefit of a single-pay loan is that it can serve as a bridge between a bill due and when a borrower is paid and can ensure less costly consequences than an overdraft or utility shut-off.

CONSUMERS DEMAND FLOWS TO THE PRODUCTS THAT ARE MADE AVAILABLE

There is **high demand** for non-prime lending in single payment credit and short-term credit

$ 88.3 BILLION MARKET SIZE

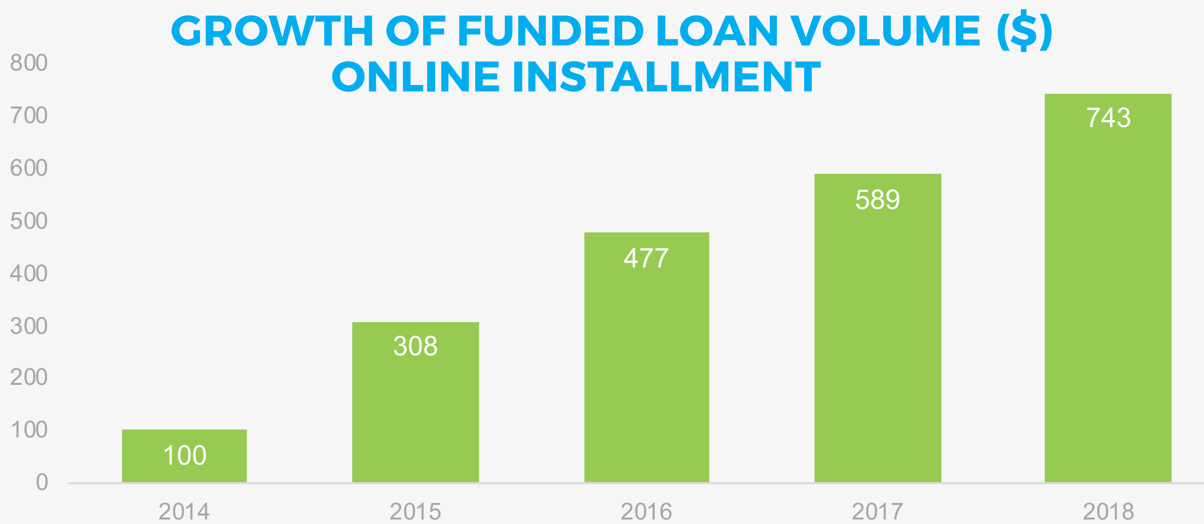


Source: CFSI "2017 Financially Underserved Market Size Study," December 2017; 2016 Short Term Credit is $88.3B
Note: Does not include retail credit cards nor long term credit category (auto loans, mortgages, etc.).

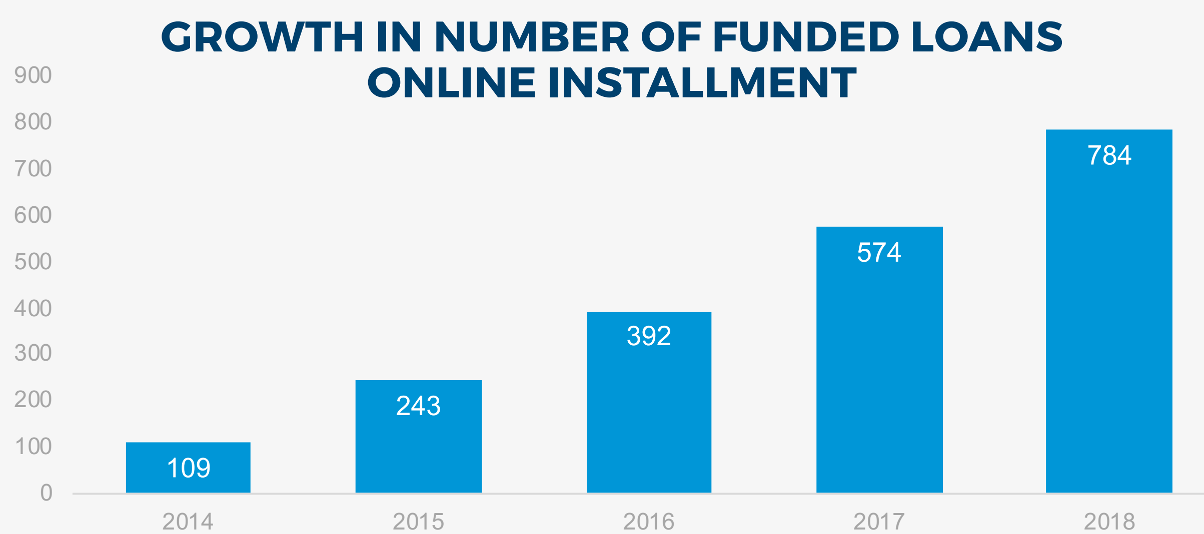
BENEFITS OF ONLINE LOAN PRODUCTS VERSUS OTHER FORMS OF CREDIT

Compared to alternatives like bouncing a check, bankruptcy, or piling up debt on a credit card and paying only the monthly minimum, online loans can be an affordable and attractive form of credit for many Americans.

A lack of online loan availability can lead to increased financial problems. For example, Georgia households bounced 1.2 million more checks and paid an extra $36 million in bounced check fees after most small dollar loans were banned.[16] Moreover, even just one installment loan that is reported to major credit bureaus can help improve a borrower's credit score and overall financial health, thereby increasing a borrower's future options.



Source: Experian 2019 Alternative Financial Services Lending Trends



Source: Experian 2019 Alternative Financial Services Lending Trends

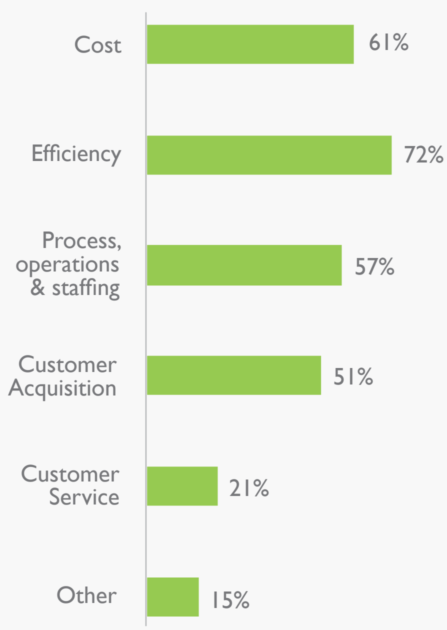
INDUSTRY AND FINTECH INNOVATION

Online lenders have gained attention in recent years, driven in part by their rapid rate of growth and employment of new technology-intensive approaches to lending.[17] These firms digitized the customer acquisition, origination, underwriting, and servicing processes; moreover, they are designing digital services to provide seamless and timelier customer experiences than traditional lenders can.[18] These changes appear to reduce expenses, which lowers the cost of credit and provides greater access.[19]

FINTECH STRENGTHS MEET CURRENT GAPS IN THE BANKING INDUSTRY

BANKS ARE LOOKING FOR SOLUTIONS

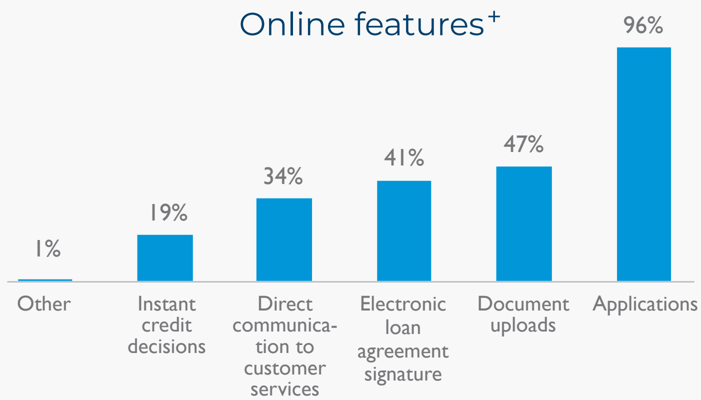
Challenges in consumer lending*



Loans with a partner company°

	Less $1B	Above $1B
Unsecured personal loans	71%	70%
Student loans	45%	40%
Home improvement loans	48%	80%
Auto finance	74%	60%

Online features+



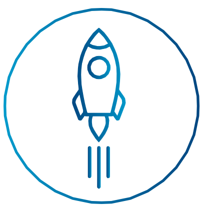
Source: The State of Digital Lending, American Bankers, Association, 2018 *Challenges: Which of the following describes your challenges in consumer lending? +Online: Which online features do you provide to customers? °Loans with a Partner Company: What type of consumer loan offerings would your bank consider exploring by leveraging a third party for greater product offering and customer acquisition/retention opportunities?

According to the American Bankers Association, many traditional financial institutions have yet to digitize their lending at levels similar to the online lenders.[20] Many banks have yet to digitize their origination processes fully. Banks themselves report that less than half have digitized some aspects of their loan origination channels. Moreover, the association reports that the degree of digitization is much less comprehensive than new digital lenders.[21]

Even for banks that offer a digital origination channel, one industry survey found that the online features may vary—90 percent or more have digitized the application processes, but less than half provide for electronic signatures and document uploads, only a third provide online customer service, and less than 20 percent provide instant credit decisions.[22]

Some aspects of digitization employed by online lenders are expanding across the wider banking industry and are expected to reach all major lending segments eventually. Within the mortgage industry, for example, the Federal Reserve Bank of New York estimates that stand-alone nonbank mortgage originators that offer a mortgage application process entirely online have expanded from two percent of the market in 2010 to eight percent of the market in 2016.[23]

ONLINE LENDERS CHARACTERISTICS



NEWLY BRANDED FIRM AND PRODUCT LAUNCHES

LEVERAGE OF INNOVATIVE TECHNOLOGICAL APPROACHES IN MARKETING, SOURCING, AND FULFILLING LOAN DEMAND

EXTENSIVE USE OF DATE AND DATA MANAGEMENT TECHNIQUES IN CREDIT UNDERWRITING PROCESSES

A LACK OF RELIANCE ON BRICK-AND-MORTAR BRANCHES FOR DELIVERY OF SERVICES[24]

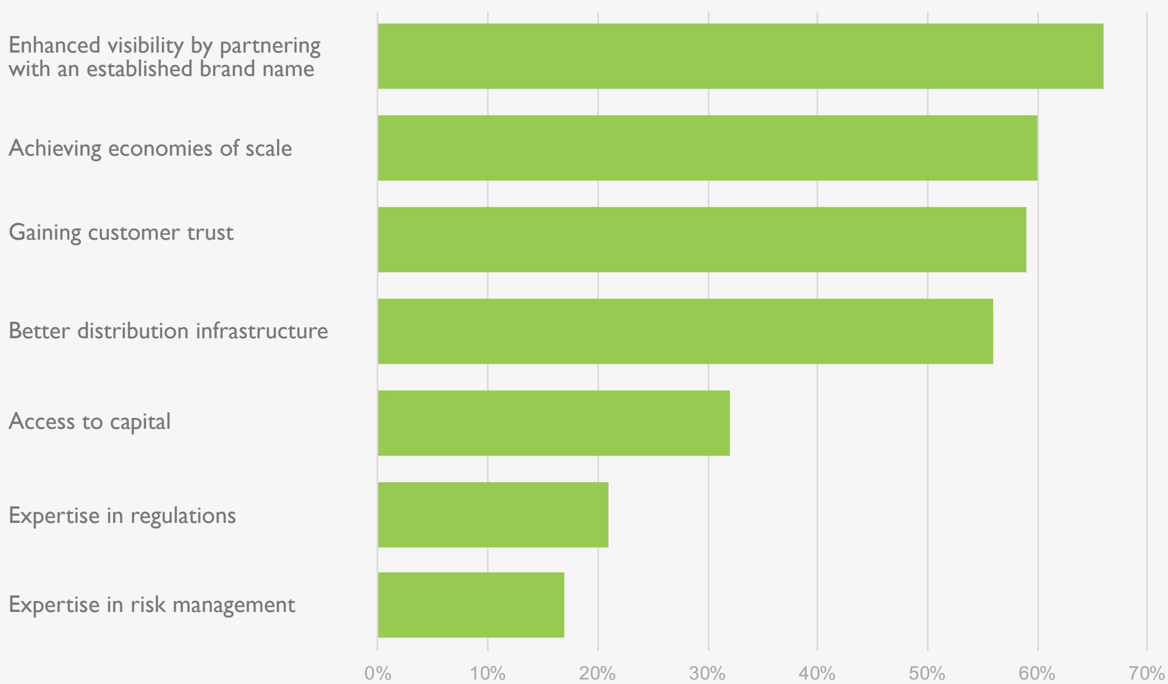
Leveraging technology has helped online lenders provide a strong and safe marketplace that can broaden access for underserved communities. As banks close branches, bank "deserts" appear in some places.[25] When this happens, there are many people who are left with no good or convenient alternative to obtain credit. Online lenders are able to fill the void for rural, remote, or geographically underbanked customers.

BANK FINTECH PARTNERSHIPS

Both fintechs and banks have much to gain and little to lose by collaborating. According to Capgemini, a consulting and technology services firm, fintechs justify their partnerships with banks by citing the fact that they can experience enhanced visibility by partnering with established brand names while achieving economies of scale and gaining customer trust.

TOP REASONS FINTECHS PARTNER WITH TRADITIONAL FINANCIAL SERVICES FIRMS

Percentage of fintech companies that have ranked the following reasons as important



Source: Capgemini 2018

For banks, the benefits are even more tangible, and the impact on the bottom line can be immediate.[26]

Accenture, a global consultancy and professional services firm explains, "By tapping into expertise, traditional banks stand to move much more swiftly and effectively than they otherwise could to introduce new products, streamline processes, enhance customer experience, and increase revenues."[27]

Accenture says banks can potentially gain three to five percent in revenue by partnering with fintechs, with gains coming from enhanced customer acquisition, more fee-based revenue, better pricing accuracy, and a lower cost of risk.[28]

There are two elements necessary for bank fintech partnerships to thrive:

1. regulatory assurance that a bank extending credit as part of a third-party lending program is the "bona fide institution" for purposes of the usury laws,
2. a bank loan's terms are legally extended and enforceable after the loan is sold, assigned, or otherwise transferred.

- Many banks make loans with the assistance of third-party service providers. For example, it is common for banks to partner with one or more non-bank third parties that play a role in designing, servicing or advertising the loan product. These arrangements are common and are an important tool for banks to effectively manage their risk, balance sheets and capital requirements. Some courts have created confusion by calling into question whether the lending bank or the third-party is the actual lender under these arrangements. These judicial decisions are having a chilling effect on marketplace.

- Both federal and state laws generally permit banks that originate loans either to retain the loans in their portfolios or sell them. For decades, banks have sold loans, and purchasers have bought them, in reliance on the legal principle that a loan that complies with applicable law at the time it is made does not become illegal because it is sold, assigned, or otherwise transferred to a party other than the originating bank. Many banks depend on their ability to sell loans in order to make additional loans. This market liquidity is essential to ensuring credit remains accessible and affordable, especially for low- and moderate-income borrowers. If banks' ability to sell loans is uncertain, they will make fewer loans and, in turn, the costs of credit will increase, and the availability of credit will decrease. Certainty that the terms of a loan won't change just because the loan is sold or assigned is critical to maintain a functioning lending marketplace.

BORROWERS

Access to credit equals access to opportunity. It also results in greater independence, and it allows borrowers to be more in control of their own financial health. Financial emergencies happen to everyone, but not everyone has perfect credit.

CREDIT NEEDS

42% OF PEOPLE HAVE NON-PRIME CREDIT SCORES.[29]

ABOUT 4 IN 10 AMERICANS LACK THE SAVINGS TO COVER AN EMERGENCY EXPENSE OF $400.[30]

1 IN 5 AMERICANS DO NOT HAVE A CREDIT CARD TO HELP MEET EMERGENCY EXPENSES, INCLUDING 1/3 OF MILLENNIALS WHO DO NOT HAVE A MAJOR CREDIT CARD.[31]

3 IN 10 ADULTS HAVE FAMILY INCOME THAT VARIES FROM MONTH TO MONTH.[32]

100 MILLION AMERICAN ADULTS, OR ABOUT 4 IN 10, EXPERIENCE A FINANCIAL SHOCK.[33]

CREDIT ACCESS

$90 BILLION IN ESTIMATED LOAN ORIGINATIONS IN 2020.[34]

½ OF UNSECURED LENDING IS ORIGINATED WITH FINTECHS, UP FROM 22% IN 2015.[35]

38% FINTECH'S GROWING SHARE OF UNSECURED PERSONAL LOAN BALANCES, UP FROM 5% IN 2013.[36]

Millions of Americans rely on alternative financial services like those provided by online lenders. They are often viewed as a monolithic group, but the reasons they use online credit products vary widely.

An online borrower searching for alternative financial products could be…

- A young person with insufficient credit history to qualify for a traditional credit product.[37]
- An otherwise creditworthy consumer with a sudden destabilizing financial experience.[38]
- A recent immigrant who lacks a credit history.[39]
- A person who has a history of being irresponsible with credit and who is thus unlikely to be approved for traditional credit products.[40]
- A person who needs funds quickly and lacks the time to go through the process of obtaining a traditional credit product.[41]
- A person with a strong history of paying for services that traditional lenders do not use in credit decisions.

Moreover, online lenders provide a vital service to consumers in neighborhoods devoid of banks. A July 2017 Federal Reserve Bank study, which covered loans originated between 2007 and 2016, found the following:

- Online lenders have tended to expand credit in areas where bank branches have been on the decline.[42]
- Borrowers with similar credit risk profiles could obtain more favorably priced credit than alternatives such as credit cards.[43]
- The use of alternative credit data in this space allowed consumers with weaker traditional credit profiles to access credit.[44]

WHO BORROWS ONLINE- CORRECTING MISPERCEPTIONS

- Jobholders or those with proven income: The first and most consistent requirement to be approved for an online loan is proof of employment or other steady income.
- Americans at all income levels: Despite a perception that online borrowers are mostly low income, many online borrowers are from middle- and upper-income levels.
- Victims of major financial shocks: Many online borrowers are victims of a major financial shock like a divorce, an unexpected medical emergency/expensive treatment, or other loss.
- Income: The median net annual income of an online borrower is $36,000.[45] The median net annual income of a storefront borrower is $24,000.[46] Forty-five percent of online installment borrowers report an annual income over $40,000.
- Middle-aged: The median age of an online installment loan borrower is 44,[47] while the median age of a small-dollar single-pay loan is 39.[48] Most borrowers are neither young nor elderly.
- Married: 67.7% of borrowers are married.[49]
- Women: 58.7% are female.[50]
- Homeownership and education: Homeowners represent 42% of online borrowers, and a majority have completed some higher education, with many having four-year degrees.
- Customers new to online borrowing: Over half of online borrowers in 2018 were new to the alternative lending space.[51]
- Banking relationship: Online loan borrowers are typically required to have a bank account through which disbursement and repayment are made.

Typical Customer Profile #1

Name: Jennifer Age: 43 Education: bachelor's degree

Occupation: high school English teacher

Marital Status: married, two children

Home neighborhood: suburban

Housing: rents a home

Reason for borrowing online: Jennifer's income is steady. Her husband recently lost his job and experienced a financial shock in the process. She is highly credit worthy but needs funds fast to maintain a sense of stability for her family.

Typical Customer Profile #2

Name: Jason Age: 41 Education: associate's degree

Occupation: police officer

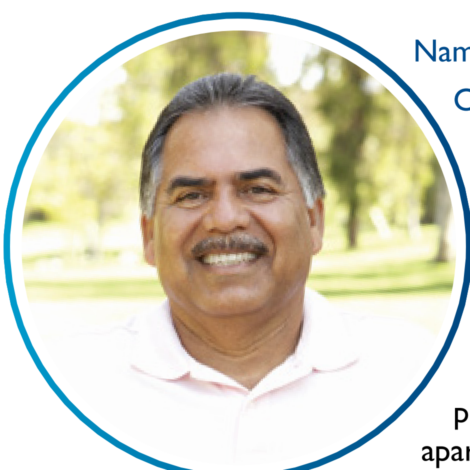
Marital Status: divorced, two teenage children

Home neighborhood: rural small town

Housing: owns a home

Reason for borrowing online: While Jason recently went through a divorce and has experienced a financial shock in the process. Now, the furnace in his house has stopped working and with school about to start for his kids, money is already tight. Due to the divorce, he can't afford to pay for a new furnace out of pocket without causing the payments for his utilities to overdraft his account, resulting in costly fees.

Typical Customer Profile #3



Name: Oliver Age: 53 Education: high school

Occupation: home construction

Marital Status: single

Home neighborhood: urban

Housing: rents an apartment

Reason for borrowing online: Oliver is new to the United States. He has a job that pays enough for him to live on, but needs to buy supplies for work. He spent most of his savings putting down a security deposit and first month's rent on his apartment. Without a credit history, he cannot otherwise access the funds he needs to buy job-related supplies.

Typical Customer Profile #4

Name: Anne Age: 25 Education: master's degree

Occupation: financial analyst

Marital Status: engaged

Home neighborhood: urban

Housing: rents an apartment

Reason for borrowing online: Anne has not established her credit history to qualify for a traditional credit product, and she needs funds to pay for items related to her new job.

REAL CUSTOMER STORIES

"I had a sick husband that needed medicine and I couldn't pay for it. I knew my credit wasn't good and payday was a week away. I was approved in minutes and funds in my bank account the next morning." Sharon P

"Even with my poor credit score, I was able to still get a quick loan to help me with my unexpected issues!" Sarah W

"Was a great experience to be able to get my bills all caught up will use again in the future thanks." Tiara

"I really needed this for an emergency situation and had been denied time and time again." D

"We were in need of an emergency loan and stuck in the middle of nowhere. My wife was able to secure the loan online. Next day the money was available in my account." Lance M

"It was a blessing and a joy seeing that I had been approved for my line of credit. After struggling for several years financially being on disability, the sense of relief I felt was nothing short of amazing. Knowing I have the freedom and flexibility to pay for any unexpected costly events has brought a sense of peace both to myself and my wife." Randy S

"It's tough to be in a tough financial situation, but with the approval for quick funds and links to financial education sites, we are doing great to get back on track. Any interest we pay back has ALWAYS been farless than bank overdraft fees." Sara D

REGULATORY LANDSCAPE

Lending is a highly regulated industry overseen by many federal and state authorities in the United States. Online lenders comply with 19 laws at the federal level alone, in addition to the laws of each state in which their customers reside.

Federal laws and regulations are extensive and cover, among other things:

- fair credit reporting
- fair debt collection
- fair lending
- credit practices
- credit access
- fair credit billing
- consumer privacy
- electronic signature
- electronic transfer of funds.
- "truth-in-lending" disclosures

At the federal level, while the Federal Trade Commission is a primary regulator for the industry, the Consumer Financial Protection Bureau has authority to implement many federal statutes affecting the consumers of online loan products, in addition to requirements imposed by regulators such as these:

- Board of Governors of the Federal Reserve System
- Office of the Comptroller of the Currency (OCC)
- Federal Deposit Insurance Corporation (FDIC)
- National Credit Union Administration (NCUA).[52]

This multiplicity of regulatory authority is itself an outcome of a fragmented regulatory environment that at times can lead to overlap, duplication, and uncertainty, according to the Department of Treasury.[53]

At the state level, there are licensing or registration requirements to operate within a state, state-specific maximum rates of interest on debt, and state-specific loan value caps, among other regulations.[54] State financial regulatory authorities and state attorneys general are usually responsible for enforcing these laws.[55]

Both federal and state regulators also have enforcement authorities to prevent consumer financial services providers from engaging in unfair, deceptive, or abusive acts or practices.[56]

Additionally, there are tribal lenders, which are financial institutions owned and operated by federally-recognized Native American tribes and have evolved into an important source of economic development for tribal governments. These lenders operate under tribal consumer protection statutes and are overseen by independent regulatory authorities. In addition to oversight by independent tribal regulators, tribal lenders must follow all applicable federal laws.

ONLINE LENDERS COMPLY WITH 19 FEDERAL LAWS

Servicemembers Civil Relief Act (1940)	This law limits interest rates and charges assessable on military personnel and their dependents.
Specially Designated Nationals List of the U.S. Department of Treasury Office of Foreign Asset Control (1950)	U.S. persons are prohibited from doing business with persons and organizations on the list.
Truth-in-Lending Act (1968)	This law requires the disclosure of credit terms in consumer credit transactions
Fair Credit Reporting Act (1970)	This law restricts the sharing of non-public personal information with unaffiliated third parties and requires care in the disposal of consumer information.
Bank Secrecy Act of 1970 (a.k.a. the Currency and Foreign Transactions Reporting Act)	This legislation requires U.S. financial institutions to collaborate with the U.S. government in cases of suspected money laundering and fraud.
NACHA (previously known as the National Automated Clearinghouse) Association Operating Rules and Guidelines (1974)	NACHA creates broadly adopted payment rules and standards for direct consumer, business, and government payments.
Equal Credit Opportunity Act (1974)	This law bars discrimination in consumer credit transactions based on gender, age, marital status, ethnicity, national origin, religious preferences, or receipt of public assistance income.
Fair Credit Billing Act (1975)	This law seeks to protect consumers from unfair billing practices and to provide a mechanism for addressing billing errors in "open end" credit accounts.
Fair Debt Collection Practices Act (1977)	This law seeks to eliminate abusive practices in the collection of consumers' debts, to promote fair debt collection, and to provide consumers with an avenue for disputing and obtaining validation of debt information to ensure the information's accuracy.

Electronic Fund Transfer Act (1978)	This law provides a basic framework to establish the rights, liabilities, and responsibilities of participants in electronic fund and remittance transfer systems.
Telephone Consumer Protection Act (1991)	This law restricts telemarketing communications via voice calls, SMS texts, and fax.
Gramm-Leach-Bliley Financial Services Modernization Act of 1999 (a.k.a., GLBA) (1999)	Enforced by the Federal Trade Commission (FTC) and the Consumer Financial Protection Bureau, this law created privacy rights and requires privacy notices to the consumer.
FTC Privacy Rule (2001)	This rule explains and implements provisions of GLBA privacy rights.
USA Patriot Act (2001)	Applicable to all credit lenders, this law, among other provisions, allows the FBI to search financial records without a court order.
FTC Safeguards Rule (2003)	This rule explains and implements provisions of GLBA safeguards for consumers' non-public personal information.
Bankruptcy Abuse Prevention and Consumer Protection Act (2005)	This law implements an income/expense screening mechanism intended to ensure that debtors repay creditors to the maximum extent they can afford.
FTC Consumer Information Disposal Rule (2005)	This rule implements the 2003 Fair and Accurate Credit Transactions Act amendments to the Fair Credit Reporting Act on the disposal of consumer information.
Dodd-Frank Wall Street Reform and Consumer Protection Act (2010)	This law promotes the financial stability of the United States by improving accountability and transparency in the financial system and to protect consumers from abusive financial services practices. Established the Consumer Financial Protection Bureau, which has supervisory authority on the banking industry, especially on Ability to Pay.
Internal Revenue Service Form 8300 (2012)	This form provides the IRS and the U.S. Department of Treasury Financial Crimes Enforcement Network with a tangible record of large cash transactions (greater than $10,000).

CONSUMER PROTECTION AND FINANCIAL LITERACY

Going beyond federal and state laws and regulations, the Online Lenders Alliance is highly committed to adopt and enforce additional standards to deliver superior industry standards and consumer protection. OLA members comply with robust Best Practices that surpass legal standards and include everything from how a loan is advertised to how debt is collected.

As part of its policing program, OLA enforces these standards by engaging an independent third party to monitor and crawl websites each year through a state-of-the-art process to identify companies that are in violation of the organization's Best Practices.

These efforts extend to both OLA members and non-members with the goal of enforcing industry-wide adoption of OLA's Best Practices. OLA reports violations regularly to regulators and rectifies violations to ensure that the growing online lending industry continues to serve the needs of consumers in a safe, secure environment. Customer disputes are also 100 percent remediated directly with lenders with OLA oversight.

Since the start of OLA's policing program in 2016, the organization has scanned more than a million websites for violations of its Best Practices, netting a 98 percent successful resolution rate.

Since 2016, Over **1 million URLs** have been discovered, over **350,000** have been flagged, and **98%** have been resolved.

Thus, the OLA Seal has become a trusted symbol for consumers and businesses. To be eligible for membership, companies must certify that they follow OLA's Best Practices. Once approved, members display the OLA Seal.

The OLA Best Practices are essential to ensuring industry excellence. The Best Practices present a set of guidelines for members, the industry, and any partners with which OLA members work to stay current on the changing legal and regulatory landscape.

OLA Best Practices cover all facets of the industry, including advertising and marketing, privacy, payments, and mobile devices and ensure that borrowers are fully informed and fairly treated and that they are using loan products responsibly.

OLA BEST PRACTICES:
LENDING TOPICS AND WHAT OLA MEMBERS COMMIT TO DO

ADVERTISING AND MARKETING

- **Actual Available Credit:** Advertise only credit available to consumers.
- **Trigger Terms:** Ensure compliance with the Truth-in Lending Act (TILA) when triggering terms are present.
- **Loan Terms:** Inform consumers of collection consequences and other important general product details.
- **Telemarketing Compliance:** Comply with the Telephone Consumer Protection Act (TCPA).
- **Internet /Email Marketing:** Comply with the Can Spam Act, including aspect regarding unfair, deceptive or abusive acts or practices (UDAAP).
- **Publication of Terms/Conditions & Privacy Policy:** Do what you say, and say what you do.
- **SSN/Bank Account Info Only for Loan:** Do not sell sensitive data other than to assist consumer in consummating a loan.
- **Secure Collection of Data:** Ensure robust data security programs and do no unsecured transmissions.

CONSUMER PRIVACY

- **Notice:** Provide consumers with the entities' privacy policy.
- **Counseling:** Be prepared to offer consumers referrals to financial counselors.
- **Full information:** Make clear disclosures to help consumers fully understand the relationships of all entities engaged in offering and originating a loan.

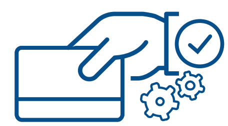
SECURITY OF CONSUMER INFORMATION

- **Collection of Information:** Have a clearly defined plan as well as comprehensive information security and data privacy policies.
- **Secure Transfer of Data:** Implement robust data security programs and conduct no unsecured transmissions.
- **Full information:** Display, in easy-to-find areas on websites, clear statements of policies regarding how customer information is shared.

LENDER APPLICATION AND ORIGINATION

- **Adverse Action:** Provide applicants in writing the specific reasons for adverse actions as defined by the Equal Credit Opportunity Act (ECOA).
- **Disclosure of Terms:** Provide to the consumer accurate disclosure, reflecting the term, cost, and repayment obligations.
- **Electronic Payments Authorization Terms:** Lenders and processors should create policies and procedures to ensure that unauthorized debts are not initiated.
- **Data Sharing:** State all affiliations clearly and provide the applicant a straightforward disclosure of the terms of any services purchased.

PAYMENT PROCESSING



- **Consumer Rights:** Do customer debits and credits in a timely and customer-friendly manner.
- **Lenders Responsibility to Consumers:** Follow all NACHA presentment rules and charge only one non-sufficient funds (NSF) fee per original loan payment financial counselors.
- **Reporting:** Transfer personally identifiable information (PII) only with security protocols in place to ensure no inappropriate passing of data.
- **Repayment Options:** Use only accounts listed as valid authorization to debit consumers.
- **Timely Posting of Returns:** Have in place processes and policies for timely posting of return information.

SECURITY OF CONSUMER INFORMATION

- **Treatment of Customers:** Treat all customers owing debt with respect.
- **Clear Practices:** Document collections policies and practices in detail.
- **Written Notice:** Provide initial written notices of debt five days before calling customers.
- **No Wage Garnishment:** Include in loan documents no clause that constitutes an assignment of wages or other earnings.
- **Flexibility:** If customers are unable to repay the loan, lender should work to create new repayment plan.
- **Confidentiality:** Lender cannot contact a borrower's employer regarding debt owed.

MOBILE

- **Authentication:** Authenticate every mobile customer before engaging in business.
- **Interfunctionality:** Utilize technology that allows for communication, content and functionality across all mobile devices.
- **Consent to Communicate Electronically:** Do not originate a loan until a consumer consents to receive disclosures electronically.

VENDOR SELECTION

- **Compliance with OLA Best Practices:** Choose only third-party vendors that comply with OLA Best Practices.
- **Flexibility:** If customers are unable to repay the loan, lender should work to create new repayment plan.
- **Confidentiality:** Lender cannot contact a borrower's employer regarding debt owed.

In addition, Online Lending Alliance members' Ability to Repay (ATR) practices mirror the requirements in the federal Credit Card Accountability, Responsibility, and Disclosure (CARD) Act.

- Consumer income should be considered when evaluating Ability to Repay.
- Lenders may consider information provided by consumers in connection with the account.[57]
- Lenders may also consider consumer reports, credit scores, and other factors.
- Lenders should base consideration of a consumers' ability to make the required minimum periodic payments on the facts and circumstances known at the time consumers apply or when considering increasing credit on existing accounts.
- Additional factors, including financial payment history, may be incorporated into information obtained through any empirically derived, demonstrably and statistically sound model that reasonably estimates a consumer's income.
- A lender may consider the consumer's current obligations based on information provided by the consumer or in a consumer report.
- Lenders must establish and maintain reasonable written policies and procedures to consider the consumer's ability to make the required minimum payments.

Providers of consumer financial products or services are prohibited from engaging in unfair, deceptive or abusive acts or practices, including issuing a loan to a consumer who does not have the ability to make all the scheduled payments.[58]

WHERE TO GO FROM HERE

Three hallmarks—innovation, access, and inclusion—define fintech. As the online lending industry evolves OLA is singularly dedicated to fostering an environment that would smartly support, expand, and nurture these hallmarks.

Innovation and access, nurtured as key economic values and goals, are helping build a broader range of fintech products and greater access for qualified customers. Online lending has improved credit access, allowing more people to be more fully included in the economic activity of the United States and in the pursuit of the American Dream.

ENDNOTES

1 U.S. Department of the Treasury. "A Financial System that Creates Economic Opportunities: Nonbank Financials, Fintech, and Innovation" (July 2018), 4-5.

2 Ibid., p. 5.

3 Julia Kagan, "Fintech," Investopedia (2019), https://www.investopedia.com/terms/f/fintech.asp.

4 Ibid.

5 Ibid.

6 Deloitte, *Fintech by the Numbers: Incumbents, Startups, Investors Adapt to Maturing Ecosystem* (2017).

7 Credit Karma, Press Release – Credit Karma and Silver Lake Announce $500 Million Strategic Secondary Investment (March 28, 2018), https://www.creditkarma.com/about/releases/credit-karma-silver-lake-500-million-investment.

8 Updated Infographic: What Does A High Credit Scorer Look Like? (2019). https://www.fico.com/blogs/updated-infographic-what-does-high-credit-scorer-look.

9 Experian, "Alternative Financial Services Lending Trends: Insights into the Industry and Its Consumers" (2019), 1, https://www.clarityservices.com/insights/reports/2019-alternative-lending-trends-report/.

10 TransUnion, Q4 2018 Industry Insights Report (Feb. 21, 2019), https://newsroom.transunion.com/fintechs-continue-to-drive-personal-loans-to-record-levels/.

11 Ibid.

12 U.S. Department of the Treasury, "Opportunities and Challenges in Online Marketplace Lending" (May 2016).

13 U.S. Department of the Treasury. "A Financial System," 5.

14 U.S. Department of the Treasury. "A Financial System," 87.

15 Testimony of Nathaniel L. Hoopes, Marketplace Lending Association, before the House Financial Services Committee (January 30, 2018), 3-4, https://financialservices.house.gov/uploadedfiles/hhrg-115-ba15-wstate-nhooopes-20180130.pdf.

16 Payday Holiday: How Households Fare after Payday Credit Bans Donald P. Morgan and Michael R. Strain Federal Reserve Bank of New York Staff Reports, no. 309 November 2007; revised February 2008.

17 U.S. Department of the Treasury. "A Financial System," 85.

18 Ibid.

19 Ibid.

20 See American Bankers Association, "The State of Digital Lending" (January 2018), 4-7, https://www.aba.com/Products/Endorsed/Documents/ABADigitalLending-Report.pdf.

21 Ibid., 4-7.

22 Ibid., 9.

23 Andreas Fuster, et al., The Role of Technology in Mortgage Lending, Federal Reserve Bank of New York Staff Report No. 836 (February 2018), https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr836.pdf.

24 U.S. Department of the Treasury. "A Financial System," 86.

25 Banking Deserts" Become a Concern as Branches Dry Up. By Drew Dahl and Michelle Franke. https://www.stlouisfed.org/~/media/publications/regional-economist/2017/second_quarter_2017/bank_deserts.pdf

26 Capgemini, "APIs Enable Bank/Fintech Collaboration" (March 15, 2018), https://www.capgemini.com/2018/03/apis-enable-bank-fintech-collaboration/.

27 Mazzotti, Elena, and Caminiti, Francesca, "The Fintech Opportunity for Banks in Europe," The European Business Review (March 21, 2018).

28 LeRuste, Cecile, "Focus on Fintech? How Banks Can Make the Most of Fintech Partnerships," Accenture (blog), (April 24, 2018), https://bankingblog.accenture.com/focus-fintechs-banks-make-most-fintech-partnerships?lang=en_US.

29 FICO Blog, available at https://www.fico.com/blogs/average-u-s-fico-score-hits-new-high.

30 Board of Governors of the Federal Reserve System, "Report on the Economic Well-Being of U.S. Households in 2016" (May 2017).

31 Board of Governors of the Federal Reserve System, "Report on the Economic Well-Being of U.S. Households in 2018" (May 2019), 27. "Survey: Surprisingly few millennials carry credit cards." https://www.bankrate.com/finance/consumer-index/money-pulse-0616.aspx

32 Ibid., 12.

33 FinLab Snapshot: Innovations in Helping Consumers Weather Financial Shocks. https://s3.amazonaws.com/cfsi-innovation-files-2018/wp-content/uploads/2016/09/18173157/FinLab-Snapshot-ADA_FINAL.pdf

34 U.S. Department of the Treasury, Opportunities and Challenges in Online Marketplace Lending, May 10, 2016. https://www.treasury.gov/connect/blog/Documents/Opportunities%20and%20Challenges%20in%20Online%20Marketplace%20Lending%20vRevised.pdf

35 Fintech vs. Traditional FIs: Trends in Unsecured Personal Installment Loans. Experian Information Solutions, Inc. https://www.experian.com/innovation/thought-leadership/fintech-trends-unsecured-personal-installment-loans-ebook.jsp

36 https://newsroom.transunion.com/fintechs-continue-to-drive-personal-loans-to-record-levels/

37 Experian, "Alternative Financial Services Lending Trends: Insights into the Industry and Its Consumers" (2019), 3, https://www.clarityservices.com/insights/reports/2019-alternative-lending-trends-report/.

38 Ibid.

39 Ibid.

40 Ibid.

41 Ibid.

42 Julapa Jagtiani and Catharine Lemieux, Fintech Landing: Financial Inclusion, Risk Pricing, and Alternative Information, Federal Reserve Bank of Philadelphia Working Paper 17-17 (2017), 9-12, https://www.philadelphiafed.org/-/media/research-and-data/publications/working-papers/2017/wp17-17.pdf?la=en

43 Ibid.

44 Ibid.

45 Experian, "Alternative Financial Services," 20.

46 Ibid.

47 Ibid., 20.

48 Ibid., 17.
49 Ibid., 20.
50 Ibid.
51 Ibid., 25.
52 U.S. Department of the Treasury. "A Financial System," 86
53 Ibid.
54 Ibid.
55 Ibid.
56 Ibid.
57 Ability to Pay, 12 C.F.R. § 1026.51 (2013).
58 CFPB Supervision and Examination Manual v. 2, Oct 2012 explicitly includes this as an examination item, 170.

CONTACT US

2001 Richmond Highway,
Suite 405, Arlington, VA 22202

703-567-0327

contact@oladc.org.

Online Lenders Alliance

WWW.ONLINELENDERSALLIANCE.ORG