February 25, 2022

The Honorable Martin Gruenberg
Acting Chairman
Federal Deposit Insurance Corporation
1776 F Street, NW
Washington, DC 20006

The Honorable Rohit Chopra
Director
Consumer Financial Protection Bureau
1700 G Street, NW
Washington, DC 20220

The Honorable Michael Hsu
Acting Comptroller
Office of the Comptroller of the Currency
400 7th Street, SW
Washington, DC 20219

Re: Importance of Bank/Third-Party Vendor Relationships

Dear Acting Chairman Gruenberg, Director Chopra, and Acting Comptroller Hsu:

The Online Lenders Alliance (OLA) represents the growing industry of innovative companies that develop and deploy financial technology, including proprietary and innovative underwriting methods, data analytics, and non-traditional delivery channels, and provide these services to financial institutions to help them better serve their customers. It has come to our attention that the FDIC recently received correspondence regarding bank/third-party vendor working relationships that offered a misleading view of these interactions as well as the level of state and federal regulations that they must follow. OLA believes that regulation should be data driven and fact-based, and we would like to provide some additional information for the record regarding the objectives and benefits of these relationships to consumers.

Bank Fintech Relationships

Consumers' use of the internet for financial services and products has grown and accelerated, requiring financial institutions to have the capacity to leverage evolving technologies. Banks routinely rely on relationships with third parties to deliver financial services more broadly, more efficiently and with less risk to consumers and to the banks themselves. Banks that lack the technical know-how to market, underwrite, originate, service and collect loans over the internet can bridge these challenges by working with a fintech company. Many fintech firms have spent years developing innovative technology and analytics for these specific tasks, enabling banks to deploy their own capital more efficiently, thereby providing broader access to credit for consumers and small businesses.

The ability to leverage these relationships to reach new customers and obtain greater portfolio risk diversification is especially beneficial to smaller, community banks. Nonbank fintech providers offer expertise in loan marketing, innovative underwriting, credit risk assessment techniques, online banking, and loan servicing that many banks may not possess. These relationships enable community banks to make greater use of the internet to originate loans, creating marketing opportunities to borrowers outside of the bank's traditional footprint. Borrowers of lesser credit quality, including thin-file or no-file consumers, can benefit from the procedures and banks' greater use of non-traditional credit information utilized by fintech firms.

According to a recent Morning Consult Survey[1], a large plurality of consumers who had borrowed from a fintech company saw their credit scores increase 12 months after taking out their loan. In the same survey, lower- and middle-income groups saw the largest net improvements while Black and Hispanic consumers said their credit scores improved the most. These new technologies allow banks to better serve customers and more accurately customize product offerings, increasing overall efficiencies. All of this translates into greater competition among providers and lower costs of credit, resulting in more options and better access to credit for consumers.

Furthermore, banks across the nation shuttered a record 2,927 branches in 2021, a 38% increase from the previous year's record number of 2,126. Fintech partnerships give consumers who reside in areas with few bank or credit union locations the ability to access banking services through an array of online options while community and minority-owned banks can effectively reach these underserved populations and manage risk.

The Center for Financial Services Innovation, in a comment letter to the FDIC, characterized this as a "win-win-win" for all involved, including consumers. Banks win because they can originate credit to a broader and deeper segment of the consumer market than they otherwise could. Third-party fintech providers win by creating an opportunity to help provide products and services to consumers that they would not otherwise reach. Consumers win because they "get access to high-quality credit that they otherwise would not." In addition, these relationships can allow

[1] https://morningconsult.com/fintech-special-report/

"smaller and more rural banks to broaden the set of products and services they can offer to their communities."[2]

The FDIC echoed these settlements in proposed examination guidance for third-party lending programs, stating:

> *"Third-party lending arrangements may provide institutions with the ability to supplement, enhance, or expedite lending services for their customers. Engaging in third-party lending arrangements may also enable institutions to lower costs of delivering credit products and to achieve strategic or profitability goals"*"[3]

By working with fintech companies through third-party vendor arrangements, banks can deliver safer, more transparent, lower-cost and more convenient financial products and services to consumers. For this to continue, federal regulators should ensure that banks, particularly community banks, can work with third-party fintech providers to offer innovative products and services.

Regulations and Oversight of Bank/Fintech Third-Party Vendor Arrangements

Fintechs are subject to an array of federal statutes and regulations, along with various state and local laws. In addition, the growing use of third-party fintech service providers has led to the establishment of a robust regime of third-party supervision by the federal banking agencies.

This regulatory regime ensures that activities that occur outside of the bank are examined and supervised to the same extent as if they were being conducted by the bank itself, and OLA's members support this regulatory foundation because it protects both consumers and the financial system.

Bank-sponsored lending programs with fintech firms are no exception, and both the OCC and FDIC have published detailed guidance as to how these relationships should be managed and supervised. These clearly state that any loans issued by a bank that benefit from the technology of a fintech partner are subject to the same high level of scrutiny and regulation as any other loan issued by the bank. This ensures borrowers are protected, supervision is appropriate, and consumers are able to work with a federally supervised lender, giving them greater confidence and security.

As technology evolves and consumer comfort with online financial transactions grows, consumer protections will be more important than ever. OLA is leading the way to improve consumer protections, with a set of consumer protection standards to ensure that borrowers are fully

[2] CFSI Comment Letter on Proposed Guidance for Third-Party Lending (Oct. 27, 2016), https://cfsinnovation.org/research/cfsi-comment-letter-on-proposed-guidance-for-third-party-lending/.
[3] FDIC, Proposed Guidance: Examination Guidance for Third-Party Lending (July 29, 2016), https://www.fdic.gov/news/news/financial/2016/fil16050a.pdf. To date, this proposed guidance has not been finalized.

informed, fairly treated, and using lending products responsibly. To accomplish this, OLA members voluntarily agree to hold themselves to a set of Best Practices, a set of rigorous standards above and beyond the current legal and regulatory requirements.

These are standards that OLA members, the industry, and any partners with whom OLA members work use 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. Most importantly, OLA Best Practices are designed to help consumers make educated financial decisions by ensuring that the industry fully discloses all loan terms in a transparent, easy-to-understand manner.[4]

Companies with the OLA Seal on their websites are demonstrating to customers and regulators alike that they abide by OLA's Best Practices, a sign of their commitment to the highest standards of conduct, including having procedures for handling complaints. Consumers who find the OLA Seal can be assured that they are working with a reputable company. The Seal's growing visibility gives consumers the peace of mind that they are being treated fairly and are fully informed about loan options and features.

To aid consumers further, OLA has developed the OLA Consumer Hotline, enabling callers to speak to a live operator to obtain help with their loan or to report fraud. Hotline operators are available to help online loan customers having difficulty reaching their loan company or dealing with repayment issues. The operators can be effective intermediaries in helping customers connect with the right person at the loan company so that their concerns can be addressed. Many times, these issues are resolved within 72 hours.

The information collected during these calls is used to investigate their issues, including fraudulent efforts to collect a debt. When appropriate, the OLA Consumer Hotline brings the matter to regulators' attention. Online lending has a very low number of consumer complaints as reflected in the CFPB's complaint database.

Over the past three years, these loans have made up less than one percent of the complaint volume at a time consumers have struggled with their finances during the pandemic. We believe that OLA and its members' efforts on behalf of borrowers play a large contributing role to this very low number.

[4] Online Lenders Alliance Best Practices https://onlinelendersalliance.org/best-practices/

Through these efforts, fintech companies working as third-party vendors for banks can play an important role in building a more inclusive financial system for consumers. These innovations can pave the way for future improvements that will broaden credit opportunities and improve consumers' credit options. OLA encourages federal regulators to continue considering a policy framework that enables innovators to interact with each other through the use of bank/fintech third-party vendor relationships.

Sincerely,

Andrew Duke
Executive Director
Online Lenders Alliance