



May 31, 2016

The Honorable Thomas J. Curry
Comptroller of the Currency
400 7th Street, SW
Washington, D.C. 20219
Submitted electronically to innovation@occ.treas.gov

Re: Comments on “Supporting Responsible Innovation in the Federal Banking System:
An OCC Perspective”

Dear Comptroller Curry:

Thank for you for this opportunity to participate in the discussion you have opened about “Supporting Responsible Innovation in the Federal Banking System.” The initiative described in the white paper is thoughtful and forward-thinking, and we applaud you.

As a large marketplace lending platform that partners with national banks large and small, we are extremely supportive of your focus on responsible innovation. We believe that our platform provides great benefits to banks, who utilize its technology and lending programs, and to bank customers, who enjoy consumer and business loan programs with responsible products, lower costs, and user-friendly accessibility. Although often not fully appreciated, these arrangements also bring a level of oversight to marketplace lending platforms, which become subject to the bank regulators’ third-party relationship standards.

In our comments below, we hope to describe the role Lending Club plays in responsible innovation, and respond to some of the specific questions posed about how the OCC can facilitate such innovation.

Lending Club offers two primary recommendations for the OCC to consider, which would foster responsible innovation:

- 1) Develop a regulatory bulletin that sets out the OCC’s expectations with respect to a bank’s due diligence and on-going monitoring of arrangements to purchase loans from a marketplace lending or other technology-enabled platform, or to market and originate loans to the bank’s customer through such a platform.
- 2) Work with the FFIEC to standardize expectations across multiple regulatory agencies with regard to arrangements with marketplace lending platforms.

Lending Club's Role in Responsible Innovation

Lending Club is the largest online marketplace connecting borrowers and investors. Our mission is to transform the banking system to make credit more affordable and investing more rewarding. The Lending Club platform has facilitated over \$18 billion in loans to more than one million individual and small business borrowers since launching in 2007.

We are extremely proud of the responsible products offered through our platform, consistent with the OCC's definition of responsible innovation. Through relationships with banks, Lending Club provides banks with "new or improved financial products, services, and processes to meet the evolving needs of consumers, businesses, and communities in a manner that is consistent with sound risk management and is aligned with the bank's overall business strategy."¹

The loan products offered through these arrangements fall into three of the categories noted by the OCC as promising opportunities for technology to improve fair financial treatment of consumers. These are credit consolidation or refinancing of consumer loans; small dollar, unsecured consumer loans²; and small business loans.

Our platform's products are designed to meet important customer needs in a responsible way. They are generally offered at a lower interest rate than prevailing alternatives. The loans offered are generally fixed rate³ and fixed term, to provide clear repayment. They have no hidden fees. The consumer loans offered, generally with three and five year terms, are valued by consumers as a more manageable and lower-cost form of credit than carrying credit card debt. In fact, over 70% of consumer borrowers report using their loan to pay off an existing loan or credit card balance and report that the interest rate on their Lending Club loan was an average of 7 percentage points lower than they were paying on their outstanding debt or credit cards⁴. The business loans offered provide access to capital for smaller businesses that banks have struggled to serve. These loans are a longer-term, lower-rate, and more transparent product than generally available from other nonbank lenders. Even when not required by law, such as in small business lending, we disclose all terms upfront, including an annualized interest rate, in a manner that is easy for borrowers to understand and plan for. For investors, we provide full transparency by posting on our website the performance of every loan offered publicly since inception, as well as equal access and a level playing field with the same tools, data, and access for all investors, small and large.

¹ "Supporting Responsible Innovation in the Federal Banking System: An OCC Perspective," Office of the Comptroller of the Currency, Cite OCC whitepaper, March 2016. Page 5.

² Consumer loans through Lending Club are unsecured, and available in amounts as low as \$1,000. Prices range from 5.99% to 35.89% APR, and for a given consumer tend to be lower than the cost of prevailing alternatives. Equally important, the structure of these fixed-rate, 3- and 5-year term loans offer a structure designed for easier repayment in equal monthly

³ Products also includes a small business line of credit which, unlike the other products, is variable-rate. This line of credit is designed to meet small businesses' demand for working capital in structure that is more responsible and lower-cost than a series of short-term loans or merchant cash advances. Borrowers have up to 25 months to repay each draw, which helps keep payments affordable to businesses that are tightly managing cash flow.

⁴ Based on responses from 14,986 borrowers in a survey of 70,150 randomly selected borrowers conducted from July 1, 2014 – July 1, 2015, borrowers who received a loan to consolidate existing debt or pay off their credit card balance reported that the interest rate on outstanding debt or credit cards was 21.8% and average interest rate on loans via Lending Club is 14.8%.

Response to OCC Questions 1, 2, 3 and 4

1) What challenges do community banks face with regard to emerging technology and financial innovation?

Community banks have lost significant market share to larger banks in delivering consumer credit. In 1990, consumer credit represented ~25% of community banks' balance sheets and community banks captured ~80% of the consumer credit market. Today, consumer credit represents less than 5% of community banks' balance sheet and they represent less than 5% of the consumer credit market. The dramatic shift in the market is driven by community banks' lack of scale to deliver small dollar consumer loans profitably relative to large banks.⁵

In addition, community banks lack the in-house technological expertise and engineering teams to build new product delivery channels that leverages today's current technology. Unable to build or acquire this sort of technology, many community banks choose to partner to access this technology. By partnering with Lending Club, community banks can offer loans to their customers using the Lending Club platform's lower cost of operations to more effectively compete with these larger financial institutions and their products.

These platform arrangements can also allow community banks to better serve their customers with higher approval rates. In partnership with Lending Club, banks are able to provide their customers with access to a breadth of investor risk appetites. Banks can define their investment criteria and invest in loans that meet their specific credit policy. By choosing to invest in some loans, and directing some loans to other investors on the Lending Club platform, these banks can expand their offerings to their borrowers while diversifying their own exposure. Providing their customers with access to loans also helps community banks to retain and attract customers.

Large banks have chosen to partner with Lending Club for different reasons. At times, large banks may find it difficult to develop innovative initiatives internally. They may lack the people, organizational systems, and technology required to get to market quickly. For example, it may take a large bank years to develop a personal loan product line comparable to what is offered through Lending Club. Arrangements with Lending Club or other technology innovators present the opportunity for large banks to overcome challenges they face dealing with legacy technology and slow innovation processes.

Platforms can also help banks reach potential customers beyond their own branch footprint. Moreover, these programs can be aligned with the OCC's belief that "there is great potential for responsible innovation to broaden access to financial services by delivering more affordable products and services on suitable terms to unbanked, underbanked, and low- to moderate-income consumers."⁶ For example, Citi, which has a relatively smaller branch footprint, has partnered with Lending Club to provide personal loans to underserved low-to-moderate income areas. Through our marketplace and its innovative online process, we are able to reach underserved populations with a level of efficiency that we believe

⁵ See, for example, "Lending Club, Small U.S. Banks Plan New Consumer-Loan Program," Wall Street Journal, Feb. 9, 2015. <http://www.wsj.com/articles/lending-club-small-u-s-banks-plan-new-consumer-loan-program-1423458187>

⁶ OCC, page 8.

traditional lending institutions will increasingly find attractive as a complement to their overall lending strategy.

2) *How can the OCC facilitate responsible innovation by institutions of all sizes?*

Our recommendations for facilitating responsible innovation focus on making regulatory expectations very clear, and coordinated with other regulatory agencies. Lending Club has formed arrangements with dozens of community banks and large banks, and frequently speaks with other banks interested in doing so. Many of these have the perception, accurate or inaccurate, that regulators have not been clear in their expectations of banks who are considering such platform arrangements. This perception of unclear regulatory expectations prevents many banks from moving forward with platform arrangements, and forgoing the benefits they offer. We offer the following two primary recommendations the OCC could implement to resolve this uncertainty and facilitate innovation.

Marketplace Lending Bulletin – In the short term, the OCC could issue a bulletin that sets out the OCC’s expectations with respect to a national bank’s responsibilities for due diligence and ongoing monitoring of arrangements to purchase loans from a marketplace lending or other technology-enabled platform, or to market and originate loans to the bank’s customer through such a platform. As technology-based third-party relationships have taken an increasingly significant role for banks, the need for focused regulatory guidance has increased.

Currently banks considering responsible innovation through an arrangement with a marketplace lending platform must make significant assumptions about the expectations of regulators. Auditors, and perhaps even examiners themselves, share the same problem. The OCC’s primary guidance on third-party risk management is OCC Bulletin 2013-29.⁷ While very useful, it does not address many specific expectations for banks that wish to buy loans from marketplace lending platforms, or offer marketplace loan products to bank customers. As a result, some banks have described being unaware of particular expectations, or facing inconsistent expectations on the part of examiners. Topics that could benefit from more specific guidance include: the level and frequency of transaction testing of the loans purchased, expected scope of model validation, the use of collaborative relationships⁸ in due diligence and ongoing monitoring, and concentration risk expectations. The FDIC’s Winter 2015 Supervisory Insights publication on risk management expectations for insured banks working with marketplace lending platforms is an example of focused regulatory guidance which has provided clarity and affirmation for banks seeking to innovate responsibly.⁹

In some cases, the OCC has addressed specific elements, but that information is widely dispersed. OCC Bulletin 2013-29 refers to 58 different handbooks, bulletins, news releases, advisory letters, and other materials. Some of them are perhaps outdated, and certainly written before marketplace lending existed. The wide dispersion of this information makes it difficult for banks, and possibly even examiners, to know where to find definitive information.

For this reason, we recommend a new OCC bulletin that addresses arrangements with marketplace and other technology-enabled lending platforms. The bulletin could set out background information about the types of arrangements that banks have been known to enter into and the potential benefits and

⁷ <http://www.occ.gov/news-issuances/bulletins/2013/bulletin-2013-29.html>

⁸ As described in “An Opportunity for Community Banks: Working Together Collaboratively,” OCC, Jan 2015.

⁹ “Marketplace Lending.” FDIC Supervisory Insights. Winter 2015: Pages 12-18.

associated risks of such arrangements. These include a) buying loans through a marketplace, b) offering loan products to the bank's customers, likely through a white-label arrangement with the marketplace, and c) referring applicants to a marketplace lending platform. The bulletin can separately address OCC expectations regarding due diligence from ongoing monitoring once the arrangement is implemented.

Such a bulletin could include not only expectations for banks, but also specific procedures for supervisory reviews. This would provide consistency in examinations, and clarity of expectations. Additionally, this would enable the third-party to make the required information ready and accessible, in a standardized format.

FFIEC Exam Modules – In the longer term, the OCC should work with the FFIEC to develop standard guidance and examination modules used to examine banks buying loans from or marketing and originating loans through marketplace lending platforms. This standard FFIEC guidance, if coordinated across agencies, would be valued by the bank partners who confirm that there would be great benefit in a more consistent approach among examiners of the OCC, FDIC, and Federal Reserve as well as at the state level. Addressing technology partnerships would be consistent with the FFIEC's previous guidance on technology related topics.

3) How can the OCC enhance its process for monitoring and assessing innovation within the federal banking system?

As the OCC assesses innovation, we encourage the agency to take care to accurately segment the market in its analysis. There are different regulatory considerations to be made in regards to lending companies with a marketplace model vs. online lenders holding risk on their balance sheets, consumer lending vs. commercial lending, those who issue directly vs. those who issue in partnership with an issuing bank.

For example, platforms that issue loans in partnership with an issuing bank are held to a higher standard of oversight. Oversight occurs through examination of the issuing bank itself, the marketplace is subject to examination by the issuing bank's regulators as a service provider, and the marketplace's administration of the loan program is actively supervised by the issuing bank.

Innovation has had very significant effects on the experience of consumers using financial services. Financial products have become faster, easier, and at times more accessible and effective. In order to assess the effects of innovation, we recommend the OCC conduct customer surveys to evaluate the difference in the customer experience of an individual or small business obtaining credit through a traditional lender as compared to technology-based credit provider.

Once this understanding is developed, we recommend the OCC publish a white paper that describes benefits identified, economically and in customer experience. The OCC could also assess the degree of value. How much value is being created across the financial services industry by innovations that are lowering costs and lowering rates for borrowers? It would be valuable for the OCC to highlight the different types of arrangements it identifies. Within marketplace lending, banks participate in arrangements that include offering loan products through the marketplace to the bank's customers, purchasing loans in order to build assets, targeting loan products difficult to reach or underserved

customers, issuing loans in partnership with a marketplace, referring applicants to marketplace lenders, and more.

4) *How would establishing a centralized office of innovation within the OCC facilitate more open, timely, and ongoing dialogue regarding opportunities for responsible innovation?*

Lending Club would strongly support a dedicated innovation office at the OCC. A formalized OCC office of innovation would provide a valuable point of contact on topics of innovation. It can be difficult for fintech companies, banks, and perhaps even examiners to know whom at the OCC to contact about technology-related questions. Such an office would also serve as concentration of expertise, critical given the diversity and fast-changing nature of technology-based innovations. Maintaining an informed understanding of financial innovation cannot be accomplished as a part-time job.

Thank you for this opportunity to comment. We look forward to continued dialogue, as we work to grow responsible innovation within the banking system. Please do not hesitate to reach out to me directly at 202-772-3170 or by email at rneiman@lendingclub.com for any additional information or questions relating to our comment letter.

Very truly yours,

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Richard H. Neiman
Head of Regulatory & Government Affairs
Lending Club

Appendix – Summary of Benefits of Marketplace Lending to Borrowers, Investors, and Community Banks

The following is excerpted from Lending Club’s Comment Letter dated September 30, 2015 in response to the Treasury’s RFI on Marketplace Lending:

We use technology to automate processes and reduce costs, and pass on these cost reductions to borrowers in the form of lower interest rates and to investors in the form of better returns. Technology-led cost reductions include many process improvements, the ability to operate without a branch network, and the automation of tasks that remain highly manual at most traditional banks. Our ability to process and service loans in a highly automated fashion, and to simplify processes for our customers, has led to broad adoption of by consumers, and over the last eight years.

As a two-sided technology-enabled marketplace, we deliver unique benefits to both borrowers and investors. We believe that we also deliver strong benefits to the U.S. financial system as a whole by bringing more transparency, removing friction, reducing systemic risk by requiring a match between assets and liabilities, and offering traditional banks, including many local community banks, the opportunity to participate on our platform and benefit from the same cost reductions from which our other borrowers and investors benefit.

Borrower Benefits

We believe our platform’s low cost operating model enables it to make credit more affordable and available for consumers and small business owners and helps community banks reach more of their borrowers. Benefits include:

- **For consumers:**
 - **Significant cost savings:** Lending Club has saved consumers over \$1.6 Billion. Over 70% of borrowers on our platform report using their loan to pay off an existing loan or credit card balance and report that the interest rate on their Lending Club loan was an average of 7 percentage points lower than they were paying on their outstanding debt or credit cards.¹⁰
 - **Responsible credit:** Customers who use Lending Club to refinance their credit card balance are replacing revolving, non-amortizing, variable rate debt with a fully amortizing, fixed rate installment loan. This product provides for a more responsible way to manage their credit, and helps improve the customer’s credit score by reducing the amount of open-ended credit. In fact, 77% of these customers experienced a FICO score increase within three months of obtaining their loan through Lending Club, with an average score increase of 21 points.¹¹
 - **Predictable payments:** Our platform’s personal loan customers benefit from a fixed interest rate and fixed monthly payments that help them better budget their monthly payments and plan ahead, and protects them against the risk of rising interest rates.

¹⁰ Based on responses from 14,986 borrowers in a survey of 70,150 randomly selected borrowers conducted from July 1, 2014 – July 1, 2015, borrowers who received a loan to consolidate existing debt or pay off their credit card balance reported that the interest rate on outstanding debt or credit cards was 21.8% and average interest rate on loans via Lending Club is 14.8%.

¹¹ Average credit score change of all borrowers who took out a loan via Lending Club between January 1, 2013 and January 31, 2015 with a stated loan purpose of debt consolidation or pay off credit cards.

- **For small business owners:**
 - **Access to capital:** Many small business owners cannot get the credit they need to finance their business expansion and create jobs. In particular commercial loans under \$250,000 are underserved by traditional lenders, largely due to the high fixed costs of underwriting these loans through traditional methods. Bank loans from \$100k to \$250k have fallen 22% since 2007, during a period when bank loans of \$1 million or greater increased by 56%.¹² Our platform's automated processes allow us to provide smaller commercial loans that are less available to businesses, more economically than traditional banks can.
 - **Transparency:** Lending Club's platform offers a more transparent process to small business owners looking for credit. We clearly disclose the interest rate being charged to the borrower and all fees. We also offer a simpler application process, faster credit decision, and faster funding than most traditional banks.
 - **Affordability:** The same low operating cost model that powers our consumer lending marketplace also enables a lower cost of funding for small businesses. Small business owners looking for small loans often resort to merchant cash advances that have implied annual interest rates of as much as 100%. Lending Club's platform can help small businesses access capital at longer terms and larger amounts with lower rates than typical credit cards or "alternative" business loans or cash advances.
 - **Responsible products:** Our platform's use of 1-5 year terms and no prepayment penalties keeps borrowers from over-levering or getting into cycles of unnecessary repeat borrowing.
 - **Small Business Borrowers' Bill of Rights:** Lending Club joined with leading Community Development Financial Institutions (CDFIs), think tanks, nonprofit small business advocates, and other responsible small business lenders, brokers, and marketplaces in the Responsible Business Lending Coalition and unveiled the *Small Business Borrowers' Bill of Rights* on August 5, 2015 (<http://www.responsiblebusinesslending.org/>). This is the first-ever consensus set of principles and practices for responsible small business lending. Lending Club has signed on to these principles and has committed to operate its business within them. Since then, over 60 organizations have signed on to the Bill of Rights.

- **For community banks:**
 - **Lower cost of operations:** Over the last 30 years, community banks have lost significant market share to larger banks because of their inability to compete with the scale of large financial institutions. By partnering with Lending Club, community banks can offer loans to their customers using the Lending Club platform's lower cost of operations to more effectively compete with these larger financial institutions and their products.
 - **Saying yes to more customers:** Community banks can "offer more approvals" to more of their customers by partnering with Lending Club and accessing our breadth of investor risk appetites. Additionally, community banks can define their investment criteria and invest in loans that meet their specific criteria – allowing these banks to expand their offerings to their borrowers while diversifying their own exposure. Providing their customers with access to loans also helps community banks to retain and attract customers.

¹² FDIC March 31, 2015 Call Report Data, C&I Loans and Nonfarm Nonresidential loans Lending Club's Response to Marketplace Lending RFI, September 2015