

Submitted via Email at innovation@occ.treas.gov

Officer of the Comptroller of the Currency
400 7th Street, SW, Suite 3E-218
Mail Stop 9W-11
Washington, DC 20219

May 31, 2016

Re: Comment on *Supporting Responsible Innovation in the Federal Banking System*

Dear Comptroller:

Global Debt RegistrySM (“GDR”SM)¹ respectfully submits this Comment to the Office of the Comptroller of the Currency (“OCC” or “Comptroller”) in response to the Comptroller’s above-referenced report, released on March 31, 2016, entitled “*Supporting Responsible Innovation in the Federal Banking System: An OCC Perspective*” (the “Report”). GDR is pleased with the OCC’s receptive approach to the potential that the FinTech industry brings to the goal of increasing consumer access to credit in a safe and sound banking climate for investors. Our Comment will focus exclusively on how the promise of marketplace lending can be achieved by implementing infrastructure designed to improve transparency for consumers and investors, and by establishing a registry tracking solution for confirming ownership and servicing rights throughout the lending and securitization process. Our Comment is designed to share our observations of how the online lending markets can avoid some of the problems that have arisen in other markets (e.g. mortgage-backed securities, consumer credit card debt sales) by utilizing a centralized platform for the secure storage and transfer of loan-related information, and by requiring the use of third party validation of loan-related data when loans are securitized and/or sold to institutional investors. We recommend the establishment and use of (1) banking standards that require independent, third party loan validation to prevent fraud and ensure loan enforceability, and (2) a central registry process for Marketplace Lending loans.

A. The OCC Should Establish Guidelines That Require Independent Validation of All Loans Generated on MPL Platforms

The OCC provided the following definition of “responsible innovation” on page 5 of the Report: “The use of new or improved financial products, services, and processes to meet the evolving

¹ GDRSM is an entity that provides debt registration, titling and document custody services to original creditors and subsequent owners of credit card debt and other forms of consumer debt. GDRSM has also launched a free consumer portal called DebtLookup.comSM which provides consumers with free access to key documents and information regarding their accounts, their creditors and the debt collectors contacting them.



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." The speed and convenience of lending through marketplace lending platforms should be supported with sound risk management guidelines incorporating independent validation that the borrowers actually exist, and the loans are supported with consistent and accurate data. It is not enough to rely on the representations and warranties of loan originators about the soundness of loan data – independent validation is a practice that will protect consumers and investors, while benefitting loan originators by creating more certainty in this new generation of lending.

We recommend that the OCC provide guidance that will ensure full transparency between parties in the lending process. Full transparency is best achieved through independent, third party due diligence to validate the accuracy of information associated each loan included in a pool for securitization or funded through a warehouse lending arrangement. Currently, the marketplace lending industry lacks automated, "real" independent third party 100% certification for investors to have confidence in the assets that they are purchasing. There is no way to compare loan level data reported by the lender against trusted third party sources. This significant gap in the market has prevented more traditional institutional capital sources from entering. In order for the MPL market to attract "permanent" capital, it needs to ensure investors have the tools to verify each and every loan they purchase. This is accomplished by use of a third party to interface with the credit bureaus to provide an independent validation that information concerning borrower identity and credit score has been accurately conveyed by an MPL platform to institutional investors acquiring the loans.

A regime of independent validation should have the following attributes:

1. Complete Validation: Every single MPL loan should be validated by a third party by comparing each loan to trusted third party data sources at multiple points in an account's life cycle: a) when a loan is first sold to an investor; b) when a loan is securitized and 3) on an on-going basis for the purpose of account monitoring.
2. True Independence: This service needs to be done by an independent party that has expertise in handling and protecting consumer data and that is not a back-up servicer or other direct servicing vendor. The independent validation provider should have no financial interest in the loan's origination or performance. The validation service needs to confirm loans by using trusted third party databases that provide loan level borrower identification and credit information.
3. Specificity: Validation should include ensuring a borrower actually exists, that his/her credit profile is consistent with what has been presented by the platform and that funds have been disbursed to the borrower.
4. Collateral Protection: There should also be an independent mechanism to track collateral pledges by platforms. Entities that fall under the OCC's jurisdiction and that are engaged in warehouse lending, in particular, would benefit from independent assurance that MPL loans have not been double-pledged.



5. On-going Compliance Validation: Independent validation should be on-going even in periods when loans are not being transferred so as to ensure borrowers do not end up on terrorist or money laundering watch lists, or that loans do not exceed state usury laws where applicable.

B. The OCC Should Establish a Central Registry for Titling MPL Loans

The marketplace lending industry provides an opportunity to merge the ingenuity of FinTech with time-honored safe and sound principles for validating the titling and documentary support of loans in the secondary market. Markets for assets have traditionally been facilitated by the adoption of centralized registries to track the title and supporting documentation associated with the asset. This solution is essential for a new industry offering swift automation of new loans that ideally will travel freely in a marketplace that is both liquid and sound for investors.

Marketplace lending is an extremely efficient alternative to traditional borrowing for consumers and small businesses, and the market is likely to continue its rapid expansion into new and larger market segments. The digital nature of these loan transactions offers significant advantages over traditional, often paper-based, applications in which various documents can become disconnected from the account over time.

For most of the current firms operating in the marketplace, compliance with information requirements necessary to substantiate a debt is simplified by the nature of the loans themselves that are being offered today. For example, most loans are fixed installment loans paid over time, as opposed to revolving loans involving frequent transactions and variable balance levels. Most consumers are prime or “super prime” risk levels and require automatic payment of the balance each month resulting in low delinquency rates and low credit losses. Most firms rely on one or a small number of service agencies. Moreover, the sale of accounts, particularly charged-off accounts, is very limited.

But as the market evolves and firms pursue different types of loans and different risk profiles, the ability to ensure compliance will be tested. The credit underwriting models, funding structures and the use of mostly outsourced collection services have not yet experienced challenging market conditions, such as a sharp rise in regional or national unemployment. As seen in other markets, a significant downturn in economic conditions can create challenges for debt owners when account information moves between parties. This has proven to be true historically when markets have been subject to liquidations and takeovers. In these circumstances, it can be difficult to substantiate a collector’s or debt owner’s right to collect the debt. Consumers can lose ready-access to account information, and incomplete, untimely or incorrect data can lead to harmful consumer practices in collection of past due accounts. For marketplace firms, the unique ownership and legal structures between investors and servicers creates an additional need to ensure that account information remains updated and intact as accounts flow between various parties in the marketplace.



Fortunately, the digital nature of this marketplace can support processes to ensure long-term transportability of account information. If the market adopts a consistent process to independently validate and track account data and documents for its loans, it can ensure consistent ready-access to the full account profile of both original and new account data and documentation as accounts move between parties. This can be best implemented through an industry-wide process independent of any individual market participant. This process not only protects consumers, but also serves as a valuable point of validation for investors seeking independent and ongoing validation of the accounts in a pool of loans.

The Comptroller could facilitate both innovation and stability in the online marketplace for lending by mandating or incentivizing the use of an independent centralized registry for tracking lending transactions and storing the account-level data and documents associated with such loans. The Uniform Law Commission is currently considering a similar solution with regard to the transfer of consumer debt, particularly credit card debt.² A similar framework for marketplace lending would help protect investors and borrowers by ensuring transparency and coherency regardless of how deals are structured.

Online marketplace lenders rely on digital platforms that offer an opportunity to improve the continuous transparency and connectivity between lenders and borrowers over the life of a loan. For example, complaints in the CFPB database often result from lack of access to substantiating data about an account or a collection firm. This process could be enhanced if marketplace firms provide free secure consumer access to account history and documentation in an industry-sponsored repository. As the market for online lending grows and evolves, firms will merge or dissolve, and more agencies will be utilized to support the loans. In this context, this registry will ensure consistent access for consumers to help the overall industry avoid the problems that many of the traditional credit issuers are facing today related to providing ready access to account history and documents substantiating a debt.

Conclusion

In sum, we encourage the Comptroller to offer guidance directing the use of independent validation of each loan originated and transferred through a marketplace lending platform. We also urge the Comptroller to consider how the centralization of account data and documentation associated with marketplace lending for tracking in an industry registry will result in a safer and more robust future for this innovation in consumer lending. These reforms would improve transparency and fairness to consumers, reduce costs associated with disputes and litigation, and would increase liquidity in the market.

² Information regarding the Uniform Law Commission's Study Committee on the Transfer and Recording of Consumer Debt can be found at <http://www.uniformlaws.org/Committee.aspx?title=Transfer%20and%20Recording%20of%20Consumer%20Debt>.



Respectfully submitted,

/s/

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