



LendUp Comment Letter Re: OCC White Paper on “Supporting Responsible Innovation in the Federal Banking System: An OCC Perspective.”

We appreciate the opportunity to comment on the Office of the Comptroller of the Currency’s (OCC) white paper on Supporting Responsible Innovation in the Federal Banking System. At LendUp, we share the OCC’s views that technology and innovation play a critical role in promoting financial inclusion and expanding access for underserved consumers and communities. Like you, we also feel strongly that consumer protection and innovation can go hand in hand. In fact, this belief is at the very heart of how we do business.

LendUp is a socially responsible, Silicon Valley-based startup on a mission to redefine the way underbanked Americans access financial services with a current focus on credit and financial education. We use our proprietary technology platform to expand access to credit, lower costs and provide credit-building opportunities to consumers facing limited options in the traditional banking system. Our first product and proof of concept was fixing the complex social problem of payday lending, with a driving purpose of disrupting and improving this deeply flawed industry through the power of innovation. While we recently expanded into first-time installment loans and a credit card, our first product was the LendUp Ladder—a socially-responsible loan product designed to help consumers access short-term credit and build positive credit histories over time, without getting trapped in the debt cycles that have defined traditional payday lending for too long. We do this in four important ways:

- **First we eliminated debt traps.** Product features like rollovers often result in consumers paying more in fees than they ever got in principal. These debt traps are baked into many payday lenders’ business models—*getting rid of them* is the heart of ours. With LendUp, customers that need more time to repay receive a no-fee payment plan that offers payment extensions or breaks their loan up into smaller payments over a longer period of time in states where available. We do not charge any incremental penalties or fees over the course of a plan, and payments go towards principal and interest.
- **Second, we give our customers access to lower rates over time.** Payday lenders stick borrowers with the same expensive fees over and over again, regardless of their payment history. Through the LendUp Ladder, we allow borrowers to “graduate” to better rates over time, based on repayment history and completion of financial education courses (more on that later), automatically.
- **Third, we give our customers the opportunity to build positive credit histories** and, eventually, access mainstream financial products should they chose to do so. The top two levels of the LendUp Ladder can report to major credit bureaus, allowing customers to improve their credit scores. More than 90% of active LendUp borrowers have been



with us for more than two years and now have access to credit building loans, with many of those at the top of the Ladder eligible for our credit card.

- **Finally, we integrate free financial education into all of our product offerings.** On its own, a better short-term credit product is not enough to solve customers' financial woes—but a better product coupled with education can go a long way in improving their financial wellbeing. More than 40 percent of our customers have taken at least one of our free, animated, financial education courses, available on any computer or smart phone. To incentivize use, we allow those who take our courses and pass a quiz to move up the LendUp Ladder faster by earning “points” for each course they complete.

LendUp's Perspective on Responsible Innovation

LendUp has a unique perspective to offer on the role financial innovation can and should play in responsibly improving access in underserved communities. Technology enables our solution and, because we built the majority of it in house, we have a detailed understanding of our customers and how they use our products. This gives us a unique appreciation for our customers' needs and a specialized ability to customize our products in a highly tailored and relevant way. That personalized, high-touch model has allowed us to collectively save our customers more than \$16 million last year compared to what they would have paid with traditional payday lenders, and are on track to save over \$50 million this year alone. It has also made it possible for us to offer our customers longer-term loans and lower rates, as well as critical credit-building opportunities. As we mentioned earlier, over 90 percent of active borrowers who have been with us for more than two years now have access to credit-building loans, and many credit cards, which is graduating people from an industry charging hundreds of percent APR to a *zero dollar* borrowing cost, if they pay on time and in full.

Because LendUp was designed to provide consumers with a safe alternative to traditional payday lending products, the company places a premium on operating with transparency. We are vigilant about only making loans to people we believe can pay us back, through advanced underwriting that predicts borrower's ability and willingness to repay. And while many online lenders use their digital presence as a means of circumventing state laws, we are licensed to operate in every state where we do business. We also disclose fees before we ask for any personal information from applicants, a level of transparency many of our competitors do not provide. Further, we welcomed the introduction of recent legislation from Senator Jeff Merkley of Oregon (The Stopping Abuse and Fraud in Electronic Lending, or SAFE Lending Act of 2016) to increase transparency and strengthen oversight within the short-term lending industry, and we are looking forward to the release of the Consumer Financial Protection Bureau's (CFPB) payday lending rules, which we believe will extend important consumer protections to borrowers across the country.

Opportunities for OCC partnership



We believe effective public/private partnerships work to the benefit of both consumers and innovators, and are appreciative of the OCC's leadership in initiating this important conversation. One idea that we think could be helpful in ensuring continued dialogue is the

creation of an Office of Innovation and/or a working group dedicated to cross-industry conversations on responsible innovation. Specifically, we would encourage you to consider ways to encourage and facilitate conversations between banks and fintech companies, with a goal of increasing exposure and understanding between the two, and defining a regulatory framework that encourages consumer financial innovation and ensuring best in class compliance and consumer protections.

Our own partnerships with banks have been key in allowing us to offer our customers a path out of payday loans. But we also know many banks are constrained by the technological limitations of their outsourced providers and, as a result, may struggle to stay abreast of the ever-expanding technology landscape. There is a need to foster innovation that will meet the evolving needs of a growing base of consumers faced with fewer traditional banking options but have demonstrated a greater reliance on mobile technology. As highlighted in the Federal Reserve Board's 2015 report on Consumers and Mobile Financial Services, of the 27 percent of consumers that are un/underbanked: 65 percent of the unbanked have access to a smart phone, 73 percent of the underbanked have access to a smartphone, and 48 percent of underbanked consumers have used mobile banking.

By facilitating dialogues between these two different perspectives, the OCC could help surface unknown unknowns, giving banks a sense of how technology can help them better serve their customers, and fintech companies a better understanding of bank's needs so they can build accordingly from the outset. By working together, banks and fintech can bridge the gap to reaching underserved consumers at scale. Should the OCC decide to pursue the idea of opening an Office of Innovation, we think a bank/fintech working group would be an excellent addition and would be delighted to provide additional input or ideas for standing up such an effort in the future.

Thank you again for the opportunity to provide our thoughts on responsible innovation. We appreciate your attention to this important subject and look forward to collaborating with you to ensure the rules of the road strike the right balance between fostering innovation and protecting consumers.