

January 13, 2017

Office of the Comptroller of Currency
400 7th Street, SW
Washington, D.C. 20219

Via E-mail (specialpurposecharter@occ.treas.gov)

Re: Response to the OCC Fintech Charter request for comments

Dear Comptroller Curry:

On behalf of LendIt Conference LLC and Lend Academy LLC, I am writing in response to your request for comment on the proposed special purpose Fintech Charter.

First some background. My name is Peter Renton and I have been active in the Fintech industry since 2009. I began as an individual investor on Lending Club and Prosper, the two leading peer to peer lending platforms. I started Lend Academy, a media site dedicated to the broader online lending industry, because I believed in the potential of the industry to bring change to financial services.

I started LendIt with my co-founders back in 2013 because there was no event yet dedicated to the online lending industry. Together, we felt that the industry needed a place to come together to network and discuss the latest innovations. LendIt was the first and is the largest event in the online lending space today.

A More Efficient Financial System

As someone without a background in finance what struck me when I began learning about this industry was how inefficient it was. With 50 states, many of which have their own licensing, fee and interest rate requirements, there was no way for an online platform to operate in a uniform manner. Despite that many platforms have been able to get some traction albeit in a less than ideal way.

I would like to draw your attention to a study done in 2014 by Thomas Philippon of the Stern School of Business at NYU¹. When I read this paper I was staggered by the fact that the unit cost of financial intermediation has not improved much at all over the last 100 years. With all the advances in technology I would have thought that financial intermediation would have become many times more efficient during this time.

¹ *Has the U.S. Finance Industry Become Less Efficient? On the Theory and Measurement of Financial Intermediation* (September 2014) available at http://pages.stern.nyu.edu/~tphilipp/papers/Finance_Efficiency.pdf

Which brings us to the discussion of Fintech. With all the billions spent on technology banks struggle to build intuitive systems that keep their customers satisfied. On the other hand the innovations brought by Fintech companies have resulted in a faster and more efficient way of doing business online or on a mobile device. Unlike their bank counterparts most Fintech companies have high NPS scores.²

Industries like transportation, publishing, travel and communications (just to name a few) have all become so much more efficient due to the innovations brought by new processes and business models from new entrants in the market. We should have experienced these same efficiencies in the financial system. It is the Fintech companies that are finally bringing these new models to market.

Obviously, there are unique regulatory requirements on the financial system that are not relevant in other industries. But my point is that our financial system should be more efficient than it is today and this new generation of Fintech companies are providing us with that possibility.

Access to Credit – the Key to Financial Inclusion

The promise of Fintech is that it will vastly improve access to financial services for everyone. Given the online nature of Fintech there are no geographic barriers for access so finally the entire U.S. population has the possibility of equal access.

The reality is that while Fintech has improved access to credit it has still not reached its potential with an estimated 33.5 million households in this country still unbanked or underbanked.³ But we are still in the first or second inning of the Fintech revolution and the industry is getting better at broadening its reach. With sensible and supportive regulation I think the OCC can strike a balance between consumer protection and encouraging innovation.

New data sources and the application of artificial intelligence to the underwriting process means that more people than ever before can access credit. This can help people improve their standard of living and move up the financial ladder. Of course, the Fintech platforms are fully aware of the possibilities of disparate impact when undertaking these new methods and are careful to work within existing laws.

Examples from Other Countries

² An overview of marketplace lending (MPL) - see <http://www.globalcreditinvestments.com/insights-and-resources/an-overview-of-marketplace-lending>

³ 2015 FDIC National Survey of Unbanked and Underbanked Households – see <https://www.fdic.gov/householdsurvey/>

In the UK, the marketplace lending industry really took off after the FCA implemented rules designed specifically for the sector in 2014. It gave investors and borrowers the confidence that these online platforms were legitimate and not part of some dubious shadow banking system. There have been no significant platform failures in the UK during this period of rapid growth and one platform in particular, Funding Circle, has overtaken all but the very largest banks there in providing credit to small business.⁴

In China, they finally brought in regulation for the online lending industry in August last year. This will have a major impact and estimates are that 80-90% of the platforms there will go away. But those that remain will be strong.

I have had six visits to China over the past two years (LendIt holds an event there in the summer) and I am constantly amazed at the level of financial innovation taking place there. They lead the world in Fintech and their lead over the rest of the world is widening. While they should have regulated their Fintech industry sooner, the innovation that has happened there just in the last two years is staggering.

The Investor Perspective

Finally, I want to provide you a perspective that you probably will not hear from many people – that is the perspective of investors. I have been investing my own money into the loans of many companies in the marketplace lending space since 2009. There are hundreds of thousands of people like me who are investing in individual and small business borrowers throughout the country.

What first attracted me to the marketplace lending space was the obvious efficiency in a system where money flows directly from an investor to a borrower and back. As a result of this efficiency I have enjoyed high returns now for many years – I share these returns publicly.⁵

Today, there are dozens of opportunities for accredited investors to invest in loans issued by online lending platforms for consumer, small business and real estate. For my personal portfolio I appreciate the diversification this provides beyond just the stock and bond markets.

Conclusion

I will leave it to others to discuss many of the legal issues you are grappling with and how best to apply these new rules. Suffice it to say that Fintech is improving people's lives and making the financial system more efficient. And we are only just getting started with innovation here.

⁴ See <https://letstalkpayments.com/funding-circle-now-in-top-3-small-business-lenders-in-uk/>

⁵ See <http://www.lendacademy.com/my-returns-at-lending-club-and-prosper/>

When considering the Fintech charter I urge you to balance the risks to consumers and the need for innovation. We want to enjoy the benefits that technology can bring to financial services as real productivity gains can be enjoyed here. We also have a unique opportunity to expand access to financial services more than we have ever done before.

Thank to you the opportunity to provide this feedback. If you have any questions please feel free to contact me at peter@lendacademy.com.

Sincerely,

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Peter Renton
Co-founder and Chairman
LendIt Conference LLC
Founder and CEO
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