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BY EMAIL

February 20, 2020

Kathy Kraninger
Director
Consumer Financial Protection Bureau
1700 G St. N.W.
Washington, D.C. 20552

Re: Consumer Financial Protection Bureau's Symposium on Access to Financial Records

Dear Director Kraninger,

Thank you for the opportunity to participate in the Consumer Financial Protection Bureau's Symposium on Consumer Access to Financial Records. We have been conducting independent research relating to data access for more than a year as part of a multi-part project on the potential for bank account records and other forms in cash-flow data to increase access to credit for consumers and small business owners. We believe that greater engagement by the CFPB and other federal regulators through research, monitoring, and interpretive activities focused on both cash-flow underwriting and related data transfers is warranted in the near term.

Established in 2018, FinRegLab is an independent, nonpartisan innovation center that tests new technologies and uses of data to drive the financial services sector toward a responsible and inclusive marketplace. Through our research and policy discourse, we facilitate collaboration across the financial ecosystem to inform public policy and market practices and provide firms with a safe space to evaluate how technology and data innovations can serve policy goals and meet regulatory requirements.

Our first project has focused specifically on the use of cash-flow data in credit underwriting, which we chose in part as a case study regarding efforts to structure the new data transfer system that has emerged to permit consumers and small businesses to leverage the benefits of their financial information to both enhance customer control and spur greater competition and innovation in financial services markets. We expect next week to release the third report in the project, titled Market Context & Policy Analysis, which will focus in substantial depth on the market and policy issues raised by the data transfer system because its functioning is critical to the ability of lenders to obtain cash-flow information to underwrite consumer and small

business applicants. The report concludes that addressing issues in the data transfer system is critical for cash-flow underwriting to achieve its potential to foster a more inclusive, efficient, and competitive credit marketplace and for reducing potential tradeoffs and risks for consumers and small businesses.

We will supplement this letter with a copy of the report as soon as it is available. In the meantime, we briefly summarize some of its major findings as follows:

- **Cash-flow data holds substantial promise for credit underwriting:** Our independent research and extensive stakeholder outreach indicate that cash-flow data is beginning to expand access to credit, improve risk prediction and lender efficiency, and enhance customer-led competition and innovation.¹ While its most obvious use in underwriting is to evaluate consumers and businesses that lack traditional credit scores, our research suggests that the information adds meaningful predictive power for a substantially broader swath of applicants. The data could be particularly important for increasing access to credit for African-American and Hispanic populations, though it is not likely to close all gaps in credit availability and use between demographic groups.
- **Market and policy challenges regarding transfers of cash-flow data are one of the major challenges to reaching scale:** Consumers and small businesses cannot realize any benefits from cash-flow underwriting if firms do not adopt it in the first instance. One of the biggest challenges to the use of cash-flow data is ensuring that lenders of all types can secure reliable access to the data when it is held by other companies. Although market developments are reducing some operational hurdles, competitive dynamics and coordination challenges are affecting both issues. And open questions with regard to regulatory compliance and liability issues are creating substantial uncertainty in affected markets.
- **The transfer of data between companies also presents emerging risks for consumers and small businesses:** While the increasing use of cash-flow data in credit underwriting is providing benefits for consumers and small businesses, the need to transfer data between companies presents potential tradeoffs and risks particularly with regard to privacy, accuracy, data security, and transparency. Although some positive developments are occurring, uncertainty about the application of existing laws and inconsistency among market actors could become an increasing source of risk as the market continues to expand and evolve.

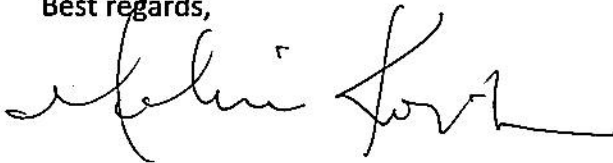
¹ See FinRegLab, *The Use of Cash-Flow Data in Credit Underwriting: Empirical Research Findings* (2019) (summarizing our independent analysis of data from six non-bank financial services providers—Accion, Brigit, Kabbage, LendUp, Oportun, and Petal—conducted in conjunction with Charles River Associates); FinRegLab, *The Use of Cash-Flow Data in Credit Underwriting: Small Business Spotlight* (2019) (providing a market snapshot of the growing use of electronic cash-flow data by a range of new entrants and incumbents in small business lending markets).

- **Increased engagement by federal regulators through research, monitoring, and interpretive activities could be particularly useful:** Resolving the complex and interlocking issues raised by cash-flow underwriting and related data transfers may ultimately depend on a combination of market-led, regulatory, and legislative initiatives. In the near term, greater engagement by federal regulators could be particularly useful in part by providing sharper focus and greater certainty to industry self-governance and legislative initiatives.

Ultimately, the report concludes that addressing market challenges and customer protection issues in the underlying data transfer system in the next few years could be particularly instrumental in setting the stage for more rapid expansion in cash-flow underwriting in years to come. These issues are potentially important to helping beneficial practices to reach scale and to reducing risks to both borrowers and firms.

We look forward to discussing these issues with you in more depth next week.

Best regards,



Melissa Koide
CEO and Director



Kelly Cochran
Deputy Director

