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May 30, 2016

Office of the Comptroller of the Currency
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Ladies and Gentlemen:

Congratulations on your initiative to better understand and guide recent and future innovation in financial technology. As founder of [dv01](#), a financial technology company that brings transparency to lending markets, starting with marketplace lending, I thank you for your thorough assessment of the challenges and opportunities innovation presents.

Your March 31st report is particularly timely given Lending Club's recent missteps and the subsequent consequences across the industry. As such, I wanted to share my perspective regarding responsible innovation, particularly as it pertains to marketplace lenders and institutional investors.

Background

By the time the housing market collapsed in 2008, I had spent five years at Bear Stearns trading mortgage-backed securities. My insider view showed me that, despite what the media projected, greed was only partially to blame for the crisis. The reason I saw was both more complicated and less provocative: the *financial sector's failure to keep up with innovation*.

As you know, the rise of MBS is often blamed for the financial crisis. But that blame is misplaced. MBS was intended to be a positive innovation, created by the industry as a way to modernize mortgage lending and allow investors to lend directly to homeowners.

The problem was the industry did not keep up. As new offerings like MBS hit the market, tools and processes investors used to make decisions did not change. The result? *Investors lacked visibility into the performance of individual loans backing these assets*. With no checks and balances, what could have been a positive innovation led to havoc. 2008 underscores why responsible innovation is so important —for all market participants.

dv01's Role

The back end of lending and investing is just as opaque now as it was prior to 2008, but things are further complicated by the rise of marketplace lending. With less regulation than banks and

no consistent reporting practices across lenders, it is difficult for investors to gain an accurate grasp of performance, or to reconcile performance across lenders. That is a dangerous status quo for an industry that could soon be worth \$1 trillion.

I founded dv01 with the thesis that easier access to information would lead to smarter decision making. As such, we have developed a set of software and services to help marketplace lenders, banks, institutional investors, and risk managers better understand and analyze the makeup and historic performance of marketplace assets. In the future, we hope to expand this level of transparency to traditional lending, including mortgages and auto loans.

Responsible Innovation

We believe strongly that transparency is a vital part of responsible innovation, specifically in financial services. The primary goal of lending startups is to lend money to consumers, which puts tools that provide transparency to investors on the backburner. This focus on consumer behavior also restricts understanding of investors' challenges, and the tools that address them.

By looking at Lending Club's recent oversights, we see some of the wide ranging consequences of limited transparency. The public markets lose faith, the banks that finance loans wait on the sidelines, and the consumers who need these loans the most see availability shrink and interest rates rise.

There will always be risk to innovation, but regulators can and should help mitigate that risk by educating stakeholders on "best practices" when it comes to dealing with innovative products, such as marketplace lenders.

Firstly, regulators should *encourage capital markets to embrace new technology that improves risk management* and makes loan and bond reporting more efficient and accurate. Current processes are outdated, limited in scope, and prone to human error. For example, traditional warehouse reports offer pool level overviews housed in an Excel file, making it impossible to do multidimensional filtering and analysis. While this is problematic for lending markets as a whole, it is particularly challenging for marketplace loans, which pay daily in small increments.

When analyzing the performance of a pool of marketplace loans, regulators should encourage investors *to look beyond the pool level* to ensure all loans meet their criteria. This can be done actively through a software that provides access to normalized, loan level data for every loan in a pool. It can also be done semi-passively if that software is able to alert the investor if and when loans fall below their criteria. In addition to offering deeper insight, real-time access to loan level detail also helps investors ensure reporting from the lender is accurate.

Access to loan level data is even more important when you consider securitizations. Traditional comparisons of high level rep lines make it difficult to know what specific loans are defaulting, preventing investors from quickly identifying down trends. Regulators should encourage investors to *request access to and review loan level attributes for each loan in a*

securitization—prior to purchase. That way investors understand the exact ratings and attributes of all loans in a bond, and can adjust their purchase accordingly.

Lastly, regulators should encourage investors to *compare loan performance across lenders*. Doing so actively is our first line of defense when it comes to detecting potential issues (i.e. default rates, charge-off rates, etc.) and understanding whether those problems are limited to one lender.

Our View of the Future

In your report, you note that "the rules of the road governing the development of innovative products and services are unclear." We believe that in the absence of clarity and guidelines from the government, it is more important than ever to bring transparency to data.

Responsible innovation falls on everyone's hands. dv01 is doing its part to create a system of checks and balances that ensures responsible lending by originators and responsible investing by capital markets.

Here is how we define responsible innovation at dv01:

- Limited federal regulations for marketplace servicing and reporting mean each platform has its own standards, making accurate comparison across lenders difficult. We *normalize data across lenders*, making it easy for investors to compare returns across lenders.
- In lieu of conducting analysis on Excel, we offer investors a cloud-based portfolio management solution that automatically organizes data for them and lets them *filter, sort, and pivot the data* however they want in a matter of seconds.
- Loan details traditionally live in Excel spreadsheets, making analysis slow and inefficient. We *simplify loan level analysis* by making our data accessible through a cloud-based web app, which turns static data from Lending Club, Prosper, Marlette, CommonBond, and Upstart into something dynamic and flexible.
- Securitization investors are traditionally limited to reviewing rep line level data. We increase transparency by providing our partners access to *loan level detail for each loan in a securitization*.

We appreciate the opportunity to comment on your perspective and hope we can count on your support as we continue to build dv01 and bring transparency to the new ecosystem of lending ahead of us.

If you have any questions or desire to discuss the matters addressed in this letter, please do not hesitate to contact me at perry@dv01.co or (646) 659-0292. My team and I would be happy to meet with members of the OCC staff as you consider the impact of innovation on our financial systems.

Sincerely,

Perry Rahbar
Founder & CEO, dv01