



June 14, 2019

Via electronic mail: innovation@occtreas.gov

Honorable Joseph M. Otting
Office of the Comptroller of the Currency
400 7th Street, S.W.
Washington, D.C. 20219

Re: OCC Innovation Pilot Program; Request for Comments

Dear Comptroller Otting:

Upstart Network, Inc. ("Upstart") appreciates the opportunity to comment on the Office of the Comptroller of the Currency's ("OCC") Innovation Pilot Program ("Pilot Program"). As a financial services technology company that, among other things, provides services to OCC-regulated banks, Upstart commends the OCC for taking a forward-looking approach concerning the use of responsible innovation in the national banking system. We share the OCC's view that emerging financial innovations provide consumers with increased access and product options tailored to meet their individual needs. Upstart's mission is to enable effortless credit based on true risk. Fair access to credit and financial inclusion, through the use of innovative techniques, are at the core of what we do. We are therefore pleased to provide our perspective on this important issue.

Upstart was founded in 2012 on the belief that better data science and technology could improve borrower access to affordable, sustainable consumer credit. We operate an online lending platform, or "marketplace," that enables qualified applicants to borrow money by obtaining general purpose, unsecured personal installment loans from one of our originating bank partners.

Our platform was one of the first to leverage artificial intelligence and machine learning to underwrite potential borrowers, by going beyond the use of traditional credit report and credit score. Many traditional lenders rely exclusively on such traditional underwriting methods that either ignore or oversimplify important borrower information; and "thin-file" borrowers are typically excluded from accessing credit altogether or offered access at very high rates.

We began to use the phrase “You’re more than your credit score,” many years ago, because it speaks to the truth of Upstart. By complementing (and not replacing) traditional underwriting factors with elements that are correlated with applicant ability and propensity to repay, Upstart’s underwriting model better understands and quantifies the risk associated with those with a credit history and those without. Therefore, having a fuller picture of an applicant’s ability and propensity to repay a loan, affordable credit has been provided to creditworthy borrowers, who might otherwise be deemed ineligible by traditional underwriting models. To date, we have extended almost \$4 billion dollars in principal and made over 300,000 loans.

Upstart appreciates the OCC’s willingness to engage stakeholders on this important topic. We offer the following responses to the agency’s proposed questions.

Upstart’s Responses to the OCC’s Six Proposed Questions

Question 1: As a supplement to existing agency processes, will the program provide additional value?

Response: The OCC’s Pilot Program has the potential of offering additional value on top of existing agency processes (such as supervisory perspectives, interpretive letters, guidance, and technical assistance). As proposed, we believe the Program would provide national banks, including their non-bank partners, with a much-needed framework for proactive regulatory engagement, as they develop, and work to refine, innovative products and services. Historically, banks have always maintained a low-risk appetite to incorporate innovative techniques into their operations. The OCC’s Pilot Program, however, would offer a controlled environment for bank-run live testing well before innovations were introduced into the national banking system. The Pilot Program seems to contemplate an ongoing dialogue between the OCC and participants for up to 24 months. Examiners would be provided with an early line-of-sight and ground-level perspective into innovative systems and approaches; this would also help to educate agency staff in the process. Conversely, such routine and direct engagement would offer participants near real time input from examiners, as techniques are being fashioned. The viability of a proposal, including its likely benefits and/or pitfalls, could be thoroughly vetted before full-scale implementation and deployment.

Question 2: Are the eligibility criteria and evaluation process appropriate for an effective program? Why or why not?

Response: On balance, it appears that the eligibility criteria are appropriate for an effective program. There are certain aspects of the evaluation process, however, that do not appear conducive to an effective program.

- Specifically, the proposal does not provide institutions with any information that would give them a clear sense of how long the evaluation process would take, from start to finish. We recommend the agency benchmark a specific timeframe by which evaluations

would have to be completed (e.g., no more than 60 days from the date in which an entity either concludes its preliminary discussions with the OCC or formally submits an expression of interest (EOI)). By specifying an exact end date for the evaluation process, the OCC would be eliminating much of the guess-work that some institutions may have come to associate with similar federal initiatives that resulted in unduly onerous, drawn-out processes. An established outer boundary would give entities a concrete timeframe by which to know whether their proposal would proceed to the testing phase. That timeframe could be either shorter or longer, depending on the innovation's complexity and its commensurate level of risk to the national banking system.

- According to the OCC, an “unsuitable” proposal would be removed from further agency consideration, with this decision apparently being made by the agency later in the evaluation process. Here, we are concerned for at least two reasons: (1) it is unclear what level of transparency the OCC would provide to entities regarding why their particular proposal was deemed unsuitable for supervised testing; and (2) the late disclosure to entities of their proposal's unsuitability could have detrimental effects, in terms of their business reputations. Specifically:
 - For proposals that make it near the finish line but are deemed unsuitable, we recommend the OCC provide entities with its rationale in support of such a conclusion. This could be done, for example, via letter correspondence, in conjunction with a follow-up meeting or teleconference.
 - We also suggest the agency signal to entities early on that their proposal would be unsuitable for submission to the Pilot Program. This important information could be provided during a preliminary discussion and would help preserve the business reputation of, for example, a third-party institution that has a business model predicated on the innovation proposal.

Question 3: Are the general program parameters appropriate? Why or why not?

Response: The program's parameters appear appropriate, specifically concerning the minimum three-month duration for proposals. The conspicuous lack of a “safe harbor” provision for participants may be a deterrent to participation. In particular:

- The three-month duration seems flexible enough to accommodate activities that are relatively straight-forward and require shorter review periods, due to the low risk they pose. We do question, however, whether a three-month program length, in general, would afford the agency sufficient time to provide meaningful supervisory review, input, or interpretation of findings.
- As with other regulatory proposals seeking to foster financial technology innovation (e.g., Consumer Financial Protection Bureau's disclosure sandbox), a safe harbor provision vests institutions with the creative latitude necessary to responsibly explore innovative products and services. Without this important addition to the Pilot Program, we are

concerned that otherwise innovative institutions may decide to forgo participation because they would have concluded the program's benefits may not outweigh the potential regulatory risks.

Question 4: What may be the preferred nature of regulatory engagement through this program?

Response: The preferred nature of regulatory engagement through the Pilot Program, to borrow the agency's own words, should be, among other things, "[a] consistent and transparent framework for eligible entities to engage with the OCC on pilots. . . ."¹ Although the OCC contemplates tailoring the terms of engagement for each entity, at a minimum, scheduled touch-bases, either in-person or via teleconference, with agency staff would be important. During such appointments, entities could present findings or pose discrete program-related questions to the OCC; and in response, the OCC could provide assessments, via feedback, and discern what agency tools and resources would be requisite for the proposal, at its then-current stage of development. Also, for routine queries that arise, the agency should contemplate providing a single-point of contact for participants, if personnel resources would permit. This would provide a measure of high-touch engagement throughout the pilot's duration.

Question 5: What type of innovation activities would be best served through this program?

Response: Banks are generally averse to incorporating innovative improvements into their systems and operations, particularly if those innovations involve areas where there is regulatory uncertainty or outdated supervisory guidance. But technologies that carry clear benefits to consumers, businesses, and communities should be explored, in a limited fashion, under proper agency scrutiny and oversight. Consider the use of artificial intelligence and machine learning models in consumer lending. This highly innovative technique has not only expanded access to credit for borrowers, but it has done so at overall lower costs, when compared to traditional models currently in use by most banks. Yet, this beneficial modeling technique has not been incorporated on a broader scale by banks, in part, due to their uncertainty as to regulatory requirements related to the use of such techniques. Therefore, it is our view that this type of innovation activity would be best served through the OCC's Pilot Program.

Question 6: Are there other suggestions or feedback as to how the program should work?

Response: We suggest that independent third-parties be allowed to submit pilot proposals that would help expand the range of input the agency receives. The OCC's third-party risk management guidance requires its banks to maintain effective controls for "critical activities" performed by third-parties.² These critical activities may increasingly involve the use innovative approaches developed by start-ups. So it is important for the agency to hear directly from

¹ See *OCC Innovation Pilot Program*, at page 2, April 2019.

² See OCC Bulletin 2013-29, *Risk Management Guidance*, available at <https://www.occ.gov/news-issuances/bulletins/2013/bulletin-2013-29.html>.

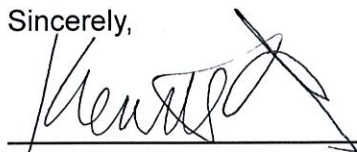
independent third-parties, irrespective of whether their proposals are submitted in coordination with an OCC-regulated institution.

* * *

Upstart appreciates the opportunity to provide comments to the OCC on the Proposed Program. If we may provide you with any additional information or you would like to discuss any of these comments, please contact me at kenneth.edwards@upstart.com.

Thank you for your consideration.

Sincerely,



Kenneth W. Edwards
Associate General Counsel, Regulatory Affairs
Upstart Network, Inc.