

**FINANCIAL INSTITUTION-FINTECH
PARTNERSHIPS: LEVERAGING THIRD-PARTY
RELATIONSHIPS TO INCREASE ACCESS
TO FINANCIAL SERVICES**

FIELD HEARING
BEFORE THE
SUBCOMMITTEE ON FINANCIAL
INSTITUTIONS AND MONETARY POLICY
OF THE
COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES
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C O N T E N T S

Friday, July 12, 2024

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**FINANCIAL INSTITUTION-FINTECH
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Friday, July 12, 2024

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
AND MONETARY POLICY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., at 401 Cross Street, Lexington, Kentucky, Hon. Andy Barr, Chairman of the Subcommittee, presiding.

Present: Representatives Barr, Rose, and Fitzgerald.

Also present: Representatives Sessions and Flood.

Chairman BARR. The committee will come to order. Without objection, the chair is authorized to declare a recess of the committee at any time.

This hearing is titled, "Financial Institution-Fintech Partnerships: Leveraging Third-Party Relationships to Increase Access to Financial Services."

Without objection, all members will have 5 legislative days within which to submit extraneous materials to the chair for inclusion in the record.

I now recognize myself to give an opening statement.

**OPENING STATEMENT OF HON. ANDY BARR, CHAIRMAN OF
THE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND
MONETARY POLICY, A U.S. REPRESENTATIVE FROM KEN-
TUCKY**

Welcome. Welcome to all to Kentucky's Sixth Congressional District. I want to thank all of our witnesses here today, and my colleagues who were able to make today's hearing in central Kentucky, the great Commonwealth of Kentucky.

I want to thank in particular my colleagues Congressman Sessions from Texas, Congressman Rose from Tennessee, Congressman Fitzgerald from Wisconsin, and Congressman Flood from Nebraska, all great patriots and friends and colleagues.

It is great to see all of you as well, numerous friends and neighbors, especially the financial services industry right here in the Commonwealth of Kentucky. I see many friends from the banking and the credit union industry here in Kentucky. Thank you. Welcome to all of you for participating today.

I want to especially thank at the outset Deirdre Lyons and Mark Lyons. Mark had to be in Brazil today for the company but to Alltech and all of the leadership at Alltech. Brad, thank you for helping to organize as well, Brad Harris, the general counsel.

Deirdre Lyons, I just want to say at the outset, this is her beautiful facility, part of the Alltech family of businesses, the Lexington Distilling and Brewing Company. For those of you who do not know, it is altogether appropriate that this is the venue, Alltech is the venue for a hearing where we are exploring cutting edge innovation, because there is no company in Kentucky, my congressional district, I would argue in the country and in the world that is as innovative as Alltech has been over these last 40 years.

Dr. Pearse Lyons and his wife Deirdre immigrated to the United States from Ireland with an entrepreneurial spirit, and they are literally the epitome of the American dream, having built this animal nutrition, brewery, distilling business empire. We are just so grateful, Deirdre, for your hospitality and for welcoming us here in this wonderful facility. We are very proud of our bourbon heritage here in central Kentucky, and so thank you for all you do for our community.

In this subcommittee, I have been honored to have great colleagues on both sides of the aisle, including Ranking Member Bill Foster from Illinois, who unfortunately cannot be with us today, but sends his regards. This journey that we are on in financial inclusion has been a bipartisan enterprise and we appreciate Dr. Foster for his collaboration.

On both sides of the aisle, there has been keen interest in fostering the prosperity of community banks and credit unions and the businesses that they serve. It is fair to say that there is joint concern that our banking system has been losing some of its dynamism and breadth. We do not want to end up with a barbell banking system, with a lot of too-big-to-fail banks, big Wall Street banks, money center banks on one end, and a scattering of small institutions on the other, and not much in between.

The strength of our financial system in the United States is its diversity, and that is what we are here to talk about today. This hearing is about bank and community financial institutions, credit unions' partnerships with financial organizations that provide so much innovation and community banks and credit unions partnering with these organizations that engage in business activities with them often are referred to as third-party vendors.

Such partnerships which increasingly involve vendors that employ innovative technologies can allow more efficient provision of financial services to consumers and businesses of all sizes. With adherence to prudent risk management of these relationships, financial institutions can better serve communities, including facilitating expanded opportunities and inclusion in the form of access to financial services to those who may be less likely to access financial services through traditional bank products.

Efficiencies include servicing clients in a timelier manner, improved compliance with legal and regulatory requirements, better management of operational risk, lower cost transactions, reduced friction in payments, and enhanced data protection.

As innovation in the provision of financial services accelerates, it remains important that a proper balance be struck between fostering innovation and attention to due diligence to ensure safety, soundness, stability, and consumer protection. At the same time, Federal and State regulators of banks and credit unions must not reflexively and unnecessarily stifle innovation, especially if motivated by politicized interests. Unfortunately, that has been what is occurring far too often recently.

For example, in June 2023, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Reserve issued final joint guidance establishing principles for all banks under Federal supervision to consider when entering into third-party relationships. One Federal Reserve Governor argued that the guidance is yet another part of a concerning pattern by regulators of deviating from a risk-based and tailored approach to supervision and regulation of banks.

Furthermore, an Federal Deposit Insurance Corporation (FDIC) director argued that elements of the guidance will create more ambiguity for banks rather than more clarity, which guidance should be intended to provide. Opaque guidance and rules create more ambiguity for banks. Ambiguity equates to higher prices and less options for consumers. These outcomes are not beneficial for our financial system or for American households and businesses.

Following the release of the Joint Agency Guidance in 2023, community banks expressed concerns that it does not provide bright line assurances that certain activity would or would not be permitted and was not prescriptive enough to explicitly prohibit certain activity. The guidance was too vague to provide an executable roadmap discerning what activities regulators would find acceptable or not.

Such opacity leads to unnecessary uncertainty, which can impede adoption of some services and innovation, and could lead to regulation by enforcement. Unprincipled regulatory agencies can and unfortunately do in some instances use regulation by enforcement to execute agendas outside of their mandates, therefore evading the intent of Congress. Unelected bureaucrats need to provide clear rules and be responsive to the actions they take that impact the banking system.

I look forward to hearing about the experiences of today's witnesses, along with your views and suggestions for improving the financial landscape throughout the Commonwealth of Kentucky and the United States.

These field hearings, I will say in conclusion, these field hearings are not common, but I think are extremely useful, where Congress actually comes to you, the American people, in the heartland of our country to get a real world view of what is possible in the area of financial innovation. I think that is very refreshing, instead of just relying on experts inside the Beltway.

With that we welcome today the testimony of: Kirk Chartier. Mr. Chartier is the chief strategy officer of Enova; Mike de Vere, Mr. de Vere is the chief executive officer of Zest AI; Karen Harbin, Ms. Harbin is president and chief executive officer of Commonwealth Credit Union right here in Kentucky; Amy Roberti, Ms. Roberti is global head of public policy for Stripe and Steve Trager and; Steve

Trager is the executive chair of Republic Bank and Trust Company also located here in the Commonwealth.

We thank each of you for taking time to be here. Each of you will be recognized for 5 minutes to give an oral presentation of your testimony. Without objection, each of your written statements will be made part of the record.

We will go in order down the line. We will start with Mr. Chartier. You are now recognized for 5 minutes to give your oral remarks.

**STATEMENT OF KIRK CHARTIER, CHIEF STRATEGY OFFICER,
ENOVA**

Mr. CHARTIER. Thank you very much. Good afternoon, Chairman Barr, and members of the Subcommittee on Financial Institutions and Monetary Policy. My name is Kirk Chartier. I serve as the chief strategy officer at Enova International, headquartered in Chicago, Illinois. I have worked in financial services and technology for over 30 years, including Charles Schwab, Dell Technologies, and Safeco Insurance.

Enova is a leading financial services company utilizing machine learning and world-class analytics to offer loan and line of credit products for consumers and small businesses in the U.S., as well as offering services and technologies to banks to help them serve those same customers. I am grateful for the opportunity to discuss the role Enova plays, and its more than 1,650 employees in increasing financial inclusion in America.

Since our founding 20 years ago, Enova has been committed to helping hardworking people gain access to fast, trustworthy credit to meet their financial responsibilities. To date, we have served over 10 million customers, originated or serviced \$55 billion in loans, and have been recognized as a best place to work in IT for over a dozen years.

Enova is a \$4.6 billion balance sheet company operating some of the best known brands in consumer and small business lending including NetCredit and OnDeck. My company is both a direct lender and a service provider to community banks who seek to expand the population they can offer loans to.

Smaller banks leverage the investments companies like Enova makes in their marketing, data and analytics, servicing, compliance, and capital markets capabilities so that they can compete with those large money center banks.

The reality today for Americans is stark. Many are struggling with financial instability. A recent Federal Reserve report highlighted that nearly 40 percent of Americans could not meet an emergency expense of \$400 from their savings. For people with credit scores below 680, it is even worse. Fifty-two percent of them report being turned down for loans in 2023. They do not have the savings and they cannot get the loans.

These challenges are not unique to consumers. Another Federal Reserve study showed that 52 percent of medium to high-risk small businesses were also turned down by banks for loans last year.

Enova serves this critical need by offering products designed to provide pathways to better financial health for consumers and small businesses that often do not qualify for traditional bank

products. By serving such underserved groups, we believe we are contributing significantly to financial inclusion, providing many with the means to navigate unexpected financial challenges or to grow their businesses.

Additionally, using an online model means most people can get convenient access to credit through their electronic devices when and where they choose. Enova can do this because it has developed proprietary technologies that harness the power of data analytics and supervised machine learning. These technologies not only ensure efficient and fair credit assessment, but they also safeguard consumer data through rigorous security measures.

However, the landscape of digital finance is evolving rapidly and our ability to continue innovating is challenged by a complex patchwork of State regulations. These laws have not kept pace with technological advancements in data and analytics, the essential tools that enable us to customize our products.

Activists are driving changes in State laws regarding lending practices and banking that can pose real challenges. There are novel theories out there of true lender tests specifically targeted to banks working with third-party service providers, and some are advocating for states to opt out of national banking laws like the Depository Institutions Deregulation Monetary Control Act of 1980, called DIDMCA by most. That opt out would undermine our dual banking system. Ultimately, this all leads to less competition and fewer options for those seeking credit.

We believe that Congress can play a significant role in bringing more clarity and certainty to this market, which in turn would result in more innovations and a greater number of banks being able to serve more customers. While prudential regulators have a valid, well-made rule in place, there is a need for a uniform true lender rule to go with it, one like the Office of the Comptroller of the Currency's (OCC's) 2020 rule that was straightforward and clear for the bank, regulator, and borrower. We would also suggest clarifying DIDMCA opt out authority and strengthening Congress's oversight authority on Federal regulators.

Recent Supreme Court rulings have stated that the executive branch administrative agencies must have clear directives from Congress to function properly. These actions would increase the number of banks lending to people and businesses that need it most by reducing uncertainty about the risks and liabilities of those programs.

Thank you for the opportunity to share our perspective today. I look forward to addressing any questions you have.

[The prepared statement of Mr. Chartier follows:]

WRITTEN STATEMENT OF
KIRK CHARTIER
CHIEF STRATEGY OFFICER
ENOVA INTERNATIONAL
BEFORE THE
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND MONETARY POLICY
UNITED STATES HOUSE OF REPRESENTATIVES
JULY 12, 2024

Good afternoon, Chairman Barr and members of the Subcommittee on Financial Institutions and Monetary Policy.

My name is Kirk Chartier, and I serve as the Chief Strategy Officer at Enova International, headquartered in Chicago, Illinois. I have worked in financial services and technology companies for over 30 years, including Charles Schwab, Dell Technologies, and Safeco Insurance. Enova is a leading financial services company utilizing machine learning and world-class analytics to offer loan and line of credit products for consumers and small businesses in the U.S. as well as providing services and technologies to banks to help them serve those same customers. I am grateful for the opportunity to discuss the role Enova and its more than 1,650 team members play in increasing financial inclusion in America through direct lending and bank services.

Since our founding 20 years ago, Enova has been committed to helping hardworking people get access to fast, trustworthy credit to meet their financial responsibilities. To date, we have served over 10 million customers, originated or serviced over \$55 billion in loans, and have been recognized as a "Best Place" to work for over a dozen years. This last bit is important because it means we can hire top technology talent to work at Enova. Enova is a \$4.6 billion-dollar balance sheet company operating some of the best-known brands in consumer and small business lending, including NetCredit and OnDeck. Working with companies like Enova enables banks to provide more consumers with more credit options.

My company is both a direct lender and also a service provider to community banks who seek to expand the population they can offer loans to. Smaller banks leverage the investments

companies like Enova make in their marketing, data and analytics, servicing, compliance, and capital markets capabilities to compete with the large money center banks.

Enova believes that our loan and line of credit products build a pathway for consumers and small businesses that helps increase financial inclusion. A cornerstone of financial inclusion is the opportunity to access credit, which results in greater independence and affords borrowers more control over their own financial and business health. However, not everyone has equal access to credit. We seek to fill this gap by offering loan products digitally to people throughout the U.S., both as a direct lender and as a service provider to banks. This dual approach allows more people in more states to engage with lenders through the products and services Enova has developed.

We have achieved this capability because regulations and regulators during our early years fostered innovation in financial services to increase financial inclusion.¹ The ability to continue this pace of product innovation and improvements for our customers is hampered today. There is an increasing patchwork of state laws and regulations that are not keeping up with changes in technology, data, and analytics that allow Enova to tailor credit products to individuals with lower credit scores and growing small businesses with limited assets to use as security for loans.

The fact is that most non-prime consumers have financial instability due unexpected expenses and limited savings, and they use credit to fill temporary budget gaps. The most recent Federal Reserve Board report in 2023 found that 37% of Americans cannot cover an emergency expense of \$400 from their savings.² In addition, a study by PYMNTS and Lending Club found that in a three-month period 46% of consumers reported experiencing an unexpected expense.³ Adding to the challenge consumers face with income and expenses, the Federal Reserve Bank of New York found that 52% of consumers with credit scores less than 680 were rejected for a loan during 2023.⁴ Over the past 20 years, Enova has served over 7.5 million consumers who have a weighted average Vantage® score of 600 and average personal income of \$40,000 a year. Our customers have a broad national presence and industry surveys have shown a diversified demographic uses these loans. Our consumer installment loans are offered

¹ U.S. Department of the Treasury, "A Financial System That Creates Economic Opportunities: Nonbank Financials, Fintech, and Innovation," July 31, 2018, <https://home.treasury.gov/sites/default/files/2018-07/A-Financial-System-that-Creates-Economic-Opportunities---Nonbank-Financi....pdf>

² Board of Governors of the Federal Reserve System, Economic Well-Being of U.S. Households in 2023 (Washington: Board of Governors, 2024), <https://doi.org/10.17016/8960>.

³ PYMNTS, The Emergency Spending Deep Dive Edition, <https://www.pymnts.com/study/reality-check-paycheck-to-paycheck-emergency-expenses-savings-financing/>

⁴ Federal Reserve Bank of New York's Center for Microeconomic Data, June 2024 Survey of Consumer Expectations, <https://www.newyorkfed.org/microeconomics/sce#/>

in amounts between \$300 and \$10,000, with terms between three months and five years, and amortization schedules that pay down principal over time. Our consumer lines of credit offer credit limits up to \$10,000. These products have consumer friendly features including both of the NetCredit products reporting to credit reporting agencies and the line of credit offering a rate reduction program based on on-time repayments. Enova's products are priced according to risk tiers within the business lines based on predicted defaults. The U.S. Chamber of Commerce has reported that risk-based pricing models reduced the cost of credit for consumers across economic and demographic groups.⁵ Features and products like these provide a pathway for consumers to become more fully banked and participate in the modern economy. These products are offered directly to consumers by Enova and also by several community or regional banks as part of Enova's bank services offering. Enova estimates there is a \$76 billion market for near-prime and subprime unsecured consumer loans.

Financial challenges aren't unique to consumers and another Federal Reserve report states that more than 52% of medium to high credit risk small business applications for loans at banks are denied.⁶ That same study found that less than 50% of small businesses used large banks as their primary financial services provider, and only 44% of small businesses sought financing from large banks. Key reasons for that given in the survey are complicated applications, processes that take too long to fund, and the belief the small business would be denied a loan by the big bank. Accordingly, 28% of businesses applied at small banks and another 23% applied for credit at online lenders,⁷ so they were applying with companies like Enova's OnDeck or community banks like the ones Enova provides services for. Small banks and online lenders are an important source of funding for small businesses, and OnDeck is a leader in the markets with over 243,000 small businesses having used Enova's unsecured term loan and line of credit products, primarily serviced by our OnDeck business. The typical OnDeck business customers have \$595,000 in median annual revenue, average 11 years in business, and operate in one of 900+ different industries. Most businesses take OnDeck loans for working capital or to buy or replace equipment. Enova's OnDeck business offers installment loans and lines of credit secured with a personal guarantee in amounts ranging from \$5,000 to \$250,000, terms from 6 to 24 months, and risk-based pricing. We estimate there is a \$372 billion-dollar market for small businesses (primarily to employer firms) seeking loans for less than \$250,000.

⁵ The U.S. Chamber, *The Economic Benefits of Risk-Based Pricing for Historically Underserved Consumers in the United States*, April 12, 2021.

https://www.uschamber.com/assets/documents/CCMC_RBP_v11-2.pdf

⁶ Federal Reserve Banks, "2024 Report on Employer Firms: Findings from the 2023 Small Business Credit Survey." March 7, 2024, . <https://doi.org/10.55350/sbcs-20240307>

⁷ *Ibid*

Enova's competitive difference is its proprietary technology platforms, data and analytics. These systems are built for scalability and flexibility and are based on proven open source software. We have safeguards designed to protect the information we gather. We also created controls to limit employee access to that information and to monitor that access. Our safeguards and controls have been independently verified through regular and recurring audits and assessments. These are both good business practices for a direct lender, and the type of systems and processes that banks look for in third party service providers.

Enova has developed a fully integrated decision engine that evaluates and rapidly makes credit and other determinations throughout the customer relationship, including automated decisions regarding marketing, fraud, underwriting, customer contact and collections that leverage machine learning-enabled models and large language model tools. The result of this work is underwriting decisions that can be up to 30% more accurate than FICO or Vantage scores alone in predicting loan default and loan application processes that can result in funds being received shortly after approval.⁸ These capabilities separate this credit offering from traditional bank products that rely on human processors and simple credit score cutoffs.

Our decision engine currently handles more than 100 algorithms and over 1,000 variables that have been analyzed by our teams for fair lending compliance. The algorithms in use are regularly monitored, validated, updated and optimized to continuously improve our operations. In order to support the daily running and ongoing improvement of our decision engine, we have assembled a highly skilled team of nearly 90 data and analytics professionals. Our proprietary models are built on more than 19 years of history, using advanced statistical methods that take into account our experience with the millions of transactions we have processed during that time and the use of data from numerous third-party sources. Our underwriting system is able to assess risks associated with each customer individually based on specific customer information and historical trends in our portfolio. We use a combination of numerous factors when evaluating a potential customer, which may include a consumer's income, rent or mortgage payment amount, employment history, external credit reporting agency scores, amount and status of outstanding debt and other recurring expenditures, fraud reports, repayment history, charge-off history and the length of time the customer has lived at his or her current address. While the relative weight or importance of the specific variables that are considered when underwriting a loan changes from product to product, generally, the key factors considered for loans include monthly gross income, disposable income, length of employment, duration of residency, credit report history and prior loan performance history if the applicant is a returning customer. Similar factors are considered for small business applicants and also include length of

⁸ Enova, Investor Presentation April 2024, <https://ir.enova.com/presentations-events>.

time in business, online business reviews, and sales volumes. Developing these capabilities are core to digital financial services and while companies like Enova that use an online business model can focus and develop world-class capabilities, it is more difficult for community banks to match them, thus the need for those same banks to be able to contract with financial technology service providers to compete for customers.

All of this is supported at Enova by a compliance framework that includes: (1) focus on tone from the top to instill an ethical culture; (2) centralized team led by experienced compliance professionals; (3) policies, procedures and other controls focused on compliance and the fair treatment of customers; (4) regulatory framework built into the technology platform and the business model; (5) training of employees on compliance requirements and transparency around pricing and other key aspects of its products; (6) a comprehensive risk assessment, monitoring and testing program; and (7) early warning signals on new regulations and other legal risks. Enova delivers the fast, secure technology systems and effective compliance management system its direct loan customers, regulators, and bank customers expect.

As discussed above, in addition to our direct lending programs offered under state authorities, Enova provides marketing, servicing, and balance sheet management services to several banks. Banks seek us out for these services to expand their lending to new populations they couldn't otherwise lend to. Our programs are similar to those offered by Fannie Mae in mortgage or any of the nonbank credit card sponsorship programs. Regional and community banks work with Enova because the products and services we developed work - this is clear to them from Enova's public filings and securitization activities. Smaller banks face significant challenges developing and maintaining the systems Enova spent significant capital to develop over the past 20 years and as a recent Federal Reserve study found, "Cost of Technology" is among the top external risks community bank leaders are facing.⁹ In addition, because Enova is a public company, supervised as a direct lender and servicer by multiple state agencies, and supervised by the CFPB, banks are assured that Enova can comply with the rigorous standards set out in the "Interagency Guidance on Third-Party Relationships: Risk Management"¹⁰ as well as the other federal and state laws banks operate under.

⁹ Community Banking Research Conference, "2023 CSBS Annual Survey of Community Banks," Oct. 4-5, 2023, <https://www.csbs.org/sites/default/files/2023-09/CSBS%202023%20Community%20Bank%20Survey%2010.04.2023.pdf>

¹⁰ Federal Deposit Insurance Corporation, "Interagency Guidance on Third-Party Relationships: Risk Management", June 6, 2023, <https://www.fdic.gov/news/financial-institution-letters/2023/fil23029.html>

In order for Enova to continue investing in servicing programs for banks, industry - bank and nonbanks alike - seek clarity on the risks and liabilities involved. In particular, banks can use their preemption rights to offer uniform products and services across multiple states providing a high-quality loan product and achieving economies of scale that make the offering profitable for the bank. However, the advantages for consumers and small businesses from competitively priced bank offered loans is at risk in several states as out-of-state activists work with novel legal theories to interfere with a bank's right to offer its products and services. This interference also creates uncertainty about the risks Enova takes on in offering services to banks, as well as making it uncertain for banks causing many of them to avoid offering loans to riskier customers. Over the past few years, five states have passed complex predominant economic interest laws to cut-off access for residents to loans offered by out-of-state banks. Some of these laws are already being tested in court and the rate of adoption has slowed as legislatures have questioned the often very long and convoluted statutes developed by think tank lawyers. A very recent action that has been promoted by a think tank supported by trial lawyers has been for states to opt-out of the Depository Institutions Deregulation and Monetary Control Act of 1980 ("DIDMCA") that brought parity with national banks to state-chartered banks allowing them to charge competitive interest rates. These two actions require the attention of this committee and action at the federal level to preserve our national banking system.

Enova understands and appreciates the role of regulators in providing clear guidance and sound regulation based on facts and current market capabilities. We work directly with the CFPB and with regulators in nearly every state through licensing and examinations. We also monitor bank regulations and regulator activities in the states and at the federal level as part of our bank servicing programs. This helps ensure our services are compliant with law both as a direct lender and as a service provider to banks. However, in many instances regulatory overreach in rule writing, supervision, and enforcement has resulted in potential harm to consumers, small businesses, and financial services companies. This overreach, especially where there is lack of clarity, impedes innovation and slows competition. We believe it is important that agencies such as the CFPB and other federal financial services regulators consider the impact on businesses and consumers when they establish and enforce rules, including following administrative procedures for developing and issuing regulations.

At the federal level, courts have found examples of regulatory overreach. One example of this is the CFPB's issuance late last year, "undoing" changes it had made to its exam manual on unfair, deceptive, or abusive acts or practices ("UDAAPs") after a court found the agency had exceeded its authority in making the changes. In that case, the CFPB provided limited advance notice for the industry to prepare for proposed sweeping changes to the law through a handful of edits to

its exam manual. A federal district court held that the CFPB had clearly exceeded its authority, usurping power held by Congress, in adopting the exam manual changes.¹¹

Finally, recently the Supreme Court of the United States has handed down several rulings that constrain the authority of the Executive Branch administrative agencies to take actions that have not been directly authorized by Congress or that are not subject to independent judicial review. Accordingly, we urge Congress to enact the CFPB Transparency and Accountability Reform Act to provide certainty to the agency and the industry that will allow them to work more effectively to deliver innovation and high-quality financial services to consumers and small businesses. In addition, we urge congress to act to clarify the preemption rights of banks as well as the risks and liabilities of parties participating in bank lending programs by passing legislation to re-institute the Office of the Comptroller of the Currency (“OCC”) True Lender Rule from October 27, 2020 making it federal law applicable to all banking institutions and to also act to clarify DIDMCA opt-out authorities. Bringing clarity and transparency to lending laws and regulatory actions helps to reduce the uncertainty that causes financial institutions to avoid lending to medium to high risk consumers and small businesses.

We appreciate the opportunity you have provided for us to express our views on these critically important subjects. We look forward to any questions you may have and to further discussions.

¹¹ See Chamber of Commerce of United States v. Consumer Fin. Prot. Bureau, No. 6:22-cv-00381, 2023 U.S. Dist. LEXIS 159398 (E.D. Tex. Sep. 8, 2023).

Chairman BARR. Thank you.

Now, Steve Trager, you are recognized for 5 minutes.

**STATEMENT OF STEVE TRAGER, EXECUTIVE CHAIR,
REPUBLIC BANK AND TRUST COMPANY**

Mr. TRAGER. Good morning. As mentioned, I am Steve Trager, executive chair of Republic Bank. Good morning and welcome to Congressman Barr and our distinguished congressional panel, as well as all the other folks of interest out there.

I wanted to spend a little time and tell you about Republic Bank and what we are about and then some of the products that we offer and some of the divisions that we have in order to better serve our communities in a broad community.

Republic Bank, as mentioned, is a Kentucky-based financial institution. We are one of the 5 percent largest banks in the country, at about \$6-and-a-half billion in assets, which are spread and served among our 47 locations in five states, Kentucky, Indiana, Ohio, Florida, and Tennessee. This branch network is a very traditional branch network and we offer traditional bank products for the communities we serve, mortgage loans, commercial loans, lines of credit, various deposit products again throughout the communities we serve. We serve about 120,000 customers throughout those communities.

In addition to that, kind of our icing on the cake in our desire to be more than just a traditional community bank are nontraditional bank products that we offer through a division that we label as Republic Processing Group. Republic Processing Group, I will talk a bit about that in a minute, but basically that is composed of tax refund solutions, Republic Processing Systems, and also Republic Credit Solutions.

Before I get into that, let me proudly talk a little bit more about what we do at Republic Bank. I am proud to say that we have been recognized as one of the top performing banks in the country and like most banks in our industry, we are extraordinarily transparent, we are most accountable to regulators, our customers, shareholders, and the communities we serve. I know of no other industry that is more accountable and transparent in that regard.

I am also proud to say that we have received high marks for customer service, philanthropy, and community engagement, including most recently our recognition in 2024 as a best places to work in Kentucky, best partners in philanthropy honoree, and also our recent outstanding Community Reinvestment Act rating.

In addition, as far as philanthropy is concerned, we are proud to have our name and be the primary funder of the Republic Bank Foundation Young Men's Christian Association (YMCA), which is a new YMCA in an underserved part of our community in Louisville. Also we were the lead bank for the Louisville Urban League Sports and Learning Center. Then we have a \$6 million commitment in the form of our community loan fund, which we make funds available to businesses in underserved parts of the community. In addition, we have an investment of more than 73 million in low income housing projects in the communities we serve over the last 2 years.

Now, I mentioned Republic Processing Group, which is another component of Republic Bank that is a bit nontraditional and en-

ables us to serve several million consumers throughout the country with the aid of our partnerships such as Enova and other financial technology (fintech) partnerships. Predominantly, again, I mentioned TRS, which is tax. We are in the tax business. We process over two and a half million tax refunds electronically for consumers around the country and Republic Payment Solutions, we have about a million prepaid cards outstanding, where we serve folks throughout our—throughout the country.

I guess my discussion focus today is Republic Credit Solutions that enables us to bring small dollar credit products to an underserved part of our country through partnerships with two fintechs, one of which is Enova here today.

These partnerships we take very seriously. You really want banks to be engaged in these partnerships because I would like to think we bring an accountability, a transparency, a risk component because we are at risk for these partnerships. The fact of the matter is, through our legacy systems, we would be unable to serve this large community without the help of folks like Enova.

Again, you want banks in this—engaged in this and you want to make sure that there is not such an excessive regulatory deterrence to engagement to make sure that we are held accountable but appropriately accountable for protecting consumers, holding our partners accountable, et cetera, et cetera. I think we also serve as a form of oversight and accountability ourselves because that is a big component of the life cycle that we have with these folks.

I can tell you there are some very responsible fintechs out there. I am proud to say that the two we work with, Enova being one, fall into that category but not every fintech is like that and of every ten that approach us, we turn down nine of them. So we have that level of accountability. If I had to categorize my ask, it would be let us not totally discourage banks from doing these things and partnering, because again we bring a good accountability to it. Thank you.

[The prepared statement of Mr. Trager follows:]



Testimony of Steven E. Trager
Executive Chair
Republic Bank & Trust Company

Before the
U.S. House Committee on Financial Services
Subcommittee on Financial Institutions and Monetary Policy

**"Financial Institution-Fintech Partnerships:
Leveraging Third-Party Relationships to Increase Access to Financial Services"**

July 12, 2024

Good morning I'm Steve Trager, Executive Chair of Republic Bank & Trust Company. Thank you for inviting me to speak with you about the benefits to consumers and community banks from bank and fintech relationships. Republic Bank is a \$6.6 billion Kentucky state-chartered, community bank operating in Kentucky, Tennessee, Indiana, Ohio, and Florida, and is among 5% of the largest 4,500 U.S. banks. The Bank is headquartered in Louisville, Kentucky and is a wholly owned subsidiary of Republic Bancorp, Inc., a one-bank holding company. The Company's common stock is traded publicly on the NASDAQ.

The Bank has 47 full-service banking offices and offers a full range of banking products and services for business and personal needs, including time and demand deposits and a variety of products including:

- Commercial, home mortgage, and consumer loans;
- Traditional deposit products; and
- Business services including corporate cash management, direct deposit of payroll, ACH debit originations, state and federal tax payments, business to business payments, purchase and payroll cards.

Republic has always been committed to its customers, the communities we serve, and our employees. The Bank earned an "Outstanding" rating from the FDIC in its most recent Community Reinvestment Act evaluation. We use innovative and flexible lending practices in order to serve the credit needs of the communities we serve. Some of those include:

- Providing to or assisting borrowers in obtaining down payment assistance grants to support home ownership for low- and moderate-income consumers;

- Supporting access to credit and the ability for consumers to repair or establish credit through programs including secured credit cards, credit builder loans, below market rate Neighborhood Housing Program mortgage loans, and revolving and installment mortgage second mortgage products for low to moderate income customers.

The Bank has always made significant amounts of community development investments and loans. Many of those loans and investments are the type not routinely provided by private investors and include:

- A \$1.5 million lead donation for the construction of the Republic Bank Foundation YMCA in a low-income area in Louisville's West End. The \$28 million project is a one-stop complex for services such as fitness, behavioral, mental, and family medical care, nutritional support, and out-of-school learning.
- Serving as the lead bank in creating a participation loan to complete construction of the Louisville Urban League's \$50 million Sports & Learning Center.
- Commitment of \$6 million to date to the Bank's Community Loan Fund for loans up to \$100,000 to help support small businesses in communities impacted by inequity and inadequate access to capital.
- Significant donations of funds and volunteer hours to organizations in the communities we serve.
- Investment since January 2023 of more than \$73 million in low-income housing projects in the markets we serve.

As you see, I'm very proud of the work our Bank does to serve our customers and communities. I'm also proud of the business we've built in our Republic Processing Group, a business segment which offers a variety of specialty consumer and commercial products and services through three divisions:

- Tax Refund Solutions offers tax payment and loan products nationwide through tax preparation offices and software providers.
- Republic Credit Solutions offers small dollar consumer credit products marketed and serviced by financial technology, or "fintech", program managers. Products include installment and line of credit loans as well as medical debt financing products.
- Republic Payment Solutions issues prepaid debit and payroll cards and accounts, and business to business payments marketed and serviced by fintech program managers.

We believe these programs help address the needs of American consumers who often have or choose to have little or no connection to the traditional banking system or in some cases who have nonprime credit ratings. The products are marketed and originated in a responsible manner and offer quick and convenient access to deposit and credit programs.

As I noted, the products offered through our Republic Processing Group are offered through arrangements with third parties, including fintech companies. This is sometimes referred to as

Banking as a Service (BaaS). In this relationship each party benefits from the strengths of the other party. This is a very collaborative process and has created a great deal of innovation in the marketplace urging competitors to offer better and less expensive consumer services. This also allows community banks such as Republic to offer programs on a national basis and to compete with much larger national financial institutions. Think of Republic Bank as the restaurant that creates and funds the meals and our fintech partners as UberEats that helps market and deliver the meals. We believe partnerships with fintechs provide benefits to consumers and small businesses, our Bank, and the fintech companies. The strong relationships we develop leverage each party's expertise to strive toward providing great products and experiences for our customers.

- Consumers, including those with little or no connection to the traditional banking system or some of whom have nonprime credit ratings, benefit by the expanded availability of responsibly offered banking products. Consumers can be assured the products offered through joint bank- fintech programs comply with consumer protection laws including credit reporting, debt collection, privacy, and electronic funds transfers. The products meet consumer demand of digital product offering and management.
- Banks benefit by collaborating with fintechs to offer the services and products with better customer experiences, improved efficiencies, and better and faster decision-making through improved technology and data analytics.
 - The 2023 Interagency Guidance on Third-Party Relationships: Risk Management issued by the banking regulators includes a good summary of the benefits to banks in fintech relationships where it says: "The use of third parties can offer banking organizations significant benefits, such as quicker and more efficient access to technologies, human capital, delivery channels, products, services, and markets."
 - I agree that banks benefit from fintech relationships through access to new markets of consumers and small businesses. In particular, community banks also benefit through diversification of our assets and income. The diversification of assets and income support the community bank independence which is vital to American communities. Further benefits to banks include the challenge from fintechs to explore customer-focused innovation, increase and improve digital banking offerings, and improve efficiency as a benefit to customer pricing and bank earnings.
- Fintechs benefit from banks' provision of backend infrastructure, knowledge of financial products, compliance oversight, and the regulatory controls and benefits that become part of the relationship. Fintechs also benefit from bank capital strength in both product development and offering. Through their collaborations, banks help fintechs develop a

culture of compliance to assure fair and responsible product offerings and longevity in the market.

I've mentioned the oversight and compliance aspects of the bank-fintech relationship and would like to take a few additional minutes to highlight Republic's oversight program to illustrate the depth necessary to operate in the bank-fintech business. The June 2023 *Interagency Guidance on Third-Party Relationships* clarified regulatory expectations of the life cycle of a third party and bank relationship including:

- Planning
- Due Diligence
- Contract Negotiation
- Ongoing Monitoring
- Termination
- Oversight and Accountability
- Supervisory Reviews of third-party relationships.

Republic has processes that address each stage and expectations of the regulatory guidance. Management and the Board set risk tolerance expectations for products and third parties. Management reviews all product proposals in regular multidisciplinary meetings prior to and during the due diligence process.

A dedicated team gathers due diligence materials, performs risk assessments of the proposed fintech along with any necessary additional parties, and presents findings to the Bank's Third-Party Management Committee. The due diligence process includes reviews by established Compliance, Legal, Information Security, Privacy, Credit, and Third-Party Management programs.

During and following the due diligence process, similar teams engage in product development and the contract process. This includes collaboration between Republic and fintechs including contract negotiation, underwriting, modeling, marketing, origination, and servicing reviews.

Republic has established product, portfolio, and service provider oversight and monitoring programs in both the Republic Processing Group and risk management levels. This includes ongoing reporting from the fintech and servicers, regular portfolio reviews, model risk management, customer feedback management, BSA/AML oversight, and regular third-party risk assessment updates. As part of the contract and ongoing monitoring process the Bank develops relationship and product termination plans.

All this work takes talented and trained staff. Republic Bank has 25 Associates in its Compliance and BSA department, more than most banks our size. In addition, the Republic Processing

Group has its own compliance and marketing officers and a staff of 8 dedicated solely to partner and product oversight.

The Board and its Risk Committee receive regular reports on the product and fintech relationship life cycle. Similarly, the FDIC and the Bank have regular updates about the third-party relationships and products, including compliance exams of at least one aspect of the Bank's fintech program annually.

While the Bank was generally in step with the 2023 guidance when released, we believe that adequate regulation and guidance related to fintech relationships, and the products offered through those relationships exists today. We hope that Congress continues to monitor the regulatory agencies to assure that regulation or regulation through enforcement of these relationships and products doesn't increase unnecessarily. In this way innovation can continue to be fostered in a controlled and regulated environment while simultaneously increasing financial inclusion to underserved consumers. In addition, as part of the Community Reinvestment Act improvements, we believe there should be consideration of banks' services to low to moderate income and underserved consumers regardless of location.

Thank you for your time today and I'm happy to reply to any questions you have.

Chairman BARR. Great. Thank you very much, and I am being light with the gavel. We have some great testimony, so I am letting folks go a little bit over.

Mike de Vere with Zest AI. I met Mike, a California fintech who educated me right up front he works with Kentucky credit unions. So, Mike, you are recognized for 5 minutes.

**STATEMENT OF MIKE DE VERE, CHIEF EXECUTIVE OFFICER,
ZEST AI**

Mr. DE VERE. Thank you, Congressman Barr. Thank you for inviting Zest AI to take part in this field hearing, to share how we have seen AI, artificial intelligence, and specifically our technology, make a positive impact on credit union clients, credit union clients like Commonwealth.

A little fun fact for everybody here. We actually have one of the leading innovators in the adoption of AI in underwriting sitting right next to me, and from Kentucky. So—right? So when we now look at, from a Zest AI perspective, some of our largest customers like Citibank, all the way to Molokai Credit Union, we are processing over a trillion dollars in loans. That is one in five credit union members across the U.S. That is one in five credit union members here in the great State of Kentucky. So I cannot thank you enough for this opportunity to present with you, Karen, and thank you for your leadership in this space.

What I am here to share with members today is how Zest AI has done the work, hired the right people, and built the technology that is capable of building a robust, inclusive, and compliant banking infrastructure for lenders like Commonwealth Credit Union. By building this better, fairer system, we remove a barrier that has existed for millions of creditworthy people who live in the U.S. We are talking about over 40 million Americans who are either unscorable or not scorable and do not have access to opportunity, which is credit.

At Zest AI, we are thinking constantly about the inequity and status quo of credit score system, the status quo system. That is a code, right? The industry score that we all wonder about the explainability associated with that, that has been in place for over 40 years, but lacks transparency and is held to a different standard than other fintechs like ourselves.

You know, the level of transparency that we have to live up to goes to everything from model explainability to generating adverse action codes and things like that. This is a goliath and labyrinth of regulations we have to run through. Yet there are other monopolies out there that do not have to follow the same rigor.

For model transparency, our models are accompanied with reports, analysis to track and explain outcomes for consumers. These insights into the data variables contributions are key to transparency, explainability, and compliance. Lenders that use our models can actually see what data inputs went to the score. This is not the Terminator, it is not self-learning. This is supervised machine learning that we are using, and everything is explainable.

AI models are all required to provide information sufficient to disclose the consumer details about the outcomes of the decisions that were made with the AI, also known as the adverse action no-

tices, required under Equal Credit Opportunity Act (ECOA) and Fair Credit Reporting Act (FCRA). These notices inform the consumers, which is important, and the members of the reasons they could not get the credit they sought. However, the quality of models can vary and a fully transparent AI model like the one we custom built for Commonwealth Credit Union is necessary to generate accurate adverse action notices. AI can be a powerful force for good when done right. It is not the boogiemer.

With more data insights and better math in the form of artificial intelligence and machine learning, Zest AI clients can safely expand credit access through more accurate risk predictions, state-of-the-art model governance. Many of our customers, when we look across the results that they are seeing, we will see increases in approvals of 25 percent, decreases in charge-offs. Who does not like that? It expands access to their full customer base.

Zest AI focuses on being the catalyst for economic equity by leveraging AI's potential for good. Everyone has worth. Lending decisions should reflect that. I will say that again. Everyone has worth. Lending decisions should reflect that. This idea of credit worthy? These are Americans. Every American should have equal access, fair access and a fair shot at credit.

I look forward to working with you all and sharing any insights I can on the work we do at Zest AI to improve equitable access to mainstream credit.

[The prepared statement of Mr. de Vere follows:]



Written Statement of

Mr. Mike de Vere

Presented at

House Financial Services Committee Field Hearing: Banking Relationships and
Regulatory Burdens

Lexington, KY

Submitted by

Mike de Vere, CEO
Zest AI

July 12, 2024

Prosperity, Fairness, and AI Work Hand-in-Hand

Hearing on Banking Relationships and Regulatory Burdens, Lexington, KY

Introduction

I am Mike de Vere, CEO of Zest AI, a financial technology (fintech) company that has pioneered and continuously perfected AI lending technology since 2009 with a mission to broaden access to equitable lending with smart, inclusive, and efficient AI. Zest AI is a proven partner for lenders of every size, with over 500 active models in the market, helping financial institutions decrease risk, boost equity throughout the lending process, and build durable businesses.

Throughout this document, I will refer to Artificial Intelligence (AI) and Machine Learning (ML) both fully and as abbreviations. I also would like to clarify that “Zest AI’s technology,” “AI-underwriting,” “AI-enhanced underwriting,” and other similar terminology in relation to our business only refer to our technology’s capabilities and business outcomes.

Why Zest AI Exists

The credit system plays a large part in the growing racial wealth gap that costs our economy trillions of dollars in GDP and disadvantages many across the country from growing generational wealth and building better lives for their families. Some quick facts:

1. Since 2000, the U.S. economy could have grown by \$16 trillion had racial discrimination been eradicated ([Citigroup](#), 2020).
2. Global GDP could jump \$7 trillion by closing the pay gap ([Moody's Analytics](#), 2023).
3. 1 in 5 Black individuals and 1 in 9 Latinx individuals have FICO scores below 620, compared to 1 in 19 White people ([Brookings](#), 2020).
4. Despite having less debt and higher education levels, women have roughly the same credit scores as men ([Experian](#), 2020).
 - a. 705 for men and 704 for women.
 - b. Men hold over 20% more debt than women.

We need inclusive credit scoring now more than ever. Enough is enough. Creditworthy borrowers need equitable access to mainstream credit NOW to weather economic and personal shifts, capitalize and fund new businesses, compensate for lack of liquidity, and grow the opportunities available to the next generation. Financial institutions need equitable access to credit to continue to populate the data inputs that better represent the shifting diversity in the U.S. so they can make fair and safe credit risk decisions as the country grows more diverse ([Brookings](#), 2020).

The ability to broaden access to equitable credit exists today in Zest AI's technology and service. AI is a tool that enables lenders of every shape and size to grow both in fairness and prosperity because the fairer we are in our lending decisions, the more the people in our country can grow, and the better our economy thrives.

Zest AI's Technology

At Zest AI, we are developing safe AI for underwriting and a thriving lending ecosystem.

Artificial intelligence is an umbrella term that includes a broad swath of categories underneath it, from simple automation of repetitive tasks to complex algorithms that can learn in ways that mimic human learning. These two specific examples aren't particularly helpful for lending decisions nor fully compliant with lending regulations. The technology underpinning Zest AI's underwriting technology is not simple automation, nor does it learn like a brain. We base our underwriting models on a complex algorithm to strategically predict risk outcomes based on credit data provided by a borrower application and other sources.

Policymakers with compliance concerns about the challenges inherent in monitoring an AI underwriting model if the model is learning from itself and changing along the way should be aware that most AI underwriting models do not learn and change while they are in use — at least not the compliant ones. Our models are explainable, locked, and documented in order to meet the model governance, safety and soundness, and consumer protection requirements of our financial institution clients ([Zest AI](#), 2023). More specifically, what we mean by 'safe' is that we train our AI models using machine learning, supervise our models during training, and lock our models during production so they cannot learn independently while in operation. This is unlike generative AI examples, like ChatGPT, which are unlocked and learn new ways to process information while in use. Zest AI's technology has been created, trained, and tested by diverse teams of engineers, data scientists, and legal professionals, so when lenders incorporate our AI into their lending insights, they maintain the competency of human-decisioning and gain the consistency of mathematical algorithms. The models are operated in production using accurate, compliance-tested data and are transparent to the staff and management using them, with readily available documentation for ease of reference.

Since 2019, Zest AI has obtained over 50 patents approved or pending for developing artificial intelligence models and fairness technology for underwriting that support and even enhance compliance with applicable financial services laws. The science behind Zest AI technology's approach to optimizing accuracy and fairness has been thoroughly analyzed in recent research, such as that by the prominent think tank FinRegLab ([FinRegLab](#), 2023) and academics from the

Harvard Business School ([HBS](#), 2023), and has been found to be highly predictive and resilient. In partnership with Federal Home Loan Bank of San Francisco, Urban Institute also included Zest AI in a research project looking at how using AI in mortgage finance can help advance racial equity in homeownership ([FHL Bank SF](#), 2023).

Zest AI is helping lenders better serve thin-file borrowers through more accurate risk insights from our technology. According to CFPB researchers, over 45 million American consumers — 20% — are either not visible at all using legacy scoring methods or are unscorable due to 'insufficient' or 'stale' information ([CFPB](#), 2016). Zest AI can pull better insights on information from credit history data for previously excluded or unscorable consumers and can also selectively incorporate safe inputs from alternative data sources. Currently, our technology supports originations to over 20% of credit union members across Kentucky. Our clients are making more loans and extending more credit card approvals without increasing their credit risk.

Because our AI models rely on hundreds of data variables instead of dozens, they are more stable and much less vulnerable to losing predictive power when economic conditions change. Zest AI's technology — had it been deployed — would have been 34% more accurate at predicting consumer loan defaults during the Great Recession.

Zest AI's model risk insights are also twice as accurate as legacy scoring methods across the middle tier. More accuracy increases lending decision consistency. By sending fewer middle-tier applicants to manual review due to increased risk prediction accuracy with AI-enhanced underwriting, they are confidently approving more creditworthy borrowers that might have otherwise been missed using legacy scoring methods. Lending consistently with more confidence is the key benefit of using safe AI technology for underwriting.

Data: Responsible Use Prevents Bias and Abuse

The percentage of Americans who lack sufficient credit history to get a traditional credit score is 20% ([Experian](#), 2022). That's 49 million American adults. Don't you think we can do better?

Our current credit system has a data problem. Why is it important to have accurate, representative data when scoring borrowers? This country is already incredibly diverse and will continue growing more diverse over the years. Using non-representative data to back lending decisions means that these consumers get excluded. We need solutions that can be tailored. For example, do Californians have the same lending needs as Iowans? Do lenders in Texas serve the same populations as those in Maine? In the end, a one-size-fits-all approach fails when it comes to lending accurately and fairly. Having representative data means lenders can serve a more complex population. Tailoring data allows for better,

more inclusive decisions. Using AI and alternative data can help fill in gaps and provide accurate decisions for thin-file borrowers. However, lenders and the fintechs they partner with MUST be diligent in ensuring all data used does not introduce bias.

Using data that reflects bias perpetuates further bias in lending decisions. We talk and think extensively about data at Zest AI, especially in the legal and compliance team. But more importantly, we do data right at Zest AI. We believe that ethically sourced, responsibly used data is key to improving lending decisions and the banking ecosystem as a whole. Ensuring the data a financial institution uses is representative of the population it's serving and comprehensive enough to build models accurately and fairly helps our customers — banks and credit unions — make better lending decisions.

There is much talk about the promise of core banking data or cash flow data, which we find to be an exciting development. The power of core banking data adds to the accuracy of decisions that can be made through AI. Cashflow data has also been shown to be a powerful indicator of risk. The ability to see that a loan applicant has high savings or pays their bills on time is one way that lenders can expand access to credit and look beyond the data found in a traditional credit score ([CFPB](#), 2023). Having access to these sources and being able to incorporate variables from these sources of data will decrease noise in an AI model. And while these findings are great signals of progress for the industry, the need for caution and testing of alternative data is incredibly important.

There are compliance “watch-outs” that deployers need to be aware of when considering using alternative data in their AI model. Some AI vendors have been found to use data wherein over half of their variables were not compliant, including criminal records or social media usage. In general, it is our belief that obtaining and using more data than necessary harms consumers by adding more signals that could introduce bias. Pulling additional data can also cost a financial institution a lot of money and yield only a small lift in accuracy. Financial institutions should keep their eye on issues like AI vendors using unnecessary data, but AI vendors should also be held responsible for maintaining compliance standards for the industry they're serving.

Knowing what data is compliant requires very specific legal knowledge. Even more technical knowledge is needed to incorporate the relevant legal rules into the systems used to build and operate the models. When Zest AI uses data to build the AI models that help lenders make inclusive lending decisions, we are thoughtful and purposeful, which should be the standard across AI underwriting technology offerings.

Fairness is a Specific Path, Not a General Direction

The lack of access to consistent, fair, and timely credit is one of the U.S.'s most under-discussed issues. Inequitable credit access shapes the core foundation of the nation into one that benefits the privileged to the detriment of the marginalized. But, the technology to solve bias in the financial system exists and works today ([Zest AI](#), 2023).

Public sentiment about legacy scores tells us that the current system is failing a majority of people. Of Black Americans, 20% have a credit score under 620, despite making up only a little over 14% of the U.S. population. Only 5% of White Americans, who make up over 60% of the U.S. population, have a credit score under 620. Only one in four Americans believe their credit score accurately reflects their financial position ([FormFree](#), 2023). The constrained lending results that financial institutions see from legacy scoring tell us how our current credit system is failing many of us. Incorporating AI into lending can help close these gaps.

AI can beat bias embedded in data. AI provides a more comprehensive assessment of the data inputs before they are used in the model. Tradeline data can have embedded bias when it reflects performance that may have been negatively impacted by predatory credit terms, lack of access, and sporadic or practically non-existent credit history. However, when tradeline data is used responsibly and tested for fairness, both as an individual data point and in correlation with other data points, AI technology can increase approvals for those low-risk borrowers legacy scores leave out. The testing is straightforward but must be rigorous when there are thousands of variables to test.

Lending — with or without AI — has clear anti-discrimination protections in place. What's less clear is how we measure progress in improving how we provide more mainstream credit to more people. Distinguishing between what is "fair" and what is "fair enough" is an important question to answer for several reasons. Some lenders and AI vendors, not Zest AI, use the idea of "fair enough" to avoid making fairer decisions when they are able to because what they are doing appears to be good enough to conform with the law. But in actuality, the status quo "fair enough" is not the path towards fairness. It's those who are willing and able to do something different, something more advanced to make more good loans to more creditworthy borrowers who are in pursuit of true fair lending.

There are extant principles that we can apply when choosing a fairer model. Lenders already make trade-offs between different modeling options when it comes to credit policy and other areas. Experts, such as the attorneys at Relman Colfax PLLC, have done good work in this area and have articulated fair lending principles for lenders to follow.

Also, getting to fairer, more accurate underwriting models is not as difficult as many believe it to be. AI technology has, in fact, created readily accessible means to accomplish the robust LDA search regulators expect. For all practical purposes, ML is the best way to effectively search for less discriminatory alternative models. Previous approaches that removed biased variables for greater fairness negatively affected that model's accuracy. Lenders were stuck with manual and less sophisticated algorithmic approaches to testing for and reducing the impact of discriminatory data variables on their models. Now, they're able to use safe AI to test and refine their models for fairness. Of course, financial institutions have to make wise lending decisions. We can't put capital at risk at banks and credit unions. With AI, we do not need to do that to be fair and ensure customers have access to safe, affordable loans to improve their lives.

AI can close the approvals gap. AI is a tool that can benefit Americans by leveling the credit-scoring playing field. Using Zest AI's technology, lenders can confidently score 90% of the U.S. population and capture 90% of those previously unscorable consumers, including customers ineligible for social security numbers. These approval increases for credit cards, personal loans, and auto loans are the launching pad for Zest AI's venture into home finance approvals, bringing more access to better lending decisions to a wider consumer base.

Zest AI's technology includes both more predictive outcomes and greater racial equity. AI is closing the approval gap between the included and traditionally excluded. With AI, we can adjust the variables in hundreds of permutations and generate model options quickly. Lenders can readily assess how little predictive accuracy they may need to trade to make more loans to more borrowers from all backgrounds.

Responsible AI Tools Can Enhance Compliance for Lenders

Responsibly developed and deployed AI can make it easier to meet regulatory requirements. Purposeful assessment of permissible data inputs and documentation of that assessment means a bank or credit union can see and understand the factors involved in the prediction and make adjustments for fair lending purposes. The representative, compliant, structured data is then combined with advanced math in the form of algorithms. The algorithms are supervised while they learn from the structured data. This cannot be done with biases embedded in the human brain.

Let's focus the conversation on the specific type of technology Zest AI recommends for compliant credit underwriting. These AI models are trained under supervision on structured, traditional tradeline data from a national credit bureau and safe alternative sources, then tested, and then locked when put into production so they do not continuously learn while in operation. With this

combination of critical elements, Zest AI's technology is safe for underwriting and beats bias to increase inclusive lending.

Any technology used to make consequential decisions in a regulated sector must abide by applicable regulations. For example, if air traffic controllers start using AI, they still need to follow the existing framework that governs how closely planes can take off and land together on the same runway. Sound data inputs are critical to fair and accurate models. Robust and representative datasets for training and validation are the foundation for generating stable AI models that can generate reliable inclusive decisioning. Individual data inputs must be reviewed, and those that are potential proxies for protected class characteristics that are not supposed to be considered should be removed — AI can do this analysis efficiently and transparently.

We have yet to eliminate bias from human decisioning that isn't supported by AI. Zest AI believes that our purpose-built, human-centered technology can help banks and credit unions make better, more consistent, and fairer decisions. Though our advanced technological tools for credit underwriting are powered by smarter data and better math than older or competing tools, our tools are developed and deployed in compliance with the applicable laws governing the standard tools and third-party providers that banks and credit unions rely on to serve their customers. AI models that provide visibility into the data they use and options to fine-tune the data to optimize equitable lending can actually make it easier to comply, easier to track compliance, and easier to move past mere fair lending compliance to demonstrably fairer lending. To improve compliance with the existing federal regime that already mandates no discrimination, strong model governance, model testing, transparency, and consumer notices, we need more clarity that transparent tech tools that enhance compliance are allowed.

Final Thoughts

AI policy debates can at times be imprecise, and it is our goal at Zest AI to provide technical expertise to help focus the conversation on the benefits and risks of some of the AI technology in use right now in financial institutions across the country.

The way to increase access to equitable lending is together. While regulators can ask more of lenders and vendors when it comes to promoting transparency, fairness, and compliance, we would like to ask a few things of our regulators and decision makers. We ask that you invest in ideas and visions that are built with the purpose of bringing about a collective good. We ask that our leaders promote rules that both protect people and encourage innovation. We ask that compliance and fairness become more than a box to check and that governance uplifts those pursuing fairness as an outcome, not just as a by-product.

There's a future where everyone in the United States has access to the American

Dream. Prosperity and fairness are not at odds with one another. We at Zest AI envision a world where fairness emboldens and strengthens prosperity. We simply need the courage to take the first step.

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Chairman BARR. Thank you, Mike, and speaking of that innovative Kentucky credit union, Karen Harbin is now recognized.

STATEMENT OF KAREN HARBIN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, COMMONWEALTH CREDIT UNION

Ms. HARBIN. Thank you. Good morning. I am Karen Harbin, president and CEO of Commonwealth Credit Union, headquartered in Frankfort, Kentucky. We are a state-chartered credit union with over two billion in assets and 18 branches in the central Kentucky and Louisville metro areas. Thank you for the opportunity to be here today to talk about how fintech partnerships enhance our ability to serve our credit union members.

In 2019, Commonwealth set out to make better lending decisions for our members. The lending team wanted to confidently lend down the credit spectrum through more accurate, unbiased decisioning that would not increase risk. They also knew we needed to innovate the lending process to meet our members' increased demand for a fast, frictionless lending experience.

We set out to find a fintech partner in the marketplace that could help us meet these challenges, and we found one in Zest AI and their underwriting tool. Zest AI was ready to fill in the gaps with increased automation and accuracy. This allowed our underwriting teams to focus on members who need more personal support with their application. Their technology has allowed us to say yes to more members while not negatively impacting charge-off and delinquency ratios.

With nearly three-fourths of all consumer loans decisioned automatically under this partnership, Commonwealth's ability to compete with other lenders has skyrocketed. Since 2021, Zest AI has helped Commonwealth approve more than 370 million in consumer loans. The performance of these loans is also stronger.

With this technology, we can approve member loans outside of regular business hours, enhancing convenience and accessibility. For example, in 2023, we recorded over 3,000 more loans than in 2019. Zest AI has helped us make previously invisible credit files scorable, again enabling us to say yes to a broader and more diverse range of applicants.

Using automated underwriting as part of our partnership with Zest AI, Commonwealth has increased our approval rates for minority borrowers, doubling it for auto loans, increasing by 40 percent for credit cards, and raising it by 9 percent for personal loans. Loan approvals for female borrowers have also seen similar increases. This partnership has been very successful for us and we believe this is a great example of how working with the right fintech partner can benefit financial institutions like Commonwealth.

We have heard from numerous members who thank us for approving their loans. Many are now turning to us when other lenders are turning them down. Zest AI has made it easier for us to now serve them.

Unfortunately, there is still uncertainty in the regulatory environment with fintech and AI usage. Regulators frequently recognize the advantages of technological collaborations, yet they have also voiced apprehension that certain technologies like AI may be

functioning in ways that neither they nor consumers fully understand.

We are concerned that regulators taking a stringent stance on AI usage in the financial sector could disproportionately harm credit unions and smaller institutions while benefiting the largest incumbents. For example, statements from the Consumer Financial Protection Bureau (CFPB) suggesting that AI algorithms function as opaque black boxes introduce uncertainty about the level of regulatory scrutiny, especially in the absence of evidence of harm to consumers.

When regulatory entities approach technology in this manner, it reinforces the concern that smaller entities could face obstacles to success as only the largest institutions may possess the resources necessary to meet such rigorous standards. We believe regulatory assessments of new technologies must embrace balanced and flexible approaches to risk management that can accommodate innovation while protecting consumers. While there may be need for clear rules of the road, those rules should not be so stringent as to stifle innovation or disadvantage smaller institution.

In conclusion, the impact of credit unions including Commonwealth Credit Union lies in our genuine commitment to serving communities. Every step we take is in line with our primary mission to better the lives of those we serve. Our partnership with fintechs like Zest AI allow us to better serve our members. It is important that regulators not create expansive requirements or new hurdles that threaten the ability of credit unions to take advantage of successful partnerships like we have with Zest AI.

Thank you for the opportunity to be here today, and I welcome any question.

[The prepared statement of Ms. Harbin follows:]

Statement of Karen Harbin
President and CEO of Commonwealth Credit Union
on behalf of
America's Credit Unions
House Financial Services Committee
Subcommittee on Financial Institutions and Monetary Policy
"Financial Institution-Fintech Partnerships: Leveraging Third-Party Relationships
to Increase Access to Financial Services."

July 12, 2024

Opening/Introduction

Good morning, I am Karen Harbin, President and CEO of Commonwealth Credit Union, headquartered in Frankfort, Kentucky. Since opening our doors in 1951, we have expanded to meet the needs of our member-owners, now over 120,000 strong. We are a state-chartered credit union with over \$2 billion in assets and 18 branches in the Central Kentucky and Louisville Metro areas. Our credit union members elect a Board of Directors from their peers—the people they live and work with to provide oversight to the credit union. These Board members are unpaid volunteers.

We have stood by generations of families through both prosperous and challenging times, remaining abreast of technological advancements while always prioritizing the importance of personal connection and the difference we make in the lives of the members we serve. As a not-for-profit financial cooperative, we take great pride and effort to support the varying needs of the communities in which we serve as well. We offer extensive financial education programs facilitated by a team of professional educators who collaborate with local schools, colleges, and community organizations. Our aim is to educate and empower individuals with the necessary tools to enhance their financial well-being and health.

While credit unions nationwide have continued to grow over the past few years, now serving over 140 million consumers, the vast majority are small institutions with limited resources. As a matter of fact, the largest bank has 20 times the assets of the largest credit union. Furthermore, three banks earned more than the entire credit union industry did in 2023.

We prioritize supporting economically vulnerable individuals. As a credit union serving numerous low-income communities, more than half of our loan portfolio addresses these economically challenged areas in Kentucky. Moreover, during periods of economic hardship or personal challenges faced by our members, we provide support through various means such as low-interest loans, fee waivers, and flexible payment options.

CCU's Use of Fintech Technology

In 2019, Commonwealth Credit Union set out to make better lending decisions for our members. The lending team wanted to confidently lend down the credit spectrum through more accurate, unbiased decisioning that would not increase risk. They also knew they needed to innovate their lending processes to meet our members' increased demand for a fast, frictionless lending experience.

Just one year later, the COVID-19 pandemic changed the workforce: like many industries, Commonwealth Credit Union faced a high turnover rate, especially for our experienced underwriting staff. The ability to make accurate decisions and keep pace with application volume was critical to maintaining both relationships with members and business needs. We set out to find a fintech partner in the marketplace that could help us meet these challenges. We found one in Zest AI and their underwriting tool.

Zest AI was ready to fill in the gaps with increased automation, accuracy, and the ability to aid our new underwriting team in focusing on members who need more support. Zest AI's technology has allowed Commonwealth Credit Union to say yes to more members while not negatively impacting our charge-off and delinquency ratios. With 70-83 percent of all consumer loan decisions automated, Commonwealth's ability to compete with other lenders has skyrocketed. Since 2021, Zest AI has helped Commonwealth approve more than \$372 million in consumer loans, amounting to more than 21,500 loans. The performance of these loans is also stronger than ever before. Our Zest-decisioned loan delinquency is below industry standards at 45 bps and is trending 10 bps below our overall loan portfolio, even with 17 percent of those loans being unsecured.

With increased speed and accuracy, Commonwealth can reach more members in less time, allowing our lending team to focus on managing a stable pipeline of volume rather than looking for ways to attract more loans.

We can also assist our members and approve their loans using this automated technology outside of regular business hours, enhancing convenience and accessibility.

Before this partnership, we auto-decided about 28-30 percent of our loans. Since our partnership with Zest AI, our auto-decided loans have skyrocketed to above 70 percent. In 2023, we recorded over 3,000 more loans than in 2019. To fund over 3,000 more loans, we had to make a lot more decisions. With Zest AI, we managed to boost our decision-making productivity without expanding our staff, allowing us to help more members, approve more requests, and assist more individuals in achieving their financial goals. Zest AI has helped us make previously invisible credit files scorable, enabling us to say yes to a broader and more diverse range of applicants.

Using automated underwriting as part of our partnership with Zest AI, Commonwealth Credit Union has more than doubled our approval rate for auto loans to minority borrowers. Our credit card approvals for minority borrowers have also seen a 40 percent increase using Zest AI when compared to the standard underwriting previously used. Even personal loan approvals for minority borrowers have grown 9 percent under Zest AI. Loan approvals for female borrowers have also seen similar increases since using Zest AI. This partnership has been very successful for us. While our approvals are increasing, our delinquencies are remaining stable. We believe this is a great example of how working with the right AI partner can benefit financial institutions like ours.

It is not just the credit union that has benefitted from this partnership; our members do too. We have heard from numerous members thanking us for approving their loans. Many are now turning to us, their credit union, when other lenders are turning them down. Zest AI has made it easier for us to now serve them.

The Regulatory Environment for Fintech Partnerships

Regulators frequently recognize the advantages of technological collaborations, yet they have also voiced apprehension that certain technologies, like AI, may be functioning in ways that neither they nor consumers fully understand.

In examining the broader financial sector, the Treasury Department has highlighted the favorable impacts of AI in credit underwriting and risk management. They suggest that leveraging machine learning and big data analysis effectively will increasingly serve as a crucial competitive edge, especially for smaller firms. Simultaneously, however, Treasury has cautioned that while AI advancements offer advantages, they could also limit consumers' ability to make informed choices if the market for AI solutions becomes dominated by a small number of technology providers. Regulatory skepticism towards AI could result in decreased competition if the economies of scale required to meet excessive compliance expectations are possessed only by the largest financial institutions or the largest vendors.

A stringent stance on AI usage in the financial sector could disproportionately harm credit unions and smaller institutions while benefiting the largest incumbents. It is reasonable to expect explanations about the outputs and decisions an AI system can generate. However, demanding a detailed inspection of source code, algorithmic weights, or other technical aspects underlying AI models would impose significant and impractical burdens on credit unions that rely on proprietary models from fintech partners. Such requirements could divert scarce in-house developer resources towards compliance activities, which larger institutions can more readily afford.

Statements from the CFPB suggesting that AI algorithms function as opaque "black boxes" introduce uncertainty about the level of regulatory scrutiny required for algorithmic processes, especially in the absence of evidence of harm to consumers. This skepticism puts credit unions and other community institutions at a significant disadvantage. Instead of being able to innovate and explore new technologies like AI freely, credit unions may find themselves compelled to demonstrate that these innovations pose no risk—a daunting task. When regulatory discussions approach technology in this manner, it reinforces the idea that smaller entities could face obstacles to success, as only the largest institutions may possess the resources necessary to meet such rigorous risk management standards.

Regulatory assessments of new technologies must embrace balanced and flexible approaches to risk management that can accommodate innovation while protecting consumers. Often this balance is expressed as "responsible innovation," which regulators have sometimes supported through official statements and relevant guidance. For example, in 2019, an interagency statement issued by the National Credit Union Administration (NCUA) and other banking regulators recognized that the "use of alternative data may improve the speed and accuracy of credit decisions and may help firms evaluate the

creditworthiness of consumers who currently may not obtain credit in the mainstream credit system.” This statement has helped legitimize the use of new data for credit underwriting purposes while simultaneously acknowledging that “the use of certain alternative data may present no greater risks than data traditionally used in the credit evaluation process.” While alternative data is an input rather than a new technology unto itself, the interagency statement demonstrates how consensus within the regulatory community can help reduce uncertainty and drive innovation forward in a way that is beneficial for consumers.

Conclusion

In conclusion, credit unions, including Commonwealth Credit Union, do not boast the massive earnings of big banks, but our impact lies in our genuine commitment to serving communities. Every step we take is in line with our primary mission to better the lives of those we serve. As we adapt to the ever-changing economic landscape, our focus remains consistent—prioritize our members and their needs in order to help move communities forward. Commonwealth Credit Union, like other credit unions, is a testament to the resilience and dedication of community-oriented institutions. Our partnerships with fintechs like Zest AI allow us to better serve our members. While clear rules of the road may be necessary, it is important that regulators not create expansive requirements or new hurdles that threaten the ability of credit unions to take advantage of successful partnerships like we have with Zest AI.

Our goal is to empower, educate and uplift our members, ensuring their financial well-being. Our partnerships with vendors like Zest AI help us improve the financial wellbeing of our members and meet their needs.

Thank you for allowing me to be here today. I look forward to answering any questions you may have.

Chairman BARR. Thank you, Karen.

Last but not least, we recognize Amy Roberti, head of global policy with Stripe. You are recognized for 5 minutes.

STATEMENT OF AMY ROBERTI, GLOBAL HEAD OF PUBLIC POLICY, STRIPE

Ms. ROBERTI. Thank you, Mr. Chairman, and distinguished members of the subcommittee. Thanks for welcoming Stripe to Kentucky. Thank you as well to our wonderful host, the Lexington Brewing and Distilling Company, whose business Stripe has the privilege of serving.

Stripe is a technology company that builds economic infrastructure for the internet. Businesses of every size from the smallest of startups to big public companies use our technology and tools to accept payments online and grow their businesses.

Stripe was founded in the U.S. in 2011 by John and Patrick Collison, two brothers from Limerick, Ireland. Before Stripe, they built another startup and found that the biggest challenge was accepting payments. That is when the idea of Stripe was born.

Patrick and John created just seven lines of code that they could give to businesses to start accepting payments online in a matter of minutes. Since then, Stripe has grown along with some of the world's biggest and most innovative online companies but we also power the digital transformation of companies that are not traditionally online, like Ford Motor Company and Target. They use our software for a range of corporate functions, from analyzing revenue, finding sales opportunities, and preventing fraud.

These tools are not just available to industry giants. We serve millions of small businesses across the U.S.; nearly half a million of the businesses we serve are actually rural businesses. I am proud to say that more than 34,000 of them are here, based in Kentucky.

Today, we are seeing a fundamental shift in how businesses access financial services, with software platforms integrating payments, capital, and other services directly into their business operations. A great local example of this is Pay HOA, a Lexington-based startup. They built a software platform that helps homeowners associations manage their communities more efficiently, from providing payment services to communications. They serve over 20,000 associations and nearly 650,000 homeowners across the United States, showcasing how local businesses can leverage technology to solve industry-specific challenges.

To make all of this work, Stripe partners with a number of financial institutions. These partnerships enable us to jointly extend the reach of financial services to underserved businesses. Last year, Stripe helped businesses around the globe process more than one trillion dollars in payments volume. That represents 1 percent of global Gross domestic product (GDP).

The economic growth is powered by acquiring bank and network partnerships, but these are not new. They have been around for decades. The difference now is that they are scaling and more finely tuned to meet the needs of each individual business.

This growth does not just happen in big tech hubs. As the online economy grows, we see that it is compounding locally, too. Since

2010, states including Kentucky, Tennessee, Indiana, Texas, and Nebraska, just to name a few, have seen per capita payment volume grow more than four times during this period. Payment volume increased approximately seven times in Knoxville, five times in Omaha, four times in Louisville, Houston, and Indianapolis, and three times in Nashville and Dallas.

Growth is not limited to urban areas. Over that same period, rural areas across the U.S. increased processing volume on Stripe fivefold and rural businesses here in Kentucky saw an impressive eight times increase in volume.

How do we keep growing the GDP of the internet? We have a few policy recommendations that we added to our testimony. In short, we think keep promoting bank and tech partnerships, provide a Federal framework for payments companies, digitalize government services that hurt small businesses, and keep fostering innovation.

In conclusion, Stripe's humble mission is to grow the GDP of the internet. We are optimistic that technology-driven improvements can help achieve this goal. Through thoughtful policies that scale access and oversight on a positive basis, we can create a more inclusive and efficient financial system for all Americans and drive economic growth.

Thank you for the opportunity to participate in this hearing and thanks for the warm Kentucky welcome. I look forward to your questions.

[The prepared statement of Ms. Roberti follows:]



**Testimony of Amy Roberti
Head of Global Policy
Stripe**

**Before the
House Financial Services Subcommittee on Financial Inclusion and Monetary Policy
Hearing on
“Financial Institution-Fintech Partnerships: Leveraging Third-Party Relationships to
Increase Access to Financial Services”
July 12, 2024**

Chairman, Ranking Member, and distinguished members of the Subcommittee, thank you for welcoming Stripe to Kentucky. Thank you as well to our wonderful hosts, the Lexington Brewing & Distilling Company, whose business Stripe has the privilege of serving. We are grateful for the opportunity to testify today.

I am Amy Roberti, Head of Global Policy at Stripe. Stripe is a technology company that builds economic infrastructure for the internet. Businesses of every size — from small startups to public companies — use our technology and tools to accept payments and manage their businesses online.

Stripe was founded in the United States in 2011 by Patrick and John Collison, two brothers from Limerick, Ireland. Before Stripe, they ran another startup and one of their biggest challenges back then was accepting payments. That's how the idea of Stripe was born. Instead of weeks or months of delays and complicated paperwork, Patrick and John gave businesses just seven lines of code to get their businesses up and running and accepting online payments, in a matter of minutes.

Since then, Stripe has grown along with some of the world's most sophisticated online companies, like Lyft and Amazon. We also help to power the digital transformation of companies like Ford and Target. These global companies depend on Stripe to be extremely reliable. And they also use our software to orchestrate a range of corporate functions to grow their businesses, like analyzing revenue, finding sales opportunities, and preventing fraud.

These tools are not just the provenance of industry giants; we provide the same powerful tools to America's small businesses and startups. We serve millions of small businesses. Nearly half a million are from rural areas across the U.S. Businesses of all shapes and sizes use Stripe to grow their businesses and power their operations, including more than 34,000 that work with Stripe in Kentucky.

Expanding access and entrepreneurship

Today, we are witnessing a fundamental shift in how businesses access and utilize financial services. Whether it is restaurants, gyms, churches, barber shops, plumbers, or corner coffee shops, it is now very likely that businesses are running on bespoke software platforms that understand the unique needs of their industry. These platforms are tightly integrated into these businesses' operations, and it is this very integration that empowers businesses to much more easily access payments, capital, and other financial services.

A great local Kentucky example is PayHOA, a startup based right here in Lexington. PayHOA has built a software platform that helps homeowner associations better connect with their communities, offering a singular portal where homeowners can conveniently make online payments, communicate, and manage documents. PayHOA helps over 28,000 associations work with nearly 650,000 homeowners, handling everything from accounting and finances to online payments to maintenance requests and communications within their communities. I'd like to recognize their contributions to the Lexington economy and the internet economy broadly.

To make this work, Stripe partners with a number of financial institutions in the United States. These partnerships enable us to jointly extend the reach of financial services to underserved businesses. And on top of these integrations, we provide additional software tools to help run a business on a global basis.

For example, let's consider how small businesses and even large corporations struggle with back office tasks, like sales taxes and financial reports. Companies cobble together manual, paper-based systems. These are clunky and slow, and make it hard for businesses to do simple things like change prices, launch in a new country, or close their books. Software tools can streamline these critical business processes with modular billing, tax, revenue reporting, and data tools that work seamlessly together. More than 300,000 businesses use Stripe's user-friendly revenue and finance automation platform

to grow revenue, simplify compliance, and close their books faster. Imagine if small businesses each had their own Fortune 100 Chief Financial Officer.

Another example is well known by this Committee. Businesses need capital to expand. Stripe works with merchants and industry platforms and banks to jointly leverage data to better underwrite a business to qualify for loans, oftentimes very small loan amounts. In an analysis of Stripe users, those with Stripe Capital financing saw revenue growth 114 percentage points higher than peer companies not on Stripe Capital. The impact of financing was even greater for smaller firms—businesses processing less than \$100,000 per year saw revenue growth of 140 percentage points over their peers. Only 5.5% of Stripe Capital users had previously obtained a loan from a traditional lender.

Payments is another area where software-defined financial services are more critical than ever. Around the world there are over 600 different payment methods, and growing. Accepting debit and credit cards is simply not enough for a Kentucky business that wants to make sales in Brazil or the Netherlands. Brazilian customers need a checkout with their real-time payment system called “Pix,” and Dutch customers want to pay-by-bank, using their “Ideal” system.

Integrating diverse payment types globally is primarily a software challenge, one that technology companies are well-suited to address by collaborating with local financial institutions. In 2023, Stripe processed \$1 trillion in payment volume, equivalent to 1% of global GDP. This growth is facilitated by long-standing partnerships with acquiring banks and networks. These partnerships are not new — they have existed for decades — the difference now is that they are scaling and more finely tuned to better serve many more kinds of unique businesses.

As the online economy expands, growth is compounding *locally*. And growth doesn’t just happen in the big tech hubs.

Between 2019 and 2024, internet commerce on Stripe grew faster in Ohio than almost all other states in the U.S. States including Kentucky, Tennessee, Indiana, Texas, and Nebraska saw per-capita payment volume grow more than 4x during this period, with payment volume increasing approximately 7x in Knoxville, 5x in Omaha, 4x in Louisville, Houston, Indianapolis, and 3x in Nashville and Dallas. San Antonio even saw an astonishing 11-fold increase. And growth isn’t limited to urban areas. Over that same period, rural areas in the U.S. increased processing volume on Stripe fivefold—and rural businesses in Kentucky saw an impressive 8x increase in volume.

Speaking of rural America, Ambrook is a Stripe user that provides financial management software tailored to the needs of farming businesses. During a recent two year period the company helped U.S. farmers successfully apply for over \$7m in federal grants and Stripe helped move those funds to farmers. Agriculture might seem like the ultimate offline economy. But as members of this Committee are well aware, it has become one of the fastest-growing *online* industries, as farmers turn to the internet to sell produce, manage their money, and access critical financing.

Accelerating online economic growth

To help grow the online economy, we would offer several policy recommendations.

First, support bank fintech partnerships. Leadership at the FDIC and the Federal Reserve Board have recently noted that most banks manage their fintech third-party relationships *well*. We welcome this recognition and urge regulators to push more nuance into the supervisory process. We are grateful that Members of this Committee, too, have highlighted this important balance.

We recognize the challenges in distinguishing where the bank's role ends and a partner's begins. We believe these concerns can be effectively addressed through thoughtful regulation and industry cooperation. Industry can collaborate more with regulators to increase consistency in supervisory expectations. We can help develop best practices and standards that aid examiners, banks, and partners.

Our joint goal should be to find every way possible to better serve the needs of commerce and entrepreneurship. We see this as an opportunity to prove that guarding the financial ecosystem can correlate positively with increasing financial access, at scale.

Second, provide an optional federal framework for payment companies to better serve businesses. Many jurisdictions around the world see payments as a unique force for economic growth and, with specific protections, provide "E-Money Institutions" with access to payment infrastructure and networks. The United States should enhance our robust state-based regulatory system with similar capabilities.

Third, accelerate efforts to make government services digital. Much of Stripe's work is mundane and tedious. Wherever there is a form or a fax, Stripe is working somewhere in the background to automate and simplify these processes. But sometimes our engineers simply cannot get around requirements to file paper forms or databases that exclude non-banks.

Thankfully, and due to the leadership from Members of this Committee, the Internal Revenue Service has taken some important steps towards modernizing the way businesses incorporate, obtain tax identification numbers, and share tax data for loan underwriting. We appreciate these efforts and encourage the Committee to think creatively about working with the Treasury Department to ease any burdens associated with the FinCEN beneficial ownership registry, particularly for startup founders we help to incorporate every day.

Finally, foster a culture of innovation. It is humbling to witness the explosion of entrepreneurship on Stripe. New firm creation continues to hum in the U.S. and this tracks with what we're seeing across our platform, where we saw record levels of startup formation on Stripe in 2023. And because Stripe disproportionately works with businesses inventing new things, we are privileged to support advances across a range of sectors, from robotics to farming to artificial intelligence. Our users are a testament to the 'improving mindset' that drives innovation and progress.

As our co-founders point out, things around us don't just happen. "Actual people with concrete visions, working for a long time, made them happen." Policymakers play a key role in setting the conditions for large economic outcomes. It is critically important that the internet economy's tremendous progress continues, and even accelerates.

Conclusion

Stripe's mission is to grow the GDP of the internet. We are optimistic that technology-driven improvements will help achieve this goal. Through thoughtful policies that scale access and oversight on a positive sum basis, we can create a more inclusive and efficient financial system that serves all Americans, and drives economic growth. Thank you for the opportunity to participate in today's field hearing, and I look forward to your questions.

Chairman BARR. Thank you very much. I appreciate everyone for their testimony. I do want to recognize Jim Cash, the president and CEO of the Kentucky Credit Union League, who is here and also Ballard Cassady, president and CEO of the Kentucky Bankers Association. I appreciate both of you all for being here today.

We will now turn to member questions and the chair now recognizes himself for 5 minutes.

Mr. Trager, tell us a little bit more about how banks can leverage these third-party relationships to improve access to credit, expand financial services offered to consumers and small businesses, and talk about how important it is for especially community banks to leverage these third-party relationships in a very competitive environment relative to regional and large Global Systemically Important Banks (G-SIBs)?

Mr. TRAGER. As a community bank, you know, it is our goal to serve more people in more places that the big banks have great difficulty in serving. As I mentioned, we have 47 branches. Those branches serve a very real purpose in our community for a very unique clientele but they, through those branches, it would be impossible to serve the few million consumers that we serve.

Our infrastructure and the efficiency is just not capable of a person—or it is very difficult to have a person walk into a bank, walk into a branch, and get a \$1,000 loan within 24 hours. We just have legacy systems, infrastructure. It is very difficult to do that. Like I said, we serve 100,000 customers through those—120,000 customers through those 47 locations.

With the help of Enova and a fintech, we can serve a few million customers with a need and be able to provide access to that need that customer, for one reason or another, is hesitant to go to a traditional branch bank.

Chairman BARR. So it is fair to say because the enormous cost of investing in technology is harder for smaller community financial institutions, these fintech partnerships are critical to level the playing field between the community smaller institutions and the big banks?

Mr. TRAGER. Without question and we are not a small bank. It applies to us because we know the cost involved but to our brethren, smaller banks, there are, I do not know, 2,400 banks in the country, 1,800 of them are under a billion dollars in assets. We are six and a half billion. For those folks in particular that may not have the capital and resources, it would be vital for them to be able to partner with folks, with fintechs, the right fintechs, to be able to offer more products and services to more people in more places.

Chairman BARR. Thank you. Ms. Harbin, could you give us an example, a really good example of the financial inclusion benefits of partnering with a Zest AI and serving a customer who otherwise would not have access to credit?

Ms. HARBIN. Thank you. With Zest AI, we have been able to make more accurate, unbiased decisions and go deeper with our members and provide financial services to them where they otherwise cannot get services. Zest AI looks at about 190 to 200 data points and provides us a decision in 2.4 seconds. It takes us, if a manual underwriting, it would take us five to 7 minutes and we are looking at 15 to 20 data points.

Zest AI has many stories to tell you. One in particular, a couple came in to one of our branches and he had a temporary hardship, where he had reduced hours and he did not know how he was going to pay his bills. We were able to approve him on the spot and provide \$6,000 that he could use until he got back on his feet. That would not have been possible without an immediate decision from Zest AI.

All consumers are looking for immediate access. You go to the drive-thru somewhere, you want to be serviced immediately. Us being able to have a decision in 2.4 seconds is fantastic and our members are elated with that service.

Chairman BARR. Mr. de Vere, can you speak to some of the recent pronouncements or expressions of concern from the Consumer Protection Bureau that could threaten the innovation of artificial intelligence in promoting financial inclusion?

Mr. DE VERE. Yes, I think from our perspective, we lean in with the regulators. So if we are talking about the CFPB, we are a supervised entity and the regulations that are on the books are sufficient to protect members from our perspective. We also work with National Credit Union Administration (NCUA) and have a tremendous partnership with them. So, from our perspective, I think regulations are necessary to protect consumers.

I think, Congressman Barr, you brought up a very good point at the beginning. It is really about competition and if we overregulate, we will end up stifling competition, and our financial institutions will be for the worse.

Chairman BARR. My time has expired, and we might have time for some more questions. We will get to Ms. Roberti and Mr. Chartier in a minute.

With that, we now recognize Mr. Rose for 5 minutes.

Mr. ROSE. Thank you, Chairman Barr, for holding the hearing, and for the opportunity to be a part of this. I had the honor, as you know, just a couple months ago to host you and Mr. Flood in my district, Tennessee's Sixth District, for a similar type of hearing. I share your view that it is important for us to take these hearings back out to our districts, and not only to get testimony from folks who we might not see in Washington, but also so that folks here in your district and in mine can see what our work looks like.

While it may seem at times that these things are a little cumbersome and staged or whatever, the insights that we gain from the witnesses are invaluable for doing our work, and very often are both the inspiration and the encouragement for the work that we do to change the law and make it possible for the American people to engage in the freedom of transactions that they wish to. So I will dive straight into my questions.

Ms. Roberti, in my district, the Sixth District, again, of Tennessee, there are over 400 active Stripe merchants. Hopefully, that is an accurate number. Stripe has facilitated over five million in payments just in this past June. So those figures indicate that the work that Stripe is doing is appreciated by both merchants and consumers alike.

One specific service that Stripe offers is Stripe Connect. I know that companies like Ford have adopted this technology with great

success. Could you explain how Stripe Connect would work with dealerships like Ford of Cookeville, my hometown, to connect consumers, merchants, and dealers?

Ms. ROBERTI. Thank you, Congressman. Yes, we are proud to partner with Ford Motor Company. I think it is a great example of a product that we offer, Stripe Connect, where we actually onboard the dealerships, and so they have access to the full suite of payments, products, antifraud, everything they need to run their business. Then, those accounts are connected accounts to Ford Motor Company generally, so both parties get the benefit of the business insights that we can see from the transactions that are happening in their dealerships. It is sort of taking maybe a small dealership and giving them the tools that a Fortune 50 company would have and we have seen that leads to increase in sales, increase in customer understanding, happier users, more revenue.

I think it is a great example of a product that just enables innovations for smaller dealerships that maybe would not have access to that.

Mr. ROSE. Thank you and at the back end of Stripe Connect, what role do bank partnerships play in launching an innovative product like Stripe Connect?

Ms. ROBERTI. I think this is where, when we talk about bank-fintech partnerships, sometimes it sounds very exotic, and we are talking about things that are not just the day to day. So for us, a lot of our bank-fintech partnerships are the more mundane, just banking identification number (BIN) sponsors. A bank is partnering with us to facilitate those payments that are happening every day. So that is how we would partner with a bank for Stripe Connect and to help Ford Motor Company.

Mr. ROSE. Thank you. Unfortunately, in today's regulatory climate, we have regulators who seem to be afraid many times of novel or innovative technology being implemented in the financial sector. Ms. Harbin, as regulators consider acting in the fintech space, what would you say is important for them to consider from a community financial institution perspective?

Ms. HARBIN. We support a balanced regulatory approach but the regulations cannot be so rigid that it forces smaller institutions such as Commonwealth and other community banks out of business with overregulation. So I guess that is—

Mr. ROSE. I share that concern. The quandary I think is to balance the need for innovation against the safety and security of our financial industry and the consumers that rely on it.

In the last moments here of this round, Ms. Roberti, I know that Stripe is proud to offer a hundred different forms of payment across their online and in-person payment processors. One aspect of payment processing development that concerns me is the erosion of the acceptance of cash as a payment method. How does Stripe facilitate the acceptance of cash during in-person transactions?

Ms. ROBERTI. Thank you, Congressman. I think this is important because we are in the business of giving our users what they want and it is clear that users, merchants want to offer cash as a payment method in many cases. So we have a product that is a point-of-sale device called Terminal that you have probably seen when you are paying for something in a store and we absolutely can op-

erate that with a cash drawer as a cash option, and we think that is really important to offer consumers that choice.

Mr. ROSE. Thank you. I see my time has expired. Thanks for your indulgence, Chairman, and I yield back.

Chairman BARR. Thank you. The gentleman from Wisconsin, Mr. Fitzgerald, is now recognized.

Mr. FITZGERALD. Well, thank you, Chairman, very much and thanks for hosting us. What a wonderful opportunity to have a larger discussion on many of the topics that we have been focused on in DC for some time. As most Members of Congress, of course we like to talk about our own districts. So let me talk about the Fifth District in Wisconsin quickly, where we do have a bank, the Horicon Bank, that has had employees that have been finalists for the American Bankers Innovators of the Year in 2024. The reason I bring that up is because what Horicon Bank has been doing is utilizing technology to benefit customer experience with features like opening an account online, as we are all familiar with, interactive teller machines, video and chat services, as well as helping back office functions, fraud prevention and compliance.

Horicon is focused on software as a service solution, rather than banking as a service one. So my questions are kind of related to that.

Mr. Trager and Ms. Harbin, have you seen examiners differentiate between institutions that use software as a service and banking as a service? Then, what is the biggest obstacle, do you think, in implementing banking as a service solution? So there is kind of the front end for technology and the back end. I am wondering if you had any comments on that.

Mr. Trager, you can go first, I guess.

Mr. TRAGER. Thank you for the question. It is a good question. I am not sure of the exact label of it. You know, the fact of the matter is that the regulatory environment is very necessary. I have a high degree of respect and regard for our regulators.

Any time you do anything new or innovative, it is subject to a lot of scrutiny. That waves a flag of risk. Now, we have so much at stake that we understand that risk, and we are very forthcoming with our regulators, anything new we do, we throw a lot of resources at it. I mean, we have 35 folks in our compliance department.

So we tend to be able to navigate that with some challenge. I think for others, it certainly is even more challenging, and for us it is always of concern whenever we try to do anything new and innovative.

I would just say we ask for some appropriate regulation. You cannot regulate around everything. Sometimes, it is just up to the execution of the regulators. They have the tools in place, without question, to address the challenges of innovation. I think there is not a congressional response to every incident that happens.

So, we make it work. I think it is very difficult for a lot of banks to make it work. It is certainly difficult for us to make it work.

Mr. FITZGERALD. Ms. Harbin, you have a comment on that?

Ms. HARBIN. Thank you. So we have had—we have been with Zest AI since 2021 and had numerous exams and audits, reviews, and we are met with applause. They applaud our efforts to go deep-

er and serve more members. We are serving more people in protected classes.

Zest AI provides us with numerous reports that we share with our board on a quarterly basis. We do an Return on Investment (ROI) on the service, the cost/benefit analysis. We went through great due diligence with Zest AI when we chose them to be our partner, have quarterly business reviews with Zest AI where we go over what we are seeing in our loan portfolio, both the loans that are decisioned by Zest and the loans that we have done manually. We look for ways to increase our usage with Zest. So it might be they say if you increased or adjusted your Debt-to-Income ratio (DTI) or your number of trade lines, you could increase your approvals by 10 basis points, but your risk stays stable, and your yield goes up.

Those are the type of conversations that we have with Zest, a great partner and because of that, we have not received anything from our examiners that raise an issue with safety and soundness of our credit union.

Mr. FITZGERALD. Very good. My time has expired. I will yield back.

Chairman BARR. The gentleman yields back. The gentleman from Texas, Mr. Sessions, is now recognized.

Mr. SESSIONS. Mr. Chairman, thank you very much. What a great opportunity for us to come and take what we regularly do in Washington, DC, to come back to these districts. I want to say to people who are back here, not just here today but also listening, that I believe that there is a lot of conversation that happens exactly in Washington, DC, that is happening here and that is how we connect more consumers with financial institutions to the benefit of consumers, to where they can make decisions about themselves, their future, and for their families.

I would like to, if I can, after thanking you for bringing us here, to recognize that the conversations that you, John and Scott have had where really the word safety and soundness that we understand is important but the word security has sneaked into our lexicon.

I would like to ask each of you—perhaps Stripe and Zest would offer their analysis first—but as we have gotten into a world where we are interconnected more and more, so have people through malware and other criminal activities sneaked themselves into what I would say the system, not just into an individual company. In Texas, which is where I am from, we have financial institutions that report time after time after time their customers being at risk because of malware and criminal activity.

If I could just have you perhaps go down the line and talk with us about the activities that you believe either—whether you are receiving good information back from regulatory organizations, law enforcement, or others that will help you to stay leading edge. Thank you.

Mr. CHARTIER. Sure, thanks for asking that. I think the safety and security of the data and of the customers is really important to us, and we have a team that works on that specifically. It is a pretty large team and uses a lot of analytics to understand what

attacks are coming at us, how we help prevent those, implement additional security to do that.

I think that from the regulatory or the oversight standpoint, or even the assistance standpoint from law enforcement, we find they are very helpful but somewhat overwhelmed right now with all of the things that are going on. So when you reach out and you say, hey, this is a problem our customers are having, they say, thank you, and they put it in the data base and get it shared rapidly but they cannot always do a lot to help the individual that might have been impacted.

Mr. SESSIONS. Do you share that information, or do they share back with you, and do you think it goes across the organizations that might be banks, bankers?

Mr. CHARTIER. Absolutely. We subscribe and others subscribe to the service that when you put that into the service, it gets shared across. We take that very seriously as an organization and have other discussions that occur.

Mr. SESSIONS. Thank you. Do we want to hear from Stripe or Zest?

Mr. DE VERE. Thank you for the question. So obviously, security is critical in the line of business that we are in. You are dealing with, obviously, banking information, individuals' personal information. We take that very seriously as an organization and have all the necessary protocols in place.

I think the thing that I would offer or watch out for is that there are some other players that are coming into the U.S. from overseas and they are trying to service community banks and credit unions here in the U.S. Personal information is being sent overseas, which is a really great risk for our consumers.

So what I would encourage from a Zest perspective is we use a cloud-based security system and have never had an issue but I would watch out, and I would offer to the congresspeople here that we do have players coming in from the outside that I think are putting an American consumer at risk.

Ms. ROBERTI. I think we would not have a specific experience to add but just we feel an obligation to be guardians of the financial ecosystem as well. As technology improves for all of us, the bad guys are using technology as well and that is why I think we are heartened by regulators also embracing technology and taking strides there because I think they see it as a tool that we all need to combat cybercrime and other fraudsters that are happening online.

Mr. SESSIONS. Do you believe that when you—would you spot this perhaps for a customer? Or do they spot it, and do they notify you? Or are they pretty silent about what they have?

Ms. ROBERTI. No, I think it goes both ways. When we spot it, we have an obligation to raise it with law enforcement and we do that often.

Mr. SESSIONS. Thank you very much.

Thank you, Mr. Chairman. I yield back my time.

Chairman BARR. The gentleman yields back. Last but not least, the gentleman from Nebraska, Mr. Flood, is recognized.

Mr. FLOOD. Thank you, Mr. Chairman.

Good morning. It is good to be here in Lexington, Kentucky, the horse capital of the world. When I look around Lexington and your

district, Mr. Barr, I see a district that looks a lot like mine. I represent Lincoln, Nebraska, which is home to the University of Nebraska. Similarly, you have a flagship university right here and there are plenty of rural areas that are also in this district, full of hardworking, quality, sound and fit banks in all sizes throughout the State of Kentucky.

Which brings us to the topic of this hearing. Third-party partnerships with banks and fintechs. I am really interested in the third-party fintech partnerships because community banks, in order to be successful, have to compete with the G-SIBs, with the banks like Wells Fargo and Bank of America. It is important, when you look at the Paycheck Protection Program (PPP), community banks, banks that have relationships with their customers, hit that program out of the park because they knew what their customers needed, they knew what they could take on, and they watched for fraud, and they protected the American taxpayers.

Fintech partnerships can take lots of different forms, something as simple as a mobile banking app or an updated customer interface are the types of features that consumers and particularly younger consumers that will probably never go through a bank drive-thru, they will probably not walk into a bank and fill out a deposit slip and hand it to the teller. They are going to do everything on their phone. For me, it is very important that especially in rural areas, we have these third-party relationships.

I am going to start with Mr. Trager. In your testimony, you made an interesting analogy comparing partnerships between banks and fintechs to the partnership between a restaurant and a delivery service like Uber Eats. Would you mind expounding on that analogy for our benefit?

Mr. TRAGER. Thank you for the question. You know, it takes a village. I mean, when you are offering products to a lot of consumers that do not necessarily have standard access we need to partner with folks that help identify the consumers that are in need for us so that we can provide the funding that we plentifully have, or we have in a plentiful way.

Yes, the example is a good example. You know, we are the Uber Eats. We generate more business for our partners, and then we help deliver that product. So they enable us to market and to get out and make our services be known to a very broad audience that we help deliver the product. That is what we bring to the table.

Mr. FLOOD. Thank you for that.

Ms. Harbin, can you provide some examples of products Republic Bank offers in partnership with fintechs that expand access to banking services to people that might otherwise be unbanked or the under-banked?

Ms. HARBIN. At Commonwealth Credit Union, we provide personal loans, auto loans, mortgage loans. We are able to go deeper with Zest AI. We actually have three of their models right now, auto loan, personal loan, and credit card. We have data that shows that we are going deeper into those protected classes.

We have been with Zest AI since 2021, and that portfolio of loans has quite a bit lower delinquency and charge-offs than our entire portfolio. So we are very proud of that.

We know that we have to compete on a larger level and the way that we can do that is with Zest AI. We do not have the funds for technology like the large megabanks. I think 17 billion is something I read that one of the huge megabanks spent on technology. In contrast, last year, we spent about 9 million.

So we have to partner with fintechs to compete on the same stage for our members and to give them the products and services that they are looking for in the timeframe that they want it.

Mr. FLOOD. I need to correct the record. You are with the credit union. You are the president and CEO of the Commonwealth Credit Union. I was also going to direct that to Mr. Trager, but I already hit him with one question, so I let him off the hook on that.

One quick, very quick story. I had a 23-year-old guy that had helped—he works in my congressional office. My car was out of gas and he on his own accord went and filled it up. I said, well, what did you pay? He said \$59. I wrote him a check. I handed him the check and he looked at it and he was like, what am I supposed to do with this?

[Laughter.]

Mr. FLOOD. That is a reminder of where we are and where we are going.

Thank you. I yield back.

Chairman BARR. The gentleman yields back. Thanks so much for these questions.

With the indulgence of these witnesses, we are going to engage in a quick second round, lightening round if you will, where each of the members will have an opportunity to ask one final question. We will start here.

Before I go to my final question, I do want to recognize State Senator Donald Douglas, who has joined us. We appreciate State legislatures taking a look at the innovation that is happening in financial services because obviously, you have a role to play as well.

In that vein, let me ask my question to Mr. Chartier.

You testified earlier today, and we have talked about this before. You have urged Congress to reverse the mistake that Congress made with invalidating the True Lender Rule from the OCC. You have urged Congress to reinstitute the OCC True Lender Rule and making Federal law applicable to all banking institutions and clarify these opt out authorities.

Why is preemption, Federal preemption, so important in this space that is interstate commerce, and how would that enable more innovation and financial inclusion? Also, if you could, describe the problem to those who are watching.

Mr. CHARTIER. Sure. Thanks for that question. I leave preemption to the lawyers and the bankers a little bit but I would say from a service provider, from a product developer, you want to get the largest market you can reach as thoroughly as you can. I talked about how there are populations—and certainly Steve talked about how banks have a problem serving certain populations, because you cannot evaluate them, because they cannot develop the technology that is necessary.

When you go to put that investment into building a product, you want to reach as many markets as you can to increase the efficiency of the delivery of that so we can lower the prices, so we can

be more competitive. When you go to do that in the U.S., you run up against State laws, because each State has instituted laws over 200 years that influence credit products that consumers or small businesses can get.

When you go State by State, often they will have defined products. I always talk about they define for a consumer or a small business looking at credit. It is like a 10-story stairwell, and they want to get to the top but a State will come in and they will say you can have floors one through three, but you cannot have floors five and six, and then maybe we will give you eight as well. So people get trapped where they are because there are not products that fit the place they are in their credit or financial health journey. So the State environment makes that very difficult.

The banks can come in with a steady—with a consistent product across all the states because of their preemption and they can deliver it to all those people and that allows people to move freely through a pathway of financial products back into regularized and more standard and traditional banking services. That is the importance. The OCC recognized the confusion that was out there and said, when the bank originates a loan, it is the bank's loan. If they then choose to manage their balance sheet by selling off some interest of that to make sure they are fitting the regulatory environment, that does not change anything. That is critical to us because that allows that uniform presentation of the product across all of the markets.

Chairman BARR. Thank you. Mr. Rose?

Mr. ROSE. Thank you, Mr. Barr. I want to thank you again for hosting this hearing.

Ms. Roberti, I want to pick up where I was when I ran out of time before. I just want to say I would urge Stripe and all payment processing companies to continue to accept cash. Sixty-seven percent of Americans still use cash for making in-store payments. My late colleague, Representative Payne, and I introduced the Payment Choice Act for this exact reason. Cash is king and Americans should not have their business refused for paying with legal tender.

My question for you, are there any plans to remove cash as a payment option at Stripe in-person terminals?

Ms. ROBERTI. No plans, Mr. Congressman.

Mr. ROSE. Super. That is great to hear. The civil libertarian in me says I want to see cash continue to be an acceptable form of payment and maybe even the next generation will come to appreciate it at some point.

Thank you. I yield back.

Chairman BARR. Mr. Fitzgerald.

Mr. FITZGERALD. Many Fintech companies are pushing Congress to establish an optional and tailored Federal charter for payment companies. They are also seeking direct access to the national payments system. This would obviously bypass some of the bank partnerships and allow these companies to avoid the full spectrum of bank regulation.

Ms. Roberti, you are familiar with it, and you have had some time to kind of consider what the challenges would be. If some of these bank regulations are unnecessary under such a charter, how

would you still be able to scrutinize the safety and soundness of the fintech companies?

Ms. ROBERTI. Thanks for the question. Look, I think in other parts of the world—so we are regulated. We have 80 licenses across the globe and in other parts of the globe, we have different bespoke kinds of payments regulation.

In the U.S., it is different. It is more binary. So you can either be a State-regulated, State-chartered payment entity with all the limitations that come with that, or you can be a full-fledged bank and there is not much in between. So I think what we would just encourage in partnership with State regulators and recognizing the great work of Conference of State Bank Supervisors (CSBS) and the modernization that has happened there, but we should just think about ways to innovate. It works in the rest of the world and with it comes supervision that is tailored for the level of risk that it presents.

There is something between, like I said, the risk of a full-fledged bank offering loans and then payments. I do not think we have all the answers, but I think we would encourage the committee, as you have, and others to just take a look at what options are out there.

Mr. FITZGERALD. Mr. de Vere, do you have a quick comment on that one? Very good, thank you.

Chairman BARR. The gentleman yields. The gentleman from Texas, Mr. Sessions.

Mr. SESSIONS. Mr. Chairman, thank you very much.

From time to time, almost every time when we come into a hearing, we learn things that we did not know and that is because we have a staff that works regularly on some of the issues.

I would like to go to Karen Harbin if I can. The question is that I learned from our notebooks here of our homework, the National Credit Union Administration, NCUA, does not have authority over third-party vendors who partner with credit unions.

The question is, in your opinion, is this helpful or harmful and should this be recognized and give them the authority, or do you believe you have the knowledge and the resiliency to handle this yourself?

Ms. HARBIN. Thank you for that question. We believe that we do not need NCUA to have third-party vendor authority. We look at our third parties and do due diligence which is adequate. If NCUA had that authority, it would increase costs to credit unions because they would have to staff with experts that looked at all these vendor relationships, and it would ultimately cost credit unions a lot more money. So we do not support it.

Mr. SESSIONS. So this allows you to be more nimble?

Ms. HARBIN. Yes, more flexible.

Mr. SESSIONS. This allows you to make decisions that you would choose to make.

Ms. HARBIN. Exactly.

Mr. SESSIONS. You do not believe that it would be necessary, so do not need to approach this issue.

Ms. HARBIN. Do not.

Mr. SESSIONS. I found that very interesting as a question, because we tend to want to have the viewpoints that we want to give everybody an opportunity to go to third-party vendors but hold

them accountable also. I found this as the most interesting question that has been unanswered here.

I would come back to this question that I still have not just about safety and soundness but security. Did anybody else have feedback that they would like for us to know? Because I have heard the testimony that has been given that you believe that law enforcement does listen. You believe that law enforcement is perhaps doing the best that they can. Do you offer other feedback? Because I still believe the feedback that I have heard, albeit from a lot of Texas entities, is that there is still a huge concern about the numbers that keep adding up about the criminal elements of malware. Does anybody else have anything to add on that issue? Yes, sir.

Mr. DE VERE. The OCC, Comptroller of the Currency Hsu just recently was quoted about AI and fraud, or fraudsters out there that are leveraging AI today and the need for better tools.

I think I would just add to your security comment and talk about the importance that organizations like Commonwealth and other financial institutions not only could leverage better technology like AI for underwriting, but you can also leverage AI to identify fraudulent behavior, that humans cannot find patterns, but the AI actually can. It will have a material impact if more and more financial institutions adopt this approach.

In our recent release with one of our customers, we were able to eliminate 60 percent of the fraud just by focusing on the top 15 percent most risky applications that came through. That is a material impact. The average credit union is losing \$500,000 a year to fraud.

When we talk about security, I think it is also important to add in fraud and the opportunity that these types of tools have.

Mr. SESSIONS. I would like to agree with you. I hear over and over in these conversations that larger or smaller organizations still learn a lot about the things that are evolving every day. At some point, it is hard to get necessarily what I would call a customer or end user to stay up with all those things. Perhaps it is people who you have only given a loan of several million dollars to, but they also find themselves in an attack.

I am kind of looking for your feedback to tell me where you think that presentation should also include to where you give information back perhaps to your customers to where they can give information that flows all the way to the individual that says, here are the things that we believe you should include as leading edge security back into your own company.

Mr. Chairman, thank you very much. This hearing, as I looked at what we were attempting to codify here into understanding about fintech relationships is being improved. I think it was worth my time to be here today. I yield back.

Chairman BARR. Thank you. We do appreciate you and the other members making time to come to Kentucky.

Finally, Mr. Flood from Nebraska.

Mr. FLOOD. Thank you, Mr. Chairman. Again, thank you for the invitation to Lexington.

This is for anyone that wants to maybe react to it in a very brief way. I am interested in what are regulators and examiners talking to you about when it comes to bank fintechs, partnerships. Are

there things maybe they are misunderstanding? Are there things that you maybe think they are not looking closely enough at? What are those conversations with the examiners and the regulators like in your bank or credit union, and where do you think we are going with all this?

Ms. HARBIN. Thank you. I will answer that first.

As I said before, we do a great deal of due diligence before we ever partner with a fintech. The examiners look for that. They also look that we are monitoring the portfolio, and we understand what is going on with the portfolio, and make changes and adjustments as needed if we see something getting out of hand, such as delinquency or charge-offs but our delinquency and charge-off using Zest AI is much better than it is in the overall portfolio.

Mr. TRAGER. There is not much I can add to that. That is absolutely right. They are looking for thorough due diligence, oversight, and monitoring when it comes to partnering with third parties.

Mr. FLOOD. Quick question about Kentucky, just so I can understand your banking landscape here. The mix between federally chartered banks and State chartered banks? In Nebraska, we have 139 State chartered banks. Now that is down from 180. We have seen a lot more folks move their charter from the OCC to the State side. What is happening in Kentucky? Are people moving to the State or are they moving to the fed?

Mr. TRAGER. I think, I do not know, five, 6 years ago, it seemed like there was some movement toward the fed, toward that. I think that has kind of stabilized. At this time, I do not sense that there is a lot of movement.

We are State chartered, FDIC. Primary—FDIC and the State are our primary regulators. You know, there is some benefit to familiarity. They are familiar with us, we are familiar with them.

Given some of the innovative products that we have, it is very helpful from an education standpoint when they come in that we do not have to start from scratch and refamiliarizing them with the things that we do.

Mr. FLOOD. As a State chartered institution, how is the Kentucky legislature looking at digital assets, digital asset custody? Is there a State regulatory framework that is in place or being talked about? Is it something you are interested in?

Mr. TRAGER. I am not knowledgeable in that regard.

Mr. FLOOD. It is pig Latin to most people over 35. I hear you.

Mr. TRAGER. Right, right.

Mr. FLOOD. I guess I ask because one of the questions we are going to have in Washington is, we have this question, there are a lot of folks on the other side of the aisle especially that want a Federal top-down thumb on everything when it comes to digital asset custody. For me, a State pathway is very, very, very important. As a State chartered institution working with your State senators and your State representatives, I really hope that the banks in the State of Kentucky can continue to be State regulated and not have to deal with some foreign power. The State of Kentucky should determine its own future in digital assets. When your customers and you feel like it is the right time to take custody of their digital assets, I hope that you can do that without burdensome interference from the Federal Government.

With that, thank you, Mr. Chairman. I yield back.

Chairman BARR. Spoken like a true former State legislator. For those of you who do not know, Congressman Flood was the speaker of the unicameral legislature in Nebraska. Thank you for sticking up for the Commonwealth of Kentucky from Nebraska.

Mr. FLOOD. I am a Kentucky colonel.

Chairman BARR. So thank you to all of my colleagues for making the trip today. Thank you to our witnesses.

These field hearings are—they are hard to plan, because we are bringing Congress to the American people and it is expensive and it takes time and a lot of effort. I want to thank my staff for organizing this. It takes a lot of hard work. So Mary Rosado, my chief of staff, I want to thank Tatum Dale, my district director, and our entire district staff, Tyler Staker my communications director, Kaylee also for helping out. All of you all.

Let me also thank the staff of the Financial Services Committee. Megan Guiltinan, my Financial Services Committee staffer, Jeff Reyes, who is the staff director of the FI subcommittee, Kathleen Palmer, David McGrath, Trish Halloren, Grace Tricomi, Beau Brooks, Glen Sears representing the Minority Staff, Rob Waggoner, and Jelja Megawati with Representative Rose. Thanks to all of you all for putting this together, and to our guests, thanks for being here.

To our witnesses, we are so grateful for your insightful testimony.

Without objection, all members will have 5 legislative days within which to submit additional written questions for the witnesses to the chair which will be forwarded to the witnesses for their response. I ask our witnesses to please respond as promptly as you are able.

[The information referred to was not submitted prior to printing.]

This hearing is now adjourned.

[Whereupon, at 11:19 a.m., the subcommittee was adjourned.]

