Written Testimony of Dion Harrison,
Director of Bank Products at Elevate
Before the House Committee on Financial Services Subcommittee on Financial Institutions and Consumer Credit
September 28, 2018

Chairman Luetkemeyer, Ranking Member Clay, and members of this House Subcommittee, thank you for the opportunity to appear in front of the Financial Institutions and Consumer Credit Subcommittee hearing today on the subject "Examining Opportunities for Financial Markets in the Digital Era."

My name is Dion Harrison, and I am the Director of Bank Products at Elevate. Our company is an innovative provider of tech-enabled credit products for non-prime consumers. I have over 20 years of experience in the consumer credit industry working for traditional banks, minority banks, and financial technology companies. My experience tells me that the partnership between Fintech companies and banks are the key to building safer, more accessible, and inclusive financial products.

Elevate takes a unique approach to deeply understand our customers, using more comprehensive data than other industry participants. I'm proud to work at Elevate because of our genuine mission to seek out good customers in disadvantaged circumstances today and provide products that help them have a better tomorrow. We're acting on our mission by infusing advanced technology and customer insights into the banking mainstream. Our products are helping the 160 million Americans with sub-700 credit scores get on a path to financial progress in several distinct ways.

We're the only Fintech company to cap our profits to reduce costs for our customers. We've lowered our APRs by over 50 percent since 2013, and we've saved consumers more than $4 billion versus what they would have paid with a payday loan.[1] We have a customer-centric approach to designing and underwriting all of our products, prioritizing direct, often technologically-driven interactions with our customers. We've also created a research institution called the Center for the New Middle Class (CNMC)[2] to better understand and educate the public on the behavior, attitudes, and challenges of non-prime consumers. Their story has been painfully misunderstood, their needs have been underserved, and their financial knowledge has been underestimated; the CNMC has set out to change these perceptions.
The CNMC has uncovered interesting trends that provide new perspectives on non-prime borrowers' experiences. two studies from Elevate's CNMC found that African Americans and

[1] Elevate Credit Announces Second Quarter 2018 Results (July 30, 2018), https://www.elevate.com/newsroom-article.html?article=elevate-credit-announces-second-quarter-2018-results
[2] Elevate's Center For The New Middle Class, www.newmiddleclass.org

women are disproportionally in a position of financial stress compared with other groups. [3] One of those studies also found that even prime African American borrowers are 80 percent more likely to live paycheck to paycheck and 28 percent less likely to have $1,200 for a financial emergency.[4] Our most recent study provided a more mixed picture for Hispanic non-prime borrowers. They are more likely to experience higher levels of employment and less volatile income, but fewer than one in ten non-prime Hispanics have a retirement account. [5]

As members of this subcommittee know, we are still recovering from the events that took place 10 years ago as our nation faced the worst financial crisis since the Great Depression. In the months and years following those events, traditional financial institutions abandoned the business of small-dollar consumer lending, reducing the credit available to non-prime consumers by over $140 billion.[6] Partnerships between traditional banks and Fintech companies are helping restart the flow of lending to these millions of Americans. Simply put, these partnerships are essential for non-prime borrowers.

Our industry is making progress, but the current consumer credit market leaves far too many people behind. This trend hurts everyone – and is especially damaging for minority communities, who were disproportionately affected by the financial crisis due to the decline in housing prices, as recently noted by Representative Meeks.[7]

To build a safer, more inclusive financial system, we should focus on three guiding principles:

1. *Regulation should be pro-consumer and enable innovation:* As Representative Meeks recently articulated, technology can level the playing field and create new opportunities by expanding access to financial services.[8] We also believe in that opportunity, and we subscribe to the intended sentiment of Rep. Cleavers' published "Principles for Fintech Lending": Be Honest and Transparent; Be Accountable; Be Fair; and Be Inclusive.

   To bolster the industry's success and safeguard consumers, we need a pro-consumer regulatory environment that is also pro-innovation. That's why we supported the BCFP's

[3] Elevate’s Center For The New Middle Class, Precariousness of Non-prime Women: A Societal Crisis (June 2018), https://www.newmiddleclass.org/media/filer_public/8f/c4/8fc41242-0ecd-4d97-9c08-4f4dd6edfcfa/women_cnmc_study.pdf
[4] Elevate’s Center For The New Middle Class, African American Financial Experience: Prime and Non-prime(February 2018) https://newmiddleclass.org/african-american-financial-experience-prime-and-non-prime/
[5] Elevate’s Center For The New Middle Class, Hispanic Financial Experience: Prime and Non-prime (September 2018) https://www.newmiddleclass.org/media/filer_public/94/3f/943fca2f-0bf0-498b-a18a-9b464de67e6d/hispanic_201808904.pdf
[6] Elevate’s Center For The New Middle Class, Non-prime Americans: The Scourge of Unexpected Expenses (January 2017) https://newmiddleclass.org/nonprime-americans-scourge-unexpected-expenses/
[7] Bloomberg Next.Tech, "A Moderated Discussion With Representatives," https://about.bgov.com/event/fintech2018/
[8] Rep. Gregory Meeks, A Moderated Discussion With Representatives, Bloomberg Government (September 2018), https://about.bgov.com/event/fintech2018/

payday lending rule – to my knowledge, we are the only Fintech lender to do so. And while there are aspects of the current regulatory system that are working well, Congress can best foster innovation by maintaining and facilitating increased stability in small-dollar credit markets.

2. *Encourage partnerships between banks and Fintech companies:* I have seen firsthand the need for technology and innovation at community banks, because it can lower rates, provide greater transparency, and deliver superior convenience for customers. Partnerships will also bolster community banks, providing them a new avenue to serve their customers. And this idea has bipartisan support, members across the aisle are co-sponsoring legislation which would enable these partnerships, including: Chairman of this Subcommittee Representative Luetkemeyer, Representative Meeks, Representative McHenry, Representative Cuellar, Representative Peterson, Representative Pittenger, Representative Sires, and Representative Sessions. Regulators and other lawmakers should clarify the legality of these partnerships, by passing bills like H.R. 4439[9] and S. 1642.[10]

3. *Embrace diversity:* It's no secret the financial services sector has been slower than other industries to diversify its workforce. Elevate has embraced diversity, and we believe this diversity reflects the non-prime customer base we serve and enables us to provide consumers with meaningful and relevant credit products, and service that's flexible enough to improve their financial lifestyles.

<u>Fintech Companies Are Powering a Wave of Consumer-Focused Financial Innovation and Progress in the United States</u>

Just a decade ago, when the first smartphones entered the pockets of Americans, it would have been hard to imagine their ability to empower consumers and catalyze the development of the rapidly evolving sector known today as "Fintech." Combine the smartphone revolution with the fact that at the end of 2017, more than 3.6 billion people have access to the internet, and it is no surprise the rise of Fintech has been so pronounced.[11]

Fintech companies are delivering safer, more transparent, and more convenient financial services and products to meet consumers' demands for simple solutions that address common yet complex financial situations of American families.

---

[9] H.R.4439 - Modernizing Credit Opportunities Act https://www.congress.gov/bill/115th-congress/house-bill/4439
[10] S.1642 - Protecting Consumers' Access to Credit Act of 2017 https://www.congress.gov/bill/115th-congress/senate-bill/1642
[11] Mary Meeker, Internet Trends Report (May 30, 2018), https://www.kleinerperkins.com/perspectives/internet-trends-report-2018

We are responsibly filling gaps left behind by traditional financial institutions following the contraction in credit after the financial crisis, and we are addressing broader needs for financial solutions. Our peers across the Fintech industry are doing the same, meeting consumers' needs for short term consumer loans, small business loans, payment solutions, and financial education with innovative technology. For example:

- *Short-term lending:* Elevate and one of its bank partners introduced Elastic, an online emergency line of credit product for non-prime consumers five years in advance of the 2018 Federal Reserve report that estimated forty percent of Americans would not be able to handle a $400 emergency expense;[12]
- *Small business lending:* Companies like Square and Kabbage are using new technology to make smarter and better small business loans;
- *Payments:* New payment platforms like Zelle and Venmo are rapidly changing the peer-to-peer payments world;
- *Financial decision-making and wellness tools:* New apps and expenditure monitoring technologies are providing consumers more real-time information and helping nudge consumers towards making smarter financial decisions.

The past few years demonstrate the tremendous opportunity and promise Fintech has to empower smaller community banks without expertise in underwriting the non-prime consumer to reach a broader consumer base and help non-prime consumers gain more control over their financial circumstances. We are confident this momentum will continue to build.

As with any emerging industry there will be staunch supporters and fierce critics. I'm confident through transparency, honesty, and results, Congress will see that leveraging the strengths of banks and Fintech companies is a powerful and positive solution to promote the innovation of solutions available for your constituents who are non-prime consumers.

As I mentioned previously, we have recently seen momentum in discussions on policy that will help address some of the regulatory barriers and challenges facing the Fintech industry. We believe supporting responsible Fintech innovation should be a bipartisan resolution for lawmakers. Our industry needs a regulatory environment that supports innovation and collaboration, while clarifying the applicable and relevant guidance.

In July, when the United States Department of Treasury released its report on: "Nonbank Financials, Fintech, and Innovation,"[13] Secretary Steven Mnuchin noted, "America is a leader in

---

[12] U.S. Federal Reserve, Report on the Economic Well-Being of U.S. Households in 2017 (May 2017), https://www.federalreserve.gov/publications/files/2017-report-economic-well-being-us-households-201805.pdf

[13] U.S. Department Of Treasury, A Financial System That Creates Economic Opportunities Nonbank Financials, Fintech, and Innovation, (July 31, 2018), https://home.treasury.gov/sites/default/files/2018-08/A-Financial-System-that-Creates-Economic-Opportunities---Nonbank-Financials-Fintech-and-Innovation_0.pdf

innovation. We must keep pace with industry changes and encourage financial ingenuity to foster the nation's vibrant financial services and technology sectors." [14] I couldn't agree more with the Secretary's statement, and I believe policymakers on both sides of the aisle should use his words to guide further engagement.

It is important for the United States to be a leader in Fintech. And policymakers must work together, put politics aside, and maintain support for the industry. The industry should continue to be regulated in a manner in which spurring innovation is the guiding principle, and consumer protection remains the top priority.

Bank-Fintech Partnerships Are Essential To Helping American Consumers

The boom in technology that is unique to the Fintech industry has not happened by accident. Partnerships between banks and Fintech have been essential in realizing the promise of Fintech in the delivery of better financial products to consumers. These partnerships have created an environment where all industry participants and more importantly, consumers, win.

This collaborative process between banks and Fintech has been necessary because banks have largely exited the business of providing loans to non-prime borrowers. Financial institutions have reduced available credit offerings by $142 billion since 2008. At the same time, 40 percent of Americans cannot afford to cover $400 in unexpected expenses such as car or home repairs, emergency travel, sudden health issues, or back to school essentials for kids. This situation is unsustainable for market participants and the economy generally. Credit-constrained consumers are left with few options to cover unexpected expenses and banks feel powerless to help serve them.

These partnerships between banks and Fintech companies are already a proven solution to this problem. Banks already have the relevant customer information through their relationship with depositors, and they have a low cost of capital. Fintech companies like Elevate have advanced analytics, machine-learning, and over 10,000 variables that produce a greatly enhanced and comprehensive consumer credit profile.[15] Ultimately, through a partnership, companies like Elevate are able to provide consumers with the product they need, when they need it, in a regulated environment.

And it's a win-win-win as these partnerships with Fintech companies can be the lifeline and the competitive edge that small banks need to ensure sustainability in a rapidly evolving time for the industry.

---

[14] U.S. Department Of Treasury, Treasury Releases Report on Nonbank Financials, Fintech, and Innovation, (July 31, 2018), https://home.treasury.gov/news/press-releases/sm447

[15] Ken Rees, Expanding Opportunities for the New Middle Class, (March 21, 2018), https://about.bgov.com/blog/bloomberg-next-tech/

Congress has an opportunity to ensure consumers continue to benefit from these partnerships. Two pieces of bipartisan legislation are currently under consideration in both the House and the Senate, and would foster the continued innovation needed to cultivate expanded consumer choice and access to safe and affordable credit.

Federal lawmakers can act now. This Committee should pass the "Modernizing Credit Opportunities Act" which would clarify that traditional lending institutions are the "true lender" in contracts between banks and Fintech companies. The Senate can act too by passing "Protecting Consumers' Access to Credit Act," which previously passed the House in a large bipartisan majority. This bill codifies that loans are "valid-when-made," meaning if a loan is valid when it is originated it cannot be invalidated when it is sold to another person or entity. Combined, these legislative solutions will ensure our customers continue to have access to the products they deserve and will enable banks to re-enter small-dollar lending business. It is clear that if innovation, inclusion, and accessibility are your goals, bank-Fintech partnerships are the answer.

Representative Meeks, a cosponsor of the bill which codifies the "valid-when-made" principle, recently called upon Congress to come to the table and work with stakeholders to get legislation right. He said that industry, consumer groups, and Congress should come together in a non-adversarial environment to write legislation that works for the industry and provides consumer protections. Clearly, members of this Committee think that these bills are part of the answer.[16]

Fintech and Financial Services Companies Must Develop a Diverse Workforce to Reflect the Communities and Customers They Serve

I've worked at different companies within the financial services industry, from a community bank serving primarily African American customers, to Elevate which primarily serves non-prime consumers. I've seen companies with an alarming lack of diversity. And these companies lose out, because it is clear that diversity helps companies develop a deeper understanding of their customers. Elevate's success at developing unique and innovative products has been due to our commitment to diversity in our workforce. Simply put, diversity helps everyone succeed. We surface more innovation, create more change for an overall customer base, and provide products that are truly inclusive because we encourage and engage in open communication amongst individuals from different ethnic backgrounds, socioeconomic histories, professional and educational experience, and geographic origins.

[16] Rep. Gregory Meeks, A Moderated Discussion With Representatives, Bloomberg Government (September 2018), https://about.bgov.com/event/fintech2018/

There are serious ramifications when companies don't have a diverse workforce and don't understand or align with the communities and customers they serve. This can lead to issues around under-banking, or banking deserts, which have stark consequences for lower-income Americans. A 2017 BCFP report shows that lower-income Americans are more likely to become credit visible due to negative financial experiences rather than positive ones. We need to be doing more to lift these Americans up, not push them down.[17]

Legislation like the "Credit Access and Inclusion Act," which passed the House earlier this year and is being considered in the Senate would help alleviate this problem. This legislation will enable a more comprehensive view of non-prime American's credit worthiness by allowing reporting agencies to collect positive financial information from housing agencies and utility companies, enhancing hard-working Americans' credit scores.

Representative Cleaver's report also states, "Congress must ensure that those who are already at a historic or economic disadvantage aren't being unfairly targeted by the proliferating financial sector."[18] Congress must act quickly, and as an industry, we must work hard to hold each other accountable and to an even higher standard. While we use alternative data sources to reach new customers and evaluate the risk drivers of affordability, delinquency, and charge-offs, vigilance remains necessary. And we must all be on the watch for bad actors who intend to create predatory products targeted at not just non-prime, but any group of consumers.

I am proud to work at a company that prioritizes serving the underserved and under-banked and is truly invested in our customer's financial well-being. Fintech companies must be fair, accountable, honest, and transparent. Real change is possible, but it will require more than just talk.

I applaud members of this subcommittee, particularly Chairman Luetkemeyer and Ranking Member Clay for convening this hearing, and I thank all committee members for the opportunity to discuss the role Fintech plays in our economy and for studying the subject so diligently. With the right regulatory approach and action from policymakers, I am confident we can build an environment in the United States that supports customer-focused innovation.

[17] CFPB, CFPB Data Point: Becoming Credit Visible (June 2017)
https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/BecomingCreditVisible_Data_Point_Final.pdf

[18] Rep. Emanuel Cleaver, Fin Tech Investigative Report (August 17, 2018),
https://cleaver.house.gov/sites/cleaver.house.gov/files/Fintech_Report_1.pdf