Testimony of
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Task Force on Artificial Intelligence
United States House Committee on Financial Services

Hearing on Equitable Algorithms Revisited: How Human-Centered AI Can Address Systemic Racism and Racial Justice in Housing and Financial Services;

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Chairman Foster, Ranking Member Gonzalez, and Members of the Task Force on Artificial Intelligence, thank you for the opportunity to participate in today's conversation.

My name is Dave Girouard, co-founder and CEO of Upstart, which is a leading artificial intelligence ("AI") lending platform headquartered in San Mateo, California and Columbus, Ohio. I founded Upstart more than 9 years ago in order to improve access to affordable credit through the application of modern technology and data science.

In the last seven years, our bank and credit union partners have originated more than $9 billion in high quality consumer loans using our technology, approximately half of which were made to low and moderate income borrowers. Our AI-based system combines billions of cells of training data with machine learning algorithms to more accurately determine an applicant's creditworthiness.

As a company focused entirely on improving access to affordable credit for the American consumer, fairness and inclusiveness are issues we care about deeply. The opportunity for AI-based lending to improve access to credit for the American consumer is dramatic. But equally dramatic is the opportunity to reduce disparities and inequities that exist in the traditional credit-scoring system.

In our early days at Upstart, we conducted a retroactive study with a large credit bureau and uncovered a jarring pair of statistics: just 45% of Americans have access to bank-quality credit, yet 83% of Americans have never actually defaulted on a loan. That's not what we would call fair lending.

The FICO score was introduced in 1989 and has since become the default way banks judge a loan applicant. But in reality, FICO is extremely limited in its ability to predict credit performance because it's narrow in scope and inherently backward looking. And as consumer protection groups such as the National Consumer Law Center have highlighted, for the past two decades, study after study has found that African American and Latino communities have lower credit scores as a group than White borrowers.[1]

At Upstart, we use modern technology and data science to find more ways to prove that consumers are indeed creditworthy - to bridge that "45% versus 83%" gap. We believe that consumers are more than their credit scores. And by going beyond the FICO score, and including a wide variety of other information such as a consumer's employment history and educational background, we've built a significantly more accurate and inclusive credit model.

While most people believe a more accurate credit model means saying "no" to more applicants, the truth is just the opposite. Accurately identifying the small fraction of borrowers who are unlikely to be able repay a loan is a better outcome for everyone. It leads to significantly higher approval rates and lower interest rates than a traditional model, especially for underserved demographic groups, such as Black and Hispanic applicants.

Since our early days, skeptics have asked whether our AI models would hold up in a down economy. The tragedy of the COVID pandemic, where unemployment rose from 4% to more than 14% in just a few weeks, required that we prove our mettle. And in fact we did just that; despite the elevated level of unemployment, the pandemic had no material impact on the performance of Upstart-powered loans held by our bank partners.

With the support of a more accurate credit model - powered by artificial intelligence - our bank and credit union partners can have the confidence to lend, regardless of the state of the economy. Just imagine - banks lending consistently and responsibly, just when credit is needed most. That's an outcome for which we can all cheer.

The concern that the use of AI in credit decisioning could replicate or even amplify human bias is well-founded. We have understood, since our inception, that strong consumer protection laws - including the Equal Credit Opportunity Act, help ensure that good intentions are actually matched by good outcomes. This is especially true when it comes to algorithmic lending. For these reasons and more, we proactively met with the appropriate regulator - the Consumer Financial Protection Bureau (CFPB) well before launching our company.

Quite simply, we decided to put independent human oversight into the equation. After significant good faith effort starting in late 2015 between Upstart and the CFPB to determine the proper way to measure bias in AI models, we demonstrated that our AI-driven model doesn't result in unlawful "disparate impact" against protected classes of consumers. Because AI models change

[1] https://www.nclc.org/images/pdf/credit_discrimination/Past_Imperfect050616.pdf

and improve over time, we developed automated tests with the regulator's input to test every single application on our platform for bias. And we provide the results of these tests to the Bureau on a quarterly basis.

In September 2017, we received the first "No-Action" letter from the CFPB, recognizing that Upstart's platform improves access to affordable credit without introducing unlawful bias. We have been reporting this information to the CFPB for the last three years, and we will continue to do so for the next three years under our latest "No-Action" letter.

Thus far we have been able to report to CFPB that our AI-based system has significantly improved access to affordable credit.

Specifically looking over the past three years of our access to credit results:

- **Overall, the Upstart model approves 32% more consumers and lowers interest rates (APRs) by almost 3.5 percentage points, compared to a traditional lending model**
- **For near-prime consumers (620-660 FICO), our model approves 86% more consumers and reduces their interest rates by more than 5 percentage points compared to a traditional model.**
- **Upstart's model also provides higher approval rates and lower interest rates for every traditionally underserved demographic. For example over the last three years, the Upstart model helped the banks that use Upstart approve 34% more Black borrowers than a traditional model would have, with 4 percentage point lower interest rates.**

That's the type of consumer benefit we should all get excited about.

We're proud of the proactive and transparent approach we've taken to working with regulators, because while we might be the first, we certainly won't be the last platform to leverage AI to improve credit outcomes. We have worked with the CFPB through what is now three different administrations. We've also realized that working with other stakeholders who care about fairness and consumer protection is important as well.

Late last year, we embarked on an effort to do fairness testing and analysis with the NAACP Legal Defense Fund and the Student Borrower Protection Center to ensure that we are identifying every possible opportunity to minimize the credit impacts of underlying inequality in society, while maintaining model accuracy and improving credit outcomes for all.

What has all of this yielded in terms of policy implications? In Upstart's experience, the fair lending laws enacted in the 1970s and the substance of fair lending regulation enforcement—that is, monitoring and testing the impact on actual consumers who apply for loans—translates very well to the AI-driven world of today.

But in reality, the path we have walked at Upstart is likely insufficient to create a robust and competitive market that will maximize the use of AI to promote financial inclusion and credit access. In our early days at Upstart, we couldn't know for certain whether our model would be biased. It wasn't until loans were originated that we were able to demonstrate that our platform was fair. As an early-stage startup, this was a risk worth taking, but it's not a risk that many large banks would have considered, and that's a problem.

If broader and deeper financial inclusion among American consumers is important to this Committee, it's worth considering rule-making or legislation that would provide a wide-scale, supervised opportunity for model development and testing, and a robust data collection effort in all areas of consumer lending.

By combining regulatory support for model innovation with rigorous and standardized testing, we can ensure that we don't forego the clear and obvious benefits that AI-enabled lending can offer to the American consumer.

Thank you.