



R. SCOTT HEITKAMP
Chairman

TIMOTHY K. ZIMMERMAN
Chairman-Elect

PRESTON L. KENNEDY
Vice Chairman

DEREK B. WILLIAMS
Treasurer

CHRISTOPHER JORDAN
Secretary

REBECA ROMERO RAINEY
Immediate Past Chairman

CAMDEN R. FINE
President and CEO

<http://www.regulations.gov>.

May 18, 2017

Ms. Monica Jackson
Office of the Executive Secretary
Consumer Financial Protection Bureau
1700 G Street, NW
Washington, DC 20552

Re: Docket No. CFPB-2017-0005, Request for Information Regarding Use of
Alternative Data and Modeling Techniques in the Credit Process

Dear Ms. Jackson,

The Independent Community Bankers of America¹ appreciates the opportunity to provide comments to the Consumer Financial Protection Bureau (CFPB or Bureau) on its Request for Information (RFI) Regarding Use of Alternative Data and Modeling Techniques in the Credit Process. While ICBA supports efforts to bring more American consumers into the banking system, we strongly urge the Bureau not to issue new prescriptive requirements that would disrupt the traditional data and models that community banks have long employed to safely and soundly make credit decisions.

¹ The Independent Community Bankers of America®, the nation's voice for more than 5,800 community banks of all sizes and charter types, is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education and high-quality products and services.

With 52,000 locations nationwide, community banks employ 760,000 Americans, hold \$4.7 trillion in assets, \$3.7 trillion in deposits, and \$3.2 trillion in loans to consumers, small businesses, and the agricultural community. For more information, visit ICBA's website at www.icba.org.

The Nation's Voice for Community Banks.®

WASHINGTON, DC ■ SAUK CENTRE, MN ■ IRVINE, CA ■ TAMPA, FL ■ MEMPHIS, TN

1615 L Street NW, Suite 900, Washington, DC 20036-5623 | 800-422-8439 | FAX: 202-659-1413 | Email: info@icba.org | Website: www.icba.org

Background

In the RFI, the CFPB indicates that the application of alternative data and modeling techniques may improve decisions in the credit process by improving the predictiveness of credit-related models, by lowering the costs of sourcing and analyzing data, or through other process improvements such as faster decisions. If these claimed benefits prove valid, the use of alternative data and modeling techniques could significantly reshape the consumer (and business) credit market. The RFI states that potentially millions of consumers previously locked out of mainstream credit could become eligible for credit products that might help them buy a car or a home.

The ability to make credit decisions free of an algorithm or dictates from a central office that may be thousands of miles away is the essence of local, community banking. Community banks have close relationships with their customers and consequently, are very familiar with their customers' financial condition, history and capability. Taking a holistic view when making credit decisions allows community banks to focus on the needs of the customer. At its core, the relationship between community banks and their customers is based on trust. That trust allows community banks to make loans that might not fit a model that demands standardization or which can be securitized and sold on a secondary market.

Community banks were safely and soundly making loans long before formal credit reporting and scoring systems were developed. Even today, many community banks do not consider a consumer's credit score and other community banks will incorporate additional factors when they make credit decisions. By considering a customer's history with the bank, local economic conditions, and other factors – including risk tolerance – community banks can offer options that other creditors cannot.

In 2015, ICBA surveyed community banks regarding consumer lending.² While community banks report they take various steps to underwrite personal loans, 100 percent of the banks indicate that they review an applicant's history with their bank before deciding whether to extend credit.

² Between August 26, 2015 and September 4, 2015, 132 ICBA member community banks participated in ICBA's survey.

The Nation's Voice for Community Banks.[®]

WASHINGTON, DC ■ SAUK CENTRE, MN ■ IRVINE, CA ■ TAMPA, FL ■ MEMPHIS, TN

1615 L Street NW, Suite 900, Washington, DC 20036-5623 | 800-422-8439 | FAX: 202-659-1413 | Email: info@icba.org | Website: www.icba.org

Underwriting Practice	Percentage
Review applicant's history with bank	100%
Check an applicant's borrowing history	92%
Verify an applicant's major financial obligations and debt	91%
Verify an applicant's income	80%

Community banks also indicate that for smaller loans, they rely heavily on “soft” factors such as the length of their relationship with the consumer and stated income. These underwriting practices differ for larger loans, which often require additional documentation for factors such as income and financial obligations. Relationship lending provides community banks the ability to shape loans to unique circumstances and situations.

ICBA Comments

ICBA supports financial innovation; however, we are concerned that the CFPB will issue rules – while developed with good intentions – that impose prescriptive requirements on how community banks make credit decisions. Alternative data and modeling techniques are changing the way that some financial service providers conduct business. These changes may potentially benefit some consumers but also present certain potentially significant risks. New regulations that require community banks to incorporate alternative data into their credit decision processes could prevent community banks from making loans to those who need access to credit the most, increase costs, and stifle innovation.

Broadening inclusion in the financial system is a worthy goal, but it must be done in a way that does not threaten the integrity of community banks and other financial institutions, and should result in safe and sustainable access to credit. Today, some firms are developing new models that include factors that have traditionally not been incorporated into credit scores, including the use of behavioral data, rent and utility payments, and even social media activity. Many, if not nearly all, of these companies have yet to go through a full credit cycle. It is unknown how these models will respond during a financial downturn. Abandoning or weakening traditional risk management measures will not help consumers if they do not have the ability to repay loans.

The community bank underwriting model works well. It has been tested time and time again through numerous economic cycles. Imposing new requirements will

The Nation's Voice for Community Banks.®

WASHINGTON, DC ■ SAUK CENTRE, MN ■ IRVINE, CA ■ TAMPA, FL ■ MEMPHIS, TN

1615 L Street NW, Suite 900, Washington, DC 20036-5623 | 800-422-8439 | FAX: 202-659-1413 | Email: info@icba.org | Website: www.icba.org

lead to increased costs which community banks with smaller customer bases will find harder to absorb.

ICBA also has concerns that consumers do not understand how alternative data could be used. Traditional credit factors are heavily influenced by the consumer's own financial conduct, such as whether the person paid their loans on time or how much credit the person has obtained and used. Alternative data that cannot be changed by consumers or that are not specific to the individual, but relate instead to peers or broader consumer segments, could frustrate consumers' attempts to improve their credit rating.

Some types of alternative data could raise privacy concerns because the data are of a sensitive nature and consumers may not know the data is collected and shared nor expect or be aware it will be used in decisions in the credit process. In many cases, alternative data has not been vetted or validated like traditional data maintained by community banks, credit bureaus, and others. Consequently, some types of alternative data could raise accuracy concerns because the data is inconsistent, incomplete, or otherwise inaccurate.

While it is important to acknowledge the potential risks of the use of alternative data, any rules should also recognize the existing fair lending laws and their current application to the credit process and not impose any unintentional or additional requirements on the existing models.

In addition, some sources of alternative data may not permit consumers to access or view data that is used in making the credit decisions, or to correct any inaccuracies in that data. In some cases, consumers might not be able to determine the sources of the data. These issues are compounded if creditors are not transparent about the type of data they are using and how those data figure into decisions in the credit process. Certain alternative modeling techniques could compound the transparency problem if they do not permit easy interpretation of how various data inputs impact a model's result.

The more factors that are integrated into a consumer's credit score or into decisions in the credit process, or the more complex the modeling process in which the data are used, the harder it may be to explain to a consumer what factors led to a particular decision. These complexities make it more difficult for consumers to exercise control in their financial lives, such as by learning how to improve their credit rating.

The Nation's Voice for Community Banks.®

WASHINGTON, DC ■ SAUK CENTRE, MN ■ IRVINE, CA ■ TAMPA, FL ■ MEMPHIS, TN

1615 L Street NW, Suite 900, Washington, DC 20036-5623 | 800-422-8439 | FAX: 202-659-1413 | Email: info@icba.org | Website: www.icba.org

Conclusion

Thank you for the opportunity to respond to the RFI. We strongly urge the CFPB not to issue new prescriptive requirements governing how community banks make credit decisions. Please contact me, Joe Gormley, at Joseph.Gormley@icba.org or (202) 659-8111 with any questions regarding our comments.

Sincerely,

/s/

Joseph M. Gormley
Assistant Vice President and Regulatory Counsel

The Nation's Voice for Community Banks.®

WASHINGTON, DC ■ SAUK CENTRE, MN ■ IRVINE, CA ■ TAMPA, FL ■ MEMPHIS, TN

1615 L Street NW, Suite 900, Washington, DC 20036-5623 | 800-422-8439 | FAX: 202-659-1413 | Email: info@icba.org | Website: www.icba.org