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MARKETPLACE LENDING & ALTERNATIVE LENDING

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WHAT IS IT?

- Lending by non-depository institutions
- Small dollar - \$500.00 to aprox. \$5,000.00
- \$14 billion in consumer and small business loans (unsecured) ¹
- Market expected to be \$120 billion by 2020
- Heavily leverages technology
- Two-sided market of consumers and investors (peer-to-peer)

1. Estimated by Morgan Stanley

HOW THEY DIFFER

Market Place Lending

- Connects underserved borrowers with financial institutions or retail investors that value them
- Borrowers get appropriately priced products
- Investors get competitive financial return
- Lending Club, Prosper & Kabbage

Alternative Lending

- Similar to private label credit cards
- Payday and term lending
- Partnership with merchants
- Affirm

FINTECH & MOBILE TECHNOLOGIES

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Unbundling of a Bank



THE BATTLE OF INNOVATION

- Right now, technology is winning the battle, but CFPB is looking to put on the brakes
- How to balance innovation with regulation
- Banking, lending, payment processing
- Privacy and cyber-security concerns

WHAT ARE THE REGULATOR'S CONCERNS?

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DISRUPTERS & ENABLERS

- Disrupters outside the scope of traditional bank regulators – less compliance
- Disrupters are nimble and not traditional in their analysis of a loan or one's ability to repay
- Banks will acquire disrupters, thus making them enablers and bringing them within the scope of prudential regulators
- But CFPB does not have to follow this progression

CONSUMER PROTECTION CONCERNS

- UDAAP
- State usury laws
- ECOA
- FCRA & FDCPA
- Aggressive use of “data” – can it cause discrimination?

WHAT WILL BE THE CFPB'S FOCUS?

- GAO Study – 2011 – CFPB and/or SEC can be primary regulatory
- Mobile Financial Services Report – November 2015
- CFPB Guidelines for faster payment systems – July 2015
- Concerns about the un-banked and underserved

EXAMINATION CONCERNS

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WHO EXAMINES THE DISRUPTERS AND ENABLERS?

- Prudential regulator examinations
 - Compliance with consumer laws
 - Safety and soundness
 - Examination of enablers
 - Examination of disrupters

EXAMINATION PRIORITIES

- Will CFPB follow current exam manual, traditional CIDs or something else?
- California Marketplace Lending Survey
 - Volume and types of loans over past five years
 - Consumer understanding
 - Operating with proper license and supervision

TRID

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CURRENT STATUS

- Explicit instructions to guide examiners
- How is it working so far?
 - Moody's study: 90% of loans had problems in first two months
- Fannie, Freddie, FHFA grace period for technical compliance? Same for CFPB and Prudential Regulators?
- Loan compensation to be targeted

ACCREDITATION

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CONTINUED SCRUTINY OVER FOR-PROFIT COLLEGES

- Lawsuit against Accrediting Council for Independent Colleges and School (ACICS) to comply with CID
- Investigation regarding accreditation standards

REGULATORY AGENDA

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WHAT IS STILL PENDING?

- Arbitration
- Payday, auto title & installment
- Prepaid cards
- Overdraft
- Debt collection
- LPR for consumer installment and vehicle title loans

WHAT IS ON THE HORIZON?

- Women-owned, minority-owned and small business data collection
- Implementation of mortgage rules
- Credit reporting
- Student loans/student loan servicing
- “Look back” efforts

CONGRESSIONAL OVERSIGHT

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WHAT TOOLS ARE AVAILABLE?

- Dodd-Frank amendments and political realities
- House and Senate banking committee hearings
- House and Senate small business committee hearings
- CFPB complaint portal, data collection, faulty research
- Disregard/preemption of state regulation

QUESTIONS?

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THANK YOU



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