

Remarks by
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“Financial Inclusion: Lessons Learned and What’s Next for Innovations in Alternative
Credit Data”
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Thank you, Laurie, for that kind introduction. I’m really pleased to be with you to discuss important steps the Office of the Comptroller of the Currency has taken to expand financial inclusion for those who have for too long been left out of our nation’s wealth-building economy. I’ll also discuss how consumer-permissioned alternative data may be used under today’s banking rules to further expand credit access for millions of consumers—as well as the challenges and opportunities in doing so.

First, a little background. The OCC was founded 158 years ago this week. Our mission is to ensure that national banks and federal savings associations operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations.

Our mission is more important today than ever, given the many challenges our nation faces.

We can’t have a safe and sound financial system if we don’t treat everyone fairly—no matter their income, color, or community. Yet, 22 percent of U.S. households, or 55 million adults, are unbanked or underbanked.¹ In addition, the pandemic—like other financial crises in recent history—has disproportionately harmed minorities, compounding wealth and income inequality.² Last summer’s protests focused much-needed attention on these and other inequities that minorities face.

President Biden, in one of his first actions, called on the federal government to pursue a comprehensive approach to advancing equity for all, including people of color and others

¹ Federal Reserve Board, 2018.

² [“Beyond the Case Count: The Wide-Ranging Disparities of COVID-19 in the United States,”](#) the Commonwealth Fund, September 10, 2020.

historically underserved, marginalized, and adversely affected by persistent poverty and inequality.³

For me, fairness is not a sound bite. It's a rallying cry and responsibility that I was called to work for. I grew up in rural North Carolina, many years ago, as a child in the '60s and '70s. I don't think I recognized until later in life that my parent were examples of African American leadership. My mother was the principal of my high school. My father was a Presbyterian minister. Both of my parents were champions for civil rights. My mother taught at and later became principal of the first integrated school in my county. My father marched tirelessly for civil rights as part of the Southern Christian Leadership Conference.

The march for civil rights and equity for all races continues and is building on progress made in recent decades by our nation and national banking system. By becoming a lawyer, I achieved my dream and hoped that the practice of law would provide me a path to address persistent racial and economic injustices. My career in bank supervision has allowed me to fight inequality in a financial system fundamental to the livelihoods of all in America.

I'm proud that my work at the OCC allows me to continue this fight by ensuring that our mission of ensuring safety and soundness and fair access and fair treatment is reflected in OCC's supervisory approaches and in the 1,100 banks we supervise.

Importantly, the OCC has taken steps to encourage the expansion of financial access for economically disadvantaged and marginalized communities and consumers.

To help expand credit to disadvantaged consumers, in March 2020, we joined other agencies in urging banks to offer small-dollar loans to consumers affected by Covid-19.⁴ The interagency statement followed the OCC's own 2018 guidance that encouraged banks to make small-dollar loans to unbanked consumers who too often pay very high fees to payday lenders and check cashiers.

While we've made progress through these OCC actions, clearly there is much more that needs to be done.

Last summer, in the wake of the nationwide protests, OCC executives asked what more we can and should do to bring greater equity, fairness, and access to marginalized minorities and

³ [Executive Order On Advancing Racial Equity and Support for Underserved Communities Through the Federal Government](#), January 20, 2021.

⁴ [OCC Bulletin 2020-25, "Small-Dollar Lending: Joint Statement Encouraging Responsible Small-Dollar Lending in Response to COVID-19,"](#) March 26, 2020.

others left behind and left out of our financial system and economy. The OCC's answer was Project REACH, which we launched last July and stands for Roundtable for Economic Access and Change.

The OCC founded Project REACH to bring together the leaders of banks, civil rights and community organizations, as well as technology innovators and other businesses, to exchange ideas and identify solutions that help to promote full, fair, and equal participation in our financial system.

The OCC is serving as the convener of community-focused, private stakeholders who have volunteered to tackle financial inclusion challenges that they see on local and national levels. In addition to facilitating dialogue and collaboration, the OCC is contributing our expertise on safety and soundness, consumer protection, fair treatment, and fair access questions.

Critical to the work and success of Project REACH are the representatives of nationally recognized community and consumer advocates who are intimately familiar with the needs of minority communities. Project members, like Operation Hope and the National Urban League, have for decades educated, supported, and guided consumers facing challenges with credit access through their credit journey. As trusted community advocates, they are essential to identifying fair and appropriate ways to expand access and inclusion, and then to educating the millions of consumers who may benefit by the efforts of Project REACH.

These community leaders are working with financial leaders through our four Project REACH workstreams to identify and eliminate obstacles to credit for consumers in order to

- expand accessible homeownership for minority homebuyers who cannot afford high down payment requirements,
- to enhance minority small business opportunities,
- to invigorate and reinvigorate minority banks that serve often neglected communities, and
- and to help provide financial access for the “credit invisibles” who are often unable to secure traditional credit because they don't have credit scores.

I'm very active in convening the Project REACH workstream that is looking at whether consumer-permissioned alternative data can be identified and fairly used by banks and other traditional lenders to expand financial access. This group is discussing ways to identify, obtain, and analyze alternative consumer data—such as average deposit account balances; cash flow in

checking accounts; or timely and regular payments for non-credit bills like rent, cell phones or utilities that may appear in bank accounts or from other alternative sources that retain that kind of data.

By working collaboratively, this workstream is building on related efforts that have been undertaken in recent years and are moving forward with other ideas that we hope will be piloted later this year.

As many of you know, the nation's three credit bureaus have typically tracked and used credit repayment performance for a specified number of tradelines over a particular time period in scoring consumer credit worthiness. The traditional approach, unfortunately, has resulted in approximately 45 million consumers becoming "credit invisible." This makes it much more difficult, if not impossible, to obtain a mortgage, credit card, auto loan, or other personal loan.⁵

Who are these "credit invisible" consumers? Well, they disproportionately are low-income and minority consumers who don't use credit or have not used credit on a regular basis. I believe this can be by choice or by circumstance. Either way, without credit histories, they don't have traditional credit scores. They may not have credit scores because they manage their financial lives with cash instead of credit or only use credit infrequently. Many of these people may be hard-working, responsible people who regularly pay their bills on time. When short of cash for groceries or medical expenses, rather than being able to qualify for a bank loan, they may turn to payday lenders or other non-traditional credit sources and pay very high fees in the process.

We believe millions of these credit invisible consumers could benefit from homeownership and other wealth-building credit opportunities if their credit worthiness could be assessed by considering their full financial record.

And by full financial record I mean, good management of their demand deposit accounts or timely payment of recurring financial obligations like rent, cell phone bills, and utilities that may not appear in their demand accounts but is available through other sources.

⁵ The Consumer Financial Protection Bureau estimates that 26 million consumers—about one in 10—have no credit history and 18 million others are not scoreable. "[Nontraditional Credit Data Could Bring Loans to More Consumers.](#)" The Financial Brand.com.

A majority of consumers, as many as 70 percent, would permit a lender to obtain such alternative data if it improved their chances of getting loans or lower interest rates on loans, according to an Experian survey.⁶

Increasingly, non-bank financial service providers are analyzing alternative credit data in their underwriting. Some are employing a consumer's cash flow data, obtained with permission by accessing a consumer's bank account activity, to extend unsecured, relatively short-term credit to consumers and businesses.

In the case of small businesses, there is evidence that using data from companies' bank account records, accounting software, and e-commerce platforms and payment processors can be useful in facilitating access to credit for small businesses. An empirical analysis of six non-bank credit providers, conducted by FinRegLab, a nonprofit thinktank, found cashflow data to be predictive of credit risk across providers, products, and borrowers.⁷

Other firms are beginning to mine other databases. New products, such as FICO Score XD, Experian's Boost, and TransUnion/eCredable Lift, analyze telecommunication, utilities, and public records information.⁸ FICO has also developed the UltraFICO score, which is based on the borrower's record of managing their demand deposit accounts and can be used to supplement the traditional FICO score.⁹ Dave Shellenberger of FICO will discuss this product later in this session.¹⁰

Some firms use artificial intelligence or machine learning in the lending process in order to most effectively analyze big data and consider alternative data and analytics related to credit risk. In 2017, the Consumer Financial Protection Bureau, for example, issued a No-Action letter to Upstart Network, Inc., which uses machine learning in credit decisions. At that time, Upstart used data related to borrowers' education and employment history. As a condition of the No-Action letter, Upstart agreed to conditions related to consumer protection, risk management, and fair lending impact analysis. Upstart reported that its alternative data model, when compared to a traditional credit model, approved more credit applicants at a lower cost across all consumer

⁶ [“What is Alternative Credit Data?”](#) Experian, September 18, 2018.

⁷ [“The Use of Cash-Flow Data in Underwriting Credit,”](#) FinRegLab.

⁸ [“Leveraging Alternative Data to Extend Credit to More Borrowers,”](#) FICO Blog, May 22, 2019.

⁹ [“Introducing UltraFICO Score: Increase Your Score Now.”](#)

¹⁰ [“Data Diversification in Credit Underwriting,”](#) Research Brief, FinRegLab, October 2020.

segments and showed no disparities that require further fair lending analysis under Upstart’s compliance plan.¹¹

The OCC recognizes that using alternative credit data in underwriting carries risks for banks and consumers. Banks face risks if consumers choose to disclose only positive data, leaving lenders with too-rosy a picture of their credit worthiness if, for example, late bill payments are not disclosed. And consumers could be harmed by the use of data that does not have an understandable relationship to credit worthiness, such as data on social media or internet browser activity.

Recognizing these risks, in December 2019, the OCC joined the interagency statement on the “Use of Alternative Data in Credit Underwriting,”¹² which highlights risks and benefits to banks and consumers of using alternative data. The statement recognizes that responsible uses of alternative credit data may improve the speed and accuracy of credit underwriting and help credit invisible consumers obtain credit. It references the relevant consumer protection laws and regulations applicable to the use of alternative data in underwriting. And it also stresses the importance appropriate testing, monitoring, and controls to ensure consumer protection risks are understood and addressed.

As the use of alternative data and other innovations evolve, the OCC encourages the banks we supervise to discuss questions and issues regarding new and evolving financial technologies with the examiners assigned to their banks and the OCC’s other experts.

To give banks and fintechs a centralized point of contact for discussion of these types of issues, in 2017, the OCC established our Office of Innovation. Since 2018, this office has held meetings—that we call Office Hours—in cities across the nation for OCC experts to hold one-on-one meetings with banks and fintechs. Our office hours are currently being conducted virtually and the next sessions, for those of you who might be interested, are March 17 and March 18.

The Office of Innovation is also working to launch an Innovation Pilot Program to give eligible entities the opportunity to seek the OCC’s regulatory input early in the testing of new or innovative activities that may offer opportunities or benefits to consumers, banks, and

¹¹ “[An update on credit access and the Bureau’s first No-Action Letter](#),” CFPB Blog, August 6, 2019.

¹² [OCC Bulletin 2019-62, “Interagency Statement on the Use of Alternative Data in Credit Underwriting,”](#) December 3, 2019.

communities. The OCC is incorporating into the pilot framework the public feedback received when we published a draft pilot program for comment.¹³

So, you see, the OCC recognizes responsible innovation as an important means of expanding credit and financial access to millions of disadvantaged consumers. But recently, I've been intrigued by another phrase, "equitable innovation." And when you put these phrases together, you begin to see the potential for our country as the OCC's seeks to ensure that banks and fintechs fully understand the range of potential risks and benefits for safety and soundness, fair access, and consumer protection compliance.

I am pleased with OCC actions, like Project REACH, which are using our agency's resources to support industry efforts to expand financial access and inclusion for millions of disadvantaged consumers. Working together in these types of efforts, we can make our financial system and economy more equitable for all. And we can help to open the door to building the generational wealth generation of homeownership and other credit opportunities that so many of us take for granted.

I look forward to sharing more about the accomplishments of Project REACH participants in the coming months. Thank you again for inviting me to speak with you today and I look forward to hearing the panel's insights and suggestions on how we can make our financial system and economy work for everyone.

¹³ [Public Comments on the OCC's Innovation Pilot Program](#), April 30, 2019.