555 West Adams Street
Chicago, IL 60661
312-985-2175
Paul.Siegfried@transunion.com
www.transunion.com

Paul Siegfried
SVP, Financial Services

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Robert E. Feldman
Federal Deposit Insurance Corporation
550 17th St NW
Washington, D.C., 20429

Re: Request for Information on Standard Setting and Voluntary Certification for Models and Third-Party Providers of Technology and Other Services (RIN 3064–ZA18)

Sent via electronic delivery to: comments@fdic.gov

Dear Mr. Feldman:

TransUnion[1] supports the FDIC's efforts to improve the financial health of American consumers and communities by addressing impediments to community bank adoption of technologies and tools. Given that, and as a company serving thousands of insured depositories, TransUnion welcomes the opportunity to respond to the FDIC's request of public comment.

Our comments summarize observations from developing, provisioning, and managing analytical models for and with thousands of insured American depositories, fintechs, and lenders in other sectors, and are guided by our organizational belief that data and analytic technology holds the power to transform communities and consumer financial situations. TransUnion has extensive experience working with business, compliance, analytical, and regulatory teams within institutions of all sizes. Our daily efforts remind us of the complex, and often arduous, processes depositories undergo to achieve even incremental improvements to their lending business.

TransUnion embraces the safeguards inherent in these processes, from the selection of third-parties who may receive sensitive consumer data to the careful implementation of tools that determine credit eligibility and rates. It is TransUnion's belief that commonly held standards strengthen credit risk practices, and further have the potential to better facilitate the ability of community banks to be an economic engine within their communities.

[1] For nearly 50 years, TransUnion has been a trusted steward and provider of consumer data to the nation's financial services sector. Today, our 8,000 employees safeguard over one billion consumer files on a global basis, and we are a core enabler of consumer credit in over thirty countries. This experience not only provides technological know-how and scale, it provides our organization a window into regulatory and financial innovations on a global basis.

Our comments are organized according to the questions in the Request for Information, but generally address the following core precepts:

1) Certain impediments to the adoption of technological innovations by depositories can be addressed by the FDIC establishing a pre-approved list of acceptable third-parties, models and services that satisfy the agency's primary examination concerns for third-party and governance risk management.

2) Standards should be designed in such a way do not stagnate or stifle competition and innovation.

3) Standard-setting and certification processes should be focused on outcomes, measures, or attributes to ensure that the result of this undertaking does not result in the ensconcing of a select one or few models or providers.

4) Prioritization of standard-setting for models related to credit-granting decisions has the benefit of improving and increasing access to credit in communities.

QUESTION 1: ARE THERE CURRENTLY OPERATIONAL, ECONOMIC, MARKETPLACE, TECHNOLOGICAL, REGULATORY, SUPERVISORY, OR OTHER FACTORS THAT INHIBIT THE ADOPTION OF TECHNOLOGICAL INNOVATIONS, OR ONBOARDING OF THIRD-PARTIES THAT PROVIDE TECHNOLOGY AND OTHER SERVICES, BY INSURED DEPOSITORY INSTITUTIONS (IDIS), PARTICULARLY BY COMMUNITY BANKS?

There are two principal impediments to wider adoption of technological innovations by IDIs, and community banks in particular: those pertaining to third-party risk management and model-governance risk management. To alleviate these, TransUnion recommends the FDIC establish a pre-approved list of acceptable third-parties, models and services that satisfy the agency's primary examination concerns for third-party and governance risk management.

THIRD PARTY RISK MANAGEMENT

Community banks seek to evaluate the risks associated with third-party relationships. While there is similarity in how this is done from one institution to the next, each bank does it a little differently, and the individual approaches are often inefficient for the institution and third-party alike. There is rightly heightened scrutiny placed on relationships, such as those with TransUnion. In these types of third-party technology relationships, not only is there the traditional third-party risk, there is additional concern given the extreme care required for the stewardship and sharing of sensitive consumer data.

We recognize the value and support strong third-party risk management provisions in FDIC and other regulators' rules. However, the assumption of all third-party risks by an institution discourages it from working with third-parties or expanding to new, and potentially valuable, third-party relationships. Effectively, each new third-party relationship introduces additional risk to manage for smaller institutions, where third-party risk management processes are oftentimes one of many duties of a single operations professional.

This additional risk and burden is often more than enough to discourage the consideration of additional third-party relationships, despite the additive value to lending programs. This oftentimes means relying on less impactful tools, delaying the adoption of technologies more in-line with consumer expectations, or making decisions less competitive than larger institutions or more technologically-driven non-depository firms.

To address these concerns, TransUnion recommends that the FDIC provide more clarity to institutions by establishing a list of acceptable third-parties that pose minimal third-party risk based on the FDIC's review and determination, and provide common tools or a framework for IDIs to use to mitigate potential third-party risk.

MODEL GOVERNANCE AND RISK

Community banks lag the market in adopting new risk management and marketing technologies. The impact of this is an inability to make lending decisions competitive with larger institutions or technologically-driven non-depository firms. Increasingly, community banks find themselves competing against more novel lenders and operating in a data-rich environment.

Historically, the Federal Reserve and others point to the standardization of the credit report and the advent of the credit score as having enabled consumer lending growth over past decades. Without these, many posit, credit would be less available, less affordable, and lending decisions less objective. While this is true, inherent in traditional credit report and credit models is a certain amount of legacy risk. Given the limitations of data storage and computing power forty years ago, legacy credit reports and scores are of little help to lenders seeking to understand how a consumer's credit is changing over time. Moreover, these data elements only address financial relationships involving traditional lending products. The continued reliance on models built for a forty-year-old data structure have repeatedly been shown to limit access to and overprice credit for millions of consumers today.

For more than ten years, TransUnion and other firms have focused on overcoming these limits. By incorporating data that has always been on credit reports, but ignored by traditional models; by harnessing advances in computing power and producing reports and scores that observe consumer financial behaviors over time; and by augmenting the scope of traditional credit reports with insights from financial and quasi-financial behaviors, including utility and rent payments; bank lenders realize improvement in their ability to provide and service credit. We built this new generation of credit models with regulatory frameworks, consumer transparency and financial inclusion in mind. Studies have shown that these predictive models re-classify over 20 million American consumers as lower-risk than prior generations of models. The outcome is more affordable access to credit and dramatically increased lender ability to confidently lend to emerging consumers. The double-digit improvement to approval rates and the ability to market in a way that's responsive to consumer financial needs is what's led nearly all of the fintech market and many of the nation's large lenders to adopt these innovations.

Regulated depositories of all sizes seeking to adopt current-generation risk management models must undertake the arduous processes of validating the impacts to approval and loss

rates, as well as all of the technological considerations. Then, they must also evaluate models for potential Fair Lending concerns. These concerns could include use of a prohibited basis in a manner prohibited by ECOA and Fair Lending laws, potential disparate impact, and the ability to explain adverse actions to applicants. Institutions adopting empirically sound models must have processes in place to regularly document and test model performance. Larger depositories have the institutional know-how and analytic resources to perform these exercises. In addition, the scale of their lending portfolio is such that the gains of adopting innovations can bear the expenses associated with this type of endeavor. For smaller depositories, the real or perceived risks associated with innovation, coupled with smaller-scale risk management processes and inexperience with regulatory examinations of new risk models result in less widespread adoption of new modeling tools.

This drives two real consumer consequences. At community banks relying on older technologies, consumers may face higher rates or an inability to access credit in the same manner they can at larger or more technology-oriented lenders. The other consequence of an inability to adapt risk management technologies is a reliance on judgmental underwriting, with all of the challenges and concerns associated with human decisions.

To address these problems, we recommend the agency consider developing acceptable models the FDIC considers effective in meeting its model governance risk examination concerns.

QUESTION 2: WHAT ARE THE ADVANTAGES AND DISADVANTAGES OF ESTABLISHING STANDARD-SETTING AND VOLUNTARY CERTIFICATION PROCESSES FOR EITHER MODELS OR THIRD-PARTY PROVIDERS?

As the FDIC considers the establishment of standards, an overly prescriptive approach may have the unintended consequence of inhibiting innovation. We encourage the agency to set standards in such a way that does not stagnate or stifle competition and technological improvement.

The disadvantage of standard-setting is the risk of stagnation or stifling of innovation. In the mortgage market, where there is a de facto standard for credit risk scores in the secondary market, we have seen that years of compelling evidence of more predictive risk scores and the ability to put more Americans into homes at more affordable rates has not been enough to upset long-standing reliance on a standard.

At large banks, adoption of new technologies routinely takes multiple years, involving multiple parties and resources. Many TransUnion community bank customers rely on 20-year-old risk models; and, when pressed, operational and risk management concerns are cited as the principle reason for not embracing current technologies.

The advantage of standard-setting, particularly for community banks, is an ability to remain relevant and expand access to affordable credit. Community banks, faced with lower barriers to working with new third-parties or adopting new innovations, would have a new ability to responsibly and affordably extend credit. Unlike years past, where significant technical and return-on-investment barriers stood in the way of community banks leveraging newer models

and technology, current generation platforms and API-based approaches have put the potential of these innovations within easy reach of most community banks.

Given the similarities TransUnion observes from bank to bank, both in third-party risk management and model governance processes, the creation of standards and certification would at once provide something familiar to community banks and the ability to eliminate a not insignificant burden that persists despite the technical advances that, historically, encumbered innovation.

QUESTION 8: WOULD A VOLUNTARY CERTIFICATION PROCESS UNDERMINE INNOVATION BY EFFECTIVELY LIMITING AN IDI'S DISCRETION REGARDING MODELS OR THIRD-PARTY PROVIDERS OF TECHNOLOGY AND OTHER SERVICES, EVEN IF THE USE OF CERTIFIED THIRD-PARTIES OR MODELS WAS NOT REQUIRED? WOULD IDIS FEEL CONSTRAINED TO ENTER INTO RELATIONSHIPS FOR THE PROVISION OF MODELS OR SERVICES WITH ONLY THOSE THIRD-PARTIES THAT ARE CERTIFIED, EVEN IF THE IDIS RETAINED THE FLEXIBILITY TO USE THIRD-PARTIES OR MODELS THAT WERE NOT CERTIFIED?

As referenced above, the industry has seen examples in the mortgage market where depositories do not enter into relationships for the provision of models – even third-parties with which they have existing relationships – given the force of perceived standards around an incumbent technology.

TransUnion recommends exploring standard-setting and certification processes focused on outcomes, measures, or attributes to ensure that the result of this undertaking does not result in the ensconcing of a select one or few models or providers.

The fact that so many community banks rely on credit risk models built in the last century and manual underwriting, thereby denying creditworthy borrowers, incurring losses from loans that should not have been made, and passing those losses on to well-qualified consumers in the form of higher rates, is a testament to the staying power of technologies and models once they have undergone a sufficient number of examination cycles and the disincentive to seek alternatives.

Establishing a certification process should center on transparency, both for third-parties and for technologies. To be successful there can be no doubt, either by the third party or by the regulated depository, that a third-party or a third party’s technology meets a prudential regulator’s standards. The more complex the certification process, and the more dissimilar either the process or requirements from regulator to regulator, the less incentive there will be for either third-party or depository participation in or reliance on these envisioned processes. This transparency, lower barrier to certification, explicit endorsement of prudential regulators, and an ability to evolve standards with the market should work to minimize barriers stifling new market entrants or new innovations.

QUESTION 11: FOR WHICH TYPES OF MODELS, IF ANY, SHOULD STANDARDS BE ESTABLISHED AND A VOLUNTARY CERTIFICATION PROCESS BE DEVELOPED?

For the reasons detailed above, TransUnion fully supports the establishment of standards and a voluntary certification process for underwriting risk-management models used in credit-granting decisions. Hundreds of smaller banks rely on outdated risk management models, in large part due to perceived regulatory risk and burdens associated with migrating to a more current technology. Consequently, these institutions may deny credit to creditworthy consumers in their communities.

There has been an ongoing dialogue around financially underserved and "credit invisible" consumers for many years. For lenders that have adopted risk-management models based on current generation data and analytics methods, this challenge is greatly reduced, significantly making the previously "credit invisible" visible, and dramatically increasing access to affordable credit for tens of millions of emerging consumers, opportunities they largely cannot enjoy at community banks.

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Community banks are the lynchpins of local economies, promising a deep and meaningful understanding of the consumers they serve. But the currently far too prevalent reliance on outdated technologies prevents thousands of community bankers from lending in a manner consistent with the community banking mission. The establishment of standards and a voluntary certification process, endorsed and incorporated into the regulatory process, for models used in credit-granting decisions has the potential to, safely and while removing bias from the lending decision, significantly improve the ability of community banks to be an economic engine within their communities.

We look forward to working with the FDIC on its efforts to ease impediments to community bank adoption of technologies and tools. If you have any questions, please contact Rachel Goldberg, Head of U.S. Government Relations, at Rachel.Goldberg@TransUnion.com.

Sincerely,

Paul Siegfried

Senior Vice President, Financial Services
TransUnion