

Highlights of [GAO-19-694T](#), a testimony before the Task Force on Financial Technology, Committee on Financial Services, House of Representatives

Why GAO Did This Study

Fintech refers to the use of technology and innovation to provide financial products and services. Fintech lenders are nonbank firms that operate online and may use alternative data to make loan decisions. In December 2018, GAO issued a report that examined fintech lenders' use of alternative data. The three fintech lending segments that GAO reviewed are personal, small business, and student loans.

This statement—based on GAO's December 2018 report (GAO-19-111)—discusses (1) fintech lenders' use of alternative data, (2) potential benefits and risks of alternative data, and (3) the extent to which federal agencies monitor lenders' use of these data. For that report, GAO reviewed literature and agency documents; analyzed relevant federal guidance; conducted interviews with agency officials and industry stakeholders; and interviewed a sample of 11 fintech lenders (selected based on size, products offered, and other factors).

What GAO Recommends

In its December 2018 report, GAO recommended that CFPB and the federal banking regulators communicate in writing to fintech lenders and banks that partner with fintech lenders on the appropriate use of alternative data in the underwriting process. The agencies concurred and stated that they plan to take action to address GAO's recommendations.

July 25, 2019

FINANCIAL TECHNOLOGY

Agencies Should Provide Clarification on Lenders' Use of Alternative Data

What GAO Found

Some of the financial technology (fintech) lenders GAO interviewed said they use nontraditional data—also referred to as alternative data—to supplement the traditional data used to make credit decisions or to detect potential fraud. Federal agencies and stakeholders generally define alternative data as information not traditionally used by the national consumer reporting agencies to calculate a credit score. Examples of alternative data include utility payments, cash flow statements, education information, social media activity, and internet browser history.

Using alternative data in credit decisions presents both potential benefits and risks. According to industry stakeholders and literature GAO reviewed, potential benefits include expansion of credit availability and faster credit decisions. For example, alternative data could be used to allow fintech lenders to offer loans to borrowers whose traditional credit history may have been insufficient for banks to extend them credit. Potential risks include disparate impact and other fair lending issues and cybersecurity concerns.

The Consumer Financial Protection Bureau (CFPB) and federal banking regulators have monitored fintech lenders' use of alternative data by collecting information and developing reports on alternative data, but they have not provided lenders and banks with specific guidance on using the data in underwriting. For example, CFPB's fair lending examination procedures and the banking regulators' third-party guidance on risk do not clearly communicate the agencies' views on the appropriate use of alternative data. Nine of the 11 fintech lenders GAO interviewed said additional guidance would be helpful to clarify regulatory uncertainty, which some lenders identified as a barrier to further financial innovation in expanding access to credit. Federally regulated banks that partnered with fintech lenders also told GAO that clarification on appropriate use of alternative data would help them manage their relationships with those lenders. Clear communication from CFPB and the federal banking regulators on appropriate use of alternative data in the underwriting process would bring fintech lenders greater certainty about their compliance with fair lending and other consumer protection laws, and help federally regulated banks better manage the risks associated with partnering with fintech lenders that use these data. Additionally, this communication might allow fintech lenders and their bank partners to innovate and expand access to credit through the responsible use of alternative data.