
Neugebauer: Examining the Opportunities and Challenges with Financial Technology

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WASHINGTON – Rep. Randy Neugebauer (R-Texas), Chairman of the Financial Institutions and Consumer Credit Subcommittee, delivered the following opening statement – as prepared for delivery – at today’s hearing entitled “Examining the Opportunities and Challenges with Financial Technology (“FinTech”): The Development of Online Marketplace Lending.” This hearing will examine emerging technology and its impacts on the future of banking:

“Today’s hearing - focused on the development of online marketplace lending - is the first in a series of hearings on financial technology, or ‘FinTech,’ that I plan to convene in this subcommittee.

“Online marketplace lending, sometimes referred to as peer-to-peer lending, has developed rapidly over the last decade. Leveraging technology, new lending platforms and underwriting algorithms, marketplace lenders have provided expanded avenues of credit for consumers and small businesses alike.

“At the most basic level, online marketplace lenders provide borrowers with faster access to credit than brick-and-mortar lenders, at loan levels traditionally not offered by banks. These lenders process these loans using online applications and automated underwriting that often allow funding decisions in less than 72 hours.

“Many consumer-focused lenders specialize in certain segments of lending such as education loans, debt consolidation, or personal loans.

“Small business lenders are able to work with businesses to address cash flow issues and provide capital for growth and expansion projects. This type of financing is especially important given the depressed small-dollar, small business lending environment since the financial crisis.

“While currently only a fraction of the \$3.5 trillion in existing consumer debt, marketplace lending shows signs of tremendous growth potential and identifiable challenges.

“Over the last year, we have seen growing attention paid to this market by federal regulators, the media, and other market participants. For example, the Office of the Comptroller of the Currency and the Treasury Department have considered the appropriate federal regulatory framework for these lenders. One proposal being considered would offer a limited-national banking charter that could provide operational efficiency and regulatory clarity.

“To date, I have appreciated the measured and thoughtful approach taken by the OCC and Treasury on this issue.

“Banks have grappled with questions surrounding competitiveness and partnership. Some have been quick to point to an uneven regulatory structure, while others have embraced the opportunity to partner with lenders to leverage their technology and consumer reach.

“I am hopeful that our community financial institutions will benefit most from these technological advancements and partnerships.

“Market analysts and the media have closely examined and scrutinized the market's development, and anticipated where new growth or consolidation might occur. For example, there has been a significant shift from retail investor funding to institutional investor funding, which has facilitated the growth in originations. Some analysts estimate the market will reach \$90 billion in originations by 2020.

“The improvement of the capital markets is also seen in the securitization process. The market saw its first securitization in 2013. As of today, there have been cumulative securitizations of \$10.3 billion.

“On the other hand, a 2016 report from Deloitte predicts the future of the market will see large consolidations and strategic partnerships with traditional banks. To make better policy decisions, it is incumbent upon us to:

- Understand the business models and product offering of these lenders;
- Understand how banks and lenders compete and collaborate; and finally
- Understand the current regulatory framework and how policy decisions may determine the market's future.

“Today, I hope members walk away with a better understanding of the market, its participants, and where we are headed.”

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