



PODCAST TRANSCRIPTION SESSION NO. 77: NAT HOOPES

Welcome to the Lend Academy Podcast, Episode No. 77. This is your host, Peter Renton, Founder of Lend Academy.

(opening music)

Peter Renton: Today on the show, I am delighted to welcome Nat Hoopes. He is the Executive Director of the Marketplace Lending Association. Now he's only been on the job a few weeks and the Marketplace Lending Association has only been in existence a few months, but I wanted to get him on the show because I think it's a really important position.

There's a lot going on in Washington right now. I wanted to talk about how Nat is engaging with lawmakers and with regulatory agencies in DC, we talk a lot about the MLA and where it's going, some of the changes they're already making and we also talk about what are some of the specific things that he wants to be working on over the next 12 months. It was a great interview, I hope you enjoy the show!

Welcome to the podcast, Nat.

Nat Hoopes: Thanks, Peter.

Peter: So let's just start....a lot of people have never heard of you, you're pretty new, a new name and so we'll all get to hear about your lot in the coming months and years, but can you just give the listeners a little bit of background about yourself?

Nat: Sure, thank you for this opportunity, regular listener to the podcast. This is a fantastic opportunity to be at the ground floor of a new association in Washington. My prior experience in the world of associations was at the Financial Services Forum where we represented the CEOs of some of the largest, globally active financial institutions so if you think about when Jamie Dimon, Lloyd Blankfein and Michael Corbett come to Washington to meet in a small group setting with Janet Yellen and the President of the United States.

That's the meeting that we did twice a year and also involved in a lot of lobbying activity and public relations work there and so this opportunity is similar in the sense that it's a small association of some of the best players in an asset class, but it's really an opportunity to start-up and build something from the ground up which is really desperately needed in Washington.

As I sort of dug in and understood online lending and the value that it was providing for consumers and investors, I really felt that some of the dialogue in Washington didn't reflect the promise that the space holds for people. So that it's really an opportunity to explain to policymakers who don't know frankly that marketplace lending might be a subset of fintech. They're using them interchangeably so there's a lot of education to do here.



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Peter: Yeah, yeah, for sure. Tell us a little bit about how you found out about marketplace lending, what's your history in this industry? I know you were at LendIt in April of 2016 early this year so you obviously knew about it then, but tell us a little bit about when marketplace lending got on your radar.

Nat: Sure, in my old role at the forum I started to see some of the partnerships pop up. OnDeck and JP Morgan announced their partnership around the same time and there's a lot of conversation about fintech. There's this enormous interest in the possibility of this technology disrupting everything from payments to custody to lending and this, I think, space really intrigued me in part because it's consumer phasing so it is reaching middle class Americans every day.

It also is interesting because ordinary investors are having a chance to buy into an asset class that they've never had exposure to before. So prior to marketplace lending there was no opportunity for retail investors to say...hey, I'd really like to own some credit card receivables. It wasn't an opportunity being offered so I think the innovation that's democratizing this asset class really bringing new opportunities to people that have not had them before was incredibly exciting.

Peter: Right, right, so when you were approached by the three founding members it sounds like you didn't have to start from scratch, you kind of have a working knowledge of really what the issues were and what was needed. Is that fair to say?

Nat: Yeah, so tackling the MLA..... Lending Club, Prosper and Funding Circle are 3 of the leading platforms in the space. I think I got to know that there is an alliance of community banks here in Washington called the Bank Alliance that has been an investor in Lending Club products and able to offer sort of white label loans and so understanding kind of the partnerships that have been developed into some smart, traditional financial assistance kind of made me understand a little bit about the opportunities here.

There's obviously enormous value for the borrowers who are saving a ton of money on the platforms, but there's also value for investors who need yield in this environment and those investors can be institutions, they're individuals and I just think that the overall exposure in Washington to just how large the space has done and how much value it's providing to borrowers who might be stuck in products that are ill-suited to them, to say the least, is tremendous and that's really kind of what got me interested.

Peter: Okay, okay, so let's just talk about the MLA for a little bit. How do you define its core mission?

Nat: Sure, I see the MLA as representing interests of all responsible, tech-enabled lending in Washington. So by responsible we mean products that clearly fall outside of the Consumer Financial Protection Bureau's definition of payday lending or high rate installment lending so lending that's below 36% APR and representing it really to a number of different audiences so representing it to the Hill. I'm sure there's a ton of education to be done when members of



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Congress are using marketplace lending and fintech interchangeably rather than one as a subset of another. But beyond that, representing it with the media, representing with think tanks, representing it with regulators and representing it on the state level. So a lot of marketplace lenders, tech-enabled lending platforms have gotten their licenses state by state and they're going to live and die, they stand by the rules and regulations and laws exist in the states that they operate in where they're licensed and so that's going to be a big focus for us as well.

Peter: So I just want to pick up on one of the things you said there and really dig into it a little bit because one of the core tenets, it seems, that you launched with was this.....the members need to have 75% of their loan volume coming through a marketplace model. You know, at that time I didn't really like that, I felt it was too limiting and certainly I voiced my opinions to all three of the founding members, but it sounds like from what you're saying there's going to be some flexibility there. So can you just tell us where you are today on that piece.

Nat: Sure, so you raised a really good and important issue for the sector generally and I think initially on the part of these larger platforms there is a desire which I think was incredibly well intentioned and important to represent what I'll kind of term the peer marketplace model the idea that retail investors and retail borrowers ought to be able to meet on a platform and do so without the sort of regulatory burdens that might be placed on a different type of financial institution.

What's really happened in a few months since it has been kind of a convergence of models where lenders have started to realize that what really matters in Washington especially, which is where we are in and frankly in the whole legal and regulatory environment, is really the way the product looks to the borrower rather than the way it's funded. And so there's certainly nothing stopping the MLA from representing the sort of interest of the peer marketplace, but the universe of tech-enabled online lending is a lot larger than that and the interests are more aligned on issues across the spectrum from fair lending, from state issues, you know, you name it.

So I think that pitching that sort of pre-requisite for membership is going to enable the industry to become unified in Washington and the to speak with one voice on the issues where they are aligned. That's incredibly important because they are up against well organized, well funded opposition at times and it's important that the industry educate policymakers about the status at all levels on a value that this product is providing to consumers and businesses and frankly students as well. So that, I think, is the goal now of the MLA, to represent a wider universe without losing the ability to advocate on some of those original core issues for peer marketplace lending.

Peter: That's really good news from my perspective because I think that givesotherwise if you keep the 75% threshold you got basically....it's like six or seven companies that I can think of that actually could apply and we want this to be a major voice as you say.



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So tell us about some of the things that the MLA has kind of.....based on all the operating standards are somewhat still in flux or not final, but can you just run through some of the highlights just so the listeners who want to know more and who are thinking about joining, what are some of the operating standards that you think will be going forward?

Nat: The key criteria are as I describe...that you're doing lending, you're not sort of offering a lot of other services; you're primarily a lender and you're lending at annual rates below 36% APR and therefore not triggering any of the high rate installment or high rate sort of payday rules or the Military Lending Act which is where that 36% is actually set in statute.

So that's the basic. I think the other characteristic is that you're disclosing your rates to borrowers. It's important that prospective borrowers aren't sort of signing up for products that they don't understand or that they can't afford. There are a lot of people who are working on different ways to do disclosure in a way that is the most transparent for the borrowers so certainly, we are open to taking input as things evolve, but, initially, I think we're just going to be focused on that clear black or white question of are you disclosing that basic rate.

Peter: Okay, so what about new members? You started with three members, that was in April. More than six months have gone by, but still three members, when are you going to be open to new members and what will that process look like?

Nat: Sure just to be clear, I didn't start until September so.....

Peter: Fair enough, fair enough.

Nat: I've been on the job a whole month, Peter, but our goal is to open the group up dramatically. Our hope is, as I mentioned, represent all responsible tech-enabled lending and to do it with a real focus on January where we have a brand new administration, we have new regulators, we have a lot of turnover on the House Financial Services Committee, a lot of turnover on the Senate Banking Committee, there's going to be a lot of turnover in the states and so there's a huge need to educate policymakers on the value of this sector and the only way to do that is to have the resources to do that education and advocacy.

So our hope is to have a lot of the platforms that meet that criteria signed up and the costs are going to be determined really by the size of the platform and their resources. So if you're a small company that's only done a couple of hundred million dollars in originations that doesn't mean you can't join the MLA. It's going to be more affordable for you to join the MLA so our hope is that we have a nice robust group of members that really represents a cross section of student loans and student loans refi, consumer which is obviously the core of where our members started, small business, Funding Circle being a board member and original member focused entirely on business lending and then some real estate.

So you can imagine very quickly a group of somewhere between eight and 20 of lending members and then beyond that I think that there's interest in also providing associate class for some of the infrastructure providers. So the Orchard platform, the Global Debt Registry, you



know there are others that are helping sort of facilitate, they're obviously investors that are helping facilitate this whole asset class and the emergence of really of sort of standardized sector. And so our goal would be to involve some of those companies as well in the MLA and how would we do that? Again, It's still up for development, but we are making progress there as well and having great conversations.

There's a great need for this type of group where the general counsels or the CEOs can get into a room and hash out some important issues with regulators and so that's what we hope to provide.

Peter: Okay, so speaking of regulators, I want to talk about Washington, DC for a little bit because there's been a lot of talk in the last.... well really the last 12 months about this industry.... who are you....because you're based in Washington, DC, right, that's where you live?

Nat: Correct, yes, right in the district.

Peter: Okay, good to know. So who are you going to be talking to, who are you going to be focusing your energy on as you go forward?

Nat: Sure, if you think about the universe of regulators, the Office of the Comptroller of the Currency, the OCC is working right now on a portfolio (?) for a fintech charter focused specifically on lending. That's something that the MLA could get involved with down the road. Right now, we're not involved with that, but Comptroller Curry who leads the OCC....his term ends in April so we're going to have somebody new in that seat. You've already seen the pressure that Elizabeth Warren is placing on Mary Jo White at the SEC, Director Cordray at the CFPB, his term is nearing its end and so we have just a lot of turnover. I would expect that Jack Lew will not be the next Treasury Secretary nominee and that we're going to have someone else.

So with a lot of people in new chairs, even if they're not new to me or new to us, it's going to take a lot of education and advocacy in order to get people up to speed on all of the issues that influence the space. So we're going to be talking to all those people and then somewhere along the Hill there's a chance that the Senate could switch from Republican to Democratic control which would really make Senator Sher Brown of Ohio the Chair of the Senate Banking Committee.

That changes the dynamic dramatically on Capitol Hill for financial services firms so we're going to be watching all those developments and getting into all those places. Again, to do some basic education on the space and to make sure that as they consider the possibility of regulation or as they watch what's happening in the states, they have the complete picture of the value that these products are providing for ordinary Americans.

Peter: Yes, so what's your feeling about the lawmakers, the members of Congress? I have testified before Congress, I've spoken to several congressmen and....this was a year and a half



ago I admit, but the level of knowledge wasn't all that high. I wanted to get your perspective onyou've talked about education several times already in this interview, clearly, that's one of your priorities, how do you feel the level of education of congressmen about this industry today is... like are they clearly aware of it? How much do they actually know as far as how it works?

Nat: I'd say that they're aware of it and they're aware of the front end technology so the term Uberization of a sector. They are aware that technology has enabled things to happen faster in a more seamless way for a consumer. I think where they really don't have is a lot of education is just how much economic value, how much dollar savings is being generated for consumers by using these products and likewise the opportunity for ordinary investors through various channels to have products in this asset class in their portfolio.

So there's a tremendous amount of education about the sort of more core economic value that this sector provides beyond the sort of tech Uber element that probably most members of Congress are aware of. When they think of the word fintech they think of the tech and I want to make sure they really understand that the reason people are turning to these products in such great numbers is because of the economic value.

Peter: So you mentioned the OCC and the fintech charter that's been in the news a lot the last month or two, is the MLA going to take a position on this? It would be nice to know like what the conversations have been like amongst your members when it comes to this proposal. Was this something that the people are going to support?

Nat: I can't give you any sort of specific color on conversations between members, but what I can say is that they are just taking a wait and see approach until they have a chance to really digest the proposal. So the process is going to work like this...sometime in early November, almost weeks earlier, there's going to be a formal proposal put out and there's going to be a comment period and I'm sure that the OCC is going to get reams of comments from various voices and that'll be really the opportunity when the MLA or MLA members might choose to weigh-in on the substance of the particulars.

The promise obviously is that we are a single nation, this is not a federation of states like Europe, we are a single country and a lot of financial products are sold on a national basis and it's unfortunate that there has been some mismatch in the ability for some of the dynamic innovative companies to offer their products to all Americans.

So if you don't have a bank branch in the state of Nevada, there are a lot of products you can offer to people in Nevada and one of the things that regulators here in Washington at the federal level are working at and they're saying ...wait a second, does it necessarily make sense that these products that are saving people so much money, time and creating valuable opportunities are not regulated and available on a more nationwide basis.

So it's certainly is a promise that we're watching, but we just don't know if it comes with too much baggage. The compliance costs are insurmountable or the requirements just simply don't



fit the models of these companies then it's going to be a charter in name only, it's not going to be something that's going to be used so we'll just have to kind of take a wait and see approach.

Peter: Right, it's one of the things that I think about this country that as an outsider....I am from Australia... I was struck when coming to this country how certain things....states regulate so much more than they do in other countries like Australia where finance in Australia's pretty much exclusively banking, finance, all kinds of securities law that's completely 100% federal. There's no states that have a securities regulator in Australia and to me as an outsider it just feels strange that you've got 50 different states securities regulators all with different opinions, not to mention banking..... I could go on, but we're digressing. So I wanted to talk a little bit about potential legislation. Congressman McHenry's talking about sort of a regulatory sandbox that's something similar to what they have in the UK, are you speaking with his office? What are your thoughts on that particular piece?

Nat: Yes, certainly in contact with the office, but can't claim any role in really shaping what they did with that proposal. I think that's a really meaningful proposal. They took a ton of time and thought developing it and they looked around the world at places that have a similar sandbox sort of approach and they said...why not us, why in a country that's known for it's entrepreneurship and innovation? Do we have some securities laws and banking laws that make it very difficult in some cases to innovate?

So, again, that's another proposal that I think has promise, but it's important that there's bipartisan buy-in and so I'm sure that Congressman McHenry's going to be talking to his counterparts across the aisle and on the other side of the Capitol and the Senate and see if they have feedback or thoughts on how it might be improved and they all likely have to be re-introduced next year and I expect that that will happen.

So I think that there are a few members who have really spent a lot of time thinking about these issues in this sector, in particular, he's certainly one of those members. I think Senator Warner has also done the same; Senator Corker has done a lot of thinking; Chairman Hensarling has done it; certainly Sher Brown.... he co-authored a letter to the GAO with some members of the Small Business Committee to have the GAO examine some of the issues in small business lending online.

So there are members that are taking the time to try to dig in and understand it and I think, overall, it's important that those members continue to have outreach and advocacies from the sector in order to ensure that the policy is sound.

Peter: Okay, so that sounds good. So beyond the OCC's piece, beyond Congressman McHenry's piece there has been talk of regulators stepping in at some point. Are there any other things that are on your radar that are being discussed when it comes to regulatory changes that'll impact this industry?

Nat: You know, certainly there's some talk about the rise of algorithms and the questions around fair lending and the ability for innovative companies to try to experiment to expand



access to credit and expand access to affordable credit to borrowers with thin files and lower credit scores. So right now, I don't think that many companies or platforms feel that there's a lot of space for innovation as in they now where they can operate safely and they're reluctant to try alternative criteria.

There are some that are working for a "no action letter" approach from the CFPP so that's sort of our version of a sandbox is to try to get a "no action letter" and work through that avenue. There are obviously questions around geography so if you have banks with an actual physical branch for print (?) they have Community Reinvestment Act requirements, there are questions about whether those should be updated to reflect the fact that they're online only banks and non-banks that are doing lending and so we'll be watching those issues as well.

Peter: Okay, finally last question, I want to talk about the MLA and what....obviously you've only been in the position a few weeks, but you joined/taken the plunge, you must have thought about this to some extent. What's your goal, like if we get you back on here in a year's time, what would you like to have accomplished, what do you think the MLA should look like in a year's time?

Nat: Well I'll talk about an issue that's a little bit more sort of....rather than regulatory, it's more about government technology. So the IRS has a Form 4506-T that sort of provides consolidated summaries of tax returns and right now that form has not made available thru an API and any kind of sort of quick time frame. It can take days for that to be sort of delivered to somebody who has requested it and that delay can complicate the underwriting process and potentially encourage fraud and other issues with borrower application.

So just that simple change of getting the IRS to sort of update it's own processes takes lobbying and advocacy, but it could dramatically improve online lending. So that's the type of issue that we will probably over the next 12 months engage with. I know it sounds small, but those types of small wins can mean for big improvements. In order to get something changed in Washington, even things that seem so common sense can take an enormous amount of work.

So we'll be tackling issues of that type, we'll also look atagain, I keep using the word education, you could also use the word advocacy, but educating the policymakers who haven't yet made up their mind about the value of this sector. Just to do the work that it takes to do that education and advocacy at both the state and federal level is going to be incredibly resource intensive and take a lot of effort. So we'll be doing a lot of that and then a lot of member coordination.

Patty Frank (?) had a great saying that government are the things that we as a country decide to do together as opposed to sort of individually as private citizens or as private entities and associations are a little bit like that. Associations are the things that companies who might compete against each other 99% of the time decide to do together. And so our hope is that by getting a good cross section of the industry, regardless of the funding model, but sort of the lower rate tech-enabled lenders, associations will provide opportunities for coalition building and



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opportunities for some group information sharing on the issues where they can work together and that's what ultimately can be very meaningful for members of an association is that kind of coordination.

Finally, I think there are opportunities for data standardization. A lot of platforms in this space is still very nascent and investors have mentioned that it's sometimes difficult to compare across platforms based on how different reporting is done, how reps and One-T's are done so there may be an opportunity and, again, this is aspirational, but maybe opportunity for the MLA to become a place where some of the standardization that will help these asset classes if you think about them based on the different verticals I mentioned across students and consumer and real status. If all the right people were in the room, you could see how some progress could be made that might help advance the overall interest of the sector.

Peter: I wish you all the best. We'll get you back on in a year and we'll see how it's all gone. Anyway, thank you very much for your time today, Nat, really appreciate it.

Nat: Peter, thanks for this opportunity and look forward to seeing you at future LendIt.

Peter: You bet. Okay, see you.

Nat: Take care, thanks. Bye.

Peter: As I said in the introduction, I feel like this is a really important time for our industry. There's a lot going on in Washington and I think it's so important that we speak with an independent voice and the Marketplace Lending Association is, while a very nascent organization, it is the main voice that we have as an industry right now and so I'm very supportive of what Nat is doing. I think it's great that he has some background and some knowledge on the industry, he's been able to hit the ground running and I'll certainly be following his movements and his actions in Washington very, very closely.

Anyway on that note, I would like to say thank you very much for listening and I will catch you next time. Bye.

(closing music)