



## **PODCAST TRANSCRIPTION SESSION NO. 94: CONGRESSMAN PATRICK McHENRY**

Welcome to this special LendIt USA 2017 edition of the Lend Academy podcast. My name is Peter Renton, Founder of Lend Academy.

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**Peter Renton:** So on the show today, we have a special guest. We have Congressman Patrick McHenry from North Carolina, he has been in Congress for quite some time and I think if you took a quiz of all 535 members of Congress, both the Senate and the lower house, I don't think there'd be anyone who understands the industry better than Congressman McHenry. He has made certainly fintech one of his focuses and he has I think a greater understanding than pretty much anybody in Washington, D.C.

So on that note, welcome to the podcast Congressman McHenry!

**Congressman McHenry:** Well thanks, Peter, thanks for having me on.

**Peter:** Okay, so I want to get started by going back a few years to your first term in Congress. You were the youngest member of Congress when you first got elected at the ripe old age of 33. So first question, why did you choose politics as your career?

**Congressman McHenry:** To make a difference, I mean, that's the best motivation to get involved in the political process is to make a difference for your fellow man. I still think there are high ideals that can be represented in political engagement. It doesn't have to be coarse, it doesn't have to be base. You can really get some things done and help people and improve the country and improve the world.

**Peter:** Okay, so then I want to start talking about finance a little bit, you are the Vice-Chairman of the House Financial Services Committee. Can you just tell the listeners what are the responsibilities of that Committee?

**Congressman McHenry:** Well we're the primary legislative basis for securities law, banking, real estate and oversight of the government sponsored enterprises around lending. So Fannie Mae, Freddie Mac and the like as well as oversight over the Housing and Urban Development Department so expansive, quite expansive. Securities alone can take up your whole time.

**Peter:** Right.

**Congressman McHenry:** Or, regulation of community banks or large banks can take up the wholeness of your activity and the work that I do tends to be sort of broad based across the jurisdiction, but really involving financial innovation and how you bring that to bear across different segments within financial services.

**Peter:** Okay, so I know that you were one of the driving forces for the JOBS Act which President Obama signed into law back in 2012. Why have you decided to focus on fintech and access to capital and that sort of thing?



**Congressman McHenry:** Well most of the debate in Washington has been about Dodd-Frank and so you have Republicans say not Dodd-Frank and Democrats say yes Dodd-Frank and it's not even a 1980's beer commercial (Peter laughs), it's just shouting and so I think there's fruitful discussions around innovation. How do you deploy new technology, big data and bring that to bear on societal needs, access to capital, financial inclusion? And I think there's a huge opportunity around fintech, broadly defined. They can move legislation, move regulation and open up new markets, new opportunities for families, for small businesses and for individuals across the country.

**Peter:** So it's interesting, one of the things you said in your presentation today that struck me and I hadn't really thought about it, to be honest, before you talked about this and you said in small towns there's less entrepreneurship than there used to be. You're from a small town yourself, I mean, what do you think is the reason for that?

**Congressman McHenry:** Well a couple of things. I think there's some certainly macro things at work in our economy that are problematic, but I think broadly put, you have financial institutions, banks used to have majority of their assets in small business loans. That was 20 years ago; today, it's 20% of their balance sheets are small business loans so I think you see a shift in who banks and financial institutions are willing to lend to and that's drying up capital in rural areas. I think you see also this movement with fewer banks, you know, each year, each month passes we lose more financial institutions.

Those institutions have been disproportionately in small towns and rural communities. So small towns and rural communities face similar challenges to folks in urban areas in being starved for capital and new business capital and folks that want to take a little bit of risk but don't have somebody to lend them the money. They don't have friends with deep pockets. That happens in rural areas, that happens in urban areas. If you're born on the wrong side of the tracks, it's much more problematic to get startup capital. I think fintech is the solution to that. You know talking about something that is community agnostic, racially blind, I mean, the capacity to use technology is a wonderful thing for our society, I think.

**Peter:** So does that mean...following on from that, do you think that entrepreneurship will return to rural communities. Do you think we'll get more new businesses starting up in rural communities because of this?

**Congressman McHenry:** I think so. I think fintech is helping fill in those gaps in a way that may not be the for sure intention, but has the great benefit to our society and folks that...maybe it's a daunting process to go into the bank, you don't know a banker, but you feel safe, insecure from rejection in an online environment.

**Peter:** Right.

**Congressman McHenry:** The market has so shifted and the consumer electronics revolution has really shifted people's mindsets and understanding of online risk and I think it's a good thing.

**Peter:** Sure, so I want to talk a little bit about politics for a while. The Republicans are obviously in control of the White House Senate and the House of Representatives, do you think there's an opportunity to advance an innovation package? I know you've worked on this in the past...a



package that can really help the fintech sector continue to improve financial services for consumers and small businesses.

**Congressman McHenry:** I think there is and I have a handful of pieces of legislation that are focused on different segmentation of change so different aspects of change you can work through the process so I think you can do individual, single shot fixes. For instance, Madden vs. Midland fix so we return to the principle of valid when made for lending. I think single shot fixes like that can work their way through and I think later in the year, there's hope for a range of these policies packaged together. They can make their way through the House and Senate and signed by the President.

**Peter:** I know you mentioned also in your talk today, you talked about the UK and other countries. The UK obviously have a much simpler regulatory structure. The FCA is really the primary financial regulator where we've got six or seven financial regulators here. I look at it myself and I sometimes feel overwhelmed about the possibilities of getting everybody to talk together because you pointed out in your presentation that you had a 14-page JOBS Act document and that became an 800-page regulation from the SEC.

With that background, you've got to be an optimist to keep being in politics all this long. I mean, do we have a chance that we can get not just even a level playing field with the UK, but New York is the financial capital of the world, that's still the case, but it may not be the case in 25 years time unless we can do something that really encourages innovation. How do you feel about the possibility of working with the regulatory agencies to implement...you might have a great idea, but then they're going to make it very difficult.

**Congressman McHenry:** That's right and so that's why I have a piece of legislation called the Financial Services Innovation Act which centers around these regulators as they exist and forcing these regulators, changing the law and stating they have to have a financial innovation door they open. An office that they open for innovative products that may need regulation changes and give the regulators that capacity to change those regulations by allowing beta testing in certain areas and that would enable the regulator to get data to prove out perhaps that they're not providing the level of consumer protection they think they're providing under existing regs and that new data would enable them to write better regs to protect the consumer and expand credit.

So there is a great opportunity around financial innovation if we open those doors with the regulator and the regulator has a congressionally mandated approach by which they have to be tech inclusive. Right now, it depends on the regulator and that's no way to fly the ship of state and no way they compete with a jurisdiction like Great Britain and there's no wonder that fintech has a distinctly British accent right now. That's where the intellectual property is going and that will be where the revenue goes for a global platform. I think without adapting, we are harming our market and ensuring intellectual property is developed overseas rather than here at home.

**Peter:** Right, I hear you say that. I think it's a shame that the regulatory agencies need legislation to actually open up the door for new ideas in a way because I would think...given the advances in technology and advances in all kinds of industries you'd think that that's something they would all be doing without even being asked. It seems like that's not the case though.



**Congressman McHenry:** Right, and regulators are risk-averse. They're risk-averse by their very nature and so Congress has to push them in order to adapt and change and right now, we've got the pace of change within financial technology as is unrivaled in human history. And so we've had rapid change over the last couple of years in the way people are accessing first of all, consumer technology is so different than it was five years ago, much less 20 years ago, 25, 30, 40, 50 years ago. Certainly different than when the Congress put in place the Securities Act and the Securities Exchange Act in the 1930s and addressed a huge issue of its time, the telephone. So, likewise, we have to have a new footprint that is tech inclusive given the pace of change.

**Peter:** Right, because I had the CEO of SoFi, Mike Cagney on the show a few weeks ago and he talks about a \$2 million loan you can do on your phone. I mean, clearly, that would have been science fiction even, I would say, ten years ago. Today it's happening commonplace and that's what the customers want. And so the customers want that, they're providing it and clearly we need the laws to really catch up to it.

But I want to segue into the OCC Fintech Charter because the OCC is one of the few agencies that are actually taking a lead here and we have Comptroller Curry coming. He's coming to speak at our conference here in a short time, but I wanted to get your feeling on...do you think that the Republican administration will continue to support the Charter and a national framework for fintech?

**Congressman McHenry:** Yeah, that's my hope. It really is contingent upon who the next Comptroller of the Currency is. Obviously, Curry is out in two months time and so is in a rush to complete this process. I think the discussions are helpful, I think at the end of the day we'll need legislation in order for this to be a workable, usable charter in a larger scale way, but it is at least a tech forward view by a singular regulator. I don't know that it's going to be enough and I don't know that the OCC has at the current rate a capacity to move fast enough for this charter to be useful. But I'm glad and it is encouraging that they've at least taken this turn as an organization, but I want more and I want faster.

**Peter:** (laughs) I think that would echo the sentiments of probably every one at this conference. Okay, so you mentioned data a couple of times, you mentioned it in your remarks this morning and I wanted to get your perspective. I mean, on alternative data sources there's obviously a lot of concern from the consumer protection advocates that this data might have disparate impact or some kind of discrimination that would arise possibly inadvertently over this. What's your view of data, do we need new legislation in this area or do we think...what is your view of the opportunities for using more data that is readily available today?

**Congressman McHenry:** You look at the consumer credit score, it's the best thing going because it's the only protection lenders have in order to comply with Landmark and highly important legislation from the 1960s and 70s, but it is a very limited data set that they utilize and it's not conforming with the world we live in today. It was a great product in the 1970's, worked through the 1980's and has been failing for the last 20 years, but it's what every one runs to for protection in order to do lending rather than the best data sources that perhaps take folks that are on the margin, it'd give them dramatically lower rates.

And so the data should be the data, the data should lead to loan outcomes, whether acceptance, rejection or the pricing of capital and we should let the data drive it. And I think



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looking at that, we'll see folks that are being left behind today that now can participate in the credit markets for the first time, if done correctly. But we need a regulatory framework that allows that, that permits that, that encourages that and it's my hope that we can get that from our regulators as they now stand. And short of that, we need to update the law surrounding it so that we can help those in urban areas and rural areas that face the same challenges.

**Peter:** Right, I know you've got to go so last question. Putting on your crystal ball we sit down back again here in four years time, what do you think will have actually changed legislatively and from the regulatory perspective, what do you actually think we will be able to get done?

**Congressman McHenry:** I think we won't be talking about Madden anymore, I think we'll have a legislative fix for that and I think you'll see a dozen or two dozen significant pieces of legislation that involve financial innovation make it into law. And I think you'll also see competition among regulators for the world of fintech and that will enable fintech companies to have a diversity of options rather than none currently in terms of structuring in their business model and interacting with Washington.

**Peter:** Okay, well I really appreciate you coming on the show.

**Congressman McHenry:** I'm optimistic, I'm optimistic.

**Peter:** (laughs) That's great to hear, so am I.

**Congressman McHenry:** Great to be here at LendIt and Peter, thanks for the conversation.

**Peter:** Okay, thank you, Congressman.

Well there you have it, Congressman McHenry is optimistic about the chances that we will see some real change here in Washington, I'm also optimistic. I also think that the fintech companies obviously are not going to wait around for new legislation, they obviously haven't done so yet. There's obviously been a lot of innovation happening in the last ten years under really a regulatory regime that is not very friendly, but I also hope that we have a situation where it's not just the UK...the UK obviously are doing very well, but other countries around the world, particularly now with Brexit happening, other countries around the world are vying to be the fintech capital of the world.

The reality is it should be in the USA, we have the leading capital sources here in the world with Silicon Valley and all the funding that these technology companies are able to access and we also have the financial resources here in New York where you can get basically access to capital, unparalleled anywhere on earth. So it would be a shame if suddenly it was, I don't know, Shanghai or Dublin or Berlin or some other city that comes to the forefront, but the reality is there are countries out there that are trying to be friendly to fintech companies and are trying to attract them.

I am hopeful that we can still keep these companies here in the US, keep the innovation really happening here in the US. Time will tell, it's going to be a fascinating look to see how the fintech charter pans out and how the innovation...I'm obviously very optimistic that the innovation will keep happening regardless and I just hope that we have a regulatory regime that is continuing to encourage that.



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Anyway on that note, I'll sign off. Thank you very much for listening to the special LendIt edition of the podcast and I will catch you next time. Bye.

(closing music)