



September 29, 2021

Honorable Todd M. Harper
Chairman
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Honorable Kyle S. Hauptman
Vice Chairman
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Honorable Rodney E. Hood
Board Member
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Re: Credit Union + Fintech Partnerships to Address Dynamic & Evolving Consumer Demands

Members of the NCUA Board,

Upstart Network, Inc. (“Upstart”) is a leading lending platform provider that partners with credit unions to help them grow their memberships and expand access to affordable credit. By leveraging Upstart’s all-digital, AI lending platform, Upstart-powered credit unions can grow their loan portfolios, lend to more creditworthy borrowers safely, and deliver a modern, all-digital experience for their members. Based on Upstart’s experience thus far working with a number of different credit unions, Upstart encourages the NCUA Board to support policies that promote responsible fintech partnerships with small credit unions, including *allowing Credit Union Service Organizations (CUSOs) to advance and expand their lending activities to include originating any type of loan that a federal credit union is allowed to originate.*

Since their inception, CUSOs have assisted smaller credit unions in obtaining access to lending products that would have been expensive and challenging to attain on their own. Without CUSOs, many small credit unions would not have been able to effectively compete in the mortgage, business, credit card, and student lending areas due to a lack of scale. Through CUSO lending partnerships, credit unions have been able to grow and find lending stability. As markets change rapidly in the digital era, CUSOs working in partnership with fintech firms can help credit unions adapt, manage

risk, and find opportunity. Given the impact of COVID-19 and today's unprecedented pace of change, today's lending environment provides new and expanding challenges to credit unions. Upstart is committed to helping credit unions across the country expand their lending activities through our AI lending technology to better reach and serve the evolving needs of their members. Over 70% of loans funded through the Upstart platform are fully automated.¹ Upstart's AI model leverages over 1,000 variables and advanced machine learning algorithms to enable more accurate risk-based pricing and greater automation. With Upstart, credit unions can approve almost three times the number of borrowers at the same loss rates as traditional credit score-based models² with near-zero default rates.³ More accuracy can also mean more financial inclusion. In 2019, the CFPB published Upstart's reported access to credit results under the No Action Letter program, reporting that "...the Upstart model approves 27% more borrowers than the traditional model and yields 16% lower average APRs for approved loans."⁴ Upstart's credit union partners can achieve similarly inclusive results while retaining full control over their own credit policy.

Finally, it is important to note that Upstart believes that the NCUA can manage an expanded mandate for CUSOs while maintaining appropriate risk management expectations. The NCUA has already published guidance that provides for appropriate guardrails on third party model vendors. For instance, in 2016, the NCUA formally acknowledged the 2011 OCC and FRB-published "Sound Practices for Model Risk Management: Supervisory Guidance on MRM" (OCC Bulletin 2011-12 / FRB SR 11-7) principles in its published guidelines on model risk. The updated August 2021 OCC handbook for SR 11-7 also includes guidelines for Third Party model risk management.⁵

Upstart is committed to continue engaging with the NCUA and credit unions to promote policies that promote credit union innovation broadly. If you have any questions, please contact Nat Hoopes, Head of Public Policy and Regulatory Affairs at nat.hoopes@upstart.com.

Sincerely,

Nat Hoopes
Vice President & Head of Public Policy and Regulatory Affairs

¹ As of 3/31/2021. Fully automated loans are defined as loans originated end-to-end (from initial application to final funding) with no human involvement.

² In an internal study, Upstart replicated three bank models using their respective underwriting policies and evaluated their hypothetical loss rates and approval rates using Upstart's applicant base in late 2017. Such result represents the average rate of improvement exhibited by Upstart's platform against each of the three respective bank models.

³ Based on an internal Upstart data analysis of personal loans first payment defaults as of 9/30/2020.

⁴ <https://www.consumerfinance.gov/about-us/blog/update-credit-access-and-no-action-letter/>

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<https://www.occ.gov/publications-and-resources/publications/comptrollers-handbook/files/model-risk-management/index-model-risk-management.html>