

Upstart + HF 3680 Testimony

About Upstart

- Hello, my name is Gilberto Soria Mendoza representing Upstart Network, Inc. I was also a former National Conference of State Legislatures staff member and I deeply appreciate the work you all do for your constituents.
- Upstart is a leading lending marketplace, connecting millions of consumers to over 100 banks and credit unions, including local institutions like the Bank of Elk River. Lenders use Upstart's AI models and cloud applications to deliver superior credit products.
- With Upstart, lenders can approve more borrowers at lower rates across all races, ages, and genders, while delivering a digital-first experience customers demand, where they can apply for a loan right from a mobile device and receive funds quickly without having to take time off of work to visit a physical branch or a loan store.
- We thus make it possible for small banks and credit unions to compete with large national lenders. Through our use of alternative data and AI, we've helped our partners serve over **2.9 million customers**, originating over **\$36 billion** in loans. **All of these loans are below the 36% APR federal standard.**
 - Since 2020, Upstart has powered more than **46,000 loans in Minnesota, equating** to almost **\$462 million** in credit. This is credit that has helped Minnesotans consolidate and pay off their credit card debts at lower rates, handle immediate emergency needs, and take steps to improve their lives.

HF 3680 Concerns

- First, Upstart Network has a long history of supporting strong consumer protections, including the implementation of 36% APR rate caps in states like Illinois and New Mexico (where there were no meaningful caps), and work with consumer advocates and civil rights organizations as a founder of the MoreThanFair coalition on AI safety. The goal is always to find the balance: to protect consumers from harm while also protecting their ability to conveniently access affordable credit when they really need it.
- Before you today is HF 3680. Section 1, Subdivision 2(b) - opt-out of the federal Depository Institutions Deregulation and Monetary Control Act of 1980 - should be of deep concern to all Minneostans. While prominent law firms like Hudson Cook and Manatt have written posts questioning the legality of this opt-out, if it is enacted and upheld, it is clear it would have unintended consequences for low and moderate income people, damaging access to a key source of credit at a time when they need it the most.

WHO DOES THIS HURT?

- At Upstart we estimate (based on our 2022 volume levels) that over 9,000 loans, and about \$68 million in total credit that we have helped deliver to Minnesotans will disappear if the bill is implemented without changes. This will force Upstart to refer these borrowers only to the nationally chartered banks, rather than a diverse array of state-chartered community banks, community development financial institutions and credit unions - if nationally-chartered banks in the network even decide to step in to pick up the slack.
- And according to our data, the thousands of Minnesotans negatively impacted by HF 3680 are those who can least afford it. Those Minnesotans who have accessed loans from our lending network at APRs between 21.75% & 36% **have an average FICO score of only 646** and an **average annual income of only \$64,547**. **Time has shown that the risk of defaulting on a loan is materially higher than those Minnesotans who have qualified for loans below the state's rate cap of 21.75%, the latter having a FICO of 691** and an **average annual income of \$72,413**. That doesn't mean they should be denied an opportunity.
- This bill unfairly punishes people for having lower credit scores and lower incomes, leaving them with fewer options. Without access to an out-of-state bank's loan, these borrowers will be left stuck with their higher cost credit card debt, lacking access to credit for emergencies, or they will end up in the clutches of pawn shops and predatory lenders.
- We urge the bill sponsors and the committee to first spend time studying the impacts of this policy, in particular on sub-36% APR digital consumer loans, and on the competitive playing field, and make a data-informed decision. Are local lenders really able to serve borrowers with low credit scores, low incomes, conveniently and at scale under MN law? Then why are thousands upon thousands of Minnesotans accessing millions of dollars in consumer credit from hundreds of lenders out of state?
- While it's clear that HF 3680 is aimed at curtailing abusive high cost loans, it unintentionally does damage to responsible, low cost credit as well. Because of Minnesota's very low rate cap on larger consumer loans, this provision will make it impossible for out-of-state community banks to offer affordable loans to a huge percentage of Minnesota consumers, particularly those in minority and rural communities.
- Without competition from state-chartered banks, what will happen to the cost of financing for these borrowers? It will go up. Ask yourself this question: when has reducing a key source of competition ever resulted in lower prices for consumers?

Access to Credit (nationwide)

- Finally, each year, Upstart evaluates the ability of our personal loan model to underwrite applicants in comparison to a more “traditional” model. We conduct the research looking back at the prior year.
- In 2023, this research showed that the Upstart model continues to approve more applicants, including Black and Hispanic applicants, at lower APRs than a more traditional credit score-based underwriting model.
- In comparison to the traditional model:
 - **Our lenders approve 44% more applicants, & result in APRs that are 36% lower than traditional providers**
 - **Our lenders approve 35% more Black¹ applicants** and results in APRs that are **29% lower than traditional providers**
 - **Our lenders approve 46% more Hispanic¹ applicants** and results in APRs that are **34% lower**
- As a result of our innovative approach to credit risk analysis, Upstart is uniquely positioned to help our partners meet the credit needs of their communities, particularly low and moderate income borrowers and communities of color.
- We look forward to working with you on constructive alternatives and approaches and we thank you for your consideration.

END OF STATEMENT