WRITTEN STATEMENT OF

KIRK CHARTIER

CHIEF STRATEGY OFFICER

ENOVA INTERNATIONAL

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Good afternoon, Chairman Barr and members of the Subcommittee on Financial Institutions and Monetary Policy.

My name is Kirk Chartier, and I serve as the Chief Strategy Officer at Enova International, headquartered in Chicago, Illinois. I have worked in financial services and technology companies for over 30 years, including Charles Schwab, Dell Technologies, and Safeco Insurance. Enova is a leading financial services company utilizing machine learning and world-class analytics to offer loan and line of credit products for consumers and small businesses in the U.S. as well as providing services and technologies to banks to help them serve those same customers. I am grateful for the opportunity to discuss the role Enova and its more than 1,650 team members play in increasing financial inclusion in America through direct lending and bank services.

Since our founding 20 years ago, Enova has been committed to helping hardworking people get access to fast, trustworthy credit to meet their financial responsibilities. To date, we have served over 10 million customers, originated or serviced over $55 billion in loans, and have been recognized as a "Best Place" to work for over a dozen years. This last bit is important because it means we can hire top technology talent to work at Enova. Enova is a $4.6 billion-dollar balance sheet company operating some of the best-known brands in consumer and small business lending, including NetCredit and OnDeck. Working with companies like Enova enables banks to provide more consumers with more credit options.

My company is both a direct lender and also a service provider to community banks who seek to expand the population they can offer loans to. Smaller banks leverage the investments companies like Enova make in their marketing, data and analytics, servicing, compliance, and capital markets capabilities to compete with the large money center banks.

Enova believes that our loan and line of credit products build a pathway for consumers and small businesses that helps increase financial inclusion. A cornerstone of financial inclusion is the opportunity to access credit, which results in greater independence and affords borrowers more control over their own financial and business health. However, not everyone has equal access to credit. We seek to fill this gap by offering loan products digitally to people throughout the U.S., both as a direct lender and as a service provider to banks. This dual approach allows more people in more states to engage with lenders through the products and services Enova has developed.

We have achieved this capability because regulations and regulators during our early years fostered innovation in financial services to increase financial inclusion.[1] The ability to continue this pace of product innovation and improvements for our customers is hampered today. There is an increasing patchwork of state laws and regulations that are not keeping up with changes in technology, data, and analytics that allow Enova to tailor credit products to individuals with lower credit scores and growing small businesses with limited assets to use as security for loans.

The fact is that most non-prime consumers have financial instability due unexpected expenses and limited savings, and they use credit to fill temporary budget gaps. The most recent Federal Reserve Board report in 2023 found that 37% of Americans cannot cover an emergency expense of $400 from their savings.[2] In addition, a study by PYMNTS and Lending Club found that in a three-month period 46% of consumers reported experiencing an unexpected expense.[3] Adding to the challenge consumers face with income and expenses, the Federal Reserve Bank of New York found that 52% of consumers with credit scores less than 680 were rejected for a loan during 2023.[4] Over the past 20 years, Enova has served over 7.5 million consumers who have a weighted average Vantage© score of 600 and average personal income of $40,000 a year. Our customers have a broad national presence and industry surveys have shown a diversified demographic uses these loans. Our consumer installment loans are offered

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[1] U.S. Department of the Treasury, "A Financial System That Creates Economic Opportunities: Nonbank Financials, Fintech, and Innovation," July 31, 2018, https://home.treasury.gov/sites/default/files/2018-07/A-Financial-System-that-Creates-Economic-Opportunities---Nonbank-Financi....pdf
[2] Board of Governors of the Federal Reserve System, Economic Well-Being of U.S. Households in 2023 (Washington: Board of Governors, 2024), https://doi.org/10.17016/8960.
[3] PYMNTS, The Emergency Spending Deep Dive Edition, https://www.pymnts.com/study/reality-check-paycheck-to-paycheck-emergency-expenses-savings-financing/
[4] Federal Reserve Bank of New York's Center for Microeconomic Data, June 2024 Survey of Consumer Expectations, https://www.newyorkfed.org/microeconomics/sce#/

in amounts between $300 and $10,000, with terms between three months and five years, and amortization schedules that pay down principal over time. Our consumer lines of credit offer credit limits up to $10,000. These products have consumer friendly features including both of the NetCredit products reporting to credit reporting agencies and the line of credit offering a rate reduction program based on on-time repayments. Enova's products are priced according to risk tiers within the business lines based on predicted defaults. The U.S. Chamber of Commerce has reported that risk-based pricing models reduced the cost of credit for consumers across economic and demographic groups.[5] Features and products like these provide a pathway for consumers to become more fully banked and participate in the modern economy. These products are offered directly to consumers by Enova and also by several community or regional banks as part of Enova's bank services offering. Enova estimates there is a $76 billion market for near-prime and subprime unsecured consumer loans.

Financial challenges aren't unique to consumers and another Federal Reserve report states that more than 52% of medium to high credit risk small business applications for loans at banks are denied.[6] That same study found that less than 50% of small businesses used large banks as their primary financial services provider, and only 44% of small businesses sought financing from large banks. Key reasons for that given in the survey are complicated applications, processes that take too long to fund, and the belief the small business would be denied a loan by the big bank. Accordingly, 28% of businesses applied at small banks and another 23% applied for credit at online lenders,[7] so they were applying with companies like Enova's OnDeck or community banks like the ones Enova provides services for. Small banks and online lenders are an important source of funding for small businesses, and OnDeck is a leader in the markets with over 243,000 small businesses having used Enova's unsecured term loan and line of credit products, primarily serviced by our OnDeck business. The typical OnDeck business customers have $595,000 in median annual revenue, average 11 years in business, and operate in one of 900+ different industries. Most businesses take OnDeck loans for working capital or to buy or replace equipment. Enova's OnDeck business offers installment loans and lines of credit secured with a personal guarantee in amounts ranging from $5,000 to $250,000, terms from 6 to 24 months, and risk-based pricing. We estimate there is a $372 billion-dollar market for small businesses (primarily to employer firms) seeking loans for less than $250,000.

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[5] The U.S. Chamber, The Economic Benefits of Risk-Based Pricing for Historically Underserved Consumers in the United States, April 12, 2021.
https://www.uschamber.com/assets/documents/CCMC_RBP_v11-2.pdf

[6] Federal Reserve Banks, "2024 Report on Employer Firms: Findings from the 2023 Small Business Credit Survey." March 7, 2024, . https://doi.org/10.55350/sbcs-20240307

[7] *Ibid*

Enova's competitive difference is its proprietary technology platforms, data and analytics. These systems are built for scalability and flexibility and are based on proven open source software. We have safeguards designed to protect the information we gather. We also created controls to limit employee access to that information and to monitor that access. Our safeguards and controls have been independently verified through regular and recurring audits and assessments. These are both good business practices for a direct lender, and the type of systems and processes that banks look for in third party service providers.

Enova has developed a fully integrated decision engine that evaluates and rapidly makes credit and other determinations throughout the customer relationship, including automated decisions regarding marketing, fraud, underwriting, customer contact and collections that leverage machine learning-enabled models and large language model tools. The result of this work is underwriting decisions that can be up to 30% more accurate than FICO or Vantage scores alone in predicting loan default and loan application processes that can result in funds being received shortly after approval.[8] These capabilities separate this credit offering from traditional bank products that rely on human processors and simple credit score cutoffs.

Our decision engine currently handles more than 100 algorithms and over 1,000 variables that have been analyzed by our teams for fair lending compliance. The algorithms in use are regularly monitored, validated, updated and optimized to continuously improve our operations. In order to support the daily running and ongoing improvement of our decision engine, we have assembled a highly skilled team of nearly 90 data and analytics professionals. Our proprietary models are built on more than 19 years of history, using advanced statistical methods that take into account our experience with the millions of transactions we have processed during that time and the use of data from numerous third-party sources. Our underwriting system is able to assess risks associated with each customer individually based on specific customer information and historical trends in our portfolio. We use a combination of numerous factors when evaluating a potential customer, which may include a consumer's income, rent or mortgage payment amount, employment history, external credit reporting agency scores, amount and status of outstanding debt and other recurring expenditures, fraud reports, repayment history, charge-off history and the length of time the customer has lived at his or her current address. While the relative weight or importance of the specific variables that are considered when underwriting a loan changes from product to product, generally, the key factors considered for loans include monthly gross income, disposable income, length of employment, duration of residency, credit report history and prior loan performance history if the applicant is a returning customer. Similar factors are considered for small business applicants and also include length of

[8] Enova, Investor Presentation April 2024, https://ir.enova.com/presentations-events.

time in business, online business reviews, and sales volumes. Developing these capabilities are core to digital financial services and while companies like Enova that use an online business model can focus and develop world-class capabilities, it is more difficult for community banks to match them, thus the need for those same banks to be able to contract with financial technology service providers to compete for customers.

All of this is supported at Enova by a compliance framework that includes: (1) focus on tone from the top to instill an ethical culture; (2) centralized team led by experienced compliance professionals; (3) policies, procedures and other controls focused on compliance and the fair treatment of customers; (4) regulatory framework built into the technology platform and the business model; (5) training of employees on compliance requirements and transparency around pricing and other key aspects of its products; (6) a comprehensive risk assessment, monitoring and testing program; and (7) early warning signals on new regulations and other legal risks. Enova delivers the fast, secure technology systems and effective compliance management system its direct loan customers, regulators, and bank customers expect.

As discussed above, in addition to our direct lending programs offered under state authorities, Enova provides marketing, servicing, and balance sheet management services to several banks. Banks seek us out for these services to expand their lending to new populations they couldn't otherwise lend to. Our programs are similar to those offered by Fannie Mae in mortgage or any of the nonbank credit card sponsorship programs. Regional and community banks work with Enova because the products and services we developed work - this is clear to them from Enova's public filings and securitization activities. Smaller banks face significant challenges developing and maintaining the systems Enova spent significant capital to develop over the past 20 years and as a recent Federal Reserve study found, "Cost of Technology" is among the top external risks community bank leaders are facing.[9] In addition, because Enova is a public company, supervised as a direct lender and servicer by multiple state agencies, and supervised by the CFPB, banks are assured that Enova can comply with the rigorous standards set out in the "Interagency Guidance on Third-Party Relationships: Risk Management"[10] as well as the other federal and state laws banks operate under.

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[9] Community Banking Research Conference, "2023 CSBS Annual Survey of Community Banks," Oct. 4-5, 2023, https://www.csbs.org/sites/default/files/2023-09/CSBS%202023%20Community%20Bank%20Survey%2010.04.2023.pdf

[10] Federal Deposit Insurance Corporation, "Interagency Guidance on Third-Party Relationships: Risk Management", June 6, 2023, https://www.fdic.gov/news/financial-institution-letters/2023/fil23029.html

In order for Enova to continue investing in servicing programs for banks, industry - bank and nonbanks alike - seek clarity on the risks and liabilities involved. In particular, banks can use their preemption rights to offer uniform products and services across multiple states providing a high-quality loan product and achieving economies of scale that make the offering profitable for the bank. However, the advantages for consumers and small businesses from competitively priced bank offered loans is at risk in several states as out-of-state activists work with novel legal theories to interfere with a bank's right to offer its products and services. This interference also creates uncertainty about the risks Enova takes on in offering services to banks, as well as making it uncertain for banks causing many of them to avoid offering loans to riskier customers. Over the past few years, five states have passed complex predominant economic interest laws to cut-off access for residents to loans offered by out-of-state banks. Some of these laws are already being tested in court and the rate of adoption has slowed as legislatures have questioned the often very long and convoluted statutes developed by think tank lawyers. A very recent action that has been promoted by a think tank supported by trial lawyers has been for states to opt-out of the Depository Institutions Deregulation and Monetary Control Act of 1980 ("DIDMCA") that brought parity with national banks to state-chartered banks allowing them to charge competitive interest rates. These two actions require the attention of this committee and action at the federal level to preserve our national banking system.

Enova understands and appreciates the role of regulators in providing clear guidance and sound regulation based on facts and current market capabilities. We work directly with the CFPB and with regulators in nearly every state through licensing and examinations. We also monitor bank regulations and regulator activities in the states and at the federal level as part of our bank servicing programs. This helps ensure our services are compliant with law both as a direct lender and as a service provider to banks. However, in many instances regulatory overreach in rule writing, supervision, and enforcement has resulted in potential harm to consumers, small businesses, and financial services companies. This overreach, especially where there is lack of clarity, impedes innovation and slows competition. We believe it is important that agencies such as the CFPB and other federal financial services regulators consider the impact on businesses and consumers when they establish and enforce rules, including following administrative procedures for developing and issuing regulations.

At the federal level, courts have found examples of regulatory overreach. One example of this is the CFPB's issuance late last year, "undoing" changes it had made to its exam manual on unfair, deceptive, or abusive acts or practices ("UDAAPs") after a court found the agency had exceeded its authority in making the changes. In that case, the CFPB provided limited advance notice for the industry to prepare for proposed sweeping changes to the law through a handful of edits to its exam manual. A federal district court held that the CFPB had clearly exceeded its authority, usurping power held by Congress, in adopting the exam manual changes.[11]

Finally, recently the Supreme Court of the United States has handed down several rulings that constrain the authority of the Executive Branch administrative agencies to take actions that have not been directly authorized by Congress or that are not subject to independent judicial review. Accordingly, we urge Congress to enact the CFPB Transparency and Accountability Reform Act to provide certainty to the agency and the industry that will allow them to work more effectively to deliver innovation and high-quality financial services to consumers and small businesses. In addition, we urge congress to act to clarify the preemption rights of banks as well as the risks and liabilities of parties participating in bank lending programs by passing legislation to re-institute the Office of the Comptroller of the Currency ("OCC") True Lender Rule from October 27, 2020 making it federal law applicable to all banking institutions and to also act to clarify DIDMCA opt-out authorities. Bringing clarity and transparency to lending laws and regulatory actions helps to reduce the uncertainty that causes financial institutions to avoid lending to medium to high risk consumers and small businesses.

We appreciate the opportunity you have provided for us to express our views on these critically important subjects. We look forward to any questions you may have and to further discussions.

[11] *See* Chamber of Commerce of United States v. Consumer Fin. Prot. Bureau, No. 6:22-cv-00381, 2023 U.S. Dist. LEXIS 159398 (E.D. Tex. Sep. 8, 2023).