



February 29, 2024

The Honorable Heather Gustafson
Minnesota Senate
95 University Avenue W.
Minnesota Senate Bldg., Room 3103
St. Paul, MN 55155

Re: SF 3932 – DIDMCA Opt Out -- OPPOSE

Dear Sen. Heather Gustafson,

Upstart Network, Inc. ("Upstart") writes in OPPOSITION of SF 3932, a bill that will curtail access to responsible credit for low and moderate income Minnesotans by opting out of federal interest rate preemption by federally insured, state-chartered banks making consumer loans in Minnesota pursuant to Section 525 of the federal Depository Institutions Deregulation and Monetary Control Act ("DIDMCA").

Founded in 2012, Upstart is the leading AI-lending marketplace, connecting millions of consumers to more than 100 banks and credit unions that leverage Upstart's AI models and cloud applications to deliver superior consumer credit products, all under the 36% APR. With Upstart AI, lenders can approve more borrowers at lower rates across races, ages, and genders, while delivering the exceptional digital-first experience consumers demand. Upstart's online marketplace includes personal loans, automotive retail contracts, automobile refinance loans, home equity lines of credit, and small-dollar "relief" loans.

We applaud the legislature for passing strong consumer protections and passing a 36% APR rate cap on payday loans in 2023. Upstart supports a 36% APR standard at the state and federal level. We have worked tirelessly with consumer advocates and state legislatures in Illinois, New Mexico, California and many other states on legislative proposals and new regulatory frameworks that provide clarity for lenders and options for consumers. In Illinois for example, we supported the Predatory Loan Prevention Act ("PLPA"), which capped lending at 36% APR. The Woodstock Institute, one of the fiercest advocates in Illinois on the issue, commissioned a statewide [poll](#) on the effects of the PLPA. The results stated that 86% of Illinois residents support the rate cap at 36% and support was overwhelmingly strong among Democrats, Republicans, and Independents alike.

Who Does SF 3932 Hurt?

Bank partnerships with fintech companies, like Upstart, are not only facilitating financial inclusion but they are keeping community banks and smaller financial institutions vibrant, competitive and independent. Since 2020, Upstart has powered more than 46,000 loans in Minnesota, equating to almost \$462 million in credit. This is credit that helps Minnesotans achieve financial goals, with the most common being consolidating and paying off high-cost credit card debt at lower rates. Under SF 3932, Minnesotans will still be burdened by high cost credit card loans from the biggest banks, but will lose access to lower-priced loans from smaller state-chartered banks. This makes no sense.

Upstart makes 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 nationwide serve over 2.9 million customers, originating over \$36 billion in loans using our marketplace. All of them are below 36% APR, with no abusive penalties or extra charges.

This bill unfairly punishes people for having lower credit scores and lower incomes, limiting their choices.

According to our data, the thousands of Minnesotans who would be negatively impacted by SF 3932 are those who can least afford to lose a credit option. Minnesotans who have been able to obtain loans from FDIC-insured and supervised out-of-state banks at APRs between 21.75% and 36% APR have an average FICO score of 646 and an average annual income of \$64,547. They get charged slightly more by banks because their default risk is simply higher than those Minnesotans who do qualify for loans below the state's rate cap of 21.75%. The qualifying group has a FICO score of 691 and an average annual income of \$72,413. Ask yourself: if you needed to quickly access \$5,000 - \$10,000 to handle an emergency, or pay off your high cost credit card debt, would you want the state to get rid of the one convenient bank option that you actually qualify for, simply because it costs a few more dollars per month?

Without access to an out-of-state FDIC-insured bank's loan or a change in the Minnesota rate cap, these borrowers will face an increase in the cost of borrowing because of the lack of access to affordable credit options. The only hope for these consumers is that other national banks will step into the gap that this bill would create in the state's credit ecosystem. Local options such as pawn shops are more expensive and far less attractive from the perspective of the borrower.

Upstart's Access to Credit

At Upstart, we're dedicated to improving access to credit for all. We believe our AI models are some of the most accurate, fair, and inclusive underwriting models in the market, and help make the credit system more accessible, affordable, and secure. With Upstart's AI, lenders can approve more applicants with lower average APRs and at lower loss rates than traditional credit score models. This improves the financial health of Americans and unlocks opportunity for them.

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 underwriting model. In comparison to the traditional model, the Upstart model:

- Approves 44% more applicants and results in APRs that are 36% lower;
- Approves 35% more Black borrowers and results in APRs that are 29% lower; and
- Approves 46% more Hispanic borrowers and results in APRs that are 34% lower.

Conclusion

SF 3932 will restrict responsible bank-fintech partnerships, further undermine market competition, and limit affordable consumer credit options for the hardest to serve Minnesota consumers. We encourage you to withdraw SF 3932 and study the impacts and unintended consequences of this policy, if passed Minnesota will reduce responsible credit options for those who need it most. If we can be of any assistance, please contact Gilberto Soria Mendoza, Government Relations Manager, at gilberto.mendoza@upstart.com.

Sincerely,

Nat Hoopes

Vice President & Head of Government and Regulatory Affairs, Upstart