

## **New Lending For A New Economy**

*Summers makes the case for how financial innovation in lending is serving broad social objectives and lays out first principles for how policymakers should view marketplace lending*

April 15, 2015 New York City– At LendIt 2015, the largest-ever gathering of the online lending community, Lawrence H. Summers will explain why new lending models can play a critical role in growing the economy and will detail his views on how regulators should approach the new sector.

“We are finally seeing financial innovation for the benefit of people, not just financial institutions,” Summers will tell the audience of more than 2,400. “The merits of financial innovation are on full display in the rapidly growing marketplace lending industry. New lenders are promoting the flow of credit in the economy and increasing economic efficiency.”

In his speech, Summers cites the ability of businesses like Lending Club and Square Capital (Summers is a Director at both companies) to use technology to improve every step of the credit allocation process: from lowering operating costs and processing time, to using more and better information to underwrite, to making smarter credit decisions.

For new lenders to reach scale and fully realize their promise of improving the flow of credit throughout the economy, policymakers must develop a framework to understand and regulate the new sector.

“Marketplace lenders can actually make the financial system safer,” Summers will say. Policymakers should take the opportunity presented by marketplace lending as a starting point for their analysis, Summers will argue. A financial system with multiple pillars is a safer one, and unlike banks, new lenders are more likely to be able to continue making loans in a downturn. And because marketplace lenders perfectly match assets and liabilities in duration and in loss bearing, they benefit the whole system by extending credit without adding systemic risk.

As policymakers investigate the marketplace lending model in detail, Summers will call for the articulation of a set of ‘first principles’ that aim to maximize the benefits of marketplace lending and minimize the social costs.

### **Summers’ first principles for regulating the marketplace lending industry are:**

- **Permission not prohibition: let new business models emerge.** Regulators should allow new firms to operate, generating data on the outcomes created by novel business models, before writing new rules. Regulation is necessary but only when necessary.
- **Insist on transparency and disclosure – then let consumers decide.** As new lenders serve parts of the market that have historically not had access to credit, high rates will draw regulatory scrutiny. Regulators should require full

transparency and disclosure and see how consumers react to new products and prices before writing rules.

- **Maintain a level playing field: don't give incumbents an unfair advantage, but discourage business models based on unfair regulatory arbitrage.** Regulators should strive to put entrants on equal footing with incumbents, but without sacrificing consumer protection. No lending business – online or offline – should get a pass on usury laws, fair disclosure and other critical safeguards.
- **Provide workable regulatory frameworks.** To date regulatory authorities have generally maintained appropriate attitudes towards innovative lenders. It will be important as the industry evolves and grows that regulators not create overhangs of uncertainty or burden excessively those attempting to innovate.

The full text of the Summers' speech will be live streamed at 10am ET at <http://www.lendit.co/live> and a transcript will be available at [www.larrysummers.com](http://www.larrysummers.com) after delivery.

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