Testimony of

T. Michael Price

On behalf of the

Pennsylvania Bankers Association

before the

Financial Institutions and Consumer Credit Subcommittee

of the

Committee on Financial Services
United States House of Representatives

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Chairman Luetkemeyer, Ranking Member Clay and members of the subcommittee my name is Michael Price and I am President and CEO of First Commonwealth Bank. We are a $7.6 billion community bank based in Indiana Pennsylvania. We employ over 1,400 people across Pennsylvania and Ohio, and as the Number 2 SBA lender in our markets, we extend nearly $500 million in small business loans to our communities. Thank you for the opportunity to be here today to testify on behalf of the Pennsylvania Bankers Association to discuss opportunities for financial markets in the digital era.

New technologies are quickly changing the ways all businesses connect with their customers. "Fintech" is a term used to capture this convergence of banking and technology. While it has been used to refer to tech-focused startups, innovative technologies are offered by banks and startups alike. While many of these technologies may feel new, they typically leverage new technology as a delivery channel for traditional banking products and services.

Innovation in financial services has the ability to benefit consumers across the country and drive growth in our economy. New technologies allow financial service firms to connect with customers in new ways and offer them products that may better fit their needs. It can lower costs, making financial services more affordable for consumers across the country. It provides added convenience and efficiency, giving customers the ability to manage their finances day or night from the palm of their hand. Technology can also lower the fixed costs for providing credit to small businesses, leading to greater capital access that spurs economic growth.

Banks have always embraced innovation and continue to do so in order to better serve their consumers. Make no mistake, banks are pro-innovation, pro-consumer, and are very technology focused. Banks have pioneered important innovations in banking, such as ATMs, credit cards, online banking, and remote check deposit. Banks continue this innovation today, investing billions of dollars annually into technology to bring their customers the latest apps delivered through secure and trusted channels.

However, it is important to note that technology is not a replacement for a community presence. Community banking has always been a relationship business. While banks are driving technological innovation, we remain a visible presence, supporting our local communities as we always have through community outreach and countless hours of volunteering – something that cannot happen through a key stroke or algorithm.

Innovation only enables these benefits if it is delivered responsibly. Customers deserve consistent protections where ever they receive financial services. A loan is a loan no matter who provides it. Companies that want to engage in the business of banking must be willing to be regulated and supervised accordingly.

In my testimony today I will stress the following three points:

- Banks are innovating and partnering;
- Community banks are critically important; and
- Consumers deserve consistent treatment.

<u>Banks are Innovating and Partnering</u>

Today, banks of all sizes are innovating and partnering with technology-powered startups to deliver innovative products and services to their customers. Banks are investing significant resources into developing new technologies. While some have gone as far as establishing "innovation labs," banks of all kinds are delivering innovative products to their customers. All banks invest significantly in technology and today, much of this investment is devoted to new financial tools and apps. Banks innovate within a strict regulatory environment. Security and privacy of customer information is always the top concern for banks. When banks innovate and partner with startups, customers get innovative services from a trusted channel.

Partnerships to Move Forward

In addition to developing their own new products and apps, banks are actively partnering with fintech startups to deliver innovative products and services to their customers.

Startups and banks both bring a lot to the table and each have a unique set of strengths that are often complementary. Startups' freedom from legacy systems and lighter oversight makes them nimble and gives them the ability to bring new products to market and test them quickly. This has allowed them to build innovative and intuitive user experiences.

Banks are key drivers of innovation as well, delivering new products to market through both internal development and partnerships. Banks have strong customer relationships built on a foundation of trust earned through years of doing right by customers. This trust is backed by a strong culture of compliance and a regulatory framework designed to protect customers.

This trust, which is foundational to banking, is not easily replicable by startups. Establishing and growing customer relationships is the largest challenge for startups. Banks bring tremendous value to the table in their role as trusted custodians of their customers' money and information. Moreover, banks have stable deposit funding which gives them the resiliency to offer innovative products throughout shocks and credit cycles.

Through collaboration and partnerships, banks and fintech companies can deliver the best technology-forward products to customers. At First Commonwealth, our technology partnerships have enabled us to deliver online account opening for loans and deposits, a state-of-the-art online personal financial management solution, mobile wallets, mobile banking and mobile deposit services, and person-to-person payments. Our digital roadmap includes dozens of new products and enhancements in the coming months and years that will promote ease of use, improve customer service, enable financial fitness and empower customers to manage their security and move money in real time.

New Interface, Traditional Products

At their core, most innovations in financial services closely resemble traditional banking products and services. The innovations being implemented today leverage new, digital delivery channels to give customers faster, more convenient access to traditional financial products. Online lending, for example, is just a new delivery channel for a product that has existed for many years – consumer and small business loans. Banks have always provided the consumer loans that help families reach their financial goals and the small business loans that drive local growth and job creation.

Digital nonbank lenders provide online interfaces that allow customers to apply for and receive credit quickly and easily. They fund these loans in a number of ways. Although many lenders act as a marketplace, matching borrowers with investors, many others originate loans that they hold to maturity. A number of banks also offer online application and approval for loans.

Online non-bank lenders typically target traditional borrowers and originate loans that closely resemble traditional loans. They are typically fixed rate, term based (with maturities ranging from 36-60 months), and are fully amortizing (with the loan paid-off at the end of its set term).

Community Banks Are Critically Important

First Commonwealth, like other community banks are the backbone of hometowns across America. Our presence in small towns and large cities everywhere means we have a personal stake in the economic growth, health, and vitality of nearly every community. A bank's presence is a symbol of hope and a vote of confidence in a town's future. When a bank sets down roots, communities thrive.

Relationship Banking Not Going Anywhere

While digital channels can add significant value for many customers, they are not for everyone. The high-touch relationship banking that banks, particularly community banks, offer are critical to communities across the country and is not fully replicable by technology.

A personalized approach allows banks to truly understand their customers and work with them, tailoring products to meet their specific needs. In his remarks on responsible innovation, former Comptroller Curry noted concerns about customers relying solely on online lenders. "I would worry about the staying power of some of the new types of lenders. One of the great virtues of community banks is that they know their customers and they stand behind them in good times and bad. I'm not so sure that customers selected by an algorithm would fare as well in a downturn."

There are a number of communities with limited access to the technology needed to take advantage of online financial services. The Pew Research Center estimates that 77 percent of American adults have access to smartphones in 2018 with 89 percent having access to the internet. These statistics show significant progress, but we cannot forget about the 23 percent of Americans without smartphones and the 11 percent without internet access. These statistics become much more pronounced when looking at low income and rural communities. Community banks stand ready to serve these communities as we always have.

Critical to the Economy

The credit cycle that banks facilitate is simple: customer deposits provide funding to make loans. These loans allow customers of all kinds—businesses, individuals, governments and non-profits—to invest in their hometown and across the globe. The profits generated by this investment flow back into banks as deposits and the cycle repeats—creating jobs, wealth for individuals and capital to expand businesses.

As those businesses grow, they, their employees and their customers come to banks for a variety of other key financial services such as cash management, liquidity, wealth management, trust and custodial services. For individuals, bank loans and services can significantly increase their purchasing power and improve their quality of life, helping them attain their goals and realize their dreams.

Each and every bank in this country helps fuel our economy. Each has a direct impact on job creation, economic growth, and prosperity. While large, regional, and midsize banks all have important roles, community banks are essential to prosperity in the areas we serve. While we make nearly a quarter of all bank loans, we account for nearly half of bank small business and commercial real estate loans—and more than two-thirds of agricultural loans from all banks.

Community Leaders

In addition to our on-the-ground ability to meet customers' financial needs creatively, community bankers are local leaders. We are involved in many community-serving organizations, serve on school and hospital boards, donate thousands of volunteer hours to charities—all in addition to the advice we provide to business owners, families and individuals, young and old, about their daily financial needs.

At First Commonwealth our mission is to improve the financial lives of our neighbors and their businesses. It is our vision to support our communities as active leaders and a good corporate citizen. Our bank contributes well in excess of $1 million annually to charities and community organizations like the United Way, the American Heart Association, Habitat for Humanity, Boys and Girls Clubs of America, and community reinvestment groups. We support and encourage our employees to be active and committed citizens of their communities by serving on the boards of local hospitals, YMCAs, food banks, and chambers of commerce and volunteering their time and energy as laborers, counselors, teachers and coaches. In short, we are a visible and vital part of every city and town in which we do business.

Consumers Deserve Consistent Treatment

Innovation in financial services promises to bring great benefits to customers across the country. These benefits are only realized when innovative financial products are delivered responsibly in a way that does right by customers. This means getting regulation right is critical.

Banks have served as a trusted provider of financial services for centuries and take that role very seriously. This trust is supported by strong regulation and proactive oversight that ensures that issues are addressed before any harm is done. Comparatively, most fintech startups are subject to supervision by the FTC, which primarily regulates via enforcement, only levying fines once harm has already occurred.

Regulation must be flexible enough to allow innovations to be driven from within traditional banks. We must also ensure that customers receive the protection they deserve wherever they get their financial services through consistent regulation and oversight. Customers deserve consistent treatment wherever they go for their financial services.

Regulation Should Be Based on Activities

The nature of the activities that a company facilitates, not the company structure, is what matters. Good regulation helps identify and control for risks. Many innovations, at their core, are traditional banking products offered in new ways. By focusing on the activity taking place, regulators are best able to assess the risks being presented to consumers and the system.

Effective oversight can help financial providers identify compliance gaps before there is consumer harm. More importantly, oversight is needed to ensure that malicious actors do not take advantage of customers.

Safeguarding Customer Data

Technology has facilitated the creation of an unprecedented amount of consumer financial data. As the amount of data has grown, so has the number of companies interested in leveraging it. Consumer financial data are extremely sensitive and must be protected appropriately. Accordingly, Congress has recognized the sensitivity of financial information and has provided protections for it in the Gramm-Leach Bliley Act of 1999 (GLBA)–obligations that apply to all parties that hold it throughout its lifecycle.

Banks take very seriously their responsibilities to their customers to maintain the highest level of privacy, security, and control over their financial assets and transactions, which is why the issue of data sharing – and getting it right – is so important to our industry. Today, consumers trust that their financial data are being protected and handled appropriately. Current practices in the data aggregation market, however, may leave consumers exposed and create risks that undermine this trust. This trust is critical to the functioning of the financial system and is the reason banks dedicate tremendous resources to safeguarding financial data.

To Consumers, a Loan is a Loan

To consumers, a loan is a loan. When making financial decisions, consumers expect the same level of protection regardless of the provider. Federal law provides for numerous protections for consumers when they borrow, and they expect this same level of protection in all financial services interactions.

Banks operate in a heavily regulated environment that ensures all new products are safe before they get into a customer's hands. Banks have robust risk controls around these products that ensure customers are protected. This culture of compliance leads to better outcomes for consumers which builds trust.

The rules governing lending generally apply to banks and nonbanks alike. Consumer protection laws apply regardless of provider. Moreover, all small business loans are subject to a number of rules to ensure customers are treated fairly.

Despite these protections, customers report a very different experience when they go to a bank versus a non-bank lender. The 2017 Small Business Credit Survey revealed far-lower satisfaction rates for online lenders than those of traditional banks – even when approved. More than half of online lender applicants expressed dissatisfaction with high interest rates, and one-third cited unfavorable repayment terms.

When asked who they would turn to for funding, small businesses overwhelmingly prefer traditional financial institutions to online lenders. As one respondent put it, "I would most likely try a traditional bank first. I'm looking for credibility and reliance. Then I'd look online just to see my options."

The key differences leading to positive customer outcomes at banks are: (1) a long history of serving customers and the community; (2) a culture of regulatory compliance with regulations; and (3) effective oversight—including stringent and regular examination—by state and federal agencies proactively addressing concerns before customers are impacted negatively. Oversight would ensure more transparency in non-bank online lending that would lead to better outcomes for customers.

Today, there are a number of non-bank online lenders adhering to sound lending practices and serving their customers well. Constructive oversight will help them provide better service to their customers. Oversight also will identify and capture bad actors.

When banks partner with online lenders they ensure compliance with the many rules and regulations. Banks are required to fully vet all of their non-bank partners through third party vendor management guidelines. This relationship means that products offered in coordination with banks are often subject to greater oversight.

Conclusion

Once again, thank you for the opportunity to offer my perspective on behalf of the Pennsylvania Bankers Association and for your attention to the importance of responsible innovation in financial services. Banks fully embrace the tremendous potential of innovation in financial services to benefit consumers and businesses across the country. We are making significant technology investments, building internally, and partnering with innovative fintech startups.

As policy makers look to encourage innovation, we must not lose sight of the tremendous value community banks offer to their local communities. Technology cannot wholly replace a local presence and we must make sure that the benefits of innovation are delivered responsibly so that customers receive consistent treatment regardless of their provider.