

Barefoot Innovation Podcast with Congresswoman Erin Houchin, Member of Congress, House of Representatives

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Jo Ann Barefoot: We have a very, very special show today because my guest is Congresswoman Erin Houchin of Indiana, and I want to welcome you to Barefoot Innovation.

Rep. Erin Houch...: Thank you, Jo Ann. It's great to be here.

Jo Ann Barefoot: I'm really excited about this conversation. We've been looking forward to it for a long time, and you have been bringing a lot of leadership to Congress on thinking about financial innovation and especially what the regulators themselves need to be doing in terms of technology and innovation. So I'm really looking forward to hearing your thinking on all of that. Let me start though by asking you just to tell our listeners about yourself, your background, the journey that brought you to Congress, and also what you are as a member of the House Financial Services Committee, what you're most prioritizing and trying to accomplish.

Rep. Erin Houch...: Sure. Thank you. I appreciate that opportunity to introduce myself to your listeners. I'm from Southern Indiana, born and raised in the ninth district of Southeast Indiana. My dad was a dentist. He said, "Erin, you can be anything you want to be in the world, just don't be a dentist."

So I didn't do that, but one of the things that I picked up from him, he grew up very poor and he worked his way, working at the ACAN company to put his way through undergraduate school and then dental school. And he knew about halfway through that that he didn't really want to be a dentist, but he had to proceed. And so to know his story and to see what he sort of pushed through to achieve his goals, but then also persevering in a field that he wasn't too crazy about, but he loved his patients. So he didn't love the practice of dentistry, but he loved his patients. And when he passed away in 2019, many of them came through to give their condolences and they said, "I just loved your dad." And of course I loved my dad, but people don't generally love their dentist.

So that had a big impact on me. I went to IU, Indiana University, and I was studying psychology. I was getting paid about \$5 at a time to be a participant in psychological experiments. And all of my other friends were in the Kelley School of Business and going on internships and going to job fairs. And here I was trying to think about what I was going to do in the future. And so I thought to myself at that time, "I should probably do an internship of some sort." And I kid you not, probably a couple of days after that, I got an email that said that I could apply for an internship at the State House in state government with the Senate or the House of Representatives, and that just intrigued me. I was never political, but I thought this might be interesting. So I applied and got accepted as a Senate intern, and that changed everything for me.

I saw one of my greatest teachers that I had come up during that legislative session and advocate for the passage of a bill, testified in committee, that got passed into law. It was school choice at the time, and she was a public school teacher that believed in charter schools and came up and got the bill passed. And so that really profoundly impacted me. I also met my husband during that internship who was a House intern when I was in the Senate, and that put me on what I would say is this path. But Jo Ann, what I want to tell you is that my path wasn't linear. I took a job after the internship. I called the State House every Friday for six weeks in a row until they gave me a job. And when they finally did, I was a legislative assistant for the House of Representatives, worked there for about three months until I got what I thought was a better offer for more money working for a statewide elected official, and that was the worst working year of my life, so I had to get through that year.

I managed to not get fired even though she fired one employee a month for about eight years. I managed to not get fired. And after that, it ruined me really on politics, and I still had a passion for it. I would still volunteer. I was still active behind the scenes, but I really thought, "I'm going to go." I went totally off of that path and went into social work and then slowly it looped me back in. And then I ended up working for our US Senator, Dan Coats, who was a wonderful man and renewed my faith in public servants, and that's what led me to run for the state legislature where I served for eight years, that's what led me to run for Congress and be here today.

And in the interim, I started and ran a small business. It was a PR company that I had to sell to do this work, but I served on the tax and fiscal policy committee, which is and worked on banking and regulatory issues while I was a member of the state senate. So that's probably why I was able to secure a spot on the Financial Services Committee to be able to work on these issues.

Jo Ann Barefoot: Right. And we're going to spend time talking about the regulatory technology issues, but overall on your priorities on the committee, what are the main issues that you are grappling with?

Rep. Erin Houch...: Well, I serve on three subcommittees, so I'm on financial services, but I also serve on the Digital Assets Subcommittee, the Capital Markets Subcommittee, and the Housing and Insurance Subcommittee. And then I'm also on the ESG working group and the AI working group. So most of my work on financial services is within those realms, I would say digital assets, I helped with the FIT21 legislation, helped craft and pass that out of committee and on the floor, which is the digital asset market structure bill.

I'm working on a housing initiative right now to try to close the gap between what someone can purchase a home for and what it costs to build a home through the Housing and Insurance Subcommittee. And then on the regulatory side of course, I've got the FUTURES Act and trying to just increase the

awareness of and use of technology to monitor the financial systemic risk and have the regulators be really critically thinking and showing to us what they are using for monitoring of risk and utilization of technology for the stability of the system, which is the FUTURES Act. Beyond that, trying to increase access for retail investors to access capital markets, all of which are things that are in my bailiwick for the Financial Services Committee. AI is particularly important to me to try to grapple with that, get our hands around it, figure out what that's going to mean and how we need to regulate it or allow for some sandboxing so that we don't stifle innovation while we're trying to grapple with how it's going to impact the financial markets.

Jo Ann Barefoot: Great. Before we move on from your background, I will say that I worked for the Senate Banking Committee years ago when Senator Dick Lugar of Indiana was one of the main leaders in the Senate. Indiana has a great focus, I think, on financial policy over the years. So let's go to the FUTURES Act. We were really thrilled to see this bill introduced and we've talked about how strongly we at AIR feel that it's needed, and I will say it stands for Fostering the Use of Technology to Uphold Regulatory Effectiveness in Supervision, FUTURES Act, which is HR 7437. Exactly what does the bill require?

Rep. Erin Houch...: Well, it requires that the regulators report on what technology they're using, what tools they're using to monitor for systemic risk, and also how they're utilizing these tools for regulatory oversight. What we want to do is kind of have an inventory of how they're using technology and if they're using technology and how we can get an overall oversight to ensure the stability of the financial sector moving forward, given really that AI is going to play a part as we emerge, sort of turn the corner on what I would say is the first installment of the internet, but now with all of the online banking and access through mobile apps, we really need to have a good understanding of how our regulators are utilizing technology, and that's the aim of the FUTURES Act.

Jo Ann Barefoot: And I noticed that the bill also requires the agencies to confer with each other. We have listeners around the world, but majority in the United States. And as most listeners know, the United States is unusual and having a large number of national level financial regulatory agencies and coordination is often a challenge. So that's a feature of it, is it not?

Rep. Erin Houch...: Yeah. So what we want to do is make sure that... and right now we do have a problem that the regulators aren't talking to each other. So we have what we have called and dubbed a tsunami of regulation that comes down particularly on the community and medium-sized banks in a disadvantaged way. A larger bank can maybe hire enough people for compliance to deal with it, but they're even there struggling through the tsunami of regulation. So yes, we want to make sure that it's not duplicative. Can they work together? Can they utilize technology to work together and streamline some of these regs so that they're not just burdening the system entirely and keeping it from growing?

Jo Ann Barefoot:

Yeah, I am a former regulator myself. I was deputy controller of the currency, and one of the things that seems really important to us about this is that there is a potential for technology to create a win-win in that it can make regulation more effective in terms of achieving the desired outcomes, but also cut the complexity and burden and cost to the industry and as you say, particularly to small banks. And I know you've had bipartisan support for the bill, I think with people seeing that opportunity to make things work better and cheaper at the same time.

Let's talk a little bit about your point on the small banks and the community banks. I know you're a big supporter of community banks, and it does seem to us, as I just said, that one of the benefits of this bill, if it passes, can be to deal with the fact that community banks are undergoing a disproportionate burden. They have more technology challenges than large banks do, and also more technology challenges than fintechs do since the fintechs are by definition high-tech entities. How do you look at the future of community banking? There's growing importance or growing concern that we're going to lose large numbers of community banks in this technological transformation we're under. What's the outlook and what should be done?

Rep. Erin Houch...:

Well, it's true. We've already seen some consolidation of banks, and so then we're seeing that middle market sort of split and go. Some of them are being purchased by larger banks, and of course they would right? Because they are getting to a place where it's hard for them to keep lending because they're spending so much money and capital in compliance costs. The more people they have to hire for compliance, the less capital there is available to put into the marketplace. And so if we can cut red tape for them, if we can increase efficiency for them, if we can get the regulators to be on the same page and not sort of do one of these. So that often happens with regulators, as I'm sure you can appreciate in any federal agency. If they're not communicating with one another, then you'll have one that says one thing and one that says another, and then these entities are stuck in the middle of that.

So I'm hopeful that... but with the FUTURES act, we will be able to free up some of this capital for these community banks to thrive and survive. That has been my mission as being part of the financial services committee. I'm from a Midwestern state. I'm not from New York or California or where there's a huge financial sector, but I am from a rural district in Indiana where we care deeply about our small and midsize and our community banks and keeping them around.

My own personal story was of a local bank that loaned us money when we first got married and didn't have 2 cents to rub together to be able to... for my husband to open a law practice and purchase an office building and hang out a shingle, but not only purchase the building, loan us capital to make the payments on that until we could get on our feet. And those types of stories can

only happen if you have that close community banking relationship. It's not... We on paper would not have been a good bet, but because of the relationship that the community bank knew they had in us and that the longevity of what that meant for the community, they made that investment. It turned out to be a good investment for them. But those stories will be few and far between if we allow our community banks to fail, and I'm on a mission to keep that from happening.

Jo Ann Barefoot:

Right. Yeah. They often are sort of a cliché to say, but the pillars of their local communities particularly in supporting, as you say, small businesses that may otherwise have a lot of trouble getting capital and credit. You mentioned that you're on the Committee's AI working group and have been doing work in that space. I'd love to hear you talk a little more about what you think are the issues emerging into AI for financial services both on the upside and the downside. It seems like more than maybe any issue that we've seen in recent times, this one is coming at us rapidly and is bringing a combination of risk and benefit that are high stakes. How are you thinking about that?

Rep. Erin Houch...:

So I guess I'll start with what I think are the pros right? I think there are a lot of benefits to AI in many ways, and we do have to watch out for pitfalls, which we've seen even in recent days with what has been reported on the use of ChatGPT and Google with respect to daily news. There's even a disclaimer that says, "Do not use this for current news," but some people will eventually I think, be using that because a great way to sort of pull down information from a variety of sources in an instant. So in the financial markets, the pros I think can be just an increase in efficiency. I think it can be a streamlining of these regs, which I think will be helpful. And just the technology and the innovation continues to evolve, and I think it will. I think some of the pitfalls are that it's going to move faster than our regulators can move.

And so we do have this pro-con balance of, "Okay, there could be really great things that we don't want to stifle innovation on, but there's also great concerns that we want to avoid." And so as we're looking at this as an overall risk, one of the things could be bias in the algorithm, which we've seen in other sectors, and I don't know that we've seen it yet emerge in the financial sector, but it is definitely something that the AI working group took a look at. And then of course, the technology moving faster than the regulators can understand. Having people within those regulatory agencies that understand and know how AI works, the innovators are already using it so we can rely on them to sort of inform regulators about what's good and what's working and what's maybe concerning. But then if you think about somebody that's trading on information within the financial sector, the greatest concern I have is that it would crash a market because everybody's trading on the same information or in the same instant.

And those are some of the things that are scary to me about it that we have to look out for. So biases, market risk, systemic risk, all of that. Those are my main concerns. I know that others from the committee may have different ones, but those are the ones that I'm looking out for. And it's not just bias on race. It could be bias on political ideology that we want to look out for or gun purchases, or... We've seen this in Operation Choke Point, so we want to make sure that none of that is in the AI algorithms. We don't want to be discriminating against people based on that. The other piece is it could increase the efficiency of these decisions on the turnaround on decisions for availability of someone to get a loan or to get capital, and that could cause immense amount of growth in the economy.

Jo Ann Barefoot: How do you think about the challenge of getting the timing right on legislation and regulatory action with a new fast changing technology like this? If you move too quickly, you may get it wrong because the issues aren't clear yet. And if you move too slowly, bad practices could take hold and be hard to reverse. There's not an easy solution to that, but what's the art of it?

Rep. Erin Houch...: Well, I think of it a little bit like growing a business. When you're trying to grow a business, you do have a push and pull of, "Well, can I hire another person," or, "I'm at capacity, do I need to hire another person? If I hire another person and then they leave..." so it is a growth problem, which is not a bad thing, but that's why I support a sandbox approach for how we're going to regulate AI so we can utilize some of these technologies in a vacuum, if you will, or in a safe environment to understand how these different regulations are going to impact the market before they come online.

I think that has to be part of the equation. We can't just think we know what we know and then roll out a regulation that ends up having an equal and opposite reaction or some other... when the federal government moves, it's like a tidal wave and not a drip. So we have to be very careful about that, and that's why the sandbox approach of taking it a little bit of it at a time and as quickly as is necessary, but we won't really know what that timeframe is because again, I think it's going to be a push and pull of growth.

Jo Ann Barefoot: Yeah. I think there's clearly a need for more space for experimentation and testing and trying things in the government and in the industry too, and trying to do it, as you say, in some kind of a contained environment where if things don't go as hoped, there's a way to unwind it.

Rep. Erin Houch...: Well, if I may, we saw... and this is not related to the financial sector, but early on in the early days, I say that we're still in the early days really of AI, but it moves so quickly, it feels like this was an eternity ago, but in military use, they had an AI model to basically bomb a certain part the world without fail. And even when the operator of that said it, and they said, "Let's abort the mission," the AI was

still on mission to complete this at all costs and turned the fire on the operator who was trying to abort the mission.

So that's a terrifying thought. Not that we're using AI in that way in the military, but that's just a very good example of how if you set it on a track, then as it iterates over time, as it evolves over time, that's why the sandbox approach is necessary because you do have to sort of see how it's going to affect and react. Just like we were testing medicines at the FDA before they're live online, we're probably going to have to see some of this occur in a sandbox process.

Jo Ann Barefoot: Yeah. We have long thought that there could be benefits in financial services regulation to looking at some of the models used in medical regulation, whereas you say there's a process of testing and a determination, is something safe and effective, is the question that we really want to ask in financial services, but we don't have the same methodologies.

Rep. Erin Houch...: I think we could learn a lot from that process. I think what I would caution is how long it takes. We don't have that much time in financial services probably to take as long as the FDA, but I wish the FDA would move more quickly too. But at the same time, you want it to be safe.

Jo Ann Barefoot: Yeah. There's a lot of thinking about the generational change underway in both the private sector and the public sector. I'm a baby boomer myself. Millennials are the largest generation in the history of the world, and they're the first generation who is digitally native and has the technology coming naturally. And you're part of, I think, a younger generation on Capitol Hill who's bringing fresh thinking. I just wonder if you have any observations on implications for policy as more young people are taking the reins?

Rep. Erin Houch...: Yeah, I think I do have concerns. My husband and I were literally just talking about this last night because as a family, we were all testing out ChatGPT on different questions and seeing what responses we would get. And one of my daughters, who's 18 in particular said, "Well, nobody's going to go to ChatGPT for news." But that begged the question that, well, it's not just chat GPT, it's also Google or whatever web service you're using that can inflict these biases. And so when you have a generation that is sort of always online, it's always in the palm of your hand and beyond. If somebody were watching this podcast 25 years from now, they're going to say, "Why is she pointing to this brick that is the phone," right? It is going to be evolving from here. But what happens is the algorithms then pull the generational divide.

So if I'm a senior and my news source is a certain thing, then the algorithms are going to continue to pull me toward those things. Our kids and young people are interested in different things, and so it's going to pull them in that direction. So I do think there are implications for an even further divide. I'm working with a group in Indiana that is interested in, it's called Media Awareness. And so it's

really designed for adults to recognize that maybe you read a certain part of the internet or a certain news article and it throws up questions. And so you look toward the other balanced approach. So you might look at MSNBC, CNN, and Fox News, and within that you might find the truth. I think we should also be talking to our young people about the influence of the algorithm and where it's taking them.

And that's why I supported and championed and have authored the Kids Online Safety Act because of these algorithms that will pull you in a certain direction, and its emphasis is really on harmful behaviors like things like the choking challenge or the prevalence of suicide in our young people and those kinds of problems with the Kids Online Safety Act. But it's also trying to think about what is that influence and if they get lassoed, where is it pulling them and can we create some awareness for parents and for our young people about that?

My husband's take on it is that as everybody gets older, then their perspective becomes more conservative. And I would say that in general that's probably true, but we are in a new era here where it's uncharted territory at least for us. It's the only thing they've ever known, but it's a whole new ball game for us, and they're obtaining and collecting and reading information at warp speeds compared to the access to information that we had at their age, and that will have an impact. So it's concerning, but my concern with it is that if they're consuming that much information in that speed, that it will not be done in a biased way that change the trajectory of the future of the country in a way that we won't be able to get back.

Jo Ann Barefoot: Yeah. Is there anything we haven't talked about that you would like to add?

Rep. Erin Houch...: Jo Ann, I just appreciate your leadership and thanks for bringing the FUTURES Act to our attention where we were happy to support it. We were happy to carry it forward, and thanks for taking the time to talk to us today to highlight some of these really, really important issues. I hope your listeners found it thought-provoking, and we'll keep coming back.

Jo Ann Barefoot: Terrific. And where can people find your office online?

Rep. Erin Houch...: It's houchin.house.gov, H-O-U-C-H-I-N.house.gov. We have a podcast called The Contender, where I would encourage your listeners to check it out everywhere you can get podcasts. The Contender with Erin Houchin. We're also on social media Rep. Erin Houchin, and on X, and you can find us online again at houchin.house.gov.

Jo Ann Barefoot: Fantastic. Congresswoman Erin Houchin, thank you so much for being our guest today. It's been wonderful.

Rep. Erin Houch...: Thank you.