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DATE: January 11, 2017

TO: Thomas J. Curry
Comptroller of Office of the Comptroller of the Currency
400 7th Street, SW
Washington, D.C. 20219

FROM: Jennifer J. Finger
EVP Strategy and Development
Beneficial State Bank
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VIA EMAIL AND REGULAR MAIL

SUBJECT: Special Purpose National Bank Charters for Fintech Companies

Dear Mr. Curry,

Beneficial State Bank is pleased that the OCC is supporting fintech development and we offer the following comments with respect to the questions provided where we felt we could provide useful information:

Question 1 - What are the public policy benefits of approving fintech companies to operate under a national bank charter? What are the risks?

Public policy benefits potentially include establishment of a framework for the development of innovative financial technology with identified parameters for testing new products and services while securely protecting the public from deceptive offers and the payment system from harmful intrusion. Creation of a level playing field for regulation of financial services between fintech companies and traditional banks is also advantageous. Consumers would benefit from knowing that fair credit regulations will apply to chartered fintech special purpose banks and fully chartered banks alike. The operational compliance requirements will be known to fintech companies seeking charters while the businesses are in planning stages, and the requirements can be appropriately incorporated

The risks include that a chartered fintech special purpose bank may be viewed by consumers and small businesses as having the same protections and insurance as a fully chartered bank, while the protections may in fact be different. Additionally, the compliance requirements to gain a charter may divert funding which may delay or prevent innovation. An incubation model where innovation may take place and compliance responsibilities can be absorbed by a fully chartered bank should be considered, along with development of roadmap toward gaining an independent special purpose charter. In this manner, a company would have a defined pathway to graduate from incubation and pilot stage to a fully independent special purpose charter.





The definition of the pathway to an independent special purpose charter should also outline how smaller institutions may provide sponsorships or other partnerships to fintech companies whose services are clearly designed to benefit those underserved communities, consumers and small businesses through development of safe harbor provisions. In this way, both the banks and fintech companies will understand the requirements which must be followed in order to remain in the safe harbor. This guidance would allow for innovative products and services to proliferate without harm to either the company, bank partner, users or the products or services.

Questions 2, 7, 8 and 12 – What elements should the OCC consider in establishing the capital and liquidity requirements for an uninsured special purpose national bank that limits the type of assets it holds? What actions should the OCC take to ensure special purpose national banks operate in a safe and sound manner and in the public interest? Certain risks may be increased in a special purpose national bank because of its concentration in a limited number of business activities. How can the OCC ensure that a special purpose national bank sufficiently mitigates these risks? What are the potential challenges in executing or adapting a fintech business model to meet regulatory expectations, and what specific conditions governing the activities of special purpose national banks should the OCC consider?

Capital and liquidity requirements should be commensurate with the operational and compliance risks associated with each individual fintech special purpose bank. Access to capital markets and contingency planning for both capital and liquidity should have stress test requirements, and should take into account risks and uncertainties associated with single lines of specialized businesses. Controls over information security and third party monitoring of those controls in combination with innovative products and service development are critical for individual special purpose banks as well as the broader financial system. Safety and soundness requirements including adequate contingency planning and stress test requirements commensurate with all operational risks are strong mitigants.

Other considerations include defining the point in a fintech company's development cycle at which granting of a special purpose charter is appropriate through establishment of objective measurements of product development, profitability, capital levels, information security and other risk management controls necessary for eligibility for a special purpose charter. Companies in early development stages should be provided with other options and guidance for gaining a charter. A conditional period of operation as part of the chartering process may give all constituencies and the fintech company itself confidence in its ability to provide services within a framework of regulatory requirements and controls.

Questions 3 and 4 -What information should a special purpose national bank provide to the OCC to demonstrate its commitment to financial inclusion to individuals, businesses and communities? For instance, what new or alternative means (e.g., products, services) might a special purpose national bank establish in furtherance of its support for financial inclusion? How could an uninsured special purpose bank that uses innovative methods to develop or deliver financial products or services in a virtual or physical community demonstrate its commitment to financial inclusion? Should the OCC seek a financial inclusion commitment from an uninsured special purpose national bank that would not engage in lending, and if so, how could such a bank demonstrate a commitment to financial inclusion?





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A special purpose national bank should provide clear descriptions of the features of its products that are designed to promote financial inclusion, and establish measurable results which are expected to be attained. The company should describe the personnel within its organization that will monitor and oversee activities and track whether the expected results have been attained. The process of development of new features or products to support inclusion if targeted results are not met should be part of a special purpose national bank's strategic plan. A special purpose national bank's strategic plan should identify the virtual or physical communities it will operate in, and underserved communities should be objectively defined and factored into its annual business plan.

The OCC should seek financial inclusion commitments from uninsured special purpose national banks. The new entities will be competitors of other insured depository institutions which have inclusion requirements. Although a company may be innovative, it does not seem appropriate for a chartered institution to innovate products and services which might attract only those consumers or businesses which are already well-served by insured depository institutions. Inclusion can be demonstrated through detailed descriptions of targeted consumers (credit scores, census tracts or other measurable criteria), or businesses which show which segments of physical and virtual communities are planned to be served by the new entity. Results should be monitored against the business plan.

Question 9 – Would a fintech special purpose national bank have any competitive advantages over full-service banks from fintech companies that do not have bank charters?

Fintech special purpose national banks may have competitive advantages over full-service banks to the extent that fintech companies can offer products and services at margins that do not provide for profitability after funding of all obligations that a full-service bank must. At the time that a fintech company is eligible for a charter, there should be an expectation that the business can independently fund all of its operations and obligations profitably. From inception through pilot phase and charter eligibility, there should be a route where oversight begins, requirements for protections of the financial services ecosystem are in place and individuals and businesses have a reasonable expectation in the security and trustworthiness of fintech products provided by a chartered entity. It is important that a level playing field be established between special purpose charters and full charters in order that consumers, communities and the broader financial system as a whole are benefited by the addition of special purpose national charters.

Question 10 – Are there particular products or services offered by fintech companies, such as digital currencies, that may require different approaches to supervision to mitigate risk for both the institution and the broader financial system?

Novel products, services and delivery channels will create the need for regulations that are broadly based so that the spirit of the protections to individuals, businesses and the financial services ecosystem apply.

Digital currencies or other payment platforms may require different approaches to supervision to ensure that the public and the broader financial system are appropriately protected. The current rules





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governing fraud mitigation, information security, privacy and transaction monitoring should be applicable regardless of the method or the platform on which transactions take place. Supervisory oversight will need to develop and adapt to innovation, regardless of whether or not the platforms for engagement in financial services activities is taking place inside or outside of chartered institutions.

Question 13 – What additional information, materials and technical assistance from the OCC would a prospective fintech applicant find useful in the application process.

Fintech companies would benefit by having knowledge of all banking rules that bear upon any component of financial services with which they are engaged, and the framework under which they will be examined for compliance. If fintech companies are expected to act in a fiduciary capacity with responsibilities to treat customers fairly, to supply education regarding complex aspects of their business or if they need to be mindful that their target community needs to include markets which are typically underserved, that needs to be clearly established.

Providing an understanding regarding how fintech companies will be examined, and clearly defining the minimum standards for compliance and monitoring programs is necessary for appropriate business planning. It would also be helpful for fintech companies to understand what alternatives to operating with a charter are available. Managing a new business with a bank sponsor or partner supplying the compliance risk management may be a business model that allows the fintech company to focus on innovation without having to develop or finance its own, independent compliance operation.

Sincerely,

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Jennifer J. Finger
EVP Strategy and Development
Beneficial State Bank

