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January 13, 2016

Office of the Comptroller of the Currency
400 7th Street, S.W.
Washington, D.C. 20219

By email: specialpurposecharter@occ.treas.gov

Re: Exploring Special Purpose National Bank Charters for Fintech Companies

Ladies and Gentlemen:

CommonBond, Inc. (“CommonBond”)¹ appreciates the opportunity to provide the Office of the Comptroller of the Currency (the “OCC”) with comments and recommendations regarding the OCC’s white paper entitled *Exploring Special Purpose National Bank Charters for Fintech Companies* (the “White Paper”). The White Paper discusses innovation in the financial services industry and outlines the OCC’s chartering authority to grant charters (“FinTech Charter”) to entities that engage in “fiduciary activities or...activities that include receiving deposits, paying checks, or lending money.”² We understand that comments to the White Paper will be incorporated into a chartering policy for fintech firms by OCC staff that further builds upon the White Paper and the OCC staff’s significant and commendable work in promoting financial innovation in the banking industry.

CommonBond generally supports the OCC’s initiatives with respect to promoting responsible financial innovation. Specifically, we support the OCC’s work toward granting responsible fintech firm applicants with FinTech Charters and commend the OCC on its forward-looking posture as changes in technology and customer needs rapidly evolve. The OCC’s granting of FinTech Charters will further enhance the national banking system and help keep the provision of financial services in the United States competitive with advances in industry and regulation occurring overseas. We therefore request that the OCC adopt a FinTech charter policy that encourages innovation and, further, that the OCC staff work with FinTech charter applicants to expeditiously accept and process FinTech Charters following the release of a FinTech Charter policy.

Our comments in this letter address select questions posed by the OCC. For ease of reference, each question is reproduced in full and in bold with a corresponding response following it.

¹ CommonBond is an online lender that originates and refinances student loans. We expand the availability and diversity of financial products available to consumers. To date CommonBond has originated about \$1 billion worth of student loans.

² OCC, *Exploring Special Purpose National Bank Charters for Fintech Companies* (Dec. 2, 2016), available at <https://www.occ.gov/topics/bank-operations/innovation/special-purpose-national-bank-charters-for-fintech.pdf>.

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

As an online lender and refinancer of student loans, CommonBond expands the availability and diversity of financial products available to consumers. In comparison to traditional lenders, we utilize enhanced underwriting that incorporates a broader range of consumer data in order to offer a more tailored student loan. Our more nuanced underwriting models enable us to improve credit differentiation and pricing; provide more transparency in the origination process; provide borrowers with greater choices; and provide better service compared to traditional lenders. Approving responsible online lenders to operate as special purpose national banks advances these public benefits by concentrating the prudential regulation of fintech firms that obtain a FinTech charter with the OCC and providing fintech firms with access to lower-cost funding that in turn better serves consumers. Consumers have demonstrated significant demand to date for innovative platforms that meet their financial needs. A FinTech Charter would further enhance CommonBond's and other fintech firms' ability to efficiently offer diverse financial products to a broad range of consumers.

Question 2: 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?

In setting capital and liquidity requirements the OCC should consider the following:

Activities authorized. Capital and liquidity requirements should align with the scale and risks associated with an individual fintech firm and the activities authorized by its FinTech Charter and business plan. Fintech firms with more mature business models and higher-quality assets should be subject to capital and liquidity requirements that reflect their stronger management, lower risk profiles, and greater flexibility in the capital markets. Furthermore, these standards should respond to the range of activities a particular fintech firm undertakes. If a fintech firm obtains a FinTech Charter to do only one of receiving deposits, paying checks, or lending money, then its capital and liquidity requirements should be less than that of a fintech firm that engages in all three activities given its more focused risk management on a more focused range of activities.

Historical operations. The OCC should have an open dialogue with fintech applicants regarding such fintech firms' historical capitalization and how the benefits of becoming a special purpose national bank might justify any augmentation of that capitalization. This process should appropriately be done on a case-by-case basis given the idiosyncratic operational history and risk structure of each fintech firm.

Question 3: 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?

A special purpose national bank can demonstrate a commitment to financial inclusion in various ways, including:

Commitment to social good: Special purpose banks can be encouraged by the OCC to contribute to social good in a meaningful way. Since its inception, CommonBond, for example, has maintained a social mission; for every loan CommonBond funds, the company also funds the education of a child in need. It's the first (and still only) "1-for-1" model in finance. Our customers consistently cite our social mission as a reason they choose CommonBond over other lenders. Special purpose banks that obtain a FinTech Charter can employ a similar model, enlisting their customers' support to increase access to financial services and financial literacy.

Underwriting transparency: Special purpose banks should be transparent with the OCC about their underwriting methodology. In addition, FinTech Charter holders can incorporate pro-social and pro-consumer practices into their operating models, for instance, by maintaining a Customer Care team to provide information to loan applicants about income-based repayment and Public Service Loan Forgiveness programs offered by the Department of Education for federal student loans.

Trend of expansion: Fintech firms that have a history of broadening their lending base can demonstrate that inclusion to the OCC. For example, CommonBond began by lending to students at a focused set of MBA programs, but has expanded through careful underwriting and measured expansion to incorporate virtually every Title IV school and even non-student borrowers. Receipt of a FinTech Charter would enable CommonBond, for instance, to continue that expansion to more consumers.

Financial education and wellness: Financial education to younger and less established borrowers is a major source of concern to lenders and regulators alike. Many fintech firms attract young adult users because of such users' natural comfort and familiarity with technology and online resources. CommonBond provides personal financial management information to these and other borrowers, partners, and the general public through published white papers, newsletters, blog entries, in-person events, and other materials. We seek to inform those at the early stages of their careers and personal financial activities of the best practices that help establish personal financial stability and wealth creation. We believe that financial literacy is at the heart of responsible lending and responsible borrowing.

We are confident that the OCC's supervisory process can encourage FinTech Charter holders to operate in a pro-social manner that at the same time fulfills other business objectives of fintech firms.

Question 7: What are 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?

One potential challenge is the ability to supervise FinTech Charter holders effectively on a day-to-day basis and ensuring such charter holders fully understand the expectations of being a special purpose national bank. OCC staff, in order to engage effectively with FinTech Charter holders, should understand that fintech operations must evolve over time to meet customer needs and thrive. We are highly encouraged by the OCC's initiatives to create an Office of Financial Innovation, and we believe this office will be a key resource for the OCC and the fintech industry alike in ensuring that the supervision of FinTech Charter holders is well-informed, balanced, and pro-social, contributing to the vibrancy of the national banking system and regulatory goals of financial inclusion.

Question 8: What actions should the OCC take to ensure special purpose national banks operate in a safe and sound manner and in the public interest?

As noted in our response to Question 7, a well-functioning Office of Financial Innovation that collaborates with the OCC's legal, supervision, and policy staff will be key to ensuring special purpose national banks operate in a safe and sound manner. It is also important that the OCC collaborate with other financial regulators, like the Consumer Financial Protection Bureau, as relevant, to ensure that the regulatory goals of agencies responsible for fintech regulation operate harmoniously and do not provide FinTech Charterholders with conflicting regulatory mandates.

As a threshold issue, the OCC should only charter fintech firms that adhere to the OCC's high chartering standards as articulated in the OCC's White Paper. FinTech Charters should be granted to those firms (with respect to lenders) that demonstrate a commitment to social good, financial inclusion through diverse product offerings, transparency in underwriting, and emphasis on financial education of borrowers. For online lenders in particular, the OCC should adopt liquidity requirements and regulation calibrated to the specific business models and products in question. Capital and liquidity requirements should align with the scale and risks associated with an individual fintech firm and the activities authorized by the FinTech Charter. Fintech firms with more mature business models and higher-quality assets should be subject to capital and liquidity requirements that reflect their better management, lower risk profiles, and greater flexibility in the capital markets.

Question 9: Would a fintech special purpose national bank have any competitive advantages over full-service banks the OCC should address? Are there risks to full-service banks from fintech companies that do not have bank charters?

As it stands now full service commercial banks enjoy many competitive advantages in the lending sector when compared to non-bank fintech firms. Commercial banks have access to an implicit government subsidy through federal deposit insurance and government lending windows, which yields these banks a much lower cost of capital and greater ability to scale. Commercial banks also enjoy federal pre-emption of certain licensing and regulatory

requirements that enable them to operate uniformly across the country. To compete effectively in the lending arena and provide consumer access to desired fintech solutions, fintech firms should have the option to obtain a FinTech Charter. Healthy competition in lending would fill the gaps that traditional banking leaves behind and makes the banking system more efficient and more competitive, both of which benefit consumers.

Question 11: How can the OCC enhance its coordination and communication with other regulators that have jurisdiction over a proposed special purpose national bank, its parent company, or its activities?

We applaud the leading role the OCC has taken regarding financial innovation and regulation of fintech firms, and encourage other financial regulators to pursue a similarly forward-thinking and innovation-oriented agenda with fintech firms. The OCC should coordinate with the Consumer Financial Protection Bureau and the Department of the Treasury specifically, both of which have gathered information on the policy benefits and risks associated with fintech firms. These agencies may be in a position to provide guidance to other federal and state regulators on their fintech industry learnings and share best supervisory practices on how to establish innovation offices within each agency. These offices would be able to collaborate on an interagency basis to help cultivate a national banking system that simultaneously embraces innovation and market stability.

Question 12: 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?

In many instances the concept of concentration risk does not apply to nimble and focused fintech firms that carefully grow their operations as it might to larger scale commercial banks that are deposit taking and may need to manage several functions - deposit taking, lending, and so forth. The OCC can ensure that perceived concentration risks are mitigated by ensuring appropriate capital and liquidity requirements and asset ratios are maintained – in proportion to a fintech firm’s size, credit quality, and business model type – to offset the particular risks of each authorized activity. A fintech firm with a narrow and experienced focus may in fact present a lower risk profile than a firm offering multiple services with varied risks and points of failure.

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

We have found various efforts from regulators to be useful in clarifying regulatory expectations, which have included:

Published online examination manuals: Illustratively, the CFPB’s Education Loan Examination guidelines serve as a good resource for financial firms to refer to when building out their compliance management systems. Similar publications in the area of fintech would be a helpful resource to outline supervisory expectations for FinTech Charter applicants as they assemble their application materials and prepare their overall operations.

Open dialogue: An open line of communication that is collaborative allows for more commercially oriented compliance. Prompt feedback by agency staff to fintech firms' inquiries is particularly crucial, as slow response times and opaque decision-making processes motivates firms to avoid a full and open dialogue.

Online reporting and renewal: The Nationwide Mortgage Licensing System is a step in the right direction for relative ease of use and reporting. A consistent, technology-enabled approach to reporting and renewal has proven useful and easier to work with than alternatives.

Application Process: The processing of FinTech Charter applications should not be conducted as a black box exercise in which decisions are opaque and considered agency deliberations. Rather, application processing that is collaborative and transparent advances the public's interest by enabling fintech firms to efficiently work through the regulatory process and focus their energies on consumer-oriented innovation. We would also support a fair and efficient appeals process for applicants that are not approved initially for a FinTech charter.

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CommonBond appreciates the opportunity to provide these comments. We hope that the OCC finds our comments useful in its preparation of a FinTech Charter policy. Please do not hesitate to contact the undersigned if we can provide further information pertinent to the OCC's work toward finalizing a final FinTech charter policy and moving forward with granting FinTech Charters.

Respectfully submitted,

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David Klein
CEO & Co-Founder