

January 11, 2017

Office of the Comptroller of Currency
U.S. Department of the Treasury
Washington, D.C.

In response to the Office of the Comptroller of Currency December 2016 paper “Exploring Special Purpose National Bank Charters for Fintech Companies,” please find the following response to the specific question below.

Q: 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?

Comment: Fintechs usually seek to deal with innovation in a specific way. Most fintechs start out with a niche area that it attempts to innovate and improve for the consumer. In this way, they use their capital in the most effective way as they seek the critical feedback from the market necessary to improve their offering. Technology companies, whether service or product focused, typically have significant capital requirements; this is especially true in financial services where capital reserves, due diligence and profit sharing are required to establish critical business partnerships.

A significant challenge to the OCC Charter process is that new entrants in the fintech space could be closed off to the process due to the narrow business focus, capital requirements and lack of operating history. The result could be that the requirements for the OCC Charter could only allow for established fintech businesses to avail themselves of the opportunity. Successful fintechs, such as GreenSky for example, can already create critical banking partnerships to expand or improve their business.¹ Further, a large fintech that is looking to become a bank to diversify its product offerings including offering credit cards or taking deposits, etc. are no more inherently “experienced” than a new entrant who plans to specifically focus on improving that niche for its customers.²

In order to accommodate growth stage and emerging fintech startups, the OCC could tier its requirements. Separate its requirements into to “CORE” and “COMMUNITY” for example. The CORE requirements would be those related to safety and soundness and compliance; indicators that the company has the requisite knowledge to meet its AML requirements and provide necessary consumer protections, including sufficient clarity, experience and capital to be successful. Thus, the CORE requirements include business plans and financials required for the initial charter process. If the company demonstrates the CORE competencies, the OCC could issue a “provisional” or “restrictive” charter to the fintech, with the COMMUNITY requirements to be incorporated over the next 12-24 months, to keep the license and get a full charter. These COMMUNITY requirements can include financial inclusion and business model specific capital levels (these could begin lower and potential more within reach with a restrictive charter and increase / change as the restrictions change and / or the business grows)

¹ See <http://www.prnewswire.com/news-releases/greensky-announces-strategic-agreement-with-fifth-third-bank-300328001.html>

² <http://www.wsj.com/articles/slump-might-turn-anti-bank-sofi-into-a-bank-1468339004>

This gives the new entrant the opportunity to take advantage of the new license, so that it can improve and grow its own core business before taking on new community driven or public policy driven requirements.

In our society, we don't give a new driver a license without a learner's permit that comes with restrictions. The restrictions are designed to test the driver and protect the public while the driver learns the only way a driver can, by practice.³ While the prospect of allowing a fintech to have a "learner's permit" charter can raise apprehension, there is a greater risk to innovation if these companies are not given a real opportunity to succeed.

Thank you for the opportunity to provide feedback; the Office has a challenging but important task here. I welcome any additional opportunity for discussion and if there is anything more that I can do to be of service please let me know.

Sincerely,

Joel Sherwin
President, Neopay
310.717.1826

³ These include, driving during specified times; without other minors in the car to limit distractions or peer pressure.