

January 13, 2017

Office of the Comptroller of the Currency

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Washington, DC 20219

[specialpurposecharter@occ.treas.gov](mailto:specialpurposecharter@occ.treas.gov)

RE: Request for feedback and commenting

To whom it may concern,

On behalf of Washington State Employees Credit Union (WSECU), a state-chartered credit union located in Washington state, and QCash Financial, a wholly-owned subsidiary operating primarily as a Fintech company specializing in financial technology solutions for the financial services industry, please consider the attached comments and feedback related to the recently issued white paper and proposal titled, Exploring Special Purpose National Bank Charters for Fintech Companies. These comments and opinions stem from our experiences as WSECU and that of our wholly-owned subsidiary and reflect both perspectives.

WSECU has been actively involved, through our QCash Financial subsidiary, for over 10 years in leading the charge for technological innovation in the small dollar lending space. Our product, QCash, has been offered to and utilized by our members since its launch in 2008. Through the dual lenses of a long-standing and well capitalized state-chartered credit union, very well versed in the competitive, regulatory, and business landscapes of the banking environment *and* that of a progressive, innovative Fintech company, we have been very successful in developing, bringing to market, and selling our technology to other credit unions. This is due in large part because of our experience in the banking space as a supervised entity. These efforts continue, and expansion into the larger national marketplace this proposal would allow creates a truly responsible avenue for Fintech company entrance into that marketplace.

We applaud the Office's consideration, awareness, and understanding of the evolution of financial services into the technology arena and its efforts to create responsible, sustainable processes for Fintech companies to safely enter this market. We agree that consumer needs and expectations are changing dramatically. Technologies and services must provide better, faster, more accessible products and services than traditionally offered. Consumers expect to be able to leverage technology wherever they are and on their terms. We agree that creating these special purpose charters is in the public interest to safely meet consumer demands. The expansion of the availability of these tech products and services will create more control and access for consumers. Furthermore, providing responsible access for Fintechs to this evolving marketplace fosters healthy competition, responsible innovation efforts, and an all-around better experience and value proposition to consumers whose options are currently limited.

To that end, creating a transparent process, requirements, and expectations for these companies to become national banks helps to ensure that due diligence is performed on relevant business and environment risks, giving the institutions the greatest opportunity for long-term success. If these companies are to enter the banking system, they should do so in a systematic, organized way, rather than through various unknown, and untested avenues, where risks may or may not be thoughtfully considered. To do otherwise could cause great consumer harm and threaten the integrity and safety of the national banking system, if these institutions fail. Additionally, well-defined standards and consistency greatly encourage corporate responsibility, which is a point of emphasis for this effort as well. Specific questions were posed in the comment request for this proposal, and our related thoughts are below.

**Public Policy.** Public policy, in its current state, is predicated on consumer protection, community benefit, appropriate risk management, safety and soundness, and corporate responsibility. Approving Fintech company charters is a clear, consistent, and transparent way for these vital technology companies to enter the financial services markets safely, and under the same consumer protection and regulatory standards that exist now.

**Capital and Liquidity.** Liquidity and capital considerations should be consistent with current national bank chartering requirements, commensurate to the scope of activities contemplated in the charter application. They should be sufficient to support the bank's operations, act as a cushion to absorb unanticipated losses and declines in asset values, and provide protection to depositors and debt holders if liquidated. As it stands, applicants are expected to propose a minimum level of capital that the proposed bank would meet or exceed at all times. This is a moving target, as qualitative items such as quality of management, ownership, asset quality, risk diversification, strategic planning, policies and procedures, controls, and anticipated earnings are considered as well.

**Financial Inclusion.** Financial inclusion is one of the primary considerations in this effort. The OCC should create clear and understandable standards and requirements, based on the contemplated activities of the proposed bank, for financial inclusion. Taking deposits and paying checks are activities that can have disparate impact on consumers based on how they're promoted, the features and benefits of the products, the availability to all in the bank's service area, and the bank's processes when operating. Existing fair lending and UDAAP methodology would be a good starting place for developing standards the proposed bank would follow in creating, promoting, and servicing their offerings. For those Fintechs not engaged in banking services, the innovative efforts of the company should contemplate future use and existing fair lending laws in development. Board policies committing the efforts to fair use development and a commitment to anti-discrimination should be in place, and a component of regular examinations and audits should review compliance with existing laws.

**Fintech challenges.** A huge challenge for Fintechs is culture and experience. Financial institutions are organized and run with consideration for and knowledge of the regulatory landscape in which they operate, along with all the other environmental and business market forces in the financial services market. There is tremendous depth of knowledge and expertise required to effectively navigate these forces and be successful. The culture is specific to that industry, and is very different from that of the ordinary software development or technology innovation company. Technology companies will need to consider and be aware of this monumental shift in the landscape for them and adjust their cultures to be in alignment with that knowledge and expertise, and will have to adjust to the rigors of supervision

from the OCC. This is a concern of many in the banking space, that these companies who are accustomed to little or no regulatory constraints will harm consumers, the industry at large, and the safety and soundness of the banking system. The OCC should consider minimum, demonstrated experience and expertise requirements for principals and leaders to ensure a fair chance of success and compliance. Otherwise some of the Fintech companies are in for a rude awakening.

**In the Public Interest.** We believe it is in the public interest to move forward with this proposal. The demand for responsible innovation from consumers is clear, and accordingly to ensure these banks operate in a safe and sound manner and in the public interest, these banks should be held to the same standards as other participants in the marketplace regarding examinations and supervision. Principals and Directors should have personal responsibility to act in a fiduciary capacity and always in the best interest of the institution, and to follow commitments made to financial inclusion.

**Competitive Advantage.** Fintech companies who engage in only one or two of the three banking activities would seemingly be at a competitive advantage over full-service national banks in that they only would need to shoulder the regulatory burden and business complexities related to the activities in which they engage, and mostly exempt from CRA. If they aren't taking deposits, they don't need to reserve for Reg. D. If they aren't making loans, they don't need to be concerned with loan and lease loss. If they're not paying checks, they don't need to be concerned about the UCC and laws governing checks and drafts or check fraud. However, successful full-service banks achieve tremendous scale based on their scope, size, and volume, potentially rendering any advantage moot. They can manage the regulatory burden and complexities presented because they have more resources to do so. The risks presented by Fintechs to traditional banks are many. They aren't held to any regulatory standard whatsoever. Their bank partners, with whom they collaborate to bring their technology solutions to market, bear the brunt of the regulatory considerations.

**Digital currencies and special products.** Digital currencies create an anti-money laundering nightmare, so enhanced BSA supervision and enforcement would be indicated here. Many technology solutions related to financial services offer quicker and easier ways to access, transfer, see, and work with money. With that technology comes an increased chance of consumer harm from fraud, identity theft, data breaches, and malicious attacks. An increased focus on cybersecurity and risk management policies and procedures is appropriate.

**Jurisdiction and disagreement.** Create clear guidance and expectations for enforcement, supervision, and examinations and share the information with other regulators. Coordinate directly with regulators in other jurisdictions related to exam schedules, differences in interpretation of applicable laws and rules, and Memorandums of Understanding between states and the OCC regarding items of dispute or clear conflict.

**Concentration risks.** These risks exist based on the limited activities of these special purpose banks. Asset Liability Management principles apply, regardless of the limited scope of activities. Reserves could be established based on concentrations; policies can require divestment of certain assets at certain concentration thresholds; and capital, liquidity, bond and insurance requirements can be informed, in part, by these factors as well.

**Application Process.** Prospective applicants would find the following useful to aid in the application process:

- Provide clear examples of the documentation and expectations in the chartering process. Although the requirements seem clear, the outcome seems predicated on a highly subjective standard of evaluation and consideration. Accordingly, as part of its application review process, the OCC intends to consider the permissibility of a Fintech's current and proposed activities on a case-by-case basis. This approach does not create confidence in the process.
- State unequivocally what regulatory regimes will be in effect and enforced. Regulatory burden is huge, and understanding how to plan for and manage that burden has a meaningful influence on the business plan and long-term viability of the company applying for charter.
- Work to create parity with other jurisdictions. If the goal truly is to increase financial inclusion and enhance the national banking system, then state regulators should share that goal and work to create common sense solutions to legal discrepancies for that purpose.

We truly appreciate the opportunity to be heard on this development effort. Thank you.

Kevin Foster-Keddie

President/CEO, WSECU

Board Chair, QCash Financial, LLC