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Thomas J. Curry  
Comptroller of the Currency  
Office of the Comptroller of the Currency  
400 7<sup>th</sup> Street S.W., #3E  
Washington, D.C. 20024

Re: Comments on Supporting Responsible Innovation  
In The Federal Banking System: An OCC Perspective

Dear Mr. Curry:

The Electronic Transactions Association (“ETA”) hereby respectfully submits its comments in response to the Office of the Comptroller of the Currency’s (“OCC”) white paper on Supporting Responsible Innovation in the Federal Banking System. ETA is the leading trade association for the payments industry, representing over 500 companies that offer electronic transaction processing products and services. ETA’s members include financial institutions, mobile payment service providers, mobile wallet providers and non-bank online lenders that make commercial loans, primarily to small businesses, either directly or in partnership with other lenders. ETA member companies are creating innovative offerings in financial services, revolutionizing the way commerce is conducted with safe, convenient and rewarding payment solutions and lending alternatives. As a result, ETA applauds the OCC’s innovation initiative and its efforts to develop a comprehensive framework to improve its ability to identify and understand trends and innovations in the financial services industry and the evolving needs of consumers of financial services.<sup>1</sup>

The OCC correctly acknowledges that the financial services industry in the United States is undergoing rapid technological change aimed at meeting the changing expectations and needs

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<sup>1</sup> Office of the Comptroller of the Currency, Supporting Responsible Innovation in the Federal Banking System: An OCC Perspective at 3 (March 2016) (“OCC Innovation White Paper”).

of both consumers and businesses.<sup>2</sup> The OCC also correctly observes that many of the innovations are taking place outside the traditional banking industry, often in financial technology (“fintech”) companies that are growing rapidly and attracting increasing investment.<sup>3</sup> According to various reports, the three top technologies receiving funding were cloud, mobile and analytics<sup>4</sup> and among the top services receiving funding were cryptocurrency, payments, and online lending.<sup>5</sup>

Consumers and small businesses are already completing more and more of their financial transactions and banking online and through mobile channels. With nearly 80 million millennials having “demonstrated great receptivity to technical innovation in financial services,”<sup>6</sup> financial institutions must develop and have available the tools to anticipate and meet customer demand for new products and services.<sup>7</sup>

As the Department of the Treasury recognized last year, many small businesses have been unable to access traditional credit for purposes of maintaining and expanding their businesses due in part to the high search, transaction and underwriting costs relative to potential revenue.<sup>8</sup> This is especially true for smaller dollar, short term loans that small businesses often

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<sup>2</sup> *Id.*

<sup>3</sup> *Id.* See also, KPMG and CB Insights, Fintech funding hits all-time high in 2015, despite pullback in Q. 4 (Mar. 9, 2016) (global investments in fintech totaled \$19.1 billion in 2015, with \$13.8 billion invested into venture capital-backed fintech companies), available at <https://home.kpmg.com/xx/en/home/media/press-releases/2016/03/kpmg-and-cb-insights.html>; Anna Irrera, Fintech Funding Rebounds to Record, But Concerns Remain (April 4, 2016), (fintech companies worldwide raised \$5.45 billion in the first quarter, up 61 percent from the same period in 2015), available at <http://www.efinancialnews.com/story/2016-04-04/fintech-funding-back-to-record-high-q1-2016?shareToken=st213435589a1b44bbb90991383a7ab3bf>

<sup>4</sup> Liz Moyer, From Wall Street Banking, a New Wave of Fintech Investors, New York Times (Apr. 6, 2016), available at <http://nyti.ms/1S30gfz>

<sup>5</sup> See Brett Relander, Fintech Outlook Positive for 2016, Investopedia (Jan. 29, 2016), available at <http://www.investopedia.com/articles/investing/012916/fintech-outlook-positive-2016.asp>

<sup>6</sup> OCC Innovation White Paper at 4.

<sup>7</sup> *Id.* at 6 (new technology services offer the prospect of a banking relationship that exists only on a smartphone, tablet or computer).

<sup>8</sup> Department of the Treasury, Expanding Access to Credit Through Online Marketplace Lending, 84 FedReg. 42866, 42867 (Jul. 20, 2015).

need to finance sales or increase inventory to meet demand.<sup>9</sup> Online small business lenders have stepped in to expand access to credit for small businesses and offer attractive alternatives to traditional loans,<sup>10</sup> including shorter term, smaller dollar loans. Online small business lenders allow borrowers to apply for credit online in a fraction of the time it takes to apply for credit from a traditional bank. Using sophisticated, data-driven algorithms to screen the creditworthiness of potential small business borrowers, online lenders are able to reach funding decisions quickly, efficiently and less expensively, and provide access to capital to approved borrowers expeditiously. Because small businesses are the backbone of the American economy and critical to economic growth in the U.S., the OCC should encourage the use of new and innovative technology platforms to meet the needs of small businesses. With that goal in mind, ETA provides the following responses to the OCC's questions.

**How could the OCC provide guidance to nonbank innovators regarding its expectations for banks' interactions and partnerships with such companies?**

ETA wholeheartedly agrees with the OCC's assessment that banks and nonbank innovators can benefit from strategic and prudent collaboration, through which banks can gain access to new technologies and nonbank innovators can gain access to funding sources and large customer bases.<sup>11</sup> Due to their underwriting requirements and higher overhead expenses, it is often not profitable for traditional lending institutions to extend small amount, short term loans to small businesses. Rather than turn away altogether small business customers seeking loans that do not meet their underwriting requirements, traditional banks could refer them to online lenders. Where a small business customer is able to secure a loan based on such a referral or joint origination effort, all parties benefit: the bank is able to maintain a good relationship with the customer while assisting the customer find access to necessary capital from an alternative source, the customer is able to secure financing that the bank was unable to supply and the small business lender is able to obtain new business.

Banks can also take advantage of the efficiencies and user-experience advantages inherent in small business online lending by entering into partnerships with such lenders. For example, a small business online lender could make its technology platform available in the name of a partner bank. The online lender could underwrite and service a loan to a small business while the partner bank could originate the loan from its balance sheet.

In terms of providing guidance to nonbank innovators regarding its expectations for interactions and partnerships with banks, the OCC should at the very least continue to issue

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<sup>9</sup> National Small Business Association, 2015 Year End Economic Report at 9, available at <http://www.nsba.biz/wp-content/uploads/2016/02/Year-End-Economic-Report-2015.pdf>.

<sup>10</sup> 80 FedReg. 42867.

<sup>11</sup> OCC Innovation White Paper at 4.

industry guidance via Bulletins<sup>12</sup> where appropriate. ETA also supports the creation of a centralized office on innovation within OCC that would hold regular meetings with fintech innovators for the purpose of learning about and keeping up-to-date on new products and services and how they might be utilized by banks to improve customer service. Such direct interactions between OCC and fintech innovators would be educational for both sides and hopefully would help to foster an agency culture receptive to responsible innovation.

**What additional tools and resources would help community bankers incorporate innovation into their strategic planning processes?**

**What additional guidance could support responsible innovation? How could the OCC revise existing guidance to promote responsible innovation?**

ETA supports the OCC's determination to encourage responsible innovation that provides fair access to financial services.<sup>13</sup> One way of doing so would be to promote the advantages banks can realize from teaming up with fintech innovators, advantages that will ultimately flow through to customers. ETA suggests that the OCC encourage banks, including the community banks on which small businesses often rely, to investigate and, where appropriate, enter into partnerships with fintech innovators pursuant to which the banks would use the innovators' technology platforms to streamline and automate their loan application processes and expedite their underwriting processes. These platforms would allow potential lenders to analyze a broad range of financial and operational data to determine an applicant's creditworthiness and to do so quickly. Enabling small business borrowers to apply for loans online reduces processing costs, accelerates decision making, speeds access to funds and improves the overall customer experience. Due to the efficiencies and savings inherent in the online lending process, partnerships between banks and fintech innovators are likely to result in traditional banks being able to expand access to smaller dollar, short term loans that better meet the needs of many small businesses.

**What forms of outreach and information sharing venues are the most effective?**

ETA submits that the most effective forms of outreach and information sharing venues are those that afford an opportunity for banks, nonbank fintech innovators and regulators to hold substantive and meaningful discussions about the contributions each segment can make to augmenting the development and availability of innovative financial products and services for

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<sup>12</sup> See e.g., "Third Party Relationships: Risk Management Guidance," OCC Bulletin 2013-29 (Oct. 13, 2013), available at <http://www.occ.gov/news-issuances/bulletins/2013/bulletin-2013-29.html>

<sup>13</sup> OCC Innovation White Paper at 8.

businesses and consumers. ETA supports the OCC's proposal to bring together banks, nonbanks and other stakeholders in a variety of fora, workshops and meetings to discuss responsible innovation and to host "innovator fairs" for banks and nonbank innovators to discuss regulatory requirements and supervisory expectations in the financial services industry with OCC experts.<sup>14</sup> The best way to facilitate responsible innovation is to ensure that all interested parties, both banks and nonbank innovators, are fully informed of the OCC's positions and regulatory requirements by posting all relevant, resources, information and guidance in an easily accessible and navigable location on its website (perhaps one dedicated to responsible innovation).

ETA and its members stand ready to work with the OCC to promote responsible innovation and expand access to financial products and services that will help grow the economy.

Respectfully submitted,

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<sup>14</sup> *Id.* at 10.