

Banking and Finance Law Daily Wrap Up, BANKING OPERATIONS—Traditional banks can be innovative too, says OCC's Curry, (Aug. 10, 2015)

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Thomas J. Curry, the Comptroller of the Currency, spoke about the future of the financial services industry and how innovation can benefit the financial system, including the vital role banks will continue to play in that innovation, and what the Office of the Comptroller of the Currency is doing to better understand the benefits and the risks of innovative products and services identified by banks. The [remarks](#) were given before the Federal Home Loan Bank of Chicago conference titled, "Leading toward the Future; Ideas and Insights for a New Era."

Innovations in financial services. According to Curry, "[n]ew approaches that meet the needs of an evolving marketplace are the lifeblood of our nation's economy, and it's our job as a regulator to support and even encourage innovation that helps bank customers." He cited the following evolving developments and their possibilities:

- mobile payment services like Apple Pay and Google Wallet could change the face of retail payments, particularly at the point of sale;
- virtual currencies have the potential to transform the way we think about money;
- new online services offer the prospect of a banking relationship that exists only on a smart phone or home computer;
- peer-to-peer lending has the potential of upending a bank's traditional role as an intermediary; and
- automated systems compete with traditional financial advisors, and crowdfunding sites are entering the business of raising equity capital for new and existing companies.

Curry stated that it was "noteworthy that a large share of the innovation we're seeing in the area of financial technology is developing outside of the regulated banking industry." He expressed concern over the perception that it's too difficult to get new ideas through the regulatory approval process and highlighted a new initiative at the OCC to address the perception that it's too difficult to get new ideas through the regulatory approval process. The OCC is putting together a team with representatives from across the agency, including policy experts, examiners, lawyers, and others, to develop a framework to evaluate new and innovative financial products and services, said Curry.

Additionally, Curry referenced a paper that the OCC published recently on collaboration, which explains how smaller institutions can join together to trim costs or serve customers and markets that might otherwise lie beyond their reach. According to Curry, a large section of the paper encouraged community banks to continue to innovate in the area of collaboration.

FHLChicago program. Curry also praised the FHLBank of Chicago for its program that helps small originators take advantage of government guarantees and insurance. The Mortgage Partnership Finance Government MBS program allows lenders to deliver government-guaranteed or government-insured home loans to the Chicago Federal Home Loan Bank, which Curry says will in turn act as the Ginnie Mae mortgage-backed security issuer. According to Curry, this approach:

- eliminates the costs and barriers that community banks would otherwise face in becoming Ginnie Mae issuers themselves;
- is attractive for low-volume mortgage lenders; and
- provides provides liquidity, a reliable secondary market conduit, and operational support to participating banks.

New types of services. Curry praised how “nimble” these new institutions are, citing virtual currency, like Bitcoin, as providing a good example of striking the right balance between encouraging responsible innovation and managing risk. Curry warned however, that “one of the attractions of virtual currency is anonymity, and so we need to be sure that federal banks and thrifts that participate are adhering to requirements of laws aimed at deterring money laundering and terrorist financing.”

He also talked about “neobanks,” which are internet-only institutions offering new types of bank-like services. Curry said that some OCC-supervised banks have been exploring partnerships with existing neobanks.

Underserved communities. “For all of our efforts over the years to ensure equal access to credit, there are still communities with limited access to the types of financial services that people need to improve their lives,” said Curry. He noted that the economy is starting to see examples of “fintech” products that would make it easier for lower-income consumers to save, borrow, and manage bills. However, he said that the OCC’s job as a regulatory is to be sure we have a robust process in place to understand and evaluate new approaches to permit and encourage responsible innovation that has benefits for consumers and businesses, while ensuring appropriate risk management and compliance with laws and regulations.

Curry talked about financial technology companies that have developed products to help lower-income individuals build savings. First, he described an income smoothing project undertaken by the Center for Financial Services Innovation and New York University’s Financial Access Initiative which found that income sufficiency is less of a problem for low-income households than the timing mismatch between income and expenses. Additionally, Curry spoke about a product that uses an algorithm to calculate an “average” paycheck for its customers. Amounts over that average automatically go into a savings account that the company manages, and shortages are made up by money taken from savings or through interest-free advances if there is no savings available.

Conclusion. The financial services industry is “undergoing a transformation, driven by technology, in the way it does business,” concluded Curry, and much of that transformation

should take place inside of the traditional banking system. He emphasized that it is important that regulators “view new ideas with an open mind and not dismiss them.”

Companies: Ginnie Mae

RegulatoryActivity: BankingOperations CommunityDevelopment
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