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Submitted via Email: innovation@occ.treas.gov

Mr. Thomas J. Curry
Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street, SW
Washington, D.C. 20219

Re: Supporting Responsible Innovation in the Federal Banking System

Dear Comptroller Curry:

On behalf of the FDIC-insured depositories in the state of Ohio, the Ohio Bankers League (OBL) respectfully submits this comment letter on the Office of the Comptroller of the Currency's white paper entitled *Supporting Responsible Innovation in the Federal Banking System: An OCC Perspective*. The OBL counts approximately 200 of the estimated 230 banks and thrifts with a physical presence in Ohio as members. The questions posed in the white paper were presented to the OBL Board of Directors as well as other influential association groups for comment. What follows is a summary of the feedback provided by OBL members.

First and foremost, thank you for sharing this thoughtful paper and for seeking industry input. The OBL views this as the start of a conversation. We look forward to follow up as this initiative evolves. As you appropriately stated in the paper's preface, "Innovation has been a hallmark of the national banking system since its founding in 1863 by President Lincoln." Financial technology companies may today have the catchier moniker of "fintechs", but the fact remains that businesses have collaborated with our industry since its beginning to assist in adapting products and services to meet the changing needs of their customers. Pursuing better solutions that meet ever-changing customer needs is innovation at its core.

Innovation is not free from risk. It can be argued that innovation by definition is fraught with risk. Conceivably the more revolutionary a product, service or technology the greater the risk attached. Thus, we find marrying the qualifier "responsible" with "innovation" curious. We found the definition of "responsible innovation" in the white paper to be less than clear.

Further, we take exception to the description of the innovation that led to the crisis. The innovation was not really the issue. More appropriately an unlevel regulatory system, the appetite for the product and the compensation systems that were allowed to feed it were.

Thus, the “responsible innovation” definition would seem to have the potential to inhibit development of new products, services and markets. We believe we understand the intention and certainly support the importance of safety and soundness in the banking industry. It is our bedrock foundation. Being responsible really hits home for Ohio banks. It is a sore spot knowing there are a variety of players in the financial industry who operate with less or no regulatory oversight. Insult is added to injury when too often we believe those players are held out as more efficient or responsive substitutes without acknowledging these nonbanks run the greatest risk of harming consumers. They lack the same deep roots banks have in their communities and eventually are bought up, blow up or otherwise go away and traditional banks are marred reputationally and left to pay for others’ sins. By contrast, our industry is battle-tested and has lasting power that is not easily shaken.

Wherever the OCC lands in terms of end product for this conversation, we hope it does not involve the creation of a new cumbersome bureaucracy. In fact, we wonder if a mutually-desirable goal might quite easily be achieved, with all due respect, by a change in attitude. To the OCC’s credit important changes were made under your leadership to recognize differences in the examinations of thrifts versus banks after the Office of Thrift Supervision went away. Rather than creating new structures, existing processes were retooled, personnel educated and lines of communication opened. Similarly, we believe the greatest service the OCC might provide in the area of innovation will require a new mindset coupled with the elimination of disconnects between Washington, DC leadership and the field.

What follows, are responses from Ohio bankers on the questions posed in the white paper.

1. What challenges do community banks face with regard to emerging technology and financial innovation?

First, the financial cost of technology creates a significant barrier. These costs are direct results of the technology as well as associated regulation. There are numerous product and service providers and the solutions they provide all cost money. On the one hand, those vendors can make technology available to the community banks so that they can be relatively early adopters of solutions more easily afforded by the largest financial institutions. On the other hand, concerns were voiced that the costs of bank technology have not decreased as much as they maybe should have to this point. This economic outcome might be prevented since the primary core processors acquire the newest technology companies. Thus, a few companies in the core systems space nearly have a monopoly. Greater competition spurred by an overwhelming of

number of new fintechs could have the effect of lowering costs. Further, we welcome as a part of this innovation conversation an exploration on how banking trade associations and technology companies might interact with the OCC to better allow community banks to afford innovative technology.

Second, the regulatory costs associated with implementation and carrying costs for new technology are material. New employees, new audit processes, etc. are required with any new processes/technology. New technology brings changes to the exam process and the risk of differing interpretations as that technology evolves and is better understood by the regulators. Over regulation of traditional banks suppresses innovation and forces assets to be allocated to other areas that otherwise could have been spent in technology development. Additionally, it is worth noting I can search for a home on Zillow.com, looking at dozens of pictures, obtain realistic values, price histories, etc. on my mobile phone. I do not have time to schedule an appointment with a mortgage loan officer at a bank and spend an hour filling out a residential mortgage loan application. I might want to do it late at night once the kids are settled in or in the morning before heading to work. I may want to electronically acknowledge 452 pages of disclosures even though I will not read a single one. That is my choice and government should not care. The regulators should care that the bank making the mortgage is giving the 452 pages of disclosures electronically, but that is it. Government should not put time stops on the process like a three-day waiting period. I want it NOW. I want it efficiently and electronically. Businesses with the easiest path to the consumer make the sale. The banks are increasingly frustrated they are challenged in keeping up and too many are being left behind.

Third, entities with less or no regulatory oversight as compared to the traditional banks are very disruptive. They are seemingly operating unfettered as consumers become increasingly tech savvy and expect businesses, including banks, to be nimble in serving their demands. The most recent illustration is TRID versus Rocket Mortgage. OBL members have indicated TRID has added approximately three weeks to the process of obtaining a mortgage. They also incurred unbudgeted costs to upgrade software and change processes. Simultaneously, bankers saw the slick one-minute Super Bowl ad for Quicken Loans Rocket Mortgage app taking a swipe at them as the voiceover postulated:

“What if we did for mortgages what the internet did for buying music and plane tickets and shoes? You would turn an intimidating process into an easy one. You could get a mortgage on your phone.”

On one level, this was brilliant marketing. On another, the irony is not lost on traditional bankers who ask how certain players in the financial industry are not subject to all of the same regulations, oversight and related government-imposed costs that their institutions are. Banks

are at a distinct disadvantage with the lightly and unregulated competitors. Non-depository mortgage lenders, credit unions and Farm Credit have enjoyed distinct advantages through less-onerous regulatory oversight for decades. Yet, the population of players on the unlevel field is increasing in complexity and scope as changes in technology come at a much more rapid pace and from an explosion of new competitors outside the financial industry (i.e. LendingTree, ApplePay, Bitcoin, PayPal). The demands of changing and new delivery systems continues to move faster. The challenge we face is how to retain our industry and institutional relevance so that we have something to offer the “innovators” when it comes time to reach a broad market.

Fourth, there is a challenge of scale broader than an economic sense. Smaller community banks express challenges in having a qualified talent pool of officers, employees and directors with the knowledge and expertise required for increasingly sophisticated technology. Thus, focusing on delivering basic banking, or in some instances sheer survival, has been the focus for many community banks. Innovation is a luxury they cannot afford.

2. How can the OCC facilitate responsible innovation by institutions of all sizes?

The key word is “facilitate” rather than creating a new, cumbersome regulatory layer that adds costs and delays innovation. First, we suggest hiring smart, young tech-savvy people one might more readily expect to find working for Apple, Google or Airbnb to help the OCC understand the technology revolution that is currently occurring at the speed of light.

Second, we recommend finding a way to interject regulatory feedback as part of new technology development. It would be more efficient to then release new products designated as “regulatory approved.” This could prevent hundreds if not thousands of banks from having the same lengthy, time-consuming explanations of the new technology with their field examiners.

Third, continue to monitor like you do today. Bankers cited the value of quarterly calls to discuss new products “on their radar” to be rolled out in the future. The banking industry is rooted in looking at the risk and not moving forward too quickly. Thus, we ask if this exercise might present the OCC an opportunity to modernize its processes further and alleviate or at least streamline the banks’ current regulatory load.

3. How can the OCC enhance its process for monitoring and assessing innovation within the federal banking system?

Direct, clear lines of communication between Washington, DC and the field allowing for prompt decision turnaround and consistent application should be the priority. Working simultaneously

with the fintech and software providers as well as the banking industry could foster new channels of collaboration. Further, it might remove the bank from the role of middle man. This can lead to risks of uneven treatment of technology and vendor risk management processes development when looking nationally across the various OCC districts. Shifting more attention to the service providers should also effectively alleviate some regulatory burden felt by the banks. Lastly, we wonder if there is a similar exercise that the Federal Reserve might choose to engage the banks and fintechs to proactively ensure the payment system remains with the banking industry.

4. How would establishing a centralized office of innovation within the OCC facilitate more open, timely, and ongoing dialogue regarding opportunities for responsible innovation?

This question gave our bankers particular consternation. The OCC goal of facilitating open, timely, and ongoing dialogue is supportable and welcome to ensure the OCC speaks with one voice. Thank you for acknowledging in the OCC white paper the importance of agency culture. Consistency in regulatory application is essential. Further, a centralized office might create an appropriate resource for education and knowledge that could validate and guide banks within the regulatory framework who have innovated. The risk however, is that this could translate into a new layer of regulation or lead to the creation of a silo within OCC removed from the field examiners who have developed extensive experience and expertise. Such an outcome would impose new regulatory burdens and associated increased costs for the banks. It could also have the opposite effect of slowing down and hampering innovation.

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

We recommend the OCC should be working directly with the fintech, software and other service providers earlier in advance of products being fully developed. An area of current concern where the OCC might add immediate value would involve facilitating the access of data, network privacy and security expectations.

We recommend that this endeavor not be pursued by the OCC alone. Recognizing the patchwork of regulation within which our banks function, it is vital for the regulatory agencies to promote a common understanding and consistent application of laws, regulations and guidance. To this end, we recommend the OCC collaborate in developing guidance with the Consumer Financial Protection Bureau who might already have some jurisdiction over various nonbank players in the financial industry. It is also worth reemphasizing that this might be an opportunity for further collaboration with the Federal Reserve to engage the banks and fintechs to proactively ensure the payment system is closely connected to the banks. We are very

concerned that material, irreversible disruptions have already been allowed to occur that jeopardize the sustainability of the fundamental role traditional banks play in the marketplace. In such a collaborative regulatory framework, which the agencies effectively achieve in many respects currently, the agencies could further share resources to regulate similar or overlapping products and ensure competitors with the likelihood of disrupting traditional banks would have a leveling impact so they are not operating without comparable regulatory oversight to the detriment of consumers and the reputation of traditional banks.

Lastly, guidance could be delivered via outreach meetings intended to explain the regulatory burden and expectations for working with an insured and regulated depository.

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

Helping community banks incorporate innovation into their strategic planning processes might approach the issue from the wrong angle. We agree bank decisions should be consistent with their long-term business plan. Yet, innovation does not occur because a business is told to do so by its regulator. The impetus comes from the marketplace. Additionally, innovation can take many forms and not every bank is starting from the same point given the technological divide that currently exists within our industry. The OCC might serve a helpful role in incorporating innovation by providing tools and examples that management and bank boards might then interject into their strategic planning process. Yet, we caution against creating another source of “best practices” that become expected, and worse become matters requiring attention (MRAs) in the trickle down of regulation to community banks of all sizes.

What if instead the OCC had a place where bankers could share ideas and seek feedback from one another, technology companies and regulators? Would the OCC be open to collaborating with state bankers associations in each district to jointly host innovator forums? These could be held in conjunction with CEO outreaches or other OCC activities that provide peer group interaction opportunities.

Another different venue for collaboration that has been mentioned is the concept of a "sandbox" approach in which ideas can be explored and tested. We see this as being potentially valuable. We also like your suggestion of small-scale tests or product pilots. Additionally, please consider granting a safe harbor to banks who seek validation of their innovation initiatives. This request is rooted in concerns that currently there is inconsistency in front-end acceptance of new technology that is not met favorably on the next field exam.

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

Better clarification of expectations along with consistent interpretation of guidance by examiners could effectively guide our industry.

We also identified a thread in the white paper that “responsible innovation” incorporates a component to include the unbanked and marginally bankable. If that is a correct interpretation, we recommend that the OCC identify the areas in which they would like to see innovation and specifically define the leeway they will allow institutions that try to develop answers.

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

Situations that allow for face-to-face dialog in non-threatening ways to talk about both a bank’s desired results of the new product and the regulator’s concerns before any proposal is released would be most effective. Engaging state bankers associations is also an appropriate venue to assist in spreading information and offer banks anonymity, if necessary. Regional outreach meetings with opportunities for interaction with other bankers and regulators would be an example. OCC’s quarterly calls seem to work well currently and could serve an important communications role.

9. What should the OCC consider with respect to innovation?

There is going to be more and more innovation and it will occur at lightning speed. Innovation will happen with or without OCC’s direct involvement. Less involvement with banks and more involvement with the non-bank fintech and software providers is certainly one approach. The OCC’s role in banking industry innovation should be as a partner ensuring safety and soundness as well as that the banks remain relevant and competitive with new technology providers entering the system. The OCC should continue to ask informed questions and make sure that the banks are doing their due diligence and do it in way that does not discourage or unnecessarily slow down the process thereby allowing a nonbank to fill the need.

In conclusion, the OBL thanks you for starting a conversation on responsible innovation. We applaud your vision to enhance the OCC’s understanding, be a more effective resource to particularly community banks, and clarify lines of communication. The nation’s banks are at a crossroads. There is a multitude of different entities competing and collaborating in our industry. We believe it is a journey worth pursuing and the OCC can add meaningful value. Facilitating collaboration between technology providers and banks in a way that renders

prompt, consistent regulatory application that is known on the next exam would be appreciated. In the end the OCC should have the same goal of ensuring industry and institutional relevance so that banks have something to offer the “innovators” when it comes time to reach a broad market.

Sincerely,

/s/

Michael J. Adelman
President & CEO