

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

Community Banks Information Technology (IT) staff have been challenged with increased cyber risks and more complex vendor management, as well as staying abreast of the rapidly changing technology industry. In addition, existing bank resources have been stretched thin over the past few years meeting the demands of implementing the numerous regulations that were required with the Dodd-Frank Act. With nearly 12,000 pages of new or expanded regulations as a result of the act, Gate City Bank has added eight positions to meet the requirements of the expanded regulations over the last couple of years. These resources could have been used to serve the Bank's customers and communities. It is interesting to note that bank seminars and conferences that used to have agendas on new innovative products and services, are now almost exclusively focused on how to stay compliant with new regulations.

An example of how the regulations impact the Bank's innovation of new lending products was the recent addition of a new student loan refinance program the Bank developed. This program was designed to be a simple, straight forward refinance program that allowed Gate City Bank customers who were purchasing a home the opportunity to refinance existing student loan debt with a one percent fixed interest rate for ten years with no fees or hard costs. Because of new compliance requirements under Regulation Z, the Bank needed to treat the program as a formal student lending program. The Bank had to spend extra time and resources to meet the requirements of the regulation including compliance disclosures that didn't make sense to the customers given the simple design of the program.

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

The OCC could create a more level playing field and push for regulations on non-bank entities offering innovative banking products. In addition, continued guidance on the expectations and education of the definition of responsible innovation as stated by Tom Curry in the March 31, 2016 white paper would be beneficial. Also, clear direction on how banks can appropriately collaborate with nonbank technology companies to increase the knowledge and diversity of the innovative efforts that may be available for development in the banking environment would help facilitate responsible innovation.

A review of old and outdated regulations would also be beneficial. As an example, non-bank financial providers do not have as many limitations to consumers accessing their own funds. Currently Regulation D limits consumers who utilize savings account options in a bank environment. In an electronic, paperless age, Regulation D handcuffs banks from assisting consumers accessing funds in an unlimited capacity electronically or through a phone banking system. The outdated electronic transfer limits needs to be reviewed to not severely limit banks from giving the same service non-bank avenues offer consumers.

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

The OCC could review CRA guidelines for opportunities to encourage new innovation. Current guidelines could be expanded to recognize product or service innovation even if the product and/or service is not designed exclusively for low-moderate income customers.

As an example, Gate City Bank's new and innovative student loan refinance program may not receive CRA credit due to the fact the program is not restricted to just low-moderate income borrowers. Therefore, if only 45% of the borrowers under the program are low-moderate income, the program would not qualify for CRA credit due to the program not having over 51% of the borrowers in the low-moderate income category.

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

A single point of reference would allow banks the ability to receive clear guidance on compliance requirements. This will facilitate responsible innovation by allowing banks to move forward on new products and services with confidence knowing that they will not run into potential road blocks or possible compliance issues with bank examinations. A single point of reference will also allow banks to resolve different examiner interpretations in a timely and efficient manner.

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

Vendor management challenges exist where individual community banks do not have the individual magnitude to force FFIEC expectations into contracts and agreements. Assistance by the OCC (and FFIEC) to list required elements that all vendors would be expected to adhere to would give the needed leverage to assure vendor management expectations are met.

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

With the rapidly changing landscape of financial innovation, community banks are reluctant to make significant expenditures on systems or processes until they have become standardized by the industry.

The best example of a successful standardization was that of Check-21 by the Federal Reserve System. The Fed's work on standardizing specifications for imaged checks and file transfers allowed banks to move forward with the adoption of this innovation without concern for purchasing the wrong technology. It would seem the OCC and the banking regulators may be able to play a role in approving uniform standards. This challenge can currently be seen in the areas of person-to-person payments, where there are competing systems and products; and e-signatures, where it is left to individual entities, states, and sometimes even counties, to approve or reject their acceptability.

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

Due to the increase in technological advances in the banking industry, it is imperative that impediments, at many levels (city, county, state, and federal), are addressed and can bring about mutual understanding and resolution when innovation is introduced, especially in light of the move toward electronic transactions.

A recent example: Gate City Bank recently entered into a contract with DocuSign to provide more robust loan closing options to our customers. This advance in technology has hit an obstacle when attempting to employ this service for loan products that have documentation requiring a notary signature. There are two facets to the use of an electronic notary; one – the applicable county or state must be willing to accept an electronic notary and two – the state that oversees notaries must be willing to allow these individuals to facilitate electronic notaries. Through our research with the State of North Dakota, we have discovered they will accept an electronic notary on our Power of Attorney form. However, the state will not allow any North Dakota notaries to facilitate an electronic notary. Additionally, there is a notary section on all of our mortgages. These documents are recorded with the county applicable to the dwelling (collateral). We have been informed by the county an

electronic notary would not be acceptable. This has resulted in a very limited scope of loans eligible for this service.

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

Regional forums of like-sized community banks facilitated by the OCC are a very effective form of outreach. A current example of successful forums are the regional credit forums hosted by the OCC. The forums allow the banks to exchange ideas among peers along with the ability to have firsthand clarification and direction on any issues.

Also, by utilizing today's new technology, the OCC could communicate with community banks electronically. Some examples would include; Online Chat, Webcams, Skype, Blogs, Text Chat, Video Conferencing, Electronic questionnaires and surveys, Forums, and YouTube. Harnessing communication through this information sharing venue would help in creating a centralized source for information provided by the OCC.

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

Community Banks have had a long history of adapting and innovating to meet the growing financial needs of their customers. Recent excessive regulations and a culture of risk avoidance has had a discouraging impact on community bank's desire and ability to devote resources on new and innovative products.

An example of a regulation that prevents community banks from designing simple, automated, and customer friendly programs can be found in the requirements of the Interagency Appraisal and Evaluation Guidelines. Gate City Bank had been using tax assessed values as a basis for determining appropriate lending values for well-qualified borrowers requesting small home improvement loans. The Bank had used this method for years with a proven track history of limited delinquencies with virtually no credit losses. The new guidelines require the use of an evaluation of the property that meets the standards of the regulation. This change increased the costs to the customer, as well as lengthened the processing time needed to complete the loan. Even a \$10,000 home improvement loan to a longtime customer of the Bank with a credit score over 800 and a 20% loan to value, is required to have an evaluation completed. To compound the problem, the Bank has to compete with other financial lenders who because of different regulators with different interpretations and/or enforcement of the regulations, are still allowing tax assessed values as a basis of determining lending values. Safety and Soundness regulations/requirements are certainly needed to help manage the risks of the financial industry. However, excessive regulations can hamper the ability of community banks to provide innovative products and services that meet the increasing complex technical needs of our customers.