U.S. Regulator Clears Way for Online Lenders to Have National Charter

Reuters

By Patrick Rucker and Anna Irrera – December 2, 2016

Online credit companies and paperless lenders would be able to get federal charters to do business nationwide under a plan outlined on Friday by a U.S. banking regulator.

The Office of the Comptroller of the Currency (OCC), the main regulator for federal banks, said it hoped offering a charter for "fintech" companies would spur banking sector innovation.

"Technology-based products and services are the future of banking and the economy," OCC director Thomas Curry said, outlining the proposal in a speech at the Georgetown University Law Center.

The move might change the regulatory landscape for online lenders such as On Deck, Kabbage Inc and Quicken Loans that now operate under a variety of state licenses.

The OCC will allow fintech companies to operate nationally through a special-purpose charter. Curry said his agency is open to discussing specific terms of what a charter would entail.

Because they do not accept customer deposits, fintech companies are not subject to many federal banking laws.

On Friday, Curry said the tailor-made charters for fintech companies would help those lenders reach underserved communities and uphold consumer protections.

Ken Rees, chief executive of subprime online lender Elevate, said his firm supported the OCC's efforts. "Given that so much fintech innovation has gone to help give credit to people who already have it, it's important that the needs of the truly underserved are taken into account," he said.

Curry said companies obtaining a fintech charter would be "examined regularly and held to the high standards the OCC has established for all federally chartered institutions." He said worldwide investment in the fintech industry has grown in the past five years from $1.8 billion to $24 billion.

Online lenders and other fintech companies have encroached on traditional banking services in recent years with lower overhead and less paperwork. Banks and other established institutions have complained that lack of federal oversight gave online lenders undue competitive advantages. The American Bankers Association welcomed the OCC's pledge to hold fintech companies to high standards.

"Maintaining high standards is the best way to ensure customers have access to the best financial products and services," said Rob Nichols, the trade group's president and chief executive.

The Independent Community Bankers of America said fintech regulations "should be no less stringent than that which applies to insured depository institutions".

New York State Department of Financial Services Superintendent Maria T. Vullo said in a statement her agency opposed "any effort to federalize what states have been doing – and doing well – for over a century." Vullo said any federal fintech regulatory framework would "be irresponsible if it were to ignore the states' historical role and longstanding expertise in this arena".

Regulators around the world have ramped up initiatives aimed at better understanding and supporting innovation in the nascent industry. Britain's Financial Conduct Authority is widely seen as among the most active financial watchdogs, launching a special unit more than two years ago to assist young companies in the fintech sector.

"Federal fintech charters would bring the United States in line with other progressive fintech countries like Australia, the U.K. and Singapore," said Sam Taussig, head of government affairs at online small business lender Kabbage.

Unlike other financial sectors that view regulation as a threat to growth, fintech firms have generally welcomed more attention from regulators as a means of legitimizing their businesses.

"This is a reminder that strong regulation can be a beneficial thing, not only for consumer protection but also from the prospective of entities that seek out these charters, as it gives them legitimacy," said Kevin Petrasic, a partner at law firm White & Case in Washington.

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