chime

October 30, 2024

Chief Counsel's Office
Attention: Comment Processing
Office of the Comptroller of the Currency
400 4th Street, NW, Suite 3E-218
Washington, DC 20219

Ann E. Misback, Secretary of the Board
Board of Governors of the Federal Reserve System
Mailstop M-4775
2001 C Street, NW
Washington, DC 20551

James P. Sheesley, Assistant Executive Secretary
Attention: Request for Information on Bank-Fintech Arrangements Involving Banking Products and Services Distributed to Consumers and Businesses – RIN 3064-ZA43
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Submitted via Electronic Mail

Re: Request for Information on Bank-Fintech Arrangements Involving Banking Products and Services Distributed to Consumers and Businesses (OCC Docket ID OCC-2024-0014; Board Docket No. OP-1836; RIN 3064-ZA43)

Ladies and Gentlemen:

Chime Financial, Inc. ("Chime") appreciates the opportunity to comment on the interagency request for information (the "RFI") issued by the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency (together, the "Agencies") regarding arrangements between banks and financial technology companies ("fintech").[1]

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[1] Bd. of Governors of the Fed. Reserve Sys., Fed. Deposit Ins. Corp., Office of the Comptroller of the Currency, Request for Information on Bank-Fintech Arrangements Involving Banking Products and Services Distributed to Consumers and Businesses, 89 Fed. Reg. 61577 (July 31, 2024).

Chime is a fintech that operates through direct, longstanding partnerships with two national banks - The Bancorp Bank, N.A. and Stride Bank, N.A. Chime's banking partners provide services to consumers, Chime's members, who access those services through technology solutions developed by Chime. Through this model, Chime, as a service provider to its partner banks, enables the banks to provide banking products that provide clear benefits to Chime's members. Chime members are predominantly everyday Americans earning less than $100,000 per year, many working in critical sectors of the economy and living paycheck-to-paycheck. Chime's relationships with its partner banks are structured to emphasize effective risk management, compliance and consumer protection.

Chime supports the Agencies' effort to gather information that will help to build upon their understanding of bank-fintech arrangements. These relationships, when well-structured, have been the backbone of substantial innovation in the banking sector for nearly two decades, providing numerous benefits to consumers, banks and the financial system more generally. Chime's partnerships with its partner banks have enabled many underserved consumers to obtain low- or no- cost access to FDIC-insured deposit accounts, short-term liquidity and credit building in a way that may not have been possible without bringing together Chime's innovative technology and the banking products and services made available by Chime's partner banks.

We appreciate, however, that not all bank-fintech relationships are well-structured or well-operated. Recent experience has made clear that flaws in these relationships can cause significant harm to consumers. The attention that comes with these harms can undermine confidence in other bank-fintech partnerships, even those that are responsibly deployed. While some banks and fintechs may have a strong understanding of their obligations under the existing *Third-Party Relationship Management Guidance*, issues in the broader environment suggest that some do not.[2] We believe that new supervisory guidance would be helpful to ensure that bank-fintech partnerships are consistently strong. Further supervisory guidance can help to clarify regulatory expectations with respect to bank-fintech partnerships, especially for banks without significant experience partnering with fintechs and banks that use more complex operating structures in their partnership models.

To ensure that guidance meaningfully improves the structure and operation of bank partnerships that impose substantial risks, without disrupting beneficial, well-structured and responsibly-deployed partnerships, the Agencies should consider the following in developing any guidance in this area:

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[2] Bd. of Governors of the Fed. Reserve Sys., Fed. Deposit Ins. Corp., Office of the Comptroller of the Currency, Interagency Guidance on Third-Party Relationships: Risk Management, 88 Fed. Reg. 37920 (June 9, 2023).

- The Agencies’ understanding of bank-fintech relationships could be strengthened by recognizing the substantial benefits that bank-fintech relationships, when done well, have had for consumers, banks and the financial system. The RFI mentions a few of these benefits in passing, but does not describe them in any detail and fails to address numerous others.

- The Agencies should not single out the provision of deposit-taking services as posing “heightened risk” relative to other activities. We recognize that recent events have demonstrated risks that may be associated with bank-fintech relationships that involve deposit-taking activities. Nonetheless, these risks are not present in many other bank-fintech relationships that involve deposit-taking.

- The Agencies should clearly identify characteristics that make particular bank-fintech partnerships more or less risky. Direct relationships between banks and fintechs, like Chime’s relationship with its partner banks (as described further in the following section), are well suited to ensure appropriate risk management and compliance processes are in place. On the other hand, more complex models, such as those that involve “intermediate platform providers” (also known as, “middleware”) or that interpose a non-bank in the flow of funds, may be more difficult to manage and may present greater risks to consumers and banks.

- Chime supports the Agencies’ effort to gather more information related to practices for orderly exits of bank partnership arrangements, stress events or significant operational disruptions.

- As the Agencies consider issues related to bank partnerships, we encourage them to work in a coordinated manner (as they are in the case of the RFI). In this way, the Agencies can encourage regulations such as the FDIC proposal for recordkeeping requirements for custodial accounts[3] that will improve the functioning of the ecosystem, while also ensuring that the FDIC brokered deposit proposal[4] does not reduce the important benefits that bank-fintech relationships provide.

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[3] Fed. Deposit Ins. Corp., Recordkeeping for Custodial Accounts, Notice of Proposed Rulemaking, 89 Fed. Reg. 80135 (Oct. 2, 2024).

[4] Fed. Deposit Ins. Corp., Unsafe and Unsound Banking Practices: Brokered Deposits Restrictions, 89 Fed. Reg. 68244 (Aug. 23, 2024).

Note: For each of the above-noted recommendations, we have provided the corresponding reference to the questions within the RFI to which we respond. These references are provided in footnotes for each relevant section.

As demonstrated by Chime's bank partnerships, relationships between banks and fintechs can result in significant consumer benefits.

Chime was founded on the premise that everyday Americans deserve access to high-quality, affordable and easy-to-use financial services. Today, Chime, working with its two bank partners, facilitates the provision of no- or low- cost, innovative banking products and services to more than seven million consumers who live paycheck-to-paycheck. Importantly, Chime and its bank partners are doing so safely. Each Chime member has a direct relationship with both Chime and a partner bank to Chime. Therefore, Chime members are always a customer of an FDIC-insured bank and are using products offered within the banking system.[5]

Chime is committed to solving its members' most pressing financial needs. Products offered through Chime's technology have filled a critical market gap for many everyday Americans who have historically had few banking options that satisfy their needs. Chime, working in close collaboration with its partner banks, was among the first platform to deliver several important consumer innovations in support of these consumer needs: fee-free access to direct deposits up to two days early (2015); checking accounts opened without using ChexSystems[6] (2016); fee-free overdraft up to $200 (2019); and a secured credit card that helps users build credit[7] in a more consumer-friendly way (2020). Through MyPay, Chime's newest product that is made available through its partner banks, Chime members can access a portion of their pay at any point during the paycycle at no cost within 24 hours or instantly at one of the lowest costs available for comparable products in the market.

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5 This is in contrast to other bank-fintech relationships where the consumer may use other types of fintech products that are outside of the banking system.

6 The use of ChexSystems in the bank account opening process has had the effect of limiting some consumers' banking options. *See, e.g.*, Paola Boel & Peter Zimmerman, *Unbanked in America: A Review of the Literature*, Economic Commentary, Fed. Reserve Bank of Cleveland at 4 (May 26, 2022), *available at* *https://www.clevelandfed.org/publications/economic-commentary/2022/ec-202207-unbanked-in-america-a-review-of-the-literature*

7 Based on a representative study conducted by Experian®, Chime members who made their first purchase with Chime's Credit Builder card between June 2022 and October 2022 observed an average FICO® Score 8 increase of 30 points after approximately 8 months of usage.

Chime's innovations have also benefited numerous consumers who are not Chime members. Many large incumbent banks have introduced offerings similar to those made available by Chime and its partner banks. Specifically, we believe that the Chime SpotMe product, which enables consumers to access fee-free overdrafts (up to $200), was a contributing factor that led to industry-changing improvements of traditional overdraft offerings. Since Chime and its partner banks launched this product, overdraft fee revenue has diminished by 50% versus pre-pandemic levels as a result of U.S. banks lowering these fees or eliminating them altogether.[8] Since 2019, Chime members have accessed over $30 billion in fee-free overdraft, through the Chime SpotMe product, enabling those members to save billions of dollars that they would otherwise pay to banks, short-term lenders and other financial services providers every year.[9]

Chime's direct relationships with its two partner banks are at the core of how Chime does business. Chime's technology and the services that it provides to its partner banks enable those banks to make available products and services that they may not be able to otherwise offer. Incumbent banks have struggled to serve the market segment that Chime serves. That is because traditional banks operate using legacy technology stacks and have substantial branch networks that together make both day-to-day account operations and innovation expensive. These banks offset these costs through profits primarily based on interest income earned from serving high-balance consumers. As a result, the business model of an incumbent bank generally prevents the bank from profiting from a low-balance customer unless the bank can charge punitive fees arising from overdraft and other services.

Chime's bank partners, in contrast, benefit from Chime's efficient marketing channel and modern technology stack that enables innovation and substantially reduces operating costs. Further, Chime's technology platform allows our partner banks to access stable, retail deposits at a low cost from a large, geographically diverse consumer base, without maintaining a large branch network. Our partner banks pass on these cost savings, in the form of no- and low- fee innovative products and services, to Chime members, especially those that rely on those products and services as their primary banking relationship.

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[8] According to the CFPB, in 2023, overdraft and NSF revenue decreased more than 50% versus pre-pandemic levels, saving consumers over $6 billion annually. *Data Spotlight*, Offices of Markets and Consumer Populations, Consumer Financial Protection Bureau (April 24, 2024) *available at*: *https://www.consumerfinance.gov/data-research/research-reports/data-spotlight-overdraft-nsf-revenue-in-2023-down-more-than-50-versus-pre-pandemic-levels-saving-consumers-over-6-billion-annually/*

[9] *See* https://www.chime.com/newsroom/news/spotme-chimes-fee-free-overdraft-surpasses-30-billion-in-spotted-transactions/

The structure and operation of Chime's relationship with its partner banks enables appropriate risk management, compliance and consumer protection.

Chime recognizes that, for its relationships with partner banks to succeed, these relationships must do more than enable members to access innovative, consumer-friendly products. The relationships must also facilitate effective risk management, compliance and consumer protection. We believe that our partnerships do this because they are built on the following foundations: (i) direct relationships between Chime and its partner banks, (ii) strong risk management and compliance functions commensurate with Chime's size and complexity, (iii) provision of safe consumer products and (iv) strong ledgering and reconciliation practices. These features are in contrast to numerous other bank partnership relationships that have proven to be ineffective in managing risks associated with these arrangements.

1. *Direct relationships*

Chime's direct relationships (i) enable Chime and its partner banks to clearly define responsibilities and expectations for all relevant parties and (ii) facilitate an active and continuous dialogue between Chime and its partner banks about those responsibilities and expectations. As a result, through these direct relationships, Chime's partner banks can satisfy all applicable regulatory requirements and expectations in respect of the products and services facilitated by Chime.

- Chime's agreement with each partner bank spells out in considerable detail the roles and responsibilities of Chime and the bank. As a service provider to the banks, providing services that include technology, marketing and customer service, Chime supports the banks' obligations regarding risk management and compliance throughout the product development and delivery lifecycle. Furthermore, as contemplated by the agreements that govern our relationships, each partner bank, as part of its risk-management program, monitors, reviews and audits Chime's activities to ensure Chime satisfies all applicable obligations.
- Chime maintains an active dialogue with its partner banks, including to facilitate their continuous oversight of Chime. This dialogue spans all of Chime's teams - including our product, customer support, marketing, financial controls, risk, technology/engineering and legal and compliance teams. This dialogue also addresses all aspects of the relationship, including marketing and product development, member onboarding and support and delivery of products and services. By enabling and maintaining continuous engagement between Chime and its partner banks, our direct relationships ensure strategic and operational coordination and frequent touchpoints, as appropriate.

2. *Strong risk management and compliance functions commensurate with our size and complexity*

Chime's relationships with its partner banks emphasize a shared focus on a strong risk and compliance culture. Although the banks are ultimately responsible for their compliance with applicable law and their safe and sound operations, Chime understands and takes very seriously its responsibility to support its partner banks in satisfying these regulatory obligations. Chime's relationships with partner banks have been designed to address all applicable third-party risk management and other relevant expectations of the Agencies.[10] Chime is subject to, and cooperates fully with, each of its partner banks' third-party risk management programs, and these programs are in turn subject to the OCC's supervisory processes.

In addition, Chime has a well-developed and extensive risk management and compliance framework that has been designed to support its obligations to its partner banks, consumer protection, compliance with all applicable laws and its own resilience. Chime's risk and compliance staff includes personnel with extensive experience and expertise with respect to bank operations and federal and state banking laws and regulations, including expertise in cybersecurity, fraud risk, financial crimes, fair lending, model risk, credit risk, dispute handling, compliance and enterprise risk. Also, Chime's risk and controls environment enables Chime's senior management to effectively manage strategic, operational, financial, compliance and other risks to which Chime may be subject.

Moreover, Chime has entered into relationships only with partner banks that have a strong commitment to risk management and compliance. Both of our partner banks have long operating histories, including in implementing and overseeing relationships with fintechs. In light of this experience, these banks have invested heavily over many years to build strong risk and compliance programs that are well-suited to managing fintech relationships.

Oversight as part of these relationships is also not one-sided. We actively review our bank partners' strength and soundness to ensure the resiliency of our relationships. Doing so helps to ensure that these relationships remain strong and capable of

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[10] *See, e.g.*, Bd. of Governors of the Fed. Reserve Sys., Fed. Deposit Ins. Corp., Office of the Comptroller of the Currency, Interagency Guidance on Third-Party Relationships: Risk Management, 88 Fed. Reg. 37920 (June 9, 2023); Bd. of Governors of the Fed. Reserve Sys., Fed. Deposit Ins. Corp., Office of the Comptroller of the Currency, Joint Statement on Banks' Arrangements with Third Parties to Deliver Bank Deposit Products and Services (July 25, 2024) (listing examples of effective risk management practices and citing various resources of the Agencies that may be applicable to bank-fintech arrangements involving deposit-taking), *available at* https://www.fdic.gov/system/files/2024-07/joint-statement-on-third-party-deposit-products_0.pdf

providing consumers with the numerous benefits described above in a manner that appropriately manages risks and complies with all applicable requirements.

3. *Provision of safe consumer products*

The products and services we enable our partner banks to provide rely on the trust of Chime members, which Chime and its banking partners can earn only if products are safe and compliant and meet consumer expectations. Chime works closely with its partner banks to develop safe and fair products and services. As part of this collaboration, Chime and its partner banks seek to ensure that Chime products and services satisfy expectations of consumers in several ways:

- Products in the banking system: Because Chime creates financial products in full partnership with its partner banks, Chime products are designed to satisfy at all times the same laws and regulations applicable to similar offerings offered by banks outside of a fintech relationship.
- FDIC-insurance: Chime member deposits are placed, through Chime's technology platform, with Chime's partner banks, which are both FDIC members. As such, Chime member funds are eligible for FDIC deposit insurance up to $250,000 per member through their partner bank, in the event of the partner bank's failure.
- Deposit relationship between bank and end-user: The deposit account relationship is, in all cases, between a bank and a Chime member. Chime is not in the flow of funds, and Chime never has any ownership interest in, or claim to, the deposits of its members.
- Disclosures: Chime provides transparency to consumers through clear disclosures that specify that Chime is a fintech and not a bank, and that banking services are provided by its partner banks, who are FDIC members.[11]
- Access to member information: Chime's relationships with its partner banks are structured so that the banks have direct access to all relevant member information.
- Customer service: Chime customer service is always available to our members. This matches, and in many cases exceeds, the availability of customer service offered by traditional banks. Chime members have access to 4,200+ customer service experts that provide 24/7 live support via phone and live chat channels to help resolve consumer questions as quickly as possible.

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[11] Chime and its partner banks are currently reviewing and updating these disclosures to comply with the FDIC's recently finalized rule regarding deposit insurance advertising, Part A of 12 C.F.R. Part 328.

4. Strong ledgering and reconciliation practices

Chime and its partner banks have strong ledgering and reconciliation practices designed to protect consumers and maximize transparency between Chime and the banks. Chime's partner banks have direct access to the ledger that records the balances owed by that bank to Chime members. Chime's partner banks have well-established, effective daily reconciliation processes, which ensure that customer account balances are accurate and any discrepancies are promptly resolved. Chime has visibility into the partner banks' reconciliation process, and can assist the banks in ensuring accuracy and resolving discrepancies. Chime believes that our bank partnership model is already directionally in line with the recent FDIC proposal on recordkeeping for custodial accounts.[12]

In developing new guidance in this area, the Agencies should consider the benefits of responsible bank-fintech relationships, distinguish such relationships based on the risks posed by different models, and consider the implications of the various bank partnership policies recently put forward.

1. *The Agencies should more clearly articulate the substantial benefits that bank-fintech relationships can have for consumers, banks and the financial system.*[13]

We appreciate that, in the RFI, the Agencies acknowledge that bank-fintech relationships can provide benefits. However, Chime believes there are multiple benefits that are not fully recognized by the RFI as it relates to bank-fintech partnerships. The RFI identifies only a limited set of those benefits, and neither evaluates nor analyzes the benefits these relationships make possible. Accordingly, the Agencies should, if they develop additional guidance in this area, more clearly articulate the benefits that these relationships can have for consumers, banks and the financial system so that it can ensure that those benefits are preserved. These benefits include the following:

- *Benefits for consumers*: Bank-fintech relationships can have substantial benefits for consumers, as evidenced by those described above that have been generated by the products and services that Chime and its partner banks,

[12] 89 Fed. Reg. 80135 (Oct. 2, 2024).

[13] The section responds to the following questions in the RFI: question 2 under Bank-Fintech Arrangement Descriptions; and questions 2 and 3 under Trends and Financial Stability.

together, make available.[14] When implemented responsibly, bank-fintech relationships can improve access to banking products and services, including for consumers that have historically had limited or no access to the banking system or banking products and services that meet their needs.

- *Benefits for banks*: Responsibly implemented bank-fintech relationships enable new, meaningful competition in the banking industry. By working with fintechs, community banks can compete more effectively with larger national and regional banks. By leveraging modern, efficient technology provided by fintechs, smaller banks can effectively serve geographically diverse and otherwise hard-to-reach consumer segments. As a result, these banks are able to increase and diversify their fee income, while also obtaining stable, low-cost deposits.

- *Benefits for financial stability*: Bank-fintech relationships can promote financial stability by providing banks with this stable deposit funding.[15] The products and services that fintechs like Chime work with banks to provide include deposit accounts into which numerous consumers deposit their paychecks and use as their primary transaction accounts. As a result, deposits in these accounts are "sticky." The Chime member base is diverse with no single member or group making up a significant portion of deposits.

  The stability of Chime deposits was validated during recent periods of stress in financial markets; Chime members did not significantly withdraw funds from the accounts that they maintain through Chime's platform at partner banks, even when many traditional banks were seeing significant deposit outflows.

2. *Bank-fintech arrangements in connection with deposit-taking activities are not all the same. We recommend the Agencies specifically identify models, structures and characteristics that present or contribute to "heightened risk" to*

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14 *See, e.g.*, Community Development Insights Report: How Banks Can Measure and Support Customer Financial Health Outcomes, Office of the Comptroller of the Currency (June 2024) (listing examples of products and services that may help consumers improve their financial health, with many of the noted examples of products and services as those already enabled by Chime together with its partner banks), *available at* https://www.occ.gov/publications-and-resources/publications/community-affairs/community-developments-insights/pub-insights-jun-2024.pdf

15 The 2024 CSBS Annual Survey of Community Banks found that nearly 89% of responding banks named cost of funds as either extremely or very important. Conf. of State Bank Supervisors, Findings from the 2024 CSBS Annual Survey of Community Banks Presented at the 12th Annual Community Banking Research Conference, at 7 (Oct. 2-3, 2024), *available at* https://www.csbs.org/sites/default/files/other-files/FINAL2024CSBSSurvey.pdf

better establish the differences in risk among deposit-taking arrangements.[16]

The Agencies' description of partnership arrangements and associated risk profiles is too broad. For example, the Agencies imply that deposit-taking activities involve inherently heightened levels of operational complexity relative to payments or lending activities; the Agencies apparently attribute this complexity to challenges associated with financial crime compliance and reconciliation activities.[17] We recognize that recent market events have demonstrated that bank-fintech relationships involving deposit-taking *can* present significant risks, including to consumers, due to reconciliation issues. We also appreciate that the Agencies have noted deficiencies for several banks with respect to financial crimes compliance related to fintech relationships, including those involving deposit-taking activities.

However, we disagree that the involvement of deposit-taking activities alone causes a bank-fintech relationship to pose higher risks or that it necessarily does so. As an initial matter, we believe that numerous deficiencies seen in certain bank-fintech relationships involving deposit-taking are due in significant part to complexity in bank partnership models, idiosyncratic risk profiles or inadequate risk management practices. These are issues that merit supervisory and industry attention, but they do not necessarily indicate heightened risk in all relationships that involve deposit-taking.

Moreover, financial crimes compliance is a focus area across the financial services industry, broadly speaking. As demonstrated by recent regulatory actions, challenges in this area are not unique to bank-fintech relationships,[18] and certainly not only those relationships that involve deposit-taking.[19] Certainly, compliance in this area is critical, including in the context of bank-fintech relationships. Nonetheless, each relationship should be evaluated separately to determine the money laundering, sanctions, fraud and other financial crime risks it poses. Different structures present different risks and

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16 The section responds to the following questions in the RFI: question 1 under Bank-Fintech Arrangement Descriptions; and questions 1, 2, 11 and 16 under Risk and Risk Management.

17 "Bank-fintech arrangements involving deposit-taking activities often involve heightened levels of operational complexity, including as it relates to reconciliations and Bank Secrecy Act (BSA) recordkeeping and compliance (e.g., customer identification and due diligence, suspicious activity monitoring, and reporting and sanctions screening)." *See* 89 Fed. Reg. at 61579 (July 31, 2024). "[H]eightened levels of operational complexity" are not mentioned in the RFI sections that discuss "payments" or "lending," nor when describing the role of "intermediate payment platforms."

18 *See, e.g., In re TD* Bank, OCC Consent Order AA-ENF-2024-77 (Oct. 9, 2024), https://www.occ.gov/static/enforcement-actions/eaAA-ENF-2024-77.pdf

19 *See, e.g.*, *In re Thread Bank*, FDIC Consent Order FDIC-24-0022b (May 21, 2024), https://orders.fdic.gov/sfc/servlet.shepherd/document/download/0693d00000Dl5geAAB?operationContext=S1

risk mitigants, regardless of whether a structure involves deposit-taking, payments and/or lending. For example, the products and services provided through Chime's technology are provided to domestic consumers who generally live paycheck-to-paycheck, as compared to bank-fintech partnerships that offer products and services to consumers outside the United States or other higher-risk customer segments. We also note that the structure of bank-fintech partnerships may, in some cases, provide benefits in mitigating financial crime risks.

Similarly, issues related to ledgering and reconciliation can arise in multiple contexts and are not unique to bank-fintech partnerships or deposit-taking.[20] These issues are, to some extent, attributable to the underlying nature of financial services, including timing issues that may be caused by payment settlement cycles or network cutoffs. We recognize the magnitude of reconciliation discrepancies reported in the Synapse bankruptcy and agree that parties must manage their ledgering and reconciliation processes to avoid any similar recurrence. However, that individual situation should not be viewed as raising the inherent risk associated with all deposit-taking activities associated with bank-fintech relationships. Additionally, we encourage the Agencies to consider the extent to which the ledgering and reconciliation issues being reported in the Synapse matter may be related to the complexity of that relationship.

3. *The Agencies should clearly differentiate among bank-fintech relationships based on the level of complexity of the relationship.*[21]

Instead of pointing to arrangements where a fintech may maintain the end-user relationship as necessarily presenting heightened complexity and risk, we strongly believe that the Agencies should differentiate among bank-fintech relationships based on the complexity of their structures. The complexity of a structure is directly correlated to the level of risk it poses. However, the RFI does not clearly distinguish between different structures for bank-fintech relationships. For example, it incorrectly equates the risks of a less-complex partnership in which a fintech is "a distributor of the banking product or service to the end user" with substantially more complex models where an "intermediate platform provider performs key functions."[22]

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[20] *See, e.g.*, Agreement by and Between Comerica Bank & Trust, N.A. and the Office of the Comptroller of the Currency, AA-NE-2024-39 (Apr. 8, 2024), https://www.occ.gov/static/enforcement-actions/eaAA-NE-2024-39.pdf

[21] The section responds to the following questions in the RFI: questions 1 and 5 under Bank-Fintech Arrangement Descriptions; and questions 1, 3, 4, 7, 10, 13 and 16 under Risk and Risk Management.

[22] "Risks may also be *heightened* where the fintech is the distributor of the banking product or service to the end user, or where the fintech or intermediate platform provider performs key functions, such as handling end-user complaints, performing customer identification and due diligence, developing and transmitting disclosures, monitoring transactions, maintaining end-user ledgers, performing certain

Less complex relationship structures - in particular, direct, contractual relationships between a bank and a fintech - inherently enable more effective risk management, compliance and consumer protection, regardless of the specific products and services involved. In these structures, the applicable bank and fintech can discuss and agree on an appropriate division of responsibilities and the bank can ensure it has the ability to effectively review, manage and oversee the fintech, including through open and direct lines of communication. The risk management, compliance and consumer protection benefits of less complex direct relationships are amply demonstrated by the structures Chime has implemented with its partner banks, as described above.

Complexity, on the other hand, makes it more difficult to clearly allocate responsibilities and to have open lines of communication. Where, for example, a bank-fintech relationship involves multiple intermediaries, operational and other risks are necessarily heightened. A bank may be unable to effectively oversee other parties in the relationship, especially if the bank does not have a direct, contractual relationship with one or more of those parties. A fintech may also have no ability to monitor the bank with which it is working. Moreover, if a bank lacks a contractual relationship with either the consumer or the platform that interfaces with the consumer, the bank must rely on intermediaries to implement effective consumer protection.

Accordingly, we believe that the Agencies should, including in any new guidance issued in respect of bank-fintech relationships, recognize complexity as a key driver of the risk of a relationship. Two particular structures that we believe should be viewed as complex and presenting greater risks are the following:

- *Relationships involving intermediate platform providers*. We understand that some of the defining features of an intermediate platform provider is that it manages certain regulatory compliance obligations and sits "between" a bank and a fintech or other participant in the relationship. As a result, the bank and the fintech (or other party that interacts with the ultimate consumer) may not have a direct contractual relationship with each other, in stark contrast to the direct relationships that Chime's partner banks have with Chime. By spreading responsibility, including for managing risk and compliance, among multiple parties, limiting or eliminating the direct obligations and flows of information between bank and fintech, and fragmenting ownership of the customer relationship, we have seen that intermediate platform providers increase complexity and risk, especially compared to bank-fintech partnerships that do not use intermediaries of this sort. The Agencies should therefore define the key

lending-related activities, developing and deploying marketing materials, or directly communicating with end users." 89 Fed. Reg. at 61,581 (emphasis added).

features of intermediate platform providers and clarify the heightened risk that must be managed if these middleware providers or similar parties are used in connection with a bank-fintech relationship. However, in formulating such a definition, the Agencies should not conflate intermediate platform providers with more traditional vendors or subcontractors. Unlike intermediate platform providers, vendors provide a limited, discrete set of services, for example, customer support or assistance with ledgering.

- *Relationships involving legal entity types where, for example, non-banks may be in the flow of funds*. The RFI does not consider how the involvement of different types of entities in a bank-fintech relationship affect the risk of the relationship. Structures involving multiple types of entities, including entities other than banks, increase complexity and risks, especially where a non-bank is involved in holding and/or directing customer funds. Relationships of this sort are more complex and can predictably lead to consumer confusion.

4. *The Agencies are right to focus on how bank partnerships can be structured to minimize harm to consumers in the event of exit, stress or other disruptions*[23]

Chime supports the Agencies' focus on gathering more information related to practices for orderly exits of bank partnership arrangements, stress events or significant operational disruptions. Chime's bank partnership model is structured to ensure safety and soundness and minimize harm to consumers even in adverse circumstances.

As an initial matter, Chime has built a resilient organization to reduce the risk that, it itself, will face material disruptions. In addition to focusing on reducing risks to our bank partners and fulfilling regulatory expectations, Chime risk areas are focused on ensuring Chime's operations are resilient. We maintain an enterprise risk management program within the spirit of operating a safe and resilient business. Where possible, we have built resilience into our operations by design and are taking steps to eliminate single points of failure. The Company has policies and procedures in place to ensure consistency in risk management functions, as well as metrics to identify areas of exposure. Chime maintains significant corporate insurance coverage to buttress the ability of the Company to respond to material losses. We have invested significantly in risk management and have built capabilities to prevent and manage disruptions when they occur.

[23] The section responds to the following questions in the RFI: questions 4 and 9 under Risk and Risk Management.

Notwithstanding the strength of our programs, we have designed our relationships with our partner banks to protect our members even in adverse circumstances. Not only does each of our partner banks have complete access to the relevant ledger, they also each have full visibility into Chime's financial performance, enabling them to plan for and anticipate potential disruptions. As a result, our members would be protected in the event of an operational disruption.

5. *As the Agencies consider issues related to bank partnerships, we encourage a coordinated, targeted approach*[24]

We commend the RFI process by the Agencies and encourage the Agencies to continue to act in ways that are similarly coordinated in regards to the recently proposed policies addressing bank-fintech partnerships. We believe that the Agencies together have a significant role to play in fostering a regulatory environment that ensures that key risks are appropriately managed so that consumers, banks and the financial system can benefit from, and are not harmed by, bank-fintech relationships.

We view the proposal released by the FDIC to improve recordkeeping for custodial accounts as a positive step that would mitigate a specific risk associated with poor ledgering and reconciliation processes in relationships that involve deposit-taking.[25] The proposal, if finalized, would protect consumers, ensuring that banks that partner with fintechs reconcile their accounts daily and always know the end-user to whom funds are owed. Chime believes that our bank partnership model is already directionally in line with the recent FDIC proposal on recordkeeping for deposit accounts, and we support the FDIC's efforts to finalize this proposal.

In contrast, we view the FDIC's recent brokered deposit proposal as too broad in its characterization that deposits received by banks in connection with fintech relationships are "brokered."[26] Such a characterization will adversely affect a broad range of activities, even those that do not present the risks targeted by the proposal, likely harming consumers and banks, without corresponding benefits.[27]

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24 The section responds to the following questions in the RFI: questions 1, 14 and 15 under Risk and Risk Management; and questions 2 and 3 under Trends and Financial Stability.

25 *See*, 89 Fed. Reg. 80135 (Oct. 2, 2024).

26 *See*, 89 Fed. Reg. 68,244 (Aug. 23, 2024).

27 The deposits received by Chime's partner banks through Chime's technology platform are stable and possess none of the characteristics of brokered deposits that have posed risks to the Deposit Insurance Fund (DIF). It is unclear how considering these deposits to be brokered would improve the safety and soundness of Chime's partner banks or better protect the DIF. In fact, a brokered classification could discourage responsible bank-fintech partnerships, unnecessarily drive up costs, and in certain

Alignment on these policy proposals has important consequences for how the Agencies characterize the risks of differing bank partnership models. For example, the FDIC recordkeeping proposal for custodial accounts will mitigate some of the key risks of deposit-taking models by better standardizing expectations for continuity, bank access to ledgers and frequency of reconciliations. This may warrant adjustments by the Agencies in how they characterize “heightened risks” of ledgering activities in deposit-taking models in the RFI, as discussed above. Conversely, the FDIC brokered deposit proposal could increase risks to consumers and to the banking system, which also should be understood and reflected in the RFI.

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We commend the Agencies for their constructive engagement relating to bank-fintech relationships, as demonstrated by the RFI, and we wholeheartedly support the Agencies’ goal of promoting safe practices and effective risk management and compliance in this area. The Agencies should certainly seek to prevent bank-fintech relationships that pose risks to consumers, banks and others, without discouraging relationships that provide important benefits to consumers, banks and the financial system generally. To achieve this objective, we believe additional guidance on supervisory expectations may be helpful to clarify expectations for banks, including those that have little experience with fintech partnerships and those that adopt more complex operating structures for these partnerships. We encourage any such guidance to both recognize and encourage—or at a minimum, not undermine—relationships like ours that have benefited consumers and promoted innovation in a safe and responsible way.

We welcome any questions you may have. Thank you for the opportunity to comment.

Sincerely,

/s/ Jeffrey L. Stoltzfoos
Vice President, Government and Public Affairs

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circumstances, could cause fintechs to reduce or even discontinue essential financial services to consumers that rely on these services.