## Coastal Community Bank

**Via electronic submission to regulations.gov, comments@fdic.gov, and regs.comments@federalreserve.gov**

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Attention: Comments RIN 3064–ZA43

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Attention: Comment Processing, Docket ID OCC—2024-0014

Ann E. Misback
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Attention: Docket No. OP-1836

**Re: Request For Information Regarding Bank-Fintech Arrangements Involving Banking Products and Services Distributed to Consumers and Businesses**

To Whom It May Concern:

Coastal Community Bank ("Coastal" or the "Bank") welcomes the opportunity to submit this letter responding to the request for information issued by the Office of the Comptroller of the Currency ("OCC"), Board of Governors of the Federal Reserve System ("Board"), and Federal Deposit Insurance Corporation ("FDIC" and, collectively, the "Agencies") regarding bank-fintech partnerships involving banking products and services distributed to consumers and businesses (the "RFI").[1]

The RFI seeks to understand the nature of bank-fintech partnerships and effective risk management practices pertaining to those arrangements, including whether enhancements to existing supervisory guidance may be helpful in addressing those risks. Coastal appreciates the

[1] Request for Information on Bank-Fintech Arrangements Involving Banking Products and Services Distributed to Consumers and Businesses, 89 Fed. Reg. 61577 (July 31, 2024).

Agencies' work to understand bank-fintech partnerships in order to support responsible innovation, the implementation of bank-fintech partnerships in a manner consistent with safe and sound banking practices, and compliance with applicable laws and regulations. Engagement with the banking industry is critical to ensuring that the Agencies adopt pragmatic regulatory frameworks that foster innovation and effectively oversee the modern banking system.

Coastal therefore submits this comment letter to contribute to the Agencies' and public's understanding of the benefits of bank-fintech partnerships and to explain how the risks associated with such arrangements are mitigated by the current supervisory framework governing bank-fintech partnerships. Coastal also requests that the Agencies hold off issuing new guidance regarding bank-fintech partnerships given that the current guidance and regulatory requirements effectively mitigate risk to banks and the banking system. Rather, to encourage safe and sound innovation, the Bank recommends developing and expanding programs within the Agencies dedicated to bank-fintech partnerships (e.g., the Board's Novel Activities Supervision Program, the OCC's Office of Financial Technology, and the FDIC's former FDITech Office) so that banks and fintech companies have the Agencies' resources that are available to assist with the proactive identification and remediation of compliance or other issues.

## I. About Coastal

Coastal is a community bank based in Everett, Washington. As a Washington state-chartered commercial bank and member of the Federal Reserve System, the Bank's primary regulators are the Board and the Washington Department of Financial Institutions.

Coastal operates through two divisions: (1) a community banking division, which focuses primarily on providing a wide range of banking products and services to consumers and small to medium sized businesses in the broader Puget Sound region in Washington state; and (2) CCBX, Coastal's fintech division, which provides a full suite of banking as a service offerings, including, but not limited to card sponsorships and consumer and business lending and deposit products.

Coastal launched its CCBX initiative in 2017, and it has become a primary partner for numerous fintech companies.[2] By partnering with third-party fintech partners like Brigit, Greenwood, and One, Coastal is able to provide a broad range of services to a diverse customer demographic, including under-served or under-banked populations.

Since the launch of the CCBX initiative, Coastal has taken a measured approach to its bank-fintech partnerships, prioritizing compliance with applicable regulations, supervisory expectations, and Coastal's risk management system and practices.

For example, Coastal has a wind down plan and framework for its fintech partners so that if a fintech company or its arrangement with Coastal winds down, Coastal's end consumers and small business customers are protected and the wind down does not impact Coastal's safety and

[2] Coastal currently has partnership arrangements with 21 fintech companies.

soundness. Further to this example, Coastal's internal controls process includes the reconciliation of all partner and end customer accounts.

Likewise, Coastal monitors concentrations within its deposit portfolio to ensure that its fintech partners do not exceed established limits. Excess deposits are held at partner banks as appropriate to maintain those limits and for customer deposit insurance purposes.

Additionally, Coastal has a robust compliance program and controls governing its fintech partnerships, including a vendor oversight program that covers both third- and fourth-party vendors and regulatory mapping to aid with determining laws and regulations that apply to its partnerships. Moreover, Coastal has restrictions in its fintech partnership agreements that establish risk management parameters, including compliance requirements, and define the types of products that its fintech partners can offer. Coastal's fintech partnership agreements also include provisions on data ownership and risk management considerations, which give the Bank the right to step in and take swift action to protect customers or for safety and soundness purposes. The Bank also requires audits and ongoing diligence of fintech partners.

Given its measured approach to bank-fintech partnerships, Coastal is selective in the fintech partnerships it enters into and focuses on partners with experienced management teams, existing customer bases, and strong financial positions.

## II. The Importance of Bank-Fintech Partnerships

As described in the RFI, bank-fintech partnerships generally fall into one or more categories of facilitating deposit-taking, payments (including card issuance and digital wallet capabilities), and lending.[3] Bank-fintech partnerships, however, are more nuanced and varied than these three categories. Each of these categories could include the following type of partnerships: (i) operational technology partnerships where a bank utilizes third-party technology to enhance efficiency and effectiveness of its own processes or infrastructure (e.g., fraud and KYC monitoring software); (ii) customer-oriented partnerships where a bank engages a third-party to enhance various customer-facing aspects of its business and the bank continues to interact directly with its customers; and (iii) front-end fintech partnerships where a bank's infrastructure is combined with technology developed by a fintech and the fintech interacts directly with the end-customer in the delivery of banking products and services (e.g., lending and payments).[4] These partnerships can further be split into direct and indirect partnerships. In direct bank-fintech partnerships, the bank supplies its fintech partner the required technology solutions for the fintech to connect to the bank's system of record, relevant compliance systems and processes, and/or other advisory services. In indirect bank-fintech partnerships, a third party middleware supplier may provide one or all of these services (e.g., providing the technology required for the bank and fintech to exchange data). Each of these different types of bank-fintech

[3] 89 Fed. Reg. at 61579.

[4] *See* Board of Governors of the Federal Reserve System, Community Bank Access to innovation through Partnerships (October 2023), *available at* https://www.federalreserve.gov/publications/files/community-bank-access-to-innovation-through-partnerships-202109.pdf.

partnerships do, however, have one thing in common – banks hold the ultimate responsibility in any bank-fintech partnership.

The diversity and flexibility in the types of bank-fintech partnerships enable banks to leverage newer technology; offer innovative products or services; advance their digitization efforts; meet evolving customer demands and expectations; quickly and more cost effectively deploy products or services into the market; access new or expanded markets, revenue sources and customers; and reach unbanked and underbanked communities and individuals.[5] In the last decade alone, advances in financial technology have reduced costs; improved transparency; increased access by reducing gaps and inequities in the legacy financial system; provided consumers and businesses more control over their financial data; made payments faster to save businesses and consumers time and money; and eliminated barriers to investing, credit, money management, and wealth building.[6]

This comment letter will focus on three important advantages of bank-fintech partnerships; they (1) increase competition in the banking industry; (2) increase financial inclusion; and (3) reduce costs to consumers and businesses while improving the products offered to consumers and businesses.

a. Greater Competition

The U.S. financial services industry represents the most competitive and diverse financial services market in the world. In particular, the U.S. has a large robust community banking sector (i.e., banks with less than $10 billion in assets). Unlike larger banks, community banks cater to their local residents, and reinvest local dollars back into their communities, which helps create local jobs, enables small businesses to grow and families to finance major purchases, and builds financial stability. These community banks are predominantly privately owned and play a crucial role in the U.S. financial landscape at the grassroots level. Community banks facilitate access to essential financial services such as savings management, entrepreneurship support, and home buying, filling gaps left by larger financial entities that may not serve these niche markets. In fact, in the U.S., community banks provide roughly 60% of all small business loans and more than 80% of agricultural loans.[7]

However, given their smaller size, community banks face unique challenges compared to larger banks and these challenges necessitate community banks adapting to better suit modern clients and compete in an increasingly challenging market. Fintech companies understand these unique challenges and can deliver lightweight, configurable technology, products and services

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[5] 89 Fed. Reg. at 61579.

[6] FTA, Comment on the Department of the Treasury's Request for Information on Financial Inclusion (Feb. 20, 2024), *available at* https://www.ftassociation.org/wp-content/uploads/2024/02/FTA-Response-to-Treasury-Financial-Inclusion-RFI.pdf (citing United Nations Task Force on Digital Financing of the Sustainable Development Goals, People's Money: Harnessing Digitalization to Finance a Sustainable Future (2020); *see also* Warden, S. "Fintech's Roadmap to Financial Inclusion," Milken Institute Review, *available at* https://www.milkenreview.org/articles/fintechs-roadmap-to-financial-inclusion; Goldstein, I., Jiang, W. and Karolyi, G. A. "To FinTech and Beyond," The Review of Financial Studies (2019), *at* 1647–1661).

[7] ICBA, About Community Banking, *available at* https://www.icba.org/about/community-banking.

solutions for community banks that augment the technologies available to community banks and, with investments in risk management controls and personnel, mitigate the risks of such technologies.

Through the development of responsible bank-fintech partnerships, community banks are able to provide their relationship-based banking services to a national consumer base, including to communities that might otherwise be unable to obtain affordable banking products and services. Partnerships with fintech companies also can support community banks by enhancing their products and services, increasing efficiency and reducing costs.[8] In turn, these banks are able to remain competitive and viable, ensuring a robust, resilient, and competitive market for the benefit of consumers and small businesses.[9]

Without fintech partnerships, community banks would not be able to effectively compete with larger banks that have more resources to innovate and respond to evolving customer preferences and the continued digitization of banking.

b. Increased Financial Inclusion

Financial inclusion remains a widespread issue in the U.S. In 2021, nearly 5.9 million households were still unbanked and 14.1 percent of U.S. households were categorized as underbanked.[10] Unbanked and underbanked populations face many financial difficulties, including lack of access to credit, inability to build savings, and risk of losing money to predatory financial service providers. Data shows that income, education, and ethnicity strongly correlate with banked and unbanked populations.[11]

Unbanked and underbanked Americans also shoulder a disproportionate share of the billions spent on fees and interest. Even when traditional financial institutions offer products to low-income consumers, those products often come at a higher cost. As one example, consumers living paycheck to paycheck paid $17 billion in overdraft fees to major banks in 2019.[12]

More broadly, a massive opportunity cost exists in allowing financial *exclusion* to continue. When people can access affordable, transparent financial tools, they can improve their

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[8] Board of Governors of the Federal Reserve System, Conducting Due Diligence on Financial Technology Companies A Guide for Community Banks (October 2023), *available at* https://www.federalreserve.gov/publications/files/conducting-due-diligence-on-financial-technology-firms-202108.pdf.

[9] AFC, Letter to FDIC Chairman Martin Gruenberg on Regulating Innovation, *available at* https://www.fintechcouncil.org/advocacy/federal-advocacy-letter-to-fdic-on-regulating-innovation.

[10] Federal Deposit Insurance Corporation, 2021 FDIC National Survey of Unbanked and Underbanked Households (2022), *available at* https://www.fdic.gov/analysis/household-survey/2021report.pdf.

[11] Despite only making up 32% of the population, Black and Hispanic communities comprise 64% of unbanked households and 47% of underbanked households in the US. Plaid, The Fintech Effect 2023 Consumer trend report, *available at* https://downloads.ctfassets.net/ss5kfr270og3/10vFjB3m0UGFT5432dYrvj/4454109e5c818a26550a90dbcf7ae5e6/FinTech_Effect_Report_2023_1113.pdf?form=2008.

[12] *Id.*

financial health and well-being, enabling broader growth, driving a competitive economy, and providing choice to more consumers and businesses.

Bank-fintech partnerships are helping to bridge the gap between underbanked and unbanked populations and financial services by creating more opportunities for consumers and small- to medium-sized businesses, and thus expanding financial inclusion to historically underserved communities. Indeed, underserved consumers are more likely to use fintech companies to enter the financial mainstream and address their financial challenges:[13]

- 14% of consumers making less than $50,000 annually started banking for the first time with a fintech company.[14]
- 64% of consumers making under $50,000 annually say they get better results with fintech companies.[15]
- Half of consumers living paycheck to paycheck report that they plan to use fintech companies to address their financial challenges, and a third of all consumers said that they did not know how to start building a savings habit until they used a fintech company.[16]

Banks are also more likely, with the support of bank-fintech partnerships, to extend personal loans and credit offers to consumers who would otherwise have difficulty accessing credit. When banks partner with fintech companies, they provide larger credit limits for below-prime consumers because banks are able to leverage alternative data and modeling, not just traditional credit scores, to help make underwriting decisions.[17]

Without bank-fintech partnerships, financial inclusion would be a greater challenge in the U.S. and underbanked and underserved communities would face even greater hurdles when entering the financial mainstream and addressing their financial challenges.

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[13] According to a survey conducted by Plaid, Asian (75%), Black (76%), and Hispanic Americans (86%) have all embraced digital finance tools at higher rates than white consumers (72%). And across the board, Hispanic Americans are adopting digital finance tools at some of the highest rates. For example, 40% of Hispanic consumers use investing apps compared to 32% of the overall population. Plaid, The Fintech Effect 2023 Consumer trend report, *available at* https://downloads.ctfassets.net/ss5kfr270og3/10vFjB3m0UGFT5432dYrvj/4454109e5c818a26550a90dbcf7ae5e6/FinTech_Effect_Report_2023_1113.pdf?form=2008.

[14] Plaid, Fintech Effect 2020, *available at* https://plaid.com/blog/the-fintech-effect-consumer-impact-and-a-fairer-financial-system/.

[15] *Id.*

[16] *Id.*

[17] Federal Reserve Bank of Philadelphia, The Role of Bank-Fintech Partnerships in Creating a More Inclusive Banking System (September 2023), *available at* https://www.philadelphiafed.org/-/media/frbp/assets/working-papers/2023/wp23-21.pdf.

c. Reduced Costs and Improved Products for Consumers

Bank-fintech partnerships also help drive down the costs of financial services and improve financial products offered to consumers. Fintech companies provide banks with backend infrastructure, knowledge, compliance, and regulatory controls. In particular, bank-fintech partnerships result in improved efficiencies, better and faster decision-making with better data analytics, and expanded access to banking and financial offerings. For example, fintech companies entering the market have also driven banks to eliminate or reduce fees, such as overdraft fees. And, in 2020, fintech companies saved 75% of consumers making less than $100,000 annually, an average of $360 a year in interest and bank fees.[18] In addition to reduced costs, bank-fintech partnerships help banks access new markets, enhance and accelerate the rollout of digital offerings, and deliver a better, more customer-friendly experience overall.

## III. Risks Associated With Bank-Fintech Partnerships Are Adequately Mitigated Under the Current Supervision Framework

Bank-fintech partnerships are subject to a broad range of federal and state laws and regulations, including laws governing anti-money laundering, fair lending, unfair and deceptive trade practices, privacy, fair treatment of customers, and electronic fund transfers.[19]

Specifically, in June 2023, the Agencies finalized third-party risk management guidance that provides sound risk management principles for banking organizations when developing and implementing risk management practices for all stages in the life cycle of third-party relationships. In October 2023, the Board released a guide for community banks for conducting due diligence on financial technology companies. Under this guidance, banks have developed a risk-based approach to third-party risk management that includes planning, due diligence, contract negotiation, ongoing monitoring and termination.

Likewise, under the Bank Service Company Act, the Agencies currently have existing authority to regulate and examine fintech companies that have partnerships with banks. The Bank Service Company Act authorizes the Agencies to conduct examinations on fintech companies to the same extent as banks. These examinations allow the Agencies to assess the potential risks that fintech companies pose to individual banks and the banking system as a whole.

Under this current supervision framework, bank-fintech partnerships are heavily examined by bank regulators and subject to stringent agency oversight, as evidenced by numerous recent enforcement actions relating to bank-fintech partnerships.

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[18] Plaid, Fintech Effect 2020, *available at* https://plaid.com/blog/the-fintech-effect-consumer-impact-and-a-fairer-financial-system/.

[19] The RFI cites twelve regulations and guidelines as just examples of guidance governing bank-fintech partnerships.[19]

Additionally, the oversight framework and regulations governing bank-fintech partnerships continue to evolve, with new rules from various regulatory agencies continuing to strengthen protections for customers of bank-fintech partnerships.

Recently, in August 2024, the FDIC released answers to a collection of questions about the FDIC Official Signs and Advertising Requirements, False Advertising, Misrepresentation of Insured Status, and Misuse of the FDIC's Name or Logo Final Rule, codified at 12 CFR Part 328, which was amended in January 2024, with a compliance date of January 1, 2025, and aims to prevent consumer confusion as to whether their funds are protected by federal deposit insurance.

Even more recently, in September 2024, the FDIC released a proposed rulemaking that would impose recordkeeping and other compliance requirements on custodial deposit accounts with transactional features (i.e., FBO accounts commonly used to facilitate bank-fintech partnerships). This proposal would create a new, bespoke compliance regime for such custodial deposit accounts. The FDIC has stated that this rulemaking is specifically in response to recent events relating to bank-fintech partnerships and is intended to address the increasing complexities of bank-fintech partnerships, including the unique challenges that such partnerships present for resolving failed banks.

The CFPB also recently finalized a rulemaking regarding personal financial data rights as required by section 1033 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. This rulemaking requires depository and non-depository entities to make available to consumers and authorized third parties certain data relating to consumers' transactions and accounts; establish obligations for third parties accessing a consumer's data, including important privacy protections for that data; provide basic standards for data access; and promote fair, open, and inclusive industry standards.

Given the number of existing and proposed federal and state laws and regulations governing bank-fintech partnerships, Coastal requests that the Agencies provide banks and fintech companies adequate time to implement new regulations and respond to recent trends in enforcement before adding additional layers of regulatory complexity and supervision for banks and fintech companies to navigate. Alternatively, to encourage responsible safe and sound innovation, Coastal recommends developing and expanding programs within the Agencies dedicated to bank-fintech partnerships (e.g., the Board's Novel Activities Supervision Program, the OCC's Office of Financial Technology, and the FDIC's former FDITech Office). Enhancing such programs, rather than adding increased regulatory complexity through additional rulemaking, would provide banks and fintech companies with resources that they can use to proactively identify and remediate any compliance or other issues that arise with their bank-fintech partnerships.

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Again, we appreciate the opportunity to comment on the Agencies' request for information and look forward to additional dialogue with the Agencies on bank-fintech partnerships.

Sincerely,

[redacted]

Eric Sprink, CEO

Coastal Community Bank