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TIMELY INSIGHTS AND OBSERVATIONS
FROM THE OCC'S CHIEF ECONOMIST

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Chartering Fintechs as National Banks

In an [article](#) I wrote for the Cato Institute's 38th Annual Monetary Conference, I show that the chartering of financial technology (fintech) shadow banks as national banks is a desirable development. In the near term, this will occur in the form of unbundled, novel providers of payments or lending services. Some of their business models entail borrowing deposits, but some do not. All of them are banks. They and their consumers stand to benefit greatly from coming out of the shadows and becoming chartered banks. For many shadow banks, the advantages of greater geographic reach and enhanced market credibility from OCC examination will outweigh the new costs of regulations they will bear. That is especially so if they are able to avoid unnecessary regulatory burdens on their organizations.

I emphasize that I am not arguing in favor of requiring fintech banks to obtain national charters. This would impose regulatory burdens on all fintech banks, some of which would be less able to meet customer needs as a consequence. The point of chartering fintech banks should be to allow them to reap the net gains of a charter if those gains are positive for them. This approach ensures chartering only occurs when the charter creates value. Furthermore, by permitting but not requiring fintech banks to obtain charters, technology serves as a check on excessive regulation. If chartering authorities know that excessive regulatory burdens will discourage fintech banks from coming out of the shadows, then regulators will be more mindful of the costs of regulation.

Consumers stand to gain dramatically from the Office of the Comptroller of the Currency (OCC) allowing fintechs to obtain national bank charters. Chartered fintechs, in many cases, could offer lower costs, better service, and greater access to financial services, especially for the un- and underbanked. Consumers will also gain from improved supervision of these banks, which will help to ensure that their customers are treated fairly, and that the banks are run on a safe and sound basis. For all these reasons, the OCC is welcoming novel fintech banks to apply for national bank charters.

Does it make sense to extend the national bank charter to encompass stable value crypto coin providers? Doing so could have some important advantages. Those advantages include reduced transaction costs of payments, increased payment speed, reduced risk of hacking, higher interest paid on transaction accounts, and new payment services (such as the communication of information about the payer). The decentralized block chain-based payments network would also lower systemic risk and reduce criminal activity.

Although the details of the OCC's chartering policy remain a subject for study and ongoing debate as we gather all the facts about appropriate business models and ways of regulating and supervising these banks, my analysis contributes to the argument in favor of the view that it would be desirable to allow fintech banks to obtain national bank charters. By chartering them, we would allow their customers to gain from credible examination of the banks' algorithms and accounting and managerial skills. By encouraging shadow banks of all kinds (including stablecoin banks) to become part of the chartered system, the OCC can offer oversight and help ensure that consumers are not taken advantage of by unscrupulous, dishonest, or misleading practices. The government would also be able to examine these banks and ensure that the bank's algorithms comply with laws against money laundering and tax evasion, and that its accounting is honest.

Of course, there are vested interests that oppose allowing fintech shadow banks to become part of the chartered banking system. Whether consumers are able to realize the gains of a chartered fintech future ultimately will depend as much on politics as it will on economics.