



Playing By The Rules

by [Steve Brown](#)

In 1995, Ellen Fein and Sherrie Schneider rocketed from total obscurity to best-selling authors when the pair released their self-help book "The Rules: Time-tested Secrets for Capturing the Heart of Mr. Right." The dating guide, which purports to contain secrets that can both help women attract the right man and get him to commit to marriage, includes a set of 35 rules to follow. Specific rules range from "Don't Talk to a Man First (and Don't Ask Him to Dance)," to "No More than Casual Kissing on the First Date" and "Be Easy to Live With." Not surprisingly, the book's reception was mixed. Regardless of that issue, the book proved so popular that the authors wrote three follow-ups: "The Rules II, The Rules for Marriage," "The Rules for Online Dating" & "All the Rules."

Much like the myriad of relationship scenarios and rules that exist within the dating world, banks must follow the myriad of rules promulgated by the regulatory agencies on a host of subjects. One new one that has recently surfaced includes rules around things banks must know when dealing with financial technology (fintech) companies.

In this regard, the OCC recently released a set of proposed regulations that would apply to fintechs. The rules appear to ensure fintechs do not have an unfair advantage over traditional banks and that banks also understand regulations still apply when innovating to meet shifting customer demands.

The process begins with a white paper entitled "Supporting Responsible Innovation in the Federal Banking System: An OCC Perspective." The paper summarizes areas that the OCC perceives as risks in the wake of society's increasing reliance on e-commerce, specifically fintechs.

Here, while the OCC acknowledges that fintechs have created benefits for both financial institutions and customers (such as greater accessibility and faster transactions), it also warns banks that the OCC is concerned about some of the dangers they create (like the potential for hackers to access consumers' personal records). Additionally, the OCC has concerns that some of the new products being introduced by fintechs could potentially create some of the same risks that led to the credit crisis.

To fully understand this delicate balance, the Comptroller indicates that "Innovation holds much promise. It can help meet the needs of the underserved and provide better financial tools for families. It can help institutions scale operations efficiently, and it can make business and consumer transactions faster and safer." He then adds, that "Innovation is not free from risk, but when managed appropriately, risk should not impede progress."

To help both bankers and fintech companies, the OCC highlights how it evaluates and supports innovative products, processes and services along eight principles. These are: by supporting responsible innovation; fostering an internal culture receptive to responsible innovation; leveraging agency experience and expertise; encouraging responsible innovation that provides fair access to financial services and fair treatment of consumers; furthering safe and sound operations through

effective risk management, encouraging banks of all sizes to integrate responsible innovation into their strategic planning; promoting ongoing dialogue through formal outreach; and collaborating with other regulators.

While banking isn't the same as dating, in an era where technology makes online dating commonplace, this anonymity provides ample opportunity for scoundrels to appear. At least in banking when it comes to considering partnerships with fintechs, the OCC's regulatory approach should give some comfort that all are playing by "The Rules."

BANK NEWS

Cyber Focus

Fed Chair Janet Yellen told Congress cybercrime is a "very significant threat" to banks and that regulators "have standards that we expect financial institutions to meet" and that regulators are "certainly supervising financial institutions' ability to address cyber threats." This is a key area for examiners so bankers should be highly focused on it.

M&A Activity

1) Commercial Bank of Texas (\$571mm, TX) will acquire The First National Bank of Emory (\$111mm, TX) for an undisclosed sum. 2) First United Bank and Trust Co (\$3.2B, OK) will acquire American Bank of Texas (\$2.3B, TX) for an undisclosed sum. 3) First Bank (\$3.4B, NC) will acquire Carolina Bank (\$706mm, NC) for about \$97.3mm in cash (25%) and stock (75%).

Pot Banking

An amendment that just passed the Senate Appropriations Committee would bar federal banking regulators from preventing or penalizing banks for providing financial services to state approved marijuana businesses. This will now head to the Senate floor for a vote.

Good News

FICO reports the percentage of Americans with subprime credit scores (300 to 599) has declined to 20.7%, the lowest level in 10Ys and the 6th consecutive YOY drop.

Workplace Harassment

In a bizarre twist, research by the EEOC (on the study of harassment in the workplace) failed to find evidence that the past 30Ys of corporate training has had any effect on preventing workplace harassment. Harassment is generally defined as any unwelcome conduct based on race, color, religion, sex, national origin, age (40 and over), disability or genetic information.

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