



STATE OF CONNECTICUT
DEPARTMENT OF BANKING
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Jorge L. Perez
Commissioner

July 7, 2021

Ann E. Misback
Secretary, Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Connecticut Department of Banking Comments on Proposed Guidelines for Evaluating Account and Services Requests (Docket No. OP-1747)

Ms. Misback:

The Connecticut Department of Banking (the “Department”)¹ submits the following comments in response to the Board of Governors of the Federal Reserve’s (the “Board’s”) request for comments on proposed guidelines for evaluating requests for master accounts and/or access to Federal Reserve Bank financial services.

We support the Board’s interest in providing clarification on the eligibility for access to a master account and encourage it to adopt final guidelines that accomplish this goal. We also applaud efforts to create consistent standards across all Federal Reserve Banks. However, we believe that the proposed guidelines do not adequately take into account existing robust state regulatory oversight and unfairly disadvantage uninsured state-chartered financial institutions. Relatedly, we suggest that the proposed guidelines have the potential to stifle innovation. Finally, we recommend that the proposed guidelines be amended to include a deadline by which decisions on applications for master accounts must be made.

Greater clarification and consistency will provide a higher level of certainty for the financial services industry.

The Department agrees with the Board’s assertion that “a structured, transparent, and detailed framework for evaluating access requests would benefit the financial system broadly.”² At present, the standards under which master account applications are evaluated is unclear for prospective applicants.

¹ We note that the Department is an agency accredited by both the Conference of State Bank Supervisors (CSBS) and National Association of State Credit Union Supervisors (NASCUS). The accreditations issued by CSBS and NASCUS afford the Department with the ability to conduct alternating and joint examinations with our federal agency counterparts, signaling a recognition of the Department’s strong examination program. The Department’s examiners’ and managers’ significant regulatory experience also includes the supervision of systemically important financial institutions. In addition to banks and credit unions, the Department is also the primary state regulator for the securities and consumer credit industries in Connecticut and the Banking Commissioner administers state banking, consumer credit, and securities laws.

² 86 Fed. Reg. 25,866 (May 11, 2021).

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There is also the possibility of different Reserve Banks applying different standards for similar requests, which has the potential for regional disparities.

Clearly delineating the standards under which master account applications will be evaluated across all Reserve Banks will eliminate much of the guess work for applicants. Additionally, consistently applied standards will reduce the likelihood of prospective applicants feeling the need to “forum shop” among Reserve Banks for the greatest likelihood of application approval. This will also allow all states to compete fairly instead of having a patchwork system where only certain Reserve Bank regions support certain business models.

The proposed guidelines insufficiently recognize existing state regulatory regimes and have the potential to stifle innovation.

We are concerned by the apparently different treatment that certain state-chartered institutions will receive under the proposed guidelines as compared with other federally regulated financial institutions. The Board indicates that federally insured depository institutions will likely have a quick and straightforward master account application process where account access is all but guaranteed. Meanwhile, state-chartered institutions that are not federally insured may be subjected to a more rigorous, protracted review process with far less certainty of approval. While these state-chartered institutions may not be federally insured, they do not present additional risk to the financial system or to consumers as they have stringent capital requirements, are restricted from accepting retail deposits, are regulated by state law, and are subject to a rigorous examination process.

Such a bifurcated standard of review fails to take into account the robust regulatory regime that already exists for such state-chartered institutions. For example, several states,³ including Connecticut,⁴ have alternative bank charters such as uninsured banks (i.e., banks whose deposits are not insured by the Federal Deposit Insurance Company) and trust banks. The Department has a rigorous application process for uninsured and trust bank charters that closely mirrors the process for an insured bank. For example, Connecticut uninsured and trust bank charter applicants must undergo an independent feasibility study to make sure that the applicant’s business model is sustainable and has a certain likelihood of success. Connecticut state-chartered uninsured and trust banks are also subject to minimum capital requirements as determined by the Banking Commissioner, in part, based on the institution’s business model, the findings of the feasibility study, and consideration of the institution’s risk profile. Creating a different, more onerous standard of review for such state-chartered financial institutions would have a negative effect on Connecticut’s uninsured and trust bank charters by potentially limiting access to Federal Reserve accounts and/or services to only a single class of institutions, even though that charter features many of the same requirements imposed on federally insured depository institutions.

³ Including Maine, Michigan, and Vermont.

⁴ Conn. Gen. Stat. § 36a-70(t) provides for the organization of a Connecticut chartered uninsured bank. Connecticut chartered uninsured banks “have all of the powers of and [are] subject to all of the requirements and limitations applicable to [insured state-chartered banks], except no uninsured bank may accept retail deposits.” Conn. Gen. Stat. § 36a-70(t)(2).

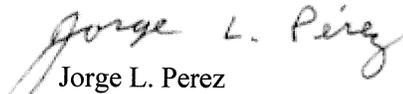
Standards of master account application review that vary based on charter type would also restrict innovation in the financial system. In keeping with the axiom that states are the laboratories of innovation, the ability of states to maintain viable bank charter alternatives is essential for promoting innovation in banking and the next generation of financial services. Such charters may also potentially expand inclusion of underserved and immigrant communities through the introduction of innovative service offerings which lower the barriers to entry and or costs of service delivery to such communities. As the global financial system, the financial services industry, and technology rapidly evolve, the availability of innovative charter alternatives is critical to allowing the U.S. banking system to maintain its competitiveness in the world.

Any final guidelines should include a definitive time within which a decision will be made.

The proposed guidelines leave open the possibility that an application for a master account could be under review by a Reserve Bank for an indefinite period of time. The resulting uncertainty from this open-ended review process runs counter to the Board's stated goals of transparency and consistency. While we recognize that some applications may take longer than others to review, we believe that the Board should include a definite period of time within which decisions on master account applications will be made in any final guidelines.

We thank you for the opportunity to comment on the Board's proposed guidelines and are available to answer any questions and work with the Board in developing final guidelines that fairly and consistently allow for access and services at Federal Reserve Banks.

Sincerely,


Jorge L. Perez
Banking Commissioner

cc: U.S. Senator Richard Blumenthal
U.S. Senator Christopher Murphy
Congressman John Larson
Congressman Joseph Courtney
Congresswoman Rosa DeLauro
Congressman Jim Himes
Congresswoman Jahana Hayes
Dan DeSimone, Director of the Governor's Washington D.C. Office