



STATE OF CONNECTICUT
DEPARTMENT OF BANKING
FINANCIAL INSTITUTIONS DIVISION
260 CONSTITUTION PLAZA – HARTFORD, CT 06103



Jorge L. Perez
Commissioner

April 21, 2022

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 believe that the proposed guidelines fail to adequately take into account existing robust regulatory oversight in Connecticut and unfairly disadvantage our uninsured state-chartered financial institutions. Relatedly, we suggest that the proposed guidelines have the potential to stifle innovation. Finally, we urge the Board to promptly finalize the guidelines following the close of this request’s comment period to resolve a prolonged period of uncertainty and allow for pending account applications to be processed.

The proposed guidelines disregard existing state regulatory regimes and have the potential to stifle innovation, hinder economic development, and limit expansion of financial services to underserved communities.

We are concerned by the apparently different treatment that certain state-chartered institutions in Connecticut would receive under the proposed guidelines as compared with other federally

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 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.

regulated financial institutions. Under the proposed guidelines, the Board has created different tiers of review that essentially will result in federally insured depository institutions having a quick and straightforward master account application process where account access is all but guaranteed. Meanwhile, state-chartered institutions that are not federally insured would be subjected to a more rigorous, protracted review process with far less certainty of approval.

We think it is important that the Board understand the comprehensive regulatory scheme to which Connecticut's uninsured state-chartered banks must adhere. 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 disparate standard of review fails to take into account the robust regulatory regime that already exists for such state-chartered institutions in Connecticut.² 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.

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 Connecticut to maintain viable bank charter alternatives is essential for promoting innovation in banking and the next generation of financial services. Such charters have the potential to promote inclusion of underserved and immigrant communities through the introduction of innovative service offerings.³ These innovative service offerings can lower the barriers to entry and/or costs of service delivery to such communities. Innovation can also be a driver of economic development and restricting alternative bank charters can have negative effects on a state's economic growth. 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.

In the alternative, if the Board still deems it necessary to have different levels of review, we suggest that uninsured state-chartered institutions whose state regulator has received accreditations from both CSBS and NASCUS receive the Tier 2 intermediate level of review as such level of review is described in the proposed guidelines. State regulators who have received such accreditations have demonstrated that their supervisory programs are on par with their federal counterparts. Given that determination, we believe an intermediate level of review would be far more appropriate than "the strictest level of review" since those institutions are supervised by a primary regulator with a robust

² 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).

³ We note that expanding the availability of financial services to underserved communities has been a priority for both President Biden and Congress.

supervisory program.

The guidelines should be finalized promptly to allow for account application processing to resume.

We strongly urge the Board to finalize the guidelines promptly after the close of this comment period. It has been almost a year since the initial proposed guidelines were released for comment. We understand that the Board and the various Reserve Banks wish to finalize the guidelines prior to acting on applications for uninsured financial institutions. As a result, the industry has been kept in limbo for almost a year and applications that have been submitted during that time have been indefinitely delayed. This prolonged period of uncertainty has had a detrimental effect on both individual applicants and the financial services industry as a whole. Following the close of this comment period, the Board should promptly finalize the guidelines and act on any pending account applications.

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: The Honorable Richard Blumenthal, U.S. Senate
The Honorable Christopher Murphy, U.S. Senate
The Honorable John Larson, U.S. House of Representatives
The Honorable Joseph Courtney, U.S. House of Representatives
The Honorable Rosa DeLauro, U.S. House of Representatives
The Honorable Jim Himes, U.S. House of Representatives
The Honorable Jahana Hayes, U.S. House of Representatives
Dan DeSimone, Director of the Governor's Washington D.C. Office

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