SaverLife®

October 30th, 2024

Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Federal Reserve Board of Governors
2001 C Street NW
Washington DC, 20551

Office of the Comptroller of the Currency
400 7th Street, SW
Washington, DC 20219

Re: Request for Information on Bank-Fintech Arrangements Involving Banking Products and Services Distributed to Consumers and Businesses

To whom it may concern,

SaverLife appreciates the opportunity to respond to the Request for Information on Bank-Fintech Arrangements Involving Banking Products and Services Distributed to Consumers and Businesses and to share our perspective on the positive and negative impacts of such arrangements on consumers with low-to-moderate incomes.

SaverLife commends the Agencies' efforts to create stronger and clearer supervisory guidance specific to bank-fintech relationships. We urge the Agencies to prioritize the financial health of consumers—particularly lower-income individuals—as the primary consideration when finalizing this guidance. Low-income consumers are disproportionately reliant on fintech products for affordable, accessible financial services, making it essential that any regulatory framework prioritizes their protection and ensures fair, transparent practices in this evolving market.

SaverLife is a national fintech nonprofit and advocacy organization committed to helping people living with low-to-moderate incomes achieve financial stability, security, and savings for the future. As a nonprofit using technology to improve the financial health of people living on low-to-moderate incomes, our work is guided by the financial data, personal stories, and experiences our 670,000+ members entrust to us.

SaverLife represents a large and diverse national community: 80% of our members are women, 65% are parents, 60% identify as a person of color, and 85% do not have a college degree. They rely on multiple sources of income to get by and often lack access to the levers that build wealth. The demographic profile of our members closely mirrors that of those most likely to use certain financial technologies, such as online and mobile banking services (we refer to these companies as "Neobanks" and their products as "fintech bank accounts") that are the subject of this RFI.

The financial health impacts of fintech banking apps

The intersection of finance and technology is reshaping the U.S. financial system, creating both significant opportunities and risks for financial health and inclusion. In the summer of 2024, SaverLife conducted a time-series study to assess the impact of fintech products on the financial health of low-income consumers. The study, to be published in November 2024, used transactional and demographic data from our platform, along with proprietary qualitative and quantitative research. The findings clearly demonstrated the popularity of neobanks among low- to moderate-income consumers:

- Almost half of SaverLife members (45%) said they use fintech bank accounts, compared to 76% who use traditional checking accounts.
- Members are slightly more satisfied with fintech bank accounts vs. traditional accounts (8.76 vs. 8.45 on a 10-point scale).
- 70% of users said they turned to fintech bank accounts to avoid account maintenance and overdraft fees.
- Compared to traditional bank account users, we found that fintech bank account users were less likely to be employed full-time (27% vs. 55%) and more likely to be unemployed (21% vs. 9%), self-employed (14% vs. 9%), and living with a disability (17% vs. 8%).
- The use of fintech bank accounts compared to traditional accounts is strongly linked to income; as income rises, fintech banking account use declines while traditional account use rises.
- 71% of fintech bank account users cited at least one concern with these products; lack of branch access was the top concern, cited by 40% of those with a concern.

As our study clearly shows, fintech bank accounts are widely used by lower-income and more financially vulnerable consumers. The popularity of neobanks with low-income consumers reflects the ways in which these companies are meeting their needs with low or no account fees, lower instances of overdraft, and access to short-term liquidity products like overdraft protection and cash advances. However, it is precisely the financial circumstances of the consumers most drawn to fintech bank accounts that require swift and strong action to prevent potentially devastating impacts on low-income households from the failure of bank/fintech partnerships, as demonstrated by the bankruptcy of Synapse Financial Technologies which caused financial harm to as many as ten million end users.

Recommendations

SaverLife believes that certain neobank products are filling gaps in the market and more directly meeting the needs of a historically underserved consumer segment. Given the large volume of our members who use these products in lieu of or alongside traditional bank accounts, we believe that there is value in allowing more competition in the marketplace in ways that can meet the needs of diverse consumer segments. However, those most likely to use neobanks are also more likely to live paycheck to paycheck and experience higher levels of financial insecurity. The collapse of Synapse Financial Technologies, which disrupted the lives of as many as ten million end users, demonstrates the potential for widespread harm. Strong regulatory measures are essential to prevent similar impacts on consumers in the future.

Many financial technology products operate in a regulatory gray area, providing services similar to traditional banks, credit unions, or lenders but without the same clear or robust regulatory oversight. This gap creates a need for regulatory agencies to impose stronger controls on the entities they *do* oversee - in this instance banks who are entering into fintech partnerships - in order to safeguard consumers from potential risks in less-regulated spaces. Specifically, we recommend:

> Accurate Account Balances and Immediate Fund Access
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> It is critical that consumers, particularly those with limited financial means, have accurate and up-to-date information about their account balances, along with uninterrupted access to their funds. Any disruption—such as fintech challenges or closures—should not impede a consumer's ability to retrieve their money. We urge the Agencies to require clear protocols to facilitate direct communication between consumers and bank partners when fintechs face difficulties. This will ensure consumers have full knowledge of where their funds are held and can access them without delay.
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> Direct Relationships Between Fintechs and Banks
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> Direct relationships between fintechs and their banking partners are essential to creating greater accountability, transparency, and oversight. Clear lines of communication between these entities allow for better regulation, protect consumers from the risks of mismanagement, and ensure that fintech customers enjoy the same level of safety and fairness as traditional bank clients. Such direct

relationships also enable regulatory agencies to more easily monitor these partnerships for compliance and risk.

No Comingling of Funds

To protect consumers, especially those with limited financial resources, we strongly recommend prohibiting the commingling of funds between fintechs, their partners, and customers. Keeping funds separate ensures clarity, safeguards consumer assets, and enhances regulatory oversight, reducing the risk of mismanagement.

Contingency Plans for Partnership Termination

Fintech partnerships may end for several reasons, including business failure or acquisition. In the event of a dissolution, there must be a clear plan in place between the bank, fintech, and any third-party providers to ensure that consumers can continue to access their funds and maintain essential services. To mitigate the impact of such disruptions, fintechs should be required to hold operating reserves to maintain business continuity in case of closure or acquisition.

Due Diligence on Fintech Partners

Banks must be required to conduct rigorous due diligence on fintech partners before establishing a formal agreement. This should include assessments of the fintech's financial health, the expertise of its team, and the viability of its business model. Fintechs must also be required to maintain robust risk and compliance frameworks, ensuring that qualified personnel are in place to protect consumer assets and comply with regulatory requirements.

Access to Customer Support

For low-income consumers, timely and effective customer support is critical, especially when issues arise with their accounts or services. Among SaverLife members who have concerns about their fintech bank accounts, 17% cite poor customer service as a top concern and 15% closed their accounts for this reason. We strongly recommend that the Agencies require fintechs and their bank partners to establish clear standards for customer support. This includes minimum availability hours, multi-channel support options (e.g., phone, chat, and email), and a rapid escalation process for urgent issues such as frozen accounts or errors. Additionally, support staff should be trained to handle concerns related to access, fraud, or operational disruptions. Equally important is ensuring that customer support is accessible to all consumers, including those who may not speak English fluently.

<u>Accurate Representation of FDIC Insurance</u>

Fintechs should be required to provide clear, accurate information regarding FDIC insurance. Consumers need to understand that while FDIC insurance protects against bank failure, it does not extend to the failure of a fintech. Misleading statements or incomplete disclosures about the scope of FDIC insurance can leave low-income consumers particularly vulnerable and reduce trust in the banking system as a whole.

Financial technology has the potential to increase financial inclusion and provide better financial services for all consumers. However, without adequate regulation, there is a risk of further entrenching a two-tiered system where financially vulnerable individuals remain at risk. Strong consumer protections and clearer oversight of fintech-bank partnerships are essential to prevent financial harm and promote equitable access to financial products.

SaverLife appreciates the opportunity to provide input on this critical issue. We commend the Agencies for considering the needs of financially vulnerable consumers and look forward to continued collaboration to ensure that the financial marketplace works for everyone.

Please contact me for any further questions.

Sincerely,

Leigh Phillips
President & CEO, SaverLife
Member, FDIC Advisory Committee on Financial Inclusion