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FINTECH – BANK MODEL PARTNERSHIPS

A baseline review of best practices and pitfalls….

BANK—FINTECH PARTNERSHIPS

The early 2010s saw a shift in the relationship between FinTechs and Banks. No longer was FinTech building the "back end" of banking, it was now leading the pursuit of customers and had become the "face" of financial services. Many banks feared this competition, while others embraced the opportunity for new partnerships.

The FinTechs took the lead in innovation and spurred new financial services delivery mechanisms that were agile, customer-centric, and unbound by traditional views of banking. The bank became the "back end"—using its charter to assist the FinTech in a nationwide strategy, while avoiding many state-by-state payment or lending regulations.

During testimony before the House Financial Services Committee in June 2018, Comptroller Otting noted that the "world has changed dramatically over the last two years since Comptroller Curry went out. **Fintechs used to think that they wanted to be banks; and, now, most are realizing because of the capital, liquidity, and commitment to the community they have to provide, they really don't want to be** — most don't want to be banks anymore, but they want to be providers of services to banks. And so, we see more and more coming in and talking to us about how they partner with banks to be able to provide portals and things where they can reach customers. So, while some will still want to be banks, **more and more are moving toward saying I want to partner with banks and offer our services**."

SHIFTING TO DIGITAL SOLUTIONS

- Digital/Mobile Banking
- Marketplace Lending
- Payments
- Deposit Gathering
- Banking as a Platform
- Artificial Intelligence/Machine Learning
- “RegTech”

THE SHIFT IN BANKING TECHNOLOGY

"Mobile first, digital everything."

- Jamie Dimon, J.P. Morgan Chase & Co. on the bank's new mantra guiding its future growth.

JPMorgan Chase & Co.

"Our biggest competitors are not necessarily other banks. They are **Amazon and Google**. Those are the companies **setting the expectations of our customers**."

Francisco Gonzalez Rodriguez

Chairman and CEO

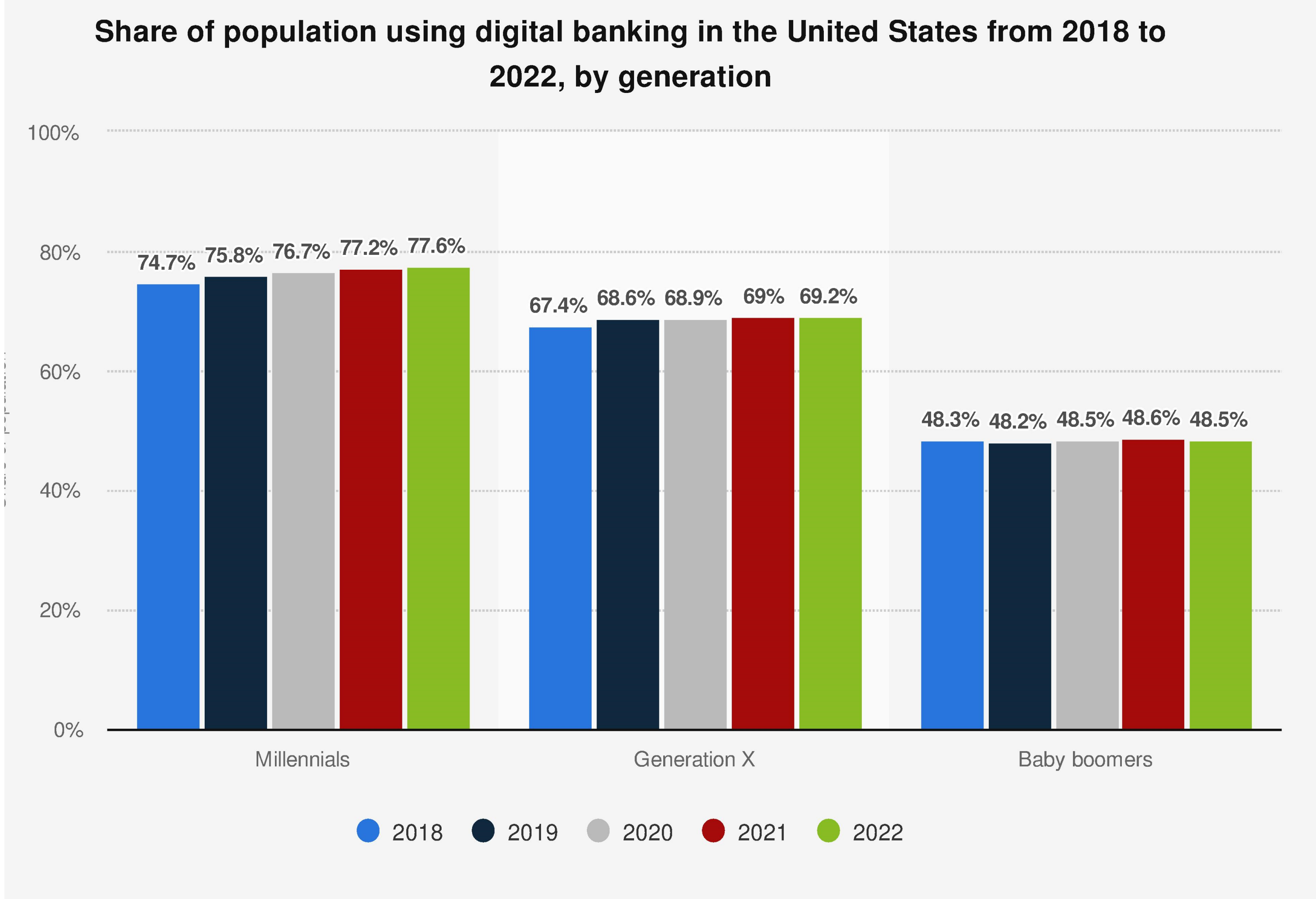
BBVA

Unbundling of a Bank

CBINSIGHTS

THE MIGRATION TO ONLINE/DIGITAL BANKING

The Big 6 banks (Bank of America, Chase, Citibank, PNC, U.S. Bank and Wells Fargo) currently have a jump on regional and midsize banks to build digital engagement. Prior to the pandemic, 49% of big bank customers had high levels of digital engagement, compared with 41% of regional bank customers and 36% of midsize bank customers.



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BREADTH OF OPPORTUNITY

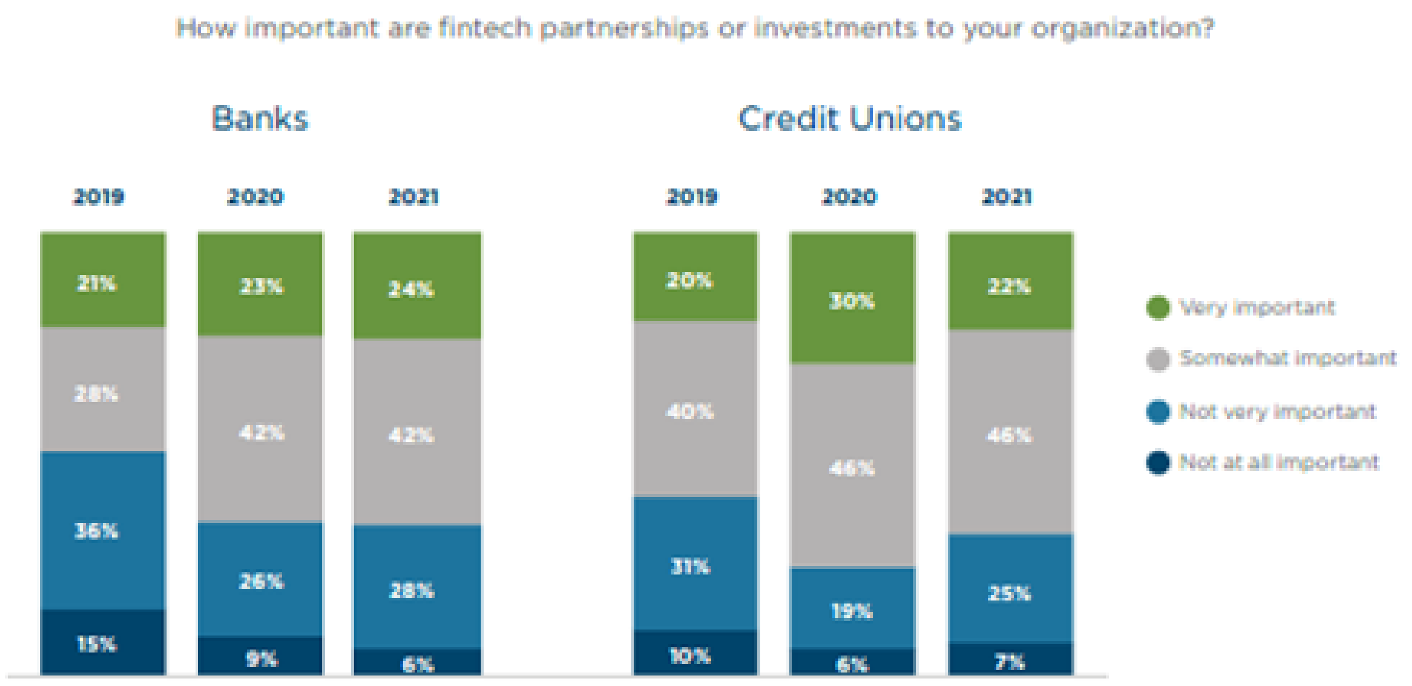
- What we've seen as a result of COVID-19 is the move away from cash and towards contactless payments.
- For most banks, digital account opening has been the most popular type of partnership between fintechs and banks. That being said, these partnerships can feel more like vendor relationships and not partnerships.
- Moreover, digital account openings are only a sliver of the products available through fintech partnerships.

BANK—FINTECH OPPORTUNITIES

Accounts payable processing	Accounts receivable processing	Card (prepaid) sponsoring	Consumer and commercial bill payment	Cryptocurrencies
Financial management and budgeting	International settlement and payments	Investment advisors and broker-dealers	Invoicing and collections	Lending models (consumer and small business)
Merchant acquirer services	Mobile payments processing	Mobile wallet solutions	Online account solutions	SMB payment processing

THE IMPORTANCE OF FINTECH PARTNERSHIPS

FIGURE 13: **Importance of Fintech Partnerships**



Source: Cornerstone Advisors survey of 260 community-based financial institution executives, Q4 2020

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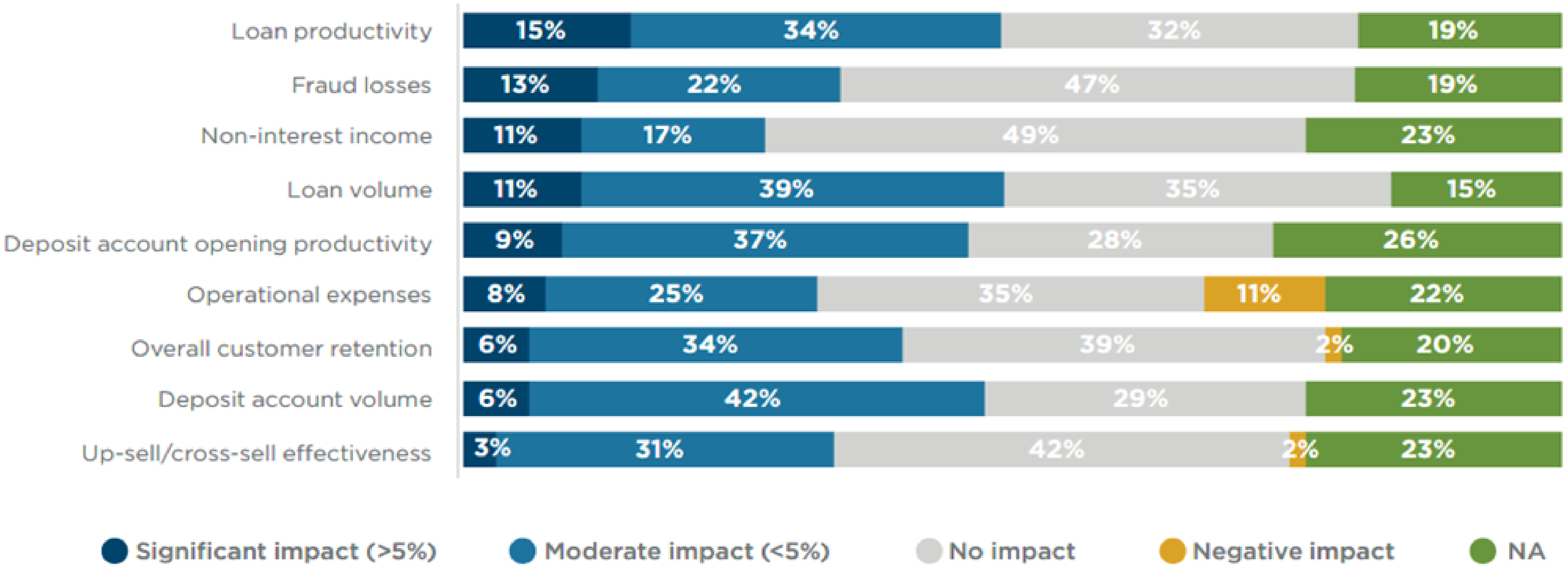
IMPACT OF FINTECH PARTNERSHIPS

FIGURE 15: **Impact of Banks' Fintech Partnerships**

To what extent have your fintech partnerships impacted the following metrics?



Source: Cornerstone Advisors survey of 260 community-based financial institution executives, Q4 2020

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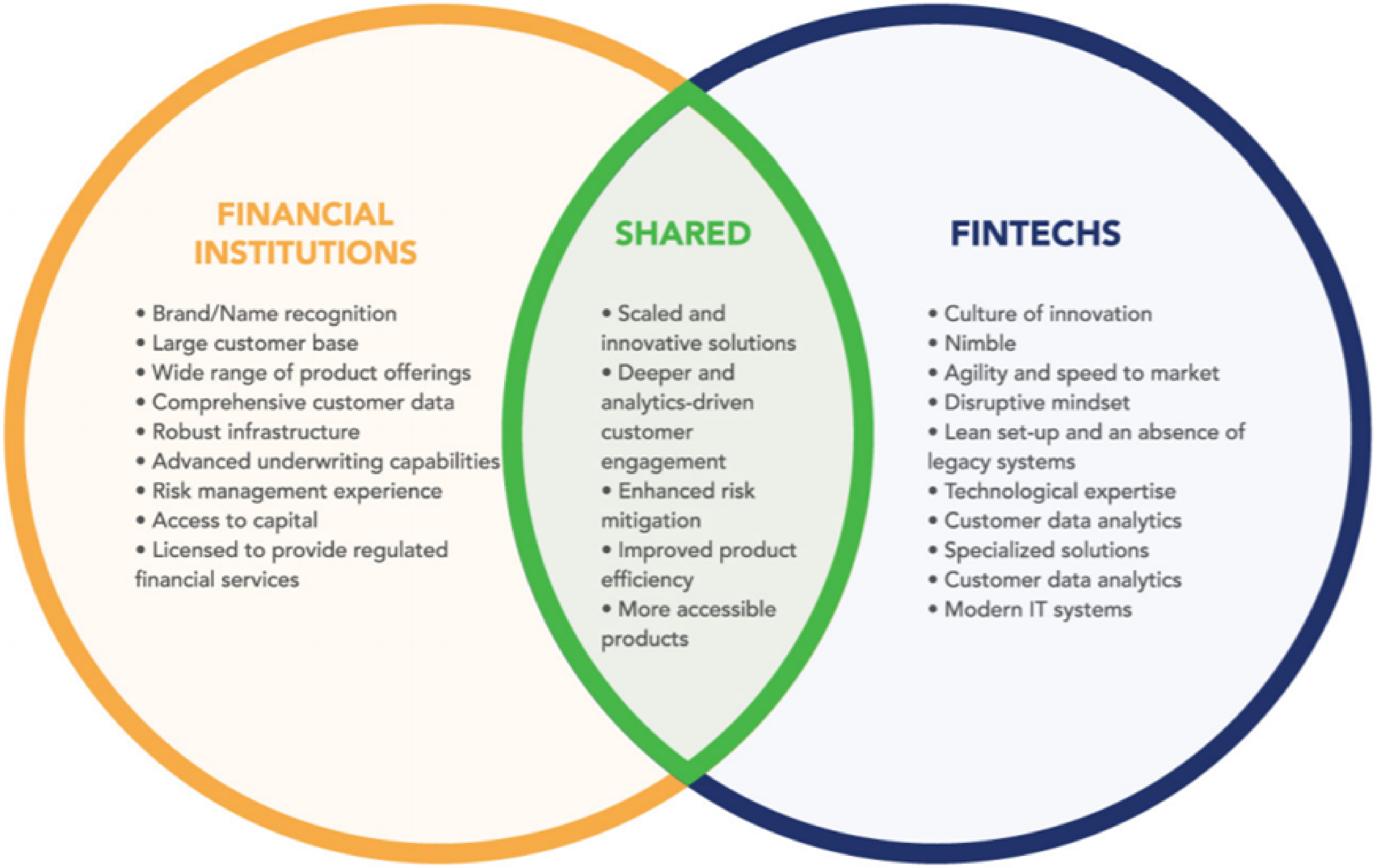
MUTUAL BENEFITS TO THE BANK AND FINTECH



*Source: Center for Financial Inclusion at Accion and the Institute of International Finance, July 2017

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BANK—FINTECH MODELS

Bank Referrals	• Bank earns revenue by sending customers to FinTech • Can be used where the bank has "gaps" in service offerings
FinTech Referrals	• Bank purchases customer leads from FinTech • Bank purchases account or loan assets originated inside FinTech platform
FinTech Investment or Acquisition	• Bank invests in FinTech that is mission aligned to bank • Bank buys key technology for private use or sale to other Financial Institutions.
Private Label Solution/SaaS	• Bank purchases the financial technology to deploy to its customers • Opens new product offerings for the bank
Bank to Bank	• Banks partner with each other to fill respective services gaps • Also includes relationships between technology and low-tech banks to offer services.
Partial Outsourcing	• FinTech assumes limited roles in process—underwriting, data collections, etc. • Allows the bank to "buy" technology or expertise missing in the institution
True "Bank Model Partnership"	• Bank serves as the lender/account issuer in FinTech themed ecosystem • Full integration in services with FinTech front-end and bank back-end

WHERE TO LOOK WHEN MOVING TO DIGITAL

OCC: Office of Innovation

- The Office of Innovation, established in January 2017, implements a framework supporting responsible innovation that enhances the safety and soundness of the federal banking system, treats customers fairly, and promotes financial inclusion. The Office of Innovation ensures that institutions with federal charters have a regulatory framework that is receptive to responsible innovation and the supervision that supports it.

FDIC: FDiTech

- The FDIC established FDiTech in 2019 to collaborate with community banks on how to deploy technology in delivery channels and back-office operations to better serve customers. The FDiTech team, among other activities, has published manuals and guidance to provide additional tools and resources to increase opportunities for bank partnerships with FinTechs. In February 2021, the FDIC appointed its first Chief Innovation Officer to lead the FDiTech team and to promote the adoption of innovative technologies across the financial services sector.

Federal Reserve: Innovation Policy

- The Federal Reserve Board established the Office of Innovation Policy in 2019 to support responsible innovation among regulated institutions and in the financial markets broadly.

FFIEC: E-Banking Booklet:

- provides guidance to examiners and financial institutions on identifying and controlling the risks associated with electronic banking (e-banking) activities. The booklet primarily discusses e-banking risks from the perspective of the services or products provided to customers.

CFPB SANDBOX

CFPB's stated mission is to promote innovation, competition, and consumer access within financial services through:

- Creating policies and sandboxes through which we reduce potential barriers to innovation
- Engaging with stakeholders interested in promoting consumer-beneficial innovation
- Coordinating with Federal, State and international regulators

There are multiple programs:

- Compliance Assistance Sandbox: a Compliance Assistance Sandbox in which companies can obtain a safe harbor for testing innovative products and services for a limited period of time while sharing data with the Bureau.
- Trial Disclosure Sandbox: companies can obtain a safe harbor for testing for a limited period of time disclosures that improve upon existing disclosures, while sharing data with the Bureau.
- Pitch a pilot: Groups that have an idea for a consumer-beneficial innovation, and want to work with the CFPB to make it happen, can pitch pilots.

FINTECH SANDBOXES

- Utah: Regulatory Sandbox Program was established in 2019 under Utah Code Ann. §13-55-101 to encourage innovative financial products or services by providing participants with limited testing in the Utah market without first obtaining state licenses or other required authorizations.

- Arizona: Arizona Revised Statutes §§ 41-5601 to 41-5612, a Regulatory Sandbox for certain types of financial products and services is now available in Arizona. The Sandbox enables a participant to obtain limited access to Arizona's market to test innovative financial products or services without first obtaining full state licensure or other authorization that otherwise may be required.

- Wyoming: Wyoming Legislature enacted HB 57, which created a financial technology sandbox for the testing of innovative financial products and services in Wyoming. An "innovative financial product or service" is defined as a product or service that uses: "new or emerging technology, or new uses of existing technology, that provides a product, service, business model or delivery mechanism to the public and has no substantially comparable, widely available analogue in Wyoming, including blockchain technology."

- West Virginia: West Virginia Legislature passed, and the governor signed HB 4621, which implements a regulatory sandbox to enable entities that would normally require licensure in WV to test an innovative financial product or service for a limited period of 24 months. At the end of the sandbox period, if the test of the product or service has been deemed successful, the entity would be able to continue operating in WV subject to any licensure requirements at that team.

OCC Fintech Charter:

Initially proposed by the OCC in December 2016, the charter would permit vetted non-depository fintech companies to operate under a federal charter overseen by the OCC without the burdens of state-by-state regulation and licensing. As expected this was met with significant resistance from state regulators

New York Department of Financial Services ("DFS"): *Lacewell v. Office of the Comptroller of the Currency;* currently on appeal

FinTech Acquisition/Chartering of Banks

Square (an alternative FDIC pathway?): In March 2020, Square, Inc. became the first U.S. fintech company to receive conditional approval from the Federal Deposit Insurance Corporation's (FDIC) Industrial Loan Company (ILC) charter to pair with Square's prior state charter from the Utah Department of Financial Institutions.

SoFi – Golden Pacific Bancorp Acquisition: SoFi, which received preliminary approval for a bank charter in October 2020, sped up the approval process by announcing on March 9, 2021, its agreement to acquire Golden Pacific Bancorp.

Lending Club – Radius Acquisition: On January 19, 2021, LendingClub received final approval from the OCC for its acquisition of Radius Bank.

Paxos National Trust: The OCC granted preliminary conditional approval to charter Paxos National Trust, New York on April 23, 2021.

FINTECH FINDING A PATH TO CHARTERS

QUESTIONS OR THOUGHTS?

Mark L. Miller (Presenter)
Mark.Miller@nelsonmullins.com
615.664.5329 (Nashville, TN)

Kevin Tran (Presenter)
Kevin.Tran@nelsonmullins.com
615.664.5322 (Nashville, TN)

Other NMRS Team Members:

Neil Grayson
(Chair Financial Institutions Corporate and Regulatory Practice)
Neil.Grayson@nelsonmullins.com
646.428.2600 (New York, NY); 864.373.2235 (Greenville, SC)

Brad Rustin, CRCM, ACAMS
(Chair Financial Regulatory Practice)
Brad.Rustin@nelsonmullins.com
202.689.2320 (Washington, DC); 864.373.2320 (Greenville, SC)

Richard Levin
(Chair FinTech and Regulation Practice)
Richard.Levin@nelsonmullins.com
202.689.2845 (Washington, DC); 303.583.9929 (Denver, CO)

Craig Nazzaro
Craig.Nazzaro@nelsonmullins.com
404.322.6969 (Atlanta, GA)

Liz Donaldson
Liz.Donaldson@nelsonmullins.com
864.373.2248 (Greenville, SC)

Samer Roshdy
Samer.Roshdy@nelsonmullins.com
404.322.6712 (Atlanta, GA)

NELSON MULLINS