BETTER MARKETS

June 26, 2025

Office of the Comptroller of the Currency
Chief Counsel's Office
Attention: Comment Processing
400 7th Street SW, Suite 3E–218
Washington, DC 20219

Re: Request for Information Regarding Community Bank Digitalization; Docket ID OCC-2025-0008; Document Number OCC-2025-08280; 90 Fed. Reg. 20212 (May 12, 2025)

Dear Ladies and Gentlemen:

Better Markets[1] appreciates the opportunity to comment on the request for information ("RFI") related to community bank engagement with digitalization.[2] The RFI, issued by the Office of the Comptroller of the Currency ("OCC"), seeks information on challenges and barriers faced by community banks in the adoption and implementation of digital banking solutions.

In its RFI, the OCC defines digitalization as:

> [T]he use of technology to change a business model, provide new revenue and value-producing opportunities, or automate business processes.[3]

The OCC strongly supports community banks' ongoing transition to digital banking, including arrangements with technology service providers. These arrangements and partnerships facilitate community banks' meeting customer demands, increasing revenue, operating more efficiently, and competing with other banks.[4] However, digitalization can also bring new costs, risks, and challenges. The OCC rightly expects that banks will have appropriate risk management systems and processes in place to manage these risks.[5]

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1 Better Markets is a non-profit, non-partisan, and independent organization founded in the wake of the 2008 financial crisis to promote the public interest in the financial markets, support the financial reform of Wall Street, and make our financial system work for all Americans again. Better Markets works with allies—including many in finance—to promote pro-market, pro-business, and pro-growth policies that help build a stronger, safer financial system that protects and promotes Americans' jobs, savings, retirements, and more.

2 Request for Information Regarding Community Bank Digitalization; Docket ID OCC-2025-0008; Document Number OCC-2025-08280; 90 Fed. Reg. 20212 (May 12, 2025), https://www.federalregister.gov/documents/2025/05/12/2025-08280/request-for-information-regarding-community-bank-digitalization.

3 *Id*. at 20213.

4 *Id*.

5 *Id*.

Without question, community banks are vital to Main Street America, providing a safe place for families and small businesses to safeguard and grow wealth and then reinvest local dollars to help communities thrive.[6] Community banks have proven themselves resilient in the face of challenges such as merger pressures, economic downturns, and financial crises,[7] steadfast in their commitment to serve small businesses,[8] and innovative with the integration of new technology to serve their customers better.[9]

Despite these strengths and successes, community banks face many risks and challenges that are specifically tied to or resulting from digitalization. For instance, a recent survey of nearly 400 community bankers from across the country[10] revealed:

- Risk of Cybersecurity: Nearly 96 percent of respondents rated this risk as extremely or very important, topping the list of internal risks for community banks.

- Risk of Technology Implementation and Cost: About 80 percent of respondents rated this risk as extremely or very important, ranking second among internal risks.

We applaud and support the OCC's RFI for recognizing the need to examine the benefits and costs of community bank digitalization in detail. Advocating for community banks' continued development in areas related to digitalization is vital because it offers the potential for long-term benefits to both banks and local communities. But it is also critical to balance this enthusiasm with a clear recognition of the risks and costs of digitalization. Indeed, a community bank that takes on too much digitalization too quickly or exposes itself and its customers to unknown or excessive risks for which it does not have the skills or systems to manage or control could face devastating effects, including potential failure of the bank. In other words, community banks should focus on finding the right amount of innovation and digitalization to be competitive, efficient, and serve their customers safely and fairly, without exposing themselves to undue risk.

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6 *See, e.g.*, SHAYNA OLESIUK, COMMUNITY BANKS: VITAL TO MAIN STREET FAMILIES, SMALL BUSINESSES, AND THE FINANCIAL SYSTEM, Better Markets (Apr. 17, 2025), https://bettermarkets.org/wp-content/uploads/2025/04/BetterMarkets_Community_Banking_Report_04-17-2025.pdf.

7 *See, e.g.*, Benjamin Backup & Richard Brown, *Community Banks Remain Resilient Amid Industry Consolidation*, 8 FDIC QUARTERLY (2014), https://www.fdic.gov/analysis/quarterly-banking-profile/fdic-quarterly/2014-vol8-2/article1.pdf.

8 *See, e.g.*, Margaret Hanrahan & Angela Hinton, *The Importance of Community Banks In Paycheck Protection Program Lending*, 14 FDIC QUARTERLY (2020), https://www.fdic.gov/analysis/quarterly-banking-profile/fdic-quarterly/2020-vol14-4/article1.pdf.

9 *See, e.g.*, Conference of State Bank Supervisors, *Findings from the 2024 CSBS Annual Survey of Community Banks Presented at the 12th Annual Community Banking Research Conference*, at 12-17 (Oct. 2-3, 2024), https://www.csbs.org/sites/default/files/other-files/FINAL2024CSBSSurvey.pdf; Federal Deposit Insurance Corporation, *Technology in Community Banks*, at 6-1, FDIC COMMUNITY BANKING STUDY (Dec. 2020), https://www.fdic.gov/resources/community-banking/report/2020/2020-cbi-study-full.pdf.

10 Conference of State Bank Supervisors, *supra* note 9 at 10.

BACKGROUND

Community banks are a vital component of the U.S. banking landscape. Unlike megabanks that operate thousands of branches across multiple states and earn much of their income from trading and financial market-related activities, community banks are distinguished by the unique combination of banking services they provide and how they do business.[11]

In 2024, there were about 4,500 banks in operation in the U.S., and ***more than 4,000 of those were community banks***.[12] Said differently, more than 9 out of every 10 banks in the U.S. are community banks, focused on serving Main Street families and small businesses at more than ***26,000 branch locations***[13] across the country.

The value of community banks is widely recognized. For example, Federal Reserve ("Fed") Chairman Jerome Powell stated:

> Community banks play a vital role in America's financial system, providing essential services to households, small businesses, and small farms in communities throughout the country.[14]

Esther George, former Federal Reserve Bank of Kansas City President, shared this view, stating:

> As relationship lenders, payment providers, and deposit safekeepers, community banks are integral parts of the thousands of cities, towns, and neighborhoods they serve.[15]

Tom Hoenig, former Federal Reserve Bank of Kansas City President and Federal Deposit Insurance Corporation Vice Chairman, also agreed, stating:

> Community banks have maintained a strong presence despite industry consolidation because their business model focuses on strong relationships.[16]

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11 *See* FEDERAL DEPOSIT INSURANCE CORPORATION, FDIC COMMUNITY BANKING STUDY, at I (Dec. 2012), https://www.fdic.gov/resources/community-banking/report/2012/2012-cbi-study-full.pdf.

12 *See* Federal Deposit Insurance Corporation, 19 QUARTERLY BANKING PROFILE, at 8, 25 (2025), https://www.fdic.gov/quarterly-banking-profile/quarterly-banking-profile-fourth-quarter-2024.

13 Michael Hoffman, Camille Keith, Joycelyn Lu, & LaShawn Reed-Butler, *2023 Summary of Deposits Highlights*, 18 FDIC QUARTERLY, at 70 (2024), https://www.fdic.gov/analysis/quarterly-banking-profile/fdic-quarterly/2024-vol18-1/fdic-v18n1-4q2023.pdf.

14 Federal Reserve Bank of Kansas City, *The Critical Role of Community Banks* (Aug. 20, 2024), https://www.kansascityfed.org/banking/community-banking-bulletins/the-critical-role-of-community-banks/.

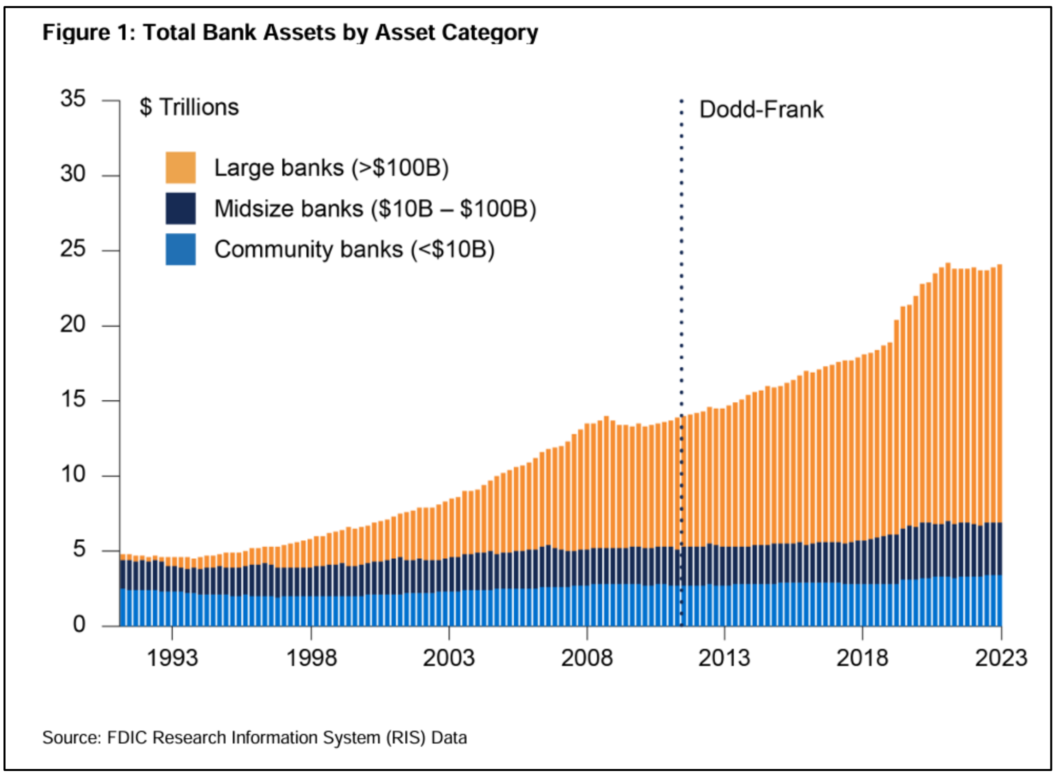
15 *Id.*

16 *Id.*

Despite their large share of the total number of banks in the U.S., community banks' share of total banking assets is dwarfed by the large and growing share of assets held by the largest banks (see Chart 1).[17] The combined total assets held by banks with less than $10 billion in assets has stayed relatively stable at around $2.5 trillion over the last three decades while the count of "large banks"—those with more than $100 billion in total assets—and their aggregate assets have grown exponentially from:

- Five large banks with combined assets of $800 billion in 1993, to
- Eighteen large banks with combined assets of $8.8 trillion in 2008, to
- Thirty-two large banks with combined assets of more than $17 trillion in 2023.

Chart 1



This increasing imbalance between the market share of community banks and larger banks can make it seem that community banks need to move quickly or take more risk to regain market share or compete with their peers. However, the truth is that community banks have proven over and over that they are dedicated to and successful in meeting the financial services needs of their

17 Office of the Comptroller of the Currency, *Size, Complexity, and Polarization in Banking* 2 (July 17, 2024), https://www.occ.gov/news-issuances/speeches/2024/pub-speech-2024-79.pdf.

local communities. For example, in three areas—agriculture lending, small business lending, and commercial real estate lending—community banks' market share was well above their 15% overall market share, accounting for:

- 70% of all agriculture loans,
- 36% of all small business loans, and
- 30% of all commercial real estate loans.

Moreover, research shows that community banks increase the resilience of local communities through the ups and downs of economic cycles. Using the 2008 Crash as an example, research finds:

> Community banks, with a ***greater capacity to lend to firms through economic downturns***, maintained existing delinquent loans at the onset of the Great Recession. ***This enabled firms to maintain employment levels and, in some cases, expand. This prevents regions from experiencing recession conditions.*** Second, counties with greater banking access experience recession conditions for longer. This result is ***driven by non-community banks rather than community banks***. This may indicate that regions with more non-community banks may be more dependent on these institutions, and that these institutions have a decreased capacity to help regions recover from the recession. More specifically, one could imagine that following recession entry, non-community banks may have restricted their lending to a greater extent than community banks. Firms located in these regions, with a decreased credit supply, were unable to hire workers following recession entry. ***Thus, regions with a greater non-community banking presence had a decreased capacity to recover from the Great Recession.***[18]

Additionally, research shows that community investment ***increases*** in areas where two community banks merge.[19] In other words, community bank consolidation can create larger and stronger institutions that contribute more to community development.

These facts prove that community banks provide more than a welcoming smile on Main Street or sponsorship for the local Little League team; they provide resilience for local economies and financial resources for families and small businesses across the country to thrive. While there are certainly opportunities to build on this success with digitalization, the OCC and community banks themselves should not forget, ignore, or dismiss the factors that exist today that have directly led to their success.

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18 W. Scott Langford & Maryann P. Feldman, *We Miss You George Bailey: The Effect of Local Banking Conditions on the County-Level Timing of the Great Recession* 16 (Dec. 10, 2019), http://dx.doi.org/10.2139/ssrn.3501746 (emphasis added).

19 Bernadette A. Minton, Alvaro G. Taboada & Rohan Williamson, *Unexpected Gains: How Fewer Community Banks Boost Local Investment and Economic Development* (July 2024), https://www.communitybanking.org/-/media/files/communitybanking/2024-papers/unexpected-gains-community-banks-072924f.pdf?sc_lang=en.

SUMMARY OF THE RFI

The RFI seeks input from the public in ten areas related to community bank digitalization:

1. Planning for Digitalization: challenges and obstacles faced by community banks that are adopting digitalization strategies.

2. Board and Governance: considerations for community banks' boards of directors that are overseeing and supporting digitalization strategies.

3. Due Diligence and Implementation: factors affecting community banks' research and implementation of digitalization strategies.

4. Digitalization Costs and Budget: up-front and ongoing costs and resource constraints associated with and required by digitalization strategies.

5. Use of Third Parties: management of relationships with and reliance on external entities for the implementation of digitalization strategies.

6. Competition and Market Trends: relationship between digitalization strategies and competition between community banks and larger banks, other community banks, and fintech companies or other financial services companies.

7. Use of Artificial Intelligence ("AI") and Machine Learning ("ML"): incorporation of AI and ML in digitalization strategies.

8. Effect of Applicable Laws and Regulations: relationship between regulatory and compliance requirements and the decision to take on digitalization strategies.

9. Associated Risks: community banks' management of material financial risks related to and resulting from digitalization strategies.

10. Data Sharing: challenges associated with community banks sharing data with third parties.[20]

SUMMARY OF COMMENTS

Better Markets commends the OCC for publishing the RFI. There is no question that community banks face pressures for increased digitalization, for a variety of reasons, including customer demand, cost savings, and keeping up with their competitors. However, community banks rightly recognize that digitalization also brings considerable risk and cost. Therefore, digitalization strategies should be undertaken prudently and carefully.

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[20] Request for Information Regarding Community Bank Digitalization, *supra* note 2 at 20213-14.

Our responses to the RFI questions are as follows:

- Bank boards have a vital oversight role for any digitalization strategy. As part of its overall responsibility for effective oversight of the bank, the board of a bank that is pursuing a digitalization strategy must be held accountable for that activity, just like it is held accountable for other decisions by the bank. This includes ensuring that the board has appropriate expertise and training to challenge management and ask the right questions to ensure that the bank is operating safely and fairly during and after the digitalization strategy implementation.

- Banks should be held to strong and enforceable standards related to the implementation of digitalization strategies, including the management of third-party arrangements and risks. Third-party arrangements of any type, including those related to digitalization, must be appropriately managed by the bank.

- Banks that adopt AI or ML as part of a digitalization strategy should ensure that they also have a strong risk management framework and appropriate expertise to manage the associated risk. Without question, AI and ML are evolving rapidly. They have the potential to yield many benefits to banks of all sizes but also bring serious risks and threats to consumers and financial stability, including fraud, discrimination, market crashes, and illegal activity.

- Banks and regulators should maintain a cautious approach to crypto and other innovations that come with promises of prosperity. Banks and regulators have, until recently, properly taken a very cautious, skeptical view of crypto given its history of criminal and illegal conduct, including prominently money laundering, as well as its extreme volatility and boom-bust cycles that have harmed millions of Americans. However, recent actions by the OCC to weaken oversight of crypto risks being imported into the banking system threaten to expose taxpayers, banks, and the financial system to significant losses.

- Banks and regulators should develop appropriate expertise to manage the risks associated with increased digitalization. It is imperative that banks and regulators have and maintain current knowledge and expertise related to digitalization. Unfortunately, banks, especially community banks, and regulators face resource constraints in this area related to staffing and technology. However, they both must prioritize it in order to at least stay up to date with industry developments, particularly those that could threaten consumer protection or financial stability.

COMMENTS

I. BANK BOARDS HAVE A VITAL OVERSIGHT ROLE FOR ANY DIGITALIZATION STRATEGY.

Question 2. Board and Governance

Corporate governance is a broad term that includes the oversight and guidance of a company's strategic direction and controls. Strong corporate governance is a critical element for a strong bank and in turn a strong financial system. The Organization for Economic Co-operation and Development ("OECD") partnered with the Group of 20 ("G20") to develop what has become the primary international standard for corporate governance. These groups summarize:

> Corporate governance involves a set of relationships between a company's management, board, shareholders and stakeholders. Corporate governance also provides the structure and systems through which the company is directed and its objectives are set, and the means of attaining those objectives and monitoring performance are determined.[21]

Corporate governance and risk management are key responsibilities of boards of directors.[22] These principles are not only relevant for the largest banks; they apply to all banks, including community banks and should be scaled so that they are relevant to and keep pace with each bank's specific size and risk profile, including its digitalization strategy. As the OCC's Comptroller's Handbook states:

> An effective corporate and risk governance framework is essential to maintaining the safe and sound operation of the bank and helping to promote public confidence in the financial system. ***A bank's corporate and risk governance practices should be commensurate with the bank's size, complexity, and risk profile.***[23]

Moreover, bank boards must be held accountable for ensuring that it has appropriate expertise and training to challenge management and ask the right questions to ensure that the bank is operating safely and fairly during and after the digitalization strategy implementation. This is also in line with the expectations outlined in the Comptroller Handbook:

> Board composition should facilitate effective oversight. The ideal board is well diversified and composed of individuals with a mix of knowledge and expertise in line with the bank's size, strategy, risk profile, and complexity. Although the qualifications of individual directors will vary, the directors should provide the

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21 ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT, G20/OECD PRINCIPLES OF CORPORATE GOVERNANCE 2023 at 6 (Sept. 11, 2023), https://www.oecd-ilibrary.org/governance/g20-oecd-principles-of-corporate-governance-2023_ed750b30-en.

22 *See, e.g.*, Shayna Olesiuk, *Bank Directors Must Be Held Accountable*, Better Markets (Feb. 13, 2025), https://bettermarkets.org/wp-content/uploads/2025/02/FS-Corporate-Governance-2-10-2025.pdf; Better Markets Comment Letter, *Guidelines Establishing Standards for Corporate Governance and Risk Management for Covered Institutions with Total Consolidated Assets of $10 Billion or More* (Feb. 9, 2024), https://bettermarkets.org/wp-content/uploads/2024/02/Better-Markets-Comment-Letter-FDIC-Corporate-Governance-Risk-Management.pdf.

23 OFFICE OF THE COMPTROLLER OF THE CURRENCY, COMPTROLLER'S HANDBOOK: CORPORATE AND RISK GOVERNANCE 1 (July 2019), https://www.occ.gov/publications-and-resources/publications/comptrollers-handbook/files/corporate-risk-governance/pub-ch-corporate-risk.pdf (emphasis added).

> collective expertise, experience, and perspectives necessary for effectively overseeing the bank. . . .
>
> The board should be willing and able to exercise independent judgment and provide credible challenge to management's decisions and recommendations.[24]

We urge the OCC to implement strong and enforceable standards to hold boards of directors accountable for overseeing their banks' digitalization strategies.

II. BANKS SHOULD BE HELD TO STRONG AND ENFORCEABLE STANDARDS RELATED TO THE IMPLEMENTATION OF DIGITALIZATION STRATEGIES, INCLUDING THE MANAGEMENT OF THIRD-PARTY ARRANGEMENTS AND RISKS.

Question 5. Use of Third-Parties

As technology develops and banks, the financial system, and the world become more dependent on it, banks' dependency on third-parties increases. Responsibly using third-party services can benefit banks and the public by reducing the costs of banking services and providing banks a way to offer products and services that otherwise may not be feasible. However, risks to the public and the banking system increase when banks delegate their activities to third-party providers without proper oversight.[25]

Fintechs perform a wide array of services for banks, from back-office functions to interacting directly with customers, providing core banking products such as deposits, payments and, loans. These arrangements are becoming more and more prevalent among banks of all sizes, including community banks. A study by the U.S. Treasury Department cited estimates that ***two-thirds of all banks and credit unions*** entered into fintech partnerships between 2018 and 2021.[26]

In response to the increase in bank-fintech partnerships and observed instances of unsafe and unsound third-party risk management practices and violations of laws and regulations associated with these arrangements, financial regulators have issued a number of significant

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24 *Id*. at 7.

25 *See, e.g.*, Shayna Olesiuk, *Bank-Fintech Partnerships Hold Promise but Banking Agencies Must Do More to Protect the Public, Better Markets* (Oct. 30, 2024), https://bettermarkets.org/wp-content/uploads/2024/10/Better_Markets_Fact_Sheet_Fintech_Bank_Parternships-10.30.24.pdf; Better Markets Comment Letter, *Request for Information on Bank-Fintech Arrangements Involving Banking Products and Services Distributed to Consumers and Businesses* (Oct. 30, 2024), https://bettermarkets.org/wp-content/uploads/2024/10/Better-Markets-Comment-Letter-RFI-Bank-Fintech-Arrangements.pdf; Better Markets Comment Letter, *Principles for the Sound Management of Third-Party Risk* (Oct. 9, 2024), https://bettermarkets.org/wp-content/uploads/2024/10/better-markets-comment-letter-bcbs-third-party-risk-management.pdf.

26 U.S. DEPARTMENT OF THE TREASURY, ASSESSING THE IMPACT OF NEW ENTRANT NON-BANK FIRMS ON COMPETITION IN CONSUMER FINANCE MARKETS, REPORT TO THE WHITE HOUSE COMPETITION COUNCIL 28 (Nov. 2022), https://home.treasury.gov/system/files/136/Assessing-the-Impact-of-New-Entrant-Nonbank-Firms.pdf.

reports and guidance documents related to third-party risk in recent years. These include the Treasury study noted above from 2022;[27] the federal financial banking regulators' *Interagency Guidance on Third-Party Relationships: Risk Management*, published in June 2023;[28] the Financial Stability Board's 2023 report on enhancing third-party risk management and oversight, published in December 2023;[29] the Basel Committee's *Principles for the sound management of third-party risk*, published for comment in July 2024;[30] and the Agencies' *Joint Statement on Banks' Arrangements with Third Parties to Deliver Bank Deposit Products and Services,* also published in July 2024.[31]

In broad terms, bank-fintech partnerships can cause three types of harm:

1. excessive reliance on deposits or loans sourced from third parties, or failures of third-party platforms, could compromise the safety and soundness of individual banks;
2. the fintech partner could conduct its activities in ways that violate laws designed to protect consumers and prevent the use of the financial system for illicit purposes; and
3. third-party risks manifesting at a sufficiently large fintech, or at a sufficiently large group of banks, could cause widespread deposit withdrawals and systemic risk.[32]

The bankruptcy of Synapse Financial Technologies, Inc. in April 2024, provides just one example of how third-party partnerships that start out as an effort toward digitalization and employing technology for good can end up causing serious harm to banks as well as the public, and even threaten financial stability.[33] Synapse was a middleman, standing between other fintechs and partner banks. Synapse would place funds belonging to customers of the other fintechs into partner banks. Unfortunately, it later became clear that Synapse, was not keeping sufficient records of its transactions. As a result, tens of thousands of customers lost access to their funds when it proved impossible to reconstruct which deposits held at partner banks belonged to which fintech

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27 *Id*.

28 Federal Reserve Board of Governors, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Interagency Guidance on Third-Party Relationships: Risk Management, 88 Fed. Reg. at 37921 (June 9, 2023), https://www.govinfo.gov/content/pkg/FR-2023-06-09/pdf/2023-12340.pdf.

29 FINANCIAL STABILITY BOARD, FINAL REPORT ON ENHANCING THIRD-PARTY RISK MANAGEMENT AND OVERSIGHT–A TOOLKIT FOR FINANCIAL INSTITUTIONS AND FINANCIAL AUTHORITIES (Dec. 2023), www.fsb.org/wp-content/uploads/P041223-1.pdf.

30 BASEL COMMITTEE ON BANKING SUPERVISION, CONSULTATIVE DOCUMENT: PRINCIPLES FOR THE SOUND MANAGEMENT OF THIRD-PARTY RISK 1 (July 2024), https://www.bis.org/bcbs/publ/d577.pdf.

31 Press Release, Federal Reserve Board of Governors, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, *Joint Statement on Banks' Arrangements with Third Parties to Deliver Bank Deposit Products and Services* (July 25, 2024), https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20240725c1.pdf.

32 *See* Better Markets Comment Letter, *Request for Information on Bank-Fintech Arrangements Involving Banking Products and Services Distributed to Consumers and Businesses, supra* note 25 at 4-5.

33 *Id*.

customers. Distributions to customers are still far from complete. Worse, the bankruptcy trustee reports that $65 million to $95 million is missing.[34] Debacles such as these cost hardworking Americans who believe the misleading fintech assurances about deposit arrangements with partner banks significant amounts of money that they cannot afford to lose.

If repeated on a larger scale with a very large fintech, or more and more banks, the result could be an abrupt loss of confidence in the bank-fintech model or in banks more generally, with rapid deposit withdrawals and a liquidity crisis.

Simply put, the banking agencies must do more to ensure banks can benefit from fintech arrangements without endangering themselves, the public, or financial stability. The OCC should coordinate with other federal regulators to develop clear, specific, and enforceable standards to govern banks' management of third-party risks. The OCC must then hold all banks accountable for compliance with these standards.

Finally, the OCC and other federal regulators should require banks to publicly identify in quarterly financial reporting to the financial regulators any and all third parties that are engaging in material amounts of deposit-taking, payments, or lending conducted on behalf of the bank.

Together, these standards will lead to more effective and transparent oversight of all banks that are managing third-party arrangements and a more resilient banking system.

III. BANKS THAT ADOPT AI OR ML AS PART OF A DIGITALIZATION STRATEGY SHOULD ENSURE THAT THEY ALSO HAVE A STRONG RISK MANAGEMENT FRAMEWORK AND APPROPRIATE EXPERTISE TO MANAGE THE ASSOCIATED RISK.

Question 7: Use of Artificial Intelligence and Machine Learning

Financial services companies, including banks and community banks, have employed AI and ML for a wide range of uses. Without question, many of these are helpful for consumers, financial companies, and society as a whole. AI has the potential to bring greater efficiency, lower cost, and improved access to customized financial services; enhance compliance and risk

34 *See, e.g.*, Penny Crosman, *CFPB Considers Using Fund to Reimburse Synapse Victims*, AM. BANKER (June 23, 2025), https://www.americanbanker.com/news/more-than-a-year-after-synapse-went-bankrupt-fintech-customers-who-lost-money-due-to-the-fintech-middleware-firms-collapse-might-be-made-whole-through-the-consumer-financial-protection-bureaus-customer-relief-fund; Leo Schwartz & Allie Garfinkle, *The Spectacular Synapse Collapse: The Ugliest Divorce in Fintech Left $200 Million in Customer Money Frozen—and Shows the Risks of Financial Apps*, FORTUNE (Mar. 7, 2025), https://fortune.com/2025/03/07/synapse-evolve-mercury-bankruptcy-lawsuits/.

management; and improve financial performance and outcomes.[35] At the same time, however, AI poses serious risks and threats to consumers and financial stability including fraud, discrimination, market crashes, and illegal activity.[36] Moreover, enormous amounts of money are being put toward its development. In fact, spending by financial services companies on AI now exceeds spending on AI in all other industries, even tech.[37]

A 2023 Executive Order detailed both the benefits and challenges that AI presents to society:

> Artificial intelligence (AI) holds ***extraordinary potential for both promise and peril***. Responsible AI use has the potential to help solve urgent challenges while making our world more prosperous, productive, innovative, and secure. At the same time, irresponsible use could exacerbate societal harms such as fraud, discrimination, bias, and disinformation; displace and disempower workers; stifle competition; and pose risks to national security. ***Harnessing AI for good and realizing its myriad benefits requires mitigating its substantial risks. This endeavor demands a society-wide effort that includes government, the private sector, academia, and civil society.***[38]

Unfortunately, a January 2025 Executive Order revoked the 2023 Order to:

> [Clear] a path for the United States to act decisively to retain global leadership in artificial intelligence.[39]

The Silicon Valley motto of "move fast and break things" simply cannot apply in the case of AI. The stakes are far too high. Beyond the simple fact that swings in the stance and direction on AI are confusing and disruptive to banks deploying it within their business, Main Street Americans are at risk. Consumers' pocketbooks, retirement accounts, and consumer data are vulnerable to misuse and manipulation.

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35 *See, e.g.*, Better Markets Comment Letter, *Request for Information on Uses, Opportunities, and Risks of Artificial Intelligence in the Financial Services Sector* (Aug. 12, 2024), https://bettermarkets.org/wp-content/uploads/2024/08/Better-Markets-Comment-Letter-Treasury-RFI-Uses-Opportunities-and-Risks-of-Artificial-Intelligence-in-the-Financial-Services-Sector.pdf; Better Markets, *Artificial Intelligence (AI) in the Financial Markets: Potential Benefits, Major Risks, and Regulators Trying to Keep Up* 5 (Mar. 21, 2024), https://bettermarkets.org/wp-content/uploads/2024/03/Better_Markets_AI_Fact_Sheet-3.21.24.pdf.

36 Better Markets, *Artificial Intelligence (AI) in the Financial Markets: Potential Benefits, Major Risks, and Regulators Trying to Keep Up, supra* note 35 at 7-10.

37 *See* Justin Kloczko, *Hallucinating Risk*, CONSUMER WATCHDOG 2 (Jan. 2024), https://consumerwatchdog.org/wp-content/uploads/2024/01/Hallucinating-Risk.pdf.

38 The White House, *Executive Order on the Safe, Secure, and Trustworthy Development and Use of Artificial Intelligence* (Oct. 30, 2023), https://www.whitehouse.gov/briefing-room/presidential-actions/2023/10/30/executive-order-on-the-safe-secure-and-trustworthy-development-and-use-of-artificial-intelligence/ (emphasis added).

39 The White House, *Removing Barriers to American Leadership In Artificial Intelligence* (Jan. 23, 2025), https://www.whitehouse.gov/presidential-actions/2025/01/removing-barriers-to-american-leadership-in-artificial-intelligence/.

However, we cannot allow the challenges and risks of AI to overshadow its incredible potential to improve the financial services industry for all Americans. As Better Markets has detailed, AI has already been used to strengthen and streamline internal and back-office operations at financial firms; improve trading operations; and enhance client interactions.[40]

More urgency and action are needed to protect Main Street Americans and financial stability. Effective management and oversight of the safe and fair implementation of AI throughout the financial industry will be one of the greatest balancing acts of our time. It will require the highest levels of cooperation, coordination, and foresight to maximize AI's upside while also minimizing its downsides. We urge the OCC and all financial regulators to take an active role in increasing oversight, regulation, supervision, and consumer protection. AI's growth trajectory and penetration into all corners of the financial industry demand a new approach to regulation, one that effectively incorporates agile and forward-looking regulatory frameworks and a focus on consumer protection, ethics, transparency, accountability, and financial stability.[41]

IV. BANKS AND REGULATORS SHOULD MAINTAIN A CAUTIOUS APPROACH TO CRYPTO AND OTHER INNOVATIONS THAT COME WITH PROMISES OF PROSPERITY.

Question 8: Effect of Applicable Laws and Regulations

In March 2025, the OCC rescinded its prior policies that rightly limited bank's engagement in crypto activities and as a result opened the door to banks expanding into this arena.[42] Together with stablecoin legislation that would allow non-financial companies like Big Tech firms to issue stablecoins, this will result in additional funding challenges for community banks with traditional business models that focus on providing reliable deposit account access and lending.[43] Big Tech firms may also be able to use the cheap financing provided by deposits to fund their non-financial activities and likewise might allow non-financial activities to create risk that spreads to the payment system.

The OCC and other financial regulators and policymakers should ensure that if stablecoin companies are permitted to engage in bank-like activities, they should be subject to the full panoply

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40 Better Markets, *Artificial Intelligence (AI) in the Financial Markets: Potential Benefits, Major Risks, and Regulators Trying to Keep Up, supra* note 35 at 4-5.

41 *See, e.g.*, Jeff Pedowitz, *AI In Financial Services Will Require Robust, Transparent Regulation*, AM. BANKER (Dec. 12, 2023), https://www.americanbanker.com/opinion/ai-in-financial-services-will-require-robust-transparent-regulation; Barry Quinn, Fearghal Kearney & Abhishek Pramanick, *How Will Artificial Intelligence Affect Financial Regulation?*, ECONOMICS OBSERVATORY (Oct. 18, 2023), https://www.economicsobservatory.com/how-will-artificial-intelligence-affect-financial-regulation.

42 Press Release, Office of the Comptroller of the Currency, *OCC Clarifies Bank Authority to Engage in Certain Cryptocurrency Activities* (Mar. 7, 2025), https://occ.gov/news-issuances/news-releases/2025/nr-occ-2025-16.html.

43 *See, e.g.*, Press Release, Better Markets, *Senate Passing Industry-Friendly GENIUS Act Puts Economy at Risk* (June 17 , 2025), https://bettermarkets.org/newsroom/senate-passing-industry-friendly-genius-act-puts-economy-at-risk/.

of bank regulations, including comprehensive regulation and supervision by banking agencies and limitations on interconnections with non-financial companies like those in Big Tech.

V. BANKS AND REGULATORS SHOULD DEVELOP APPROPRIATE EXPERTISE TO MANAGE THE RISKS ASSOCIATED WITH INCREASED DIGITALIZATION.

Question 9: Associated Risks

Funding and resource allocations at banks, as well as at the OCC and other federal banking regulators, must be increased to support staff, training, and other resources related to digitalization to achieve the goals of protecting Main Street Americans and financial stability.

The financial industry is spending billions of dollars on technology, research, patents, and other activities.[44] For example, JPMorgan (like other large banks) is heavily investing in AI, "spending what CEO Jamie Dimon has said is 'hundreds of millions of dollars per year' on AI efforts across the bank."[45] The bank reportedly spent $15 billion on technology and data in 2023.[46] This spending at the Wall Street megabanks puts increasing pressure on other banks, including community banks, to keep up.

Regulators also need adequate funding so that they have the necessary technology expertise and can dedicate resources to technology supervision and enforcement. Such funding, along with focus and attention, can make a meaningful difference in the success of regulatory programs. While the federal government had started to focus on the need to hire technology professionals in recent years,[47] more recent government-wide layoffs[48] will surely challenge, if not completely derail, this effort. The OCC and other regulators must think bigger and broader to even keep pace with the well-funded and highly motivated industry. The reality is that the government and public sector

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[44] *See, e.g.*, Aamer Baig, Vik Sohoni, & Xavier Lhuer, *Unlocking Value from Technology in Banking: An Investor Lens*, McKinsey & Company (Oct. 23, 2024), https://www.mckinsey.com/industries/financial-services/our-insights/unlocking-value-from-technology-in-banking-an-investor-lens.

[45] Jeremy Kahn, *JPMorgan Chase Tops First-Of-Its-Kind Ranking of A.I. Progress in Banking*, FORTUNE (Jan. 26, 2023), https://fortune.com/2023/01/26/jpmorgan-chase-tops-first-of-its-kind-ranking-of-a-i-progress-in-banking/.

[46] Catherine Leffert, *JPMorgan Chase Aims to Create $1.5 Billion in Value with AI by Year-End*, AM. BANKER (May 30, 2023), https://www.americanbanker.com/news/jpmorgan-chase-aims-to-create-1-5-billion-in-value-with-ai-by-yearend.

[47] *See, e.g.*, Jory Heckman, *White House Looks to Add 500 AI Experts to Federal Workforce By 2025*, FEDERAL NEWS NETWORK (Apr. 29, 2024), https://federalnewsnetwork.com/federal-report/2024/04/white-house-looks-to-add-500-ai-experts-to-federal-workforce-in-fy-2025/.

[48] *See, e.g.*, PYMNTS, *Financial Regulators Face Deepest Personnel Cuts in Decades* (May 7, 2025), https://www.pymnts.com/news/regulation/2025/financial-regulators-face-deepest-personnel-cuts-decades/.

investment in financial and human capital dedicated to technology is dwarfed by the billions of dollars being dedicated to technology and AI development by financial firms.[49]

CONCLUSION

We hope these comments are helpful as the OCC considers the risks and opportunities related to community bank digitalization.

Sincerely,

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49 DATABRICKS, CIO VISION 2025: BRIDGING THE GAP BETWEEN BI AND AI 19, MIT TECHNOLOGY REVIEW (2022), https://www.technologyreview.com/2022/09/20/1059630/cio-vision-2025-bridging-the-gap-between-bi-and-ai/.