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DISRUPTER SERIES: IMPROVING CONSUMERS=

FINANCIAL OPTIONS WITH FINTECH

THURSDAY, JUNE 8, 2017

House of Representatives

Subcommittee on Digital Commerce and Consumer

Protection

Committee on Energy and Commerce

Washington, D.C.

The subcommittee met, pursuant to call, at 10:00 a.m., in Room 2123 Rayburn House Office Building, Hon. Robert Latta [chairman of the subcommittee] presiding.

Members present: Representatives Latta, Harper, Upton, Lance, Guthrie, McKinley, Kinzinger, Bilirakis, Bucshon, Mullin, Costello, Walden (ex officio), Schakowsky, Clarke, Cardenas, Kennedy, Green, and Pallone (ex officio).

Staff present: Blair Ellis, Digital Coordinator/Press Secretary; Melissa Froelich, Counsel, Digital Commerce and

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26 Consumer Protection; Adam Fromm, Director of Outreach and
27 Coalitions; Jay Gulshen, Legislative Clerk, Health; Bijan
28 Koohmaraie, Counsel, Digital Commerce and Consumer Protection;
29 Paul Nagle, Chief Counsel, Digital Commerce and Consumer
30 Protection; Hamlin Wade, Special Advisor, External Affairs;
31 Michelle Ash, Minority Chief Counsel, Digital Commerce and
32 Consumer Protection; Jeff Carroll, Minority Staff Director; Lisa
33 Goldman, Minority Counsel; Caroline Paris-Behr, Minority Policy
34 Analyst; and Matt Schumacher, Minority Press Assistant.

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35 Mr. Latta. Well, good morning. I'd like to call the
36 Subcommittee on Digital Commerce and Consumer Protection to
37 order, and the chair now recognizes himself for five minutes for
38 an opening statement.

39 Again, good morning, and welcome to our witnesses today. We
40 are very glad to have you with us today.

41 Today, we continue the Disrupter Series examining FinTech
42 and all the ways that entrepreneurs and established businesses
43 are looking to give consumers more tools and control over their
44 finances.

45 Families across the country strive to achieve financial
46 independence and stability. Many no longer feel certain that
47 their children will be better off than they were at their age,
48 a change from just a few years ago.

49 Understanding how new technology can assist families in
50 managing their finances, especially while we're -- while on the
51 go is a conversation we need to have.

52 Improving consumers' financial options is a clear example
53 of the new technology pushing and disrupting established
54 industries.

55 While we must focus on protecting the consumers, it is also
56 important that we keep an eye on what matters to the consumer --
57 what are their goals, what motivates them to use one service over
58 another.

59 How can we encourage innovation while keeping the consumer

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60 protection bar high? In this conversation about improving access
61 to commerce it is important to remember that there are generally
62 three relationships people have with traditional institutions.

63 People have -- people have access to all the traditional
64 financial services; second, the under banked who have a checking
65 account and maybe a savings account but also use alternative
66 financial services like rent-to-own services or auto title loans;
67 and third, the 7 percent of Americans who are unbanked, who do
68 not have a checking or savings account and how use alternative
69 services.

70 There are a number of statistics demonstrating how large the
71 opportunity is to reach more Americans with relevant services.
72 Twenty percent of the U.S. population -- over 60 percent of
73 Americans -- are under banked or unbanked.

74 Sixty-four percent of Americans earning less than \$30,000
75 per year own a smart phone, and finally, over \$12 billion were
76 invested in FinTech companies in 2016.

77 Increasingly, Americans are turning to online and mobile
78 banking, according to a 2015 study from the Federal Deposit
79 Insurance Corporation. Over 31 percent of Americans used mobile
80 banking and that number has likely risen in the last two years.

81

82 There are tremendous opportunities for companies to reach
83 consumers with new products to help them create a rainy day fund
84 for the first time, securely pay their mortgage, rebuild their

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85 credit budget, manage multiple income streams and invest their
86 earnings.

87 One of the first questions that come to mind in any
88 conversation about money is security. Cybersecurity is an
89 ongoing challenge and one the Energy and Commerce Committee is
90 tackling head on.

91 At this time, one of our other subcommittees in the Energy
92 and Commerce is getting ready to start a hearing focused on
93 healthcare cybersecurity.

94 In this subcommittee we have discussed how cybersecurity
95 plays in development and life cycle of a number of connected
96 devices through the Disrupter Series.

97 While there is no silver bullet, we do need to keep
98 cybersecurity at the top of our minds because if consumers do not
99 trust the products and services they use are secure then they will
100 not use them.

101 I would like to thank our witnesses for joining us today and
102 I look forward to your perspectives on how we can ensure that
103 innovation in the FinTech space continues in the United States,
104 how innovation can improve consumer protection and how the
105 regulatory environment has impacted innovation.

106 Again, I want to thank all of our witnesses for rejoining
107 us today for this very important discussion that we will have.
108 And at this time, I'd like to recognize the gentlelady from
109 Illinois, the ranking member of the subcommittee for five minutes

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110 for an opening statement. Good morning.

111 Ms. Schakowsky. Good morning. Thank you, Mr. Chairman.

112 Today, in the subcommittee, we are going to be looking into
113 the potential to provide consumers better options through
114 financial technology, or FinTech.

115 On the floor this afternoon, the House will be debating
116 legislation to gut existing consumer protections for financial
117 products. These discussions can't happen in isolation.

118 Consumers can only realize the full benefit of FinTech if
119 we have reasonable safeguards in place to prevent abusive
120 practices, secure personal information and protect consumers from
121 fraud.

122 The Financial CHOICE Act, what my Democratic colleagues and
123 I call the Wrong Choice Act, puts those safeguards in severe
124 jeopardy.

125 One of the landmark achievements of the Dodd-Frank Wall
126 Street Reform Consumer Protection Act was the creation of the
127 Consumer Product Protection -- Consumer Financial Protection
128 Bureau.

129 The CFPB is an effective consumer watchdog and it has
130 returned \$12 billion to 29 million harmed consumers. The Wrong
131 Choice Act would gut this critical consumer watchdog. It would
132 make it harder for the CFPB to take action to protect consumers.

133 It would threaten the CPB=s funding. It would specifically
134 block the CFPB from pursuing consumer protections in areas like

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135 payday lending and it would block the CFPB=s proposed rule
136 limiting arbitration to ensure that consumers can defend their
137 rights in court.

138 Who benefits? Not consumers. Not responsible businesses.
139 The winners are big banks like Wells Fargo that open up fraudulent
140 accounts for their customers, pay lenders that trap consumers in
141 unaffordable debt, credit card companies that engage in deceptive
142 practices, for-profit colleges that prey on veterans and reverse
143 mortgage companies that put seniors= homes at risk.

144 The CFPB has proven time and time again that it is a research
145 and data-driven agency. It has been actively engaged in
146 exploring how FinTech can be part of consumer-friendly
147 innovation.

148 In October, the CFPB released its Project Catalyst Report
149 on Innovation in Financial Services. The report highlighted the
150 tremendous potential for FinTech to improve the lives of
151 Americans. It also emphasized the importance of building
152 consumer protections into new innovations from the outset.

153 Effective protections need to be flexible enough to apply
154 to new financial products. That=s precisely what the CFPB did
155 in its rule for prepaid products.

156 It requires protections against fraud and unauthorized
157 charges as well as basic transparency regarding fees and balances.

158 The rules apply to both physical prepaid cards and mobile
159 wallets because consumers deserve strong protections whether or

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160 not they are -- whether they are swiping or -- swiping cards or
161 using smart phones.

162 I believe the CFPB=s valuable work should continue. I
163 choose consumers over unethical companies that engage in unfair,
164 deceptive and abusive practices.

165 I will be voting against the Wrong Choice Act this afternoon.
166 If my colleagues really care about providing quality financial
167 options for American consumers, they will do the same.

168 With proper protections baked in, I believe FinTech will have
169 great benefit for consumers. It provides new opportunities to
170 reach the unbanked and under banked households. FinTech
171 companies have already made it easier than ever to make
172 person-to-person payments.

173 We will be hearing much more from our witnesses about some
174 of the specific innovations that FinTech companies are working
175 on.

176 And as with other topics in our Disrupter Series, the policy
177 challenge for this subcommittee to consider is how we adapt
178 today=s -- how we adapt today=s rules to tomorrow=s technology.

179 I look forward to hearing the insight from our panelists as
180 we continue efforts to make sure consumers can truly benefit from
181 the promise of new innovation.

182 And I yield back.

183 Mr. Latta. Thank you. The gentlelady yields back.

184 At this time, the chair now recognizes the gentleman from

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185 Oregon, the chairman of the full committee, for his opening
186 statement. Good morning.

187 Mr. Walden. Good morning. Thank you, Mr. Chairman, and
188 welcome to our panelists and to our guests today.

189 Today=s Disrupter Series takes an important look at how we
190 can ensure that innovation=s improving options and outcomes for
191 consumers and their financial health by way of financial
192 technology, more commonly known as FinTech.

193 Smart phone adoption has skyrocketed in recent years which
194 provides a new platform to reach consumers with basic services
195 such as online banking or more complex transactions like mortgage
196 applications.

197 In Oregon where I come from, the percentage of people
198 unbanked or under banked is slightly higher than the national
199 average.

200 So if there is an opportunity to help folks engage in
201 commerce, start a savings account, become more financially
202 secure, we should be giving it serious consideration and FinTech
203 could provide that opportunity.

204 Disruption or change can be uncomfortable. But if we remain
205 focused on the consumer and what is in the best interests of the
206 consumer we can move forward productively.

207 Startups, incumbents and partnerships are all critical
208 components of this conversation. Now, ultimately we know that
209 if consumers do not find something useful, they won=t use it, given

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210 the choice.

211 The reality is that consumers are demanding better, faster,
212 more secure services in every industry. The growth of new
213 peer-to-peer payment services like PayPal and Venmo also show that
214 the younger generations are quickly adopting these services and
215 they will soon expect the same level of service and convenience
216 for other traditional financial services as well.

217 Block chain is another important component within this
218 industry as it has the potential to disrupt how we transfer assets
219 digitally with increased transparency and security.

220 All of this is to say it's clear that the FinTech world is
221 all-encompassing and is quickly growing. The United States
222 should continue to be a hub for this innovation and for this
223 opportunity and FinTech's rise in popularity demonstrates its
224 fulfillment of both.

225 So I look forward to the testimony and your comments today
226 and continuing to work to increase consumers' financial options
227 with FinTech.

228 That is the charge this subcommittee has, among many others
229 in the Disrupter environment -- innovation environment and it's
230 ably led by our chairman and ranking member.

231 So we thank you for being here. I will give you a heads up
232 that I also have to go up to the Oversight Investigations
233 Subcommittee that's meeting concurrent with this one.

234 So I've got your testimony and I appreciate your counsel and

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235 your input and look forward to working with you in the future.

236 With that, Mr. Chairman, I yield back the balance of my time.

237 Mr. Latta. Thank you very much. The gentleman yields back.

238 The chair now recognizes for five minutes the gentleman from
239 New Jersey, the ranking member of the full committee, for five
240 minutes.

241 Mr. Pallone. Thank you, Mr. Chairman. This hearing is an
242 update to last Congress= hearings on mobile payments and digital
243 currencies.

244 Technological advances are making financial transactions
245 more convenient and efficient with nine in 10 Americans regularly
246 connected to the internet and over 75 percent of us having smart
247 phones. Online access to banking has never been better.

248 New financial products may help people pay and receive goods
249 faster and consumers may have better and more secure access to
250 their funds and these products also may help people have greater
251 control over their financial lives by giving them more and better
252 financial information.

253 These potential benefits are important but these new
254 financial products should have consumer protections attached to
255 them just like protections attached to old and more traditional
256 financial products.

257 Consumer protections are essential and I look forward to
258 hearing how we can help ensure there are appropriate safeguards
259 while at the same time encouraging this new marketplace to thrive.

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260 One area that is ripe for improvement in the financial sector
261 is faster payments. In this day of technological advancements,
262 some Americans still have to wait days for their checks to clear.

263 Oftentimes, these consumers are then forced into turning to
264 high cost credit to access their own money.

265 In 2015, the Federal Reserve created a task force to review
266 the issue of faster payments and I am hoping today for an update
267 on the work of that task force.

268 People should be able to get real-time access to their money.
269 I realize that some actors in this space such as check-cashing
270 companies, payday lenders or wire transfer services may lose out
271 on fees if real-time access is achieved.

272 However, with all of the technological advances that have
273 been made delays are really not acceptable anymore and they have
274 adverse effects on merchants and others waiting to be paid.

275 A number of federal agencies play a critical role in the
276 success of financial technology including both the Federal Trade
277 Commission and the Consumer Financial Protection Bureau.

278 These two agencies conduct research and analysis of consumer
279 financial interests, educate consumers and take enforcement
280 actions against the perpetrators of financial exploitation.

281 As some of the witnesses will discuss today, the CFPB is
282 working to ensure consumer protections are in place for prepaid
283 debit user cards and advising companies wanting to enter the
284 FinTech arena.

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285 This is important work. Yet, today on the House floor the
286 Republican majority is trying to gut the CFPB with the CHOICE Act,
287 or what many of us are calling the Wrong Choice Act.

288 The timing of this hearing is interesting. While some may
289 think FinTech is just another disruptive technology that may or
290 may not help people, members should be mindful of the bigger
291 picture.

292 Taking the teeth out of the CFPB is not the answer. The CFPB
293 was created to protect consumers from fraud and financial products
294 and it has proven itself truly able to help people.

295 We should be working together to ensure the CFPB continues
296 its robust mission and I hope all the witnesses and those
297 interested in today=s financial technology hearing join me in
298 supporting the CFPB.

299 I would like to yield the remaining two minutes to the
300 gentleman from California, Mr. Cardenas.

301 Mr. Cardenas. Thank you very much, Chairman Latta, and
302 thank you very much, Congressman Pallone, for having this hearing.
303 Good morning, and thank you all so much for being here.

304 As some of you might know, my colleague, Congressman
305 Kinzinger, and I led a resolution that passed last Congress
306 highlighting some of the goals and responsibilities of the
307 financial technology industry and how the government can support
308 innovation in this space.

309 It was the first legislation related to financial

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310 technology, or FinTech, that has passed either chamber. I am not
311 on the Financial Services Committee and I don't come from a
312 strictly financial services background.

313 But let me tell you what brings me to be an advocate for smart
314 FinTech innovation. I represent Los Angeles, which has five of
315 the top 100 most unbanked Census tracts in the country.

316 That means that nearly three out of 10 Los Angeles County
317 residents -- and L.A. County is 10 million people -- are under
318 banked and may rely on short-term lending to pay their bills and
319 stay afloat.

320 FinTech innovation has the potential to help fix this. The
321 reason I came to Congress is effect change that directly helps
322 our communities, and working on FinTech at the federal level is
323 a great example of very real potential for change at local -- at
324 the local level.

325 FinTech could potentially give small businesses and
326 consumers an alternative way to bank that doesn't force them to
327 rely on high-interest short-term loans or other risky money
328 management strategies.

329 FinTech also has the potential to create hundreds of
330 thousands of U.S. jobs. United States is the world leader in
331 software development and technology, and it is in our best
332 interests to develop a national policy on FinTech.

333 This national policy must drive innovation, boost economic
334 growth and ensure the protection of every American's personal

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335 information.

336 Above all, we must make sure this policy helps the people
337 that need it the most, like the people in my district.

338 Thank you, and I look forward to hearing your testimony and
339 answers to our questions today, and I yield back.

340 Mr. Latta. Thank you very much. The gentleman yields back
341 and that concludes today=s opening member statements.

342 The chair would like to remind all members that pursuant to
343 committee rules, all members= opening statements will be made part
344 of the record.

345 And, again, I want to thank our witnesses today for being
346 with us today to talk about this very important topic and today=s
347 witnesses will each have five minutes for their opening
348 statements.

349 Our witnesses today are Jeanne Hogarth, who=s the vice
350 president at the Center for Financial Services Innovation; Javier
351 Saade, managing director at Fenway Summer Ventures; Ms. Christina
352 Tetreault, the staff director at Consumers Union; and Peter Van
353 Valkenburgh at the -- research director at Coin Center.

354 Again, we appreciate you all for being with us today and look
355 forward to your testimony, and Ms. Hogarth, we will start with
356 you for your opening statement.

357 Thank you very much. If you want to just press that button,
358 please, and pull the mic kind of close to you there.

359 Thank you.

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STATEMENTS OF JEANNE M. HOGARTH, VICE PRESIDENT, CENTER FOR
FINANCIAL SERVICES INNOVATION; JAVIER SAADE, MANAGING DIRECTOR,
FENWAY SUMMER VENTURES; CHRISTINA TETREULT, STAFF ATTORNEY,
CONSUMERS UNION; PETER VAN VALKENBURGH, DIRECTOR OF RESEARCH,
COIN CENTER

STATEMENT OF MS. HOGARTH

Ms. Hogarth. Thank you. Chairman Latta, Ranking Member
Schakowsky and committee members, thank you for inviting us here
today to share some insights on the potential for financial
technology to improve Americans' financial health.

The Center for Financial Services Innovation is a national
authority on consumer financial health and we lead a network of
financial services innovators committed to building higher
quality products and services.

We believe that finance can be a force for good in people's
lives and that meeting consumers' needs responsibly is good for
both the consumer and the provider.

Nearly three out of five American households struggle with
their financial health. These households are banked but they are
not well served.

What people want and need is more automation of good choices
combined with control and transparency. Unfortunately, most
tools today don't provide this control and transparency, and
FinTech, with better data, better analytics and better advice can

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ultimately provide that. CFSI is committed to working industry wide with a range of both incumbents and start-ups to encourage and seed innovation.

In 2014, CFSI partnered with JPMorgan Chase to launch our Financial Solutions Lab, which supports the development of technology-based products that improve the financial health of Americans.

The lab identifies challenges facing consumers and hosts an annual competition. As an accelerator program, we provide participants with capital and technical assistance from CFSI, JPMorgan Chase and a diverse community of industry partners and experts.

We work with the lab companies to help them monitor the financial health of their customers as well as that of their own bottom lines.

The first challenge for the lab was to solve for income volatility. Our second challenge was to help families weather financial shocks.

Next week we'll be announcing our third cohort of financial tech companies who are trying to improve the financial health of consumers with particular emphasis on products on aging Americans, individuals with disabilities, people of color and women.

Let me share three examples from our first FinLab cohort. Digit helps consumers automate savings by predicting their cash

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410 flow and identifying savings opportunities.

411 Since launching in 2015, Digit has helped users save over
412 \$500 million. The average Digit user saves between \$80 and \$170
413 a month, and while it=s difficult to know if Digit users have
414 enough liquid savings to cover an emergency, the use of automatic
415 transfers is on the right path toward building a savings reserve
416 to cope with an unexpected expense.

417 SupportPay believes that technology should be used to make
418 family life easier. Through an automated child support payment
419 platform, SupportPay is helping parents amicably settle child
420 support and alimony directly with each other.

421 Today, more than 41,000 people, whether separated, divorced
422 or grandparent custodians are using SupportPay and, as a result,
423 are 90 percent more likely to exchange child support.

424 SupportPay=s data show that late payment rates have dropped
425 from 33 to 25 percent. Even helps consumers stabilize volatile
426 income by guaranteeing a consistent amount of pay each pay period.

427
428 The team recently launched the 3.0 version of the app which
429 pairs cash flow smoothing with an ongoing financial plan,
430 improving consumer engagement and positive financial change.

431 Even its focus on rolling out its product to thousands of
432 employees of a large employer, which will be announced in the
433 coming months.

434 Beyond standalone products, it=s important for FinTech

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435 providers to partner with banks, credit unions and other financial
436 providers to offer products to a broader set of consumers.

437 We believe that responsible partnerships provide wins for
438 the credit unions and the banks, the FinTech providers and the
439 consumers, especially for consumers of smaller and rural banks
440 who can expand the array of products they offer.

441 Consumer protection is still very much needed but policy
442 makers need to identify the right tools to reshape the regulation
443 of financial services to fit innovations in the 21st century.
444 It=s not a question of whether. It=s a question of how.

445 Importantly, we believe that FinTech can help consumers but
446 it alone is not sufficient enough to ensure financial health for
447 all Americans.

448 It takes better job structures, living wages, benefits
449 including sick leave and retirement plans and much more.

450 Again, we appreciate this opportunity to share these
451 insights with the committee and I=m happy to answer any questions.

452 [The prepared statement of Ms. Hogarth follows:]

453 *****INSERT 1*****

454

Mr. Latta. Thank you very much.

455

Mr. Saade, you are recognized for five minutes.

STATEMENT OF MR. SAADE

Mr. Saade. Thank you. Good morning.

Chairman Latta, Ranking Member Schakowsky and distinguished members of the committee, thank you very much for the opportunity to participate here today.

My name is Javier Saade and I'm a managing director at Fenway Summer Ventures. Fenway Summer is a venture capital firm that backs young companies innovating at the intersection of finance and technology.

We capitalize fast-growing ventures and serve as a value-added partner to the entrepreneurs that lead them. Since 2013, we have backed over 30 companies and have co-founded three ourselves -- a credit card company, a tech-enabled mortgage lender and a private student lender.

I am honored to be here today and lend a voice to this important dialogueBchanging landscape in financial services. It=s no secret, as all of you have said, that over the last few years the financial services industry has undergone a significant amount of disruption.

Many factors have contributed to this but the most important, in our view, are the global financial crisis and the regulatory response engendered; rapid technological advances; secular shifts in consumer behavior and evolving capital markets= dynamics.

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481 Every sector of the financial services industry had been
482 affected by these changes. FinTech has the potential to transfer
483 the way that financial services are delivered and designed, widen
484 credit and capital access funnels and reduce friction in the
485 process of payments.

486 In the past few years we have seen a proliferation of
487 digitally enabled financial products. Just as smart phones
488 revolutionized the way in which we interact socially, FinTech is
489 revolutionizing how we interact financially.

490 In our perpetually connected world, consumers, businesses
491 and financial institutions are finding ways to engage in financial
492 transactions that are more convenient, cost effective, timely and
493 secure.

494 In addressing the traditionally excluded and underserved
495 sectors of the population, FinTech companies are well positioned
496 to drive innovation. It is estimated that around the world more
497 than 2 billion adults are underserved and unbanked.

498 In assessing the inclusiveness of the U.S. banking system,
499 the FDIC 2015 survey of unbanked and under banked households found
500 that 30 million households either have no access to financial
501 products or obtain products outside of the banking system.

502 By reducing loan processing and underwriting costs, all nine
503 origination platforms can enable financial services providers to
504 more cost effectively offer small balance loans to household and
505 small businesses that have been previously feasible. This in

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506 turn facilitates credit flow to individuals and firms that
507 otherwise would not have access to credit. New technologies are
508 also opening up efficient ways to manage money and control
509 spending.

510 We have seen mobile technology and innovations in
511 distribution that enable financial service firms to reach
512 communities that were previously unserved because building a
513 traditional brick and mortar outlet was not economical.

514 While financial innovation holds significant promise, it is
515 crucial that all stakeholders understand and mitigate associated
516 risks.

517 There is a tension between aligning pace of development and
518 new products and services being brought to market and the duty
519 to ensure that these risks are addressed.

520 This is precisely why we at Fenway Summer are focused on
521 finding entrepreneurs who display what our firm's founder refers
522 to as paradoxical conservatism.

523 We look for entrepreneurs who have grand ambitions to effect
524 positive change in the financial services industry but who
525 understand that the fail fast and often approach typical of
526 tech-driven start-ups in other sectors may not be well suited to
527 the financial services industry.

528 Two examples of our companies -- one, EarnUp. It's a company
529 that offers automated repayment of consumer loans, and FS Card,
530 whose sole product is a credit card targeted towards customers

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531 seeking to establish, strengthen or rebuild our credit. EarnUp
532 helps consumers save money and reduce debt by intelligently
533 allocating income towards loan repayments.

534 Budget in outstanding loans -- EarnUp's technology
535 integrates with thousands of services of home loans, student loans
536 and auto loans and other asset classes in order to route consumer
537 payments automatically.

538 FS Card provides access to mainstream and reasonably priced
539 credit to consumers in the 550 to 600 credit score range through
540 their product called the Build Card, which is an unsecured credit
541 card with a typical line of \$500. In the absence of a product
542 like this, consumers would likely need to resort to much more
543 expensive alternatives like payday loans.

544 Thanks for listening and, again, I appreciate the
545 opportunity to be here with you and share my thoughts on this topic
546 and I'm happy to answer any questions you may have.

547 [The prepared statement of Mr. Saade follows:]

548

549 *****INSERT 2*****

550 Mr. Latta. Well, thank you for your testimony.

551 Ms. Tetreault, you are recognized for five minutes. Thank

552 you very much.

STATEMENT OF MS. TETREAULT

Ms. Tetreault. Chairman Latta, Ranking Member Schakowsky, committee members, thank you for the opportunity to testify today.

Consumers Union is the policy and mobilization arm of the independent nonprofit organization Consumer Reports. We research and report on financial services issues and engage in advocacy to encourage fair finance.

We appreciate your leadership in investigating FinTech as we believe that it holds promise to increase inclusion and choice without sacrificing safety and security.

FinTech holds this promise to increase financial inclusion by solving some of the problems that consumers report have kept them from using traditional financial services.

Innovative products may provide consumers greater control over their financial lives and be offered at a lower cost and be more convenient than traditional or alternative financial services, leading to greater integration of the unbanked, underbanked and unhappily banked.

We encourage service providers to bake in consumer protections as technology often moves at a faster pace than regulation. We also believe that there's role for lawmakers to ensure that appropriate safeguards are enacted while still being flexible enough to allow for new products to thrive in the marketplace when they provide meaningful value to consumers.

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578 Contrary to complaints by industry that regulation kills
579 innovation, appropriately tailored regulation ultimately
580 benefits businesses.

581 While financial services regulation is essential for
582 protecting consumers from harm, regulation and supervision of
583 consumer financial services benefits industry by promoting
584 consumer confidence and thereby driving adoption.

585 Strong and consistent regulation also ensures that
586 businesses that take consumer protections and regulatory
587 compliance seriously are not at a competitive disadvantage to
588 those that do not.

589 Lawmakers and regulators should not hesitate to hold these
590 new financial services businesses to the highest standards.

591 Some of the most exciting developments in financial
592 technology are occurring in payments. Cashless payments, faster
593 payments and virtual currencies and the technology behind them
594 may pose additional risks to consumers unless there are clear
595 rules of the road.

596 Cashless payments are improved by the Consumer Financial
597 Protection Bureau=s final prepaid rule. Our organization
598 documented the unfair discrepancy between the protections
599 afforded bank debit card users and prepaid card users for many
600 years and we are pleased that the final rule no longer relegates
601 prepaid cards to second tier bank account status.

602 In addition to prepaid cards, the final rule extends

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603 protections to mobile wallets that store consumer funds. While
604 this is a positive development, concerns around mobile payments
605 remain.

606 For example, consumers making peer-to-peer payments may find
607 the complex liability change make it -- complex liability chains
608 make it hard to know who to contact if something goes wrong.

609 We've also found that some providers do not offer a telephone
610 point of contact to resolve issues. We urge stakeholders to
611 address these concerns.

612 Faster payments are another area where financial technology
613 promises great improvement. A number of providers have announced
614 plans to bring faster, potentially real-time payments to the
615 United States.

616 Speed may help bring underserved consumers back into formal
617 relationships with financial institutions by reducing or
618 eliminating the unpredictable aspects of traditional banking that
619 drive consumers away such as fees, surprise fees and overdrafts.

620 There are potentially unresolved questions about the
621 applicable consumer protections and the faster payments
622 environment such as when funds received must be made available
623 to consumers and we urge stakeholders to work together to resolve
624 outstanding issues so that the benefits of faster payments may
625 be realized.

626 Virtual currencies and the technology behind them hold
627 tremendous potential but also may pose consumer risks. Many

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628 states are grappling with the question of whether these businesses
629 should be licensed as money transmitters.

630 The issue is complicated as this technology has uses beyond
631 financial services. For example, ledgers transactions are
632 recorded on may one day be used to protect intellectual or real
633 property rights.

634 Regulating those businesses as financial services is
635 inappropriate. Many proponents of virtual currencies have
636 potential to increase financial inclusion. It is precisely
637 because disadvantaged consumers may be the first to experience
638 harm that strong protections must be in place.

639 At present the most pressing consumer protection concern
640 around virtual currency is not technology specific. It exists
641 because there are businesses built on virtual currency protocols
642 that act as financial intermediaries.

643 Whenever businesses come between consumers and their value,
644 they must be held accountable. We urge a thoughtful approach to
645 these technologies that ensures consumer value is protected.

646 We believe that new financial products and services should
647 be subject to appropriate public review and oversight by federal
648 and state financial regulators to ensure that financial services
649 are safe and transparent and we urge providers to do their part
650 by baking in consumer protections at the outset.

651 Thank you very much for the opportunity to testify here today
652 and I'm available to take questions.

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653 [The prepared statement of Ms. Tetreault follows:]

654

655 *****INSERT 3*****

656 Mr. Latta. Thank you very much for your testimony today.
657 And Mr. Van Valkenburgh, you are recognized for five minutes.
658 Thank you.

STATEMENT OF MR. VAN VALKENBURGH

Mr. Van Valkenburgh. Thank you, Mr. Chairman, members of the committee. I'm Peter Van Valkenburgh, the director of research at Coin Center, an independent nonprofit focused on the public policy questions raised by digital currencies and open block chain networks.

I'm going to explain open block chain networks and then suggest why we need a unified federal approach to regulating some businesses in this space while also offering a safe harbor to other businesses.

Open block chain networks allow connected computers to reach a trustworthy agreement over shared data. The connected computers can be owned by anyone in the world.

The shared data could be a ledger of digital currency ownership or any other data for which widespread agreement and auditability are essential.

Notable open block chain networks include the original Bitcoin network for electronic cash as well as follow-on innovations such as Ethereum for smart contracts and Zcash for privacy.

Open block chain networks are permission lists. There's no patent or copyright to license, no university or corporation from which to seek a job, no exclusive membership fee to pay.

Anyone with a computer or a smart phone and an internet

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684 connection can use these technologies and even can help build
685 them. Just as the PC democratized computing and the web
686 democratized news and entertainment, open block chain networks
687 are democratizing financial services.

688 This innovation is inevitable. What remains undetermined
689 is whether America will remain a home for permissionless
690 innovation, as a venture capitalist might ask, and whether there
691 will be responsible innovation, as a regulator might ask.

692 Those aspirations are not irreconcilable but they are also
693 not guaranteed. America pioneered home computing and the
694 internet in part because of our deep cultural and constitutional
695 reverence for free speech but also because of two laws passed by
696 Congress in the last 1990s -- the Communications Decency Act and
697 the Digital Millennium Copyright Act.

698 Both laws created safe harbors for infrastructure-building
699 businesses. They protected companies that were building the new
700 information superhighways from third party liability stemming
701 from the actions of users on those highways. These safe harbors
702 made the U.S. a friendly home for the leaders of the internet
703 revolution. But today we are following, not leading.

704 A young innovator dreaming of building the future of
705 financial infrastructure would be best advised to leave the U.S.
706 not because she can do it on the cheap in a foreign jurisdiction
707 that will look the other way but simply because instead
708 determining what the U.S. regulatory landscape demands of her is

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709 a Herculean undertaking.

710 Indeed, between 53 states and territories and several
711 independent federal regulators, it=s a task that would be much
712 simpler if she was in the United Kingdom and could ask one
713 regulator, the Financial Conduct Authority, for an opinion.

714 In order to reestablish the U.S. as a leader we need to
715 rationalize the chaos of financial services regulation starting
716 with state by state money transmission licensing. Custodial
717 businesses should be regulated but they should not need to repeat
718 a licensing process 53 times over.

719 These businesses are by virtue of the internet interstate
720 in their scope of operations and they should have similarly scoped
721 regulators to avoid costly compliance redundancies and guarantee
722 uniform consumer protection.

723 Congress should encourage the Office of the Comptroller of
724 the Currency to offer federal FinTech charters to custodial
725 digital currency firms and Congress should also consider the
726 creation of a new federal money transmission license as an
727 alternative to state by state licensing.

728 We also need a safe harbor. In several states the definition
729 of money transmission is broad and can be interpreted to require
730 that noncustodial developers of the technology be licensed.

731 It is not reasonable to mandate licensure from a technologist
732 who helps build the networks but is not holding consumer
733 valuables. That=s like trying to stop speeding by requiring

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734 costly licensing for highway construction personnel. It doesn't
735 make sense and it'll only mean that fewer highways get built.

736 But amending over broad laws in every state is not a scalable
737 approach. The commerce clause empowers Congress to fix this
738 problem. Much as it did in the 1990s for internet infrastructure,
739 Congress should craft a federal block chain safe harbor for
740 noncustodial developers.

741 Open block chain networks are the pipes for our future
742 economy. We want this infrastructure built here without
743 unnecessary impediment and with reasonable protections for
744 consumers.

745 Innovation can be both permissionless and responsible but
746 it will only happen in the U.S. if we take a unified national
747 approach to regulating custodians and create a safe harbor for
748 noncustodial developers.

749 Thank you.

750 [The prepared statement of Mr. Van Valkenburgh follows:]

751

752 *****INSERT 4*****

753 Mr. Latta. Thank you very much for your testimony and that
754 concludes our testimony from our witnesses today, and I will begin
755 the questioning of our witnesses and I will recognize myself for
756 five minutes.

757 Ms. Hogarth, in your testimony you mentioned some of the less
758 mature aspects of FinTech innovation like insurance products and
759 block chain that have the potential to drastically improve
760 consumers= lives.

761 What are -- what are some of the emerging technologies that
762 are most exciting to you?

763 Ms. Hogarth. Thank you, Mr. Chairman.

764 We see a lot of opportunity for disruption in the insurance
765 arena and in insurance it=s more than just what you think of as,
766 you know, your house insurance, car insurance, health insurance.

767 As we think about older Americans getting -- and I will count
768 myself in that -- getting ready to approach retirement, thinking
769 about dissaving and helping Americans begin to decapitalize and
770 unsave the 401K and IRA money that they have in their portfolios,
771 finding new ways to create pensions that are going to be lasting
772 outside of perhaps what is traditionally an annuity system.

773 So the insurance market is certainly ripe for disruption for
774 the consumer products.

775 Mr. Latta. Thank you.

776 Mr. Van Valkenburgh, your group has focused on the block
777 chain technologies or the distributed ledger technologies. Will

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778 you give us -- give the subcommittee some of the insights into
779 what you think are on the horizon for the industry in the future?

780 Mr. Van Valkenburgh. Thank you, Mr. Chairman.

781 These are young technologies and as I said in my opening
782 statement they are fundamental infrastructure. They are pipes.

783 So many of the consumer-facing apps are still in their
784 infancy and this is why I think we still see fairly little actual
785 consumer adoption from normal Americans.

786 However, what excites us most about the industry is that this
787 infrastructure is open for others to build applications on top
788 of.

789 So, for example, a company could build an app that
790 facilitates international remittances. The company designs the
791 user interface so that it=s friendly, it=s useful, it=s compliant
792 with KYC requirements and has consumer protections baked in, as
793 my colleague suggested.

794 But rather than moving the money between the users via
795 correspondent banking systems, the app uses digital currency to
796 move value between the sender and the recipient.

797 Now, the value moves faster in that system -- an hour instead
798 of three or more days -- and the fees are potentially lower because
799 there are not multiple correspondent banks in between.

800 There is two things that are important to point out in that
801 hypothetical. One is that the technology made the application
802 more friendly for the user -- lower fees, a smart phone application

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803 that makes sense to them -- but second, that the technology, the
804 open block chain network, made it easier for the business to get
805 started.

806 It lowered the barriers to entry for competition. Because
807 previously they would have had to establish a banking relationship
808 or multiple banking relationships with correspondent banks and
809 several branch locations.

810 But now they can simply build their consumer-facing app on
811 top of existing open block chain infrastructure and smart phones.

812 Mr. Latta. Thank you very much.

813 Mr. Saade, in your testimony you focused, of course, on the
814 FinTech innovation and in the last year what patterns or trends
815 have you seen for new entrants that are out there?

816 Mr. Saade. Thanks for the question.

817 The exciting part about what=s happening in financial
818 services is that it=s all -- it=s a confluence of events that have
819 led to all of this happening almost at the same time.

820 If you think about -- if you think about what the -- what
821 the iPhone or the smart phone did to basically everything, there
822 was a lot of capabilities to do that because there was no
823 significant institutions that were divergent from a particular
824 technology.

825 In the case of financial services I agree with my colleague
826 here that there=s a lot of things we are starting to see in
827 insurance technology.

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828 We are starting to see a lot of things in what=s termed legal
829 tech or reg tech, which is at the end of the day regulations are
830 ones and zeroes just like any other bit of information, and there=s
831 ways to comply and better ensure that consumers and small
832 businesses are safe.

833 So there=s a -- there=s a continuing amount of innovation
834 across the spectrum.

835 Mr. Latta. Thank you very much.

836 And my time has expired and I now recognize for five minutes
837 the gentlelady from Illinois, the ranking member of the
838 subcommittee.

839 Ms. Schakowsky. Thank you so much.

840 Mr. Chairman, when I first saw the title of today=s hearing
841 I was really glad to see that we agree that there=s room to improve
842 the financial options currently available to consumers and it=s
843 our job then to ensure that the American people have access to
844 financial products that are fairly priced, innovative and not
845 abusive.

846 But I=m sorry that I=m really distracted or not -- maybe not
847 distracted -- I want to bring into this room the fact that I think
848 that we cannot do those things without the -- an empowered Consumer
849 Financial Protection Bureau and today on the -- on the floor we
850 are going to do a lot to undermine Dodd-Frank.

851 I wanted to ask -- let me say your name right so I can look
852 at it here -- Mr. Van Valkenburgh, you know, you seem to suggest

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853 a kind of new federal regulatory scheme.

854 You talked about the OCC getting involved. But it seems to
855 me that the CFPB can play a role, too, in entering this arena and
856 future arenas and having that institution in place is really
857 important. What do you think?

858 Mr. Van Valkenburgh. One role that the CFPB has already
859 played is enforcing unfair and deceptive and potentially abusive
860 acts and practices.

861 This is a logical way, potentially, to regulate some of the
862 entities in this space because it=s an -- it=s an ex-post
863 regulatory scheme rather than ex-anti.

864 Our chief bugaboo, if you will, is the fact that companies
865 need to get licensed in several states before operating, not
866 necessarily that there aren=t adequate watchdogs who can -- who
867 can police their behavior once they=re running.

868 As far as creating a federal hub for regulation, we are
869 agnostic as to which agency takes on that authority. What we
870 primarily want to see is coordination between the agencies because
871 as I -- as I remarked, things are much simpler in more unified
872 governments like in the United Kingdom where there=s one point
873 agency, the Financial Conduct Authority, that does all
874 regulation.

875 Ms. Schakowsky. Having all different rules across many
876 different states, I get it.

877 I wanted to ask Ms. Tetreault -- how do I say it?

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878 Ms. Tetreault. Tetreault.

879 Ms. Schakowsky. Tetreault. Okay. Got it.

880 I wanted to ask about the CFPB. I know Consumers Union has
881 been an advocate and helped in our deliberations over that by
882 altering the CFPB structure and funding.

883 How does the Republican bill on the floor today undermine
884 the agency=s ability to do its job of protecting consumers in the
885 space that we are talking about?

886 Ms. Tetreault. So the CFPB has done amazing work for
887 consumers, returning \$12 billion to nearly 29 million Americans
888 who have been wronged.

889 It also provides an essential channel for getting consumer
890 complaints resolved. They=ve helped hundreds of thousands of
891 consumers who have complained to the CFPB get resolution with the
892 companies who in many instances have ignored their complaints
893 leading up to that time.

894 There=s an amazing 97 percent resolution rate on the
895 complaints that come through the CFPB.

896 So it would be a tremendous loss to consumers to have its
897 capacities diminished and particularly as my colleague here to
898 the left said about its UDAAP authority.

899 So the proposed -- the Financial CHOICE Act would
900 significantly reduce if not entirely eliminate in some instances
901 the ability of the bureau to go after scammers and ripoff artists
902 and that would be a huge loss for consumers.

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903 Ms. Schakowsky. Right, and I wanted to follow up on that.
904 Bad financial actors that take a lot of money preying on seniors,
905 on military members, on low-income population, why would they be
906 disproportionately harmed then by the undermining of the CFPB?

907 Ms. Tetreault. The Consumer Financial Protection Bureau
908 has speciality agencies within it. There are speciality units
909 within it that focus on particular problem areas where consumers
910 have suffered incredible harm and that includes service members
911 as well as older Americans.

912 So these communities would really be devastated if the
913 protections and the oversight that the Consumer Financial
914 Protection Bureau offers are reduced, eliminated or otherwise
915 redirected.

916 Ms. Schakowsky. The CFPB rule also applies to digital
917 wallets such as PayPal, right. So under the rule what
918 requirements would be in place to protect users of digital
919 wallets?

920 Ms. Tetreault. Sure. So it=s really some pretty basic
921 safeguards -- ensuring transparency and right to recredit and
922 redress if errors or fraud are detected. So it=s really the same
923 safeguards that apply when you swipe a plastic card for debit
924 purchase at point of sale.

925 Ms. Schakowsky. Let me just say that I see this subcommittee
926 as a place where we should be protecting the CFPB because we are
927 designated to do consumer protection.

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928 Thank you. I yield back.

929 Mr. Latta. The gentlelady yields back and the chair now
930 recognizes for five minutes the -- you=re on -- the gentleman from
931 Kentucky.

932 Mr. Guthrie. Thank you very much. I appreciate that very
933 much.

934 First, Ms. Hogarth, the Financial Solutions Lab has some very
935 interesting stories based on the start-ups you highlighted in your
936 testimony, and I have a couple questions.

937 One -- and I will ask them both -- how are you working with
938 those companies to create any easier path to commercialization
939 and how many of the companies that you -- that won funding through
940 your application processes are offering products to customers?

941 Ms. Hogarth. So thank you very much.

942 We work both with industry incumbents as well as start-ups
943 and we have a network that provides introductions so that there
944 are opportunities not only for partnering where, you know, the
945 entities stay as individual entities but they=re partners -- third
946 party vendors to an incumbent -- but we also provide access through
947 additional venture capital and our network discussions to help
948 them grow and build their business independently.

949 And one of our companies in our first cohort, Prism, has been
950 acquired by a company called PayNearMe. So there=s a lot of
951 different ways, you know, that you can think about partnering with
952 a financial institution. You know, you can acquire it. You can

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953 partner with it. You can also just compete with it.

954 But I think the reality is is that we really do want to see
955 these ideas grow to scale and eventually the idea of partnerships
956 is really, really important for the companies in our lab.

957 Mr. Guthrie. Thanks.

958 Mr. Saade, in your testimony you mentioned that not only does
959 your firm invest in FinTech companies but you also have co-founded
960 three companies. In your experience, what were the biggest
961 hurdles launching your own start-ups and what was your experience
962 working with regulators across the country?

963 Mr. Saade. Starting a company is a leap of faith no matter
964 what, regardless of having the ability to raise the capital,
965 having an understanding of what the regulatory landscape is.

966 Entrepreneurs overall, no matter in what industry in this
967 country or around the world, really -- it=s a global ecosystem
968 of entrepreneurs -- need to be supported.

969 So I think really the biggest hurdle to start the companies
970 we started or for any entrepreneur to start companies is actually
971 having an environment which supports that and there=s no better
972 place I can think of.

973 There are pockets of -- there are pockets of innovation in
974 which, for example, it was brought up that the FCA is a much easier
975 place and situation to deal with.

976 But the overall entrepreneurial ecosystem in the United
977 States bar none is the best one -- that there=s a tug of war which

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978 policymakers always need to ensure that they're dealing with and
979 that is that if you're too easy on the capital formation side the
980 consumers get hurt and if you pull too much on the other side you
981 end up hampering innovation.

982 So at the end of the day -- that's a very long answer to say
983 that taking a leap of faith is really what innovation and
984 entrepreneurship is about with a backdrop that supports it.

985 Mr. Guthrie. Thank you.

986 And Mr. Van Valkenburgh, Coin Center testified before this
987 committee last Congress when we took a look at digital currency
988 and block chain technology.

989 What can you tell us about how the landscape has changed for
990 that technology in the last year and we heard a lot about potential
991 applications. Can you tell us about where you see the most
992 promise in the short term?

993 Mr. Van Valkenburgh. Thank you, Congressman.

994 I think the biggest change has been the emergence of several
995 new networks based off of the original Bitcoin open block chain
996 technology.

997 For example, I mentioned in my opening remarks Ethereum,
998 which is a decentralized network for creating smart contracts.

999 Smart contracts are a fancy word, basically, for more
1000 programmatic flows of funds through these networks. With
1001 Bitcoin, a transaction normally looks like I paid Mr. Chairman
1002 some Bitcoin.

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1003 With a smart contract, we could give each of you a device,
1004 have that device provision you with a key of sorts, like a
1005 password, and quite literally have you vote on the flow of funds
1006 through the network.

1007 And unless somebody can penetrate each one of your devices
1008 and make you vote against your will, the movement of funds will
1009 have fidelity with your opinions when you make that vote.

1010 That is a fantastic innovation. It exists to some extent
1011 in Bitcoin under the name multi-sig transactions -- multiple
1012 signatures from multiple people who are voting on the movement
1013 of funds.

1014 Ethereum makes programming those smart contracts even easier
1015 so you can imagine even more complicated decentralized
1016 applications being built by supremely bright people on top of
1017 those networks.

1018 Additionally, Bitcoin is a very transparent network. It=s
1019 not very private because all of the transactions are fully
1020 auditable on the block chain.

1021 Another innovation that=s recently emerged is a technology
1022 called Zcash built on scientific research that allows for more
1023 private but still fully verifiable block chains. That=s also
1024 very exciting.

1025 Mr. Guthrie. Thank you. My time has expired. I yield
1026 back.

1027 Mr. Latta. Thank you. The gentleman=s time has expired and

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1028 the chair now recognizes the gentlelady from New York for five
1029 minutes.

1030 Ms. Clarke. Thank you, Chairman Latta, and to our ranking
1031 member, Jan Schakowsky, to our expert witnesses. Thank you for
1032 your testimony here this morning.

1033 As the FinTech industry has grown, a number of our new
1034 companies, not just banks, have begun offering financial products
1035 such as e-lending and electronic payments.

1036 The Financial Protection -- excuse me, the Consumer
1037 Financial Protection Bureau and the Office of the Comptroller of
1038 Currency have been active in trying to help these companies
1039 understand their regulatory responsibilities.

1040 In December of 2016, OCC proposed creating a special national
1041 bank charter for FinTech companies. State regulators and
1042 consumer groups including Consumers Union, however, have asked
1043 OCC to withdraw the proposal.

1044 Ms. Tetreault, the comments submitted to OCC consumer groups
1045 including yours expressed their concern that the proposed charter
1046 could preempt critical state consumer protections like caps on
1047 interest rates for loans.

1048 Can you expand on those concerns and if OCC does go forward
1049 with the new national charter, what are the baseline consumer
1050 protections that it needs to contain?

1051 Ms. Tetreault. Thank you.

1052 The OCC=s FinTech charter or special purpose charter

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1053 unfortunately would abrogate many of the state laws that are
1054 really there to protect consumers against predatory loans and so
1055 that is the primary concern that the advent of such a charter would
1056 create a race to the bottom as businesses south to find the
1057 lightest approach to oversight to them.

1058 And so we've really expressed strong concern about this
1059 proposal, really thinking that state regulators are in a much
1060 better position to supervise and examine these banks and also that
1061 the protections that states have put in place should be honored
1062 to protect their citizens.

1063 So it's really, you know, a concern about overriding these
1064 in many case very strong protections, although the protections
1065 vary greatly from state to state.

1066 So to your second question, if there were to be such a special
1067 purpose charter extended, it would be the same strong oversight
1068 that the states provide. It would include no preemption of these
1069 state protections.

1070 It would be extensive examination and then, of course, the
1071 safety and soundness of requirements that are so essential to
1072 ensuring consumer protection.

1073 Ms. Clarke. Drill down a little bit deeper on that and say
1074 how the OCC's proposed charter differs from existing bank charters
1075 and how they would be similar.

1076 Ms. Tetreault. So right now I would actually draw a greater
1077 contrast between the way that states supervise financial

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1078 services, license financial services entities and why that=s the
1079 preferable model.

1080 To say that you have some states like California and New York
1081 that really have extensive methods for examining the entities that
1082 they supervise.

1083 They can really go in there. They can see in a level of
1084 detail that perhaps might elude a federal regulator. So we=ve
1085 seen instances in the housing crisis -- lead-up to the housing
1086 crisis where federally-regulated entities were made aware of
1087 problems and they were not -- action wasn=t taken and we know how
1088 that resulted in, you know, many millions of foreclosures and a
1089 financial crisis that nearly took down the entire economy.

1090 So there are some pretty grave concerns about having the
1091 federal oversight that perhaps might not had the attention to
1092 detail and then -- and that is I think the biggest contrast between
1093 what is done now and what might happen under this.

1094 Ms. Clarke. And do most FinTech companies currently offer
1095 their services independently or do they partner with banks or
1096 other traditional financial service providers?

1097 Ms. Tetreault. So it=s really a mixed bag in that regard.
1098 So you have guidance to help banks and financial service companies
1099 that are nonbanks partner together and there are pretty extensive
1100 rules of the road for ensuring consumer protection in that regard.

1101 You also may see start-ups who seek licensure within the
1102 states and you have some pretty successful examples and I will

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1103 just cite one, which would be PayPal where they're able to do the
1104 work that they do and by pursuing these state licensees.

1105 So it can really be -- you know, there also may be a start-up
1106 that happens within a state and that's the first state that they
1107 seek out licensure, and so it's a mixed bag.

1108 Ms. Clarke. Mr. Chairman, I yield back.

1109 Mr. Latta. Thank you very much. The gentlelady yields
1110 back.

1111 And the chair now recognizes the gentleman from West Virginia
1112 for five minutes.

1113 Mr. McKinley. Thank you, Mr. Chairman.

1114 One way that consumers access FinTech is through their smart
1115 phone and for many individuals in rural areas it's not a very
1116 reliable service.

1117 In West Virginia, the mountainous terrain is -- limits that
1118 ability for people to have access. So I'm curious as to how
1119 FinTech companies are addressing the needs of rural community --
1120 rural areas as compared to those in more urban settings.

1121 Is there something that you're focussing on that you would
1122 recommend we look towards for addressing rural areas as compared
1123 to the urban centers?

1124 Don't all speak at once.

1125 Ms. Hogarth. So I will take a stab at that.

1126 Mr. McKinley. Thank you.

1127 Ms. Hogarth. I mean, I said that, you know, FinTech is

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1128 necessary but not sufficient and there are a set of infrastructure
1129 issues that clearly need to be addressed, not just in the
1130 mountainous regions but in any rural area.

1131 And we should also add even in urban areas, you know, wifi
1132 is not necessarily ubiquitous or cost-free. And so for many
1133 low-income households accessing data plans is a really tough pull
1134 on their budgets.

1135 So in addition to sort of thinking through some of the issues
1136 that you heard today this is really a whole cloth because you're
1137 exactly right.

1138 There needs to be some sort of infrastructure program in
1139 place to be able to provide access to reliable high-quality
1140 broadband services whether that is a wired line, a fiber optic
1141 line or a wifi.

1142 Mr. McKinley. Thank you.

1143 Because I think far too often in this country we focus on
1144 our urban centers and our rural communities across this country
1145 are shortchanged on access and other opportunities whether it's
1146 health care, growth, water, sewer.

1147 I could go on with it. So I'm hoping that through these
1148 services how helpful these can be with our smart phone. We are
1149 still limiting a certain number of people.

1150 Mr. Saade, in your testimony you mentioned that -- how many
1151 Americans are underserved by existing products and services to
1152 help them with their finances. But there's also been a discussion

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1153 about the attention between bringing new innovations to market
1154 quickly and making sure consumers are protected because this is
1155 their financial health.

1156 So how has your firm attempted to address this tension and
1157 make sure that the consumers are getting safe, secure and
1158 innovative products?

1159 Mr. Saade. So one comment on your previous question. I
1160 sense that the digital divide actually knows no -- the issues
1161 you're facing in West Virginia are not dissimilar to what you see
1162 in the South Bronx.

1163 Even though it's heavily populated -- heavily populated
1164 areas, the digital divide actually affects underserved
1165 communities in different ways.

1166 So there's some threads across what you're seeing in the
1167 mountains of West Virginia with what you see in the canyons across
1168 the East River.

1169 When we look at businesses to invest in, we don't believe
1170 that regulatory arbitrage is a business model and in fact a couple
1171 of the principals, myself included, actually served in the federal
1172 government in the executive branch as actual regulators.

1173 So we are very cognizant of the fact that innovation has to
1174 be done responsibly and a lot of innovation that we see there's
1175 a -- there's almost like a natural self-selection of people that
1176 approach us or we approach because they're doing -- they're doing
1177 innovative things in a way that doesn't harm consumers.

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1178 So we are -- I don=t think there=s a -- it=s a binary choice.
1179 I think you can actually accomplish -- you can accomplish all of
1180 it. It=s just a tug of war. It depends on where -- where in the
1181 spectrum you want to fall. But innovation can be done very
1182 responsibly.

1183 Mr. McKinley. Thank you. I yield back.

1184 Mr. Latta. Thank you. The gentleman yields back the
1185 balance of his time.

1186 The chair now recognizes the gentleman from Texas for five
1187 minutes.

1188 Mr. Green. Thank you, Mr. Chairman and Ranking Member, for
1189 having the hearing today and as well for our witnesses to take
1190 the time to testify.

1191 FinTech has the potential to help not only entrepreneurs and
1192 investors but those who need financial help in their daily lives
1193 the most. Often the people with the least time and with the most
1194 things to juggle on day to day basis are those who come from less
1195 financially literate backgrounds.

1196 The help that FinTech can provide to the working class is
1197 especially important. Apps with the potential to help people pay
1198 their bills, improve their credit, provide guidance on how to
1199 distribute limited resources across many needs represent a
1200 welcome development, for one, from which Congress must work to
1201 provide the necessary regulatory framework.

1202 However, the testimonies of the distinguished witnesses also

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1203 highlight the importance of consumer protections. Despite the
1204 potential benefits as consumers' financial data becomes available
1205 to an increasing number of service providers, consumers become
1206 more vulnerable to the theft and abuse of that data. They must
1207 have somewhere to turn in case that happens.

1208 I look forward to discussing on how the balance to the risks
1209 and rewards that FinTech can offer with witnesses.

1210 Ms. Tetreault, in your testimony you underline the
1211 importance of consumer protections when it comes to FinTechs and
1212 you lay out consumer safety guidelines which several types of
1213 FinTech service providers should adhere.

1214 With the CHOICE Act on the floor this week, what impact if
1215 any do you see this having on the ability of the Consumer Finance
1216 Bureau to implement and enforce these guidelines?

1217 Ms. Tetreault. Sure. So I think if the CHOICE Act passes
1218 it would be -- Financial CHOICE Act passes it would be devastating
1219 for consumers for a variety of reasons, specifically related to
1220 consumer harms.

1221 It gets rid of the monitoring function of the bureau and the
1222 market monitoring allows the CFPB staff to get a good insight into
1223 what's happening within various segments within financial
1224 services and meet with those industry leaders and service
1225 providers and also to monitor consumer complaints and concerns
1226 long before they become system issues or widespread problems for
1227 consumers.

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1228 So that would disappear. You=d have the loss of the
1229 public-facing database, consumer conflate database that allows
1230 not only researchers but everyday people to go ahead and look and
1231 see where the issues are with particular service providers around
1232 particular products.

1233 It=s searchable in many dimensions. There would be a loss,
1234 presumably, of the specialty offices within the bureau or at least
1235 those are made optional so you potentially lose Project Catalyst,
1236 which is an initiative from the bureau to take a look at
1237 innovation.

1238 With that you lose the convening that the bureau does for
1239 financial technology companies and providers. You lose the
1240 opportunity for a no-action letter which is --

1241 Mr. Green. I=m almost -- I only get five minutes. Let me
1242 -- we=ve heard today about FinTech=s potential for offering
1243 financial service for the unbanked and under banked populations,
1244 which tend to be lower income.

1245 But research shows that the majority of the people that are
1246 actually using FinTech products are wealthier customers. What
1247 needs to be done so that the unbanked and under banked populations
1248 can also have full access to FinTech potential benefits and are
1249 there obstacles preventing these populations from using these
1250 traditional financial services because of the lack of access to
1251 these new financial products?

1252 Ms. Tetreault. So access to broadband is definitely an

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1253 issue and one that=s been discussed here because so many of these
1254 innovative products and services are reliant on a secure, sound,
1255 continuous internet connection. That, I would say, is a very
1256 strong hurdle.

1257 I think the other is one of the things that we=ve seen a lot
1258 is consumer concerns. So, you know, the stories that we hear back
1259 when we ask people, for example, why aren=t you using mobile
1260 payments is they say, I=m worried about safety and security.

1261 And while the evidence may indicate that these services are
1262 quite safe, the consumer perception potentially was there because
1263 of these gaps that existed, for example, before the CFPB=s final
1264 prepaid rule.

1265 So, you know, there is I think any number of things that stand
1266 in the way of consumers engaging with these services and concerns
1267 that can be addressed by appropriate safeguards.

1268 Mr. Green. I am almost out of my time. Last month, Energy
1269 and Commerce Democrats introduced the Lift America Act, a 21st
1270 century infrastructure package that includes \$40 billion to
1271 expand access to broadband internet not only in rural areas but
1272 also in the urban areas like I represent.

1273 Thank you for your time, Mr. Chairman.

1274 Mr. Latta. Thank you. The gentleman yields back.

1275 And the chair now recognizes the gentleman from Indiana for
1276 five minutes.

1277 Mr. Bucshon. Thank you, Mr. Chairman.

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1278 A question for anybody really. I mean, technology is great.
1279 My older kids use Venmo. They don't have any cash, right. But
1280 so we know that people are under banked and unbanked now. What
1281 makes us optimistic that adding technology to that will
1282 substantially change that situation?

1283 Just a hypothetical because a lot of people -- there=s
1284 reasons why people don't have a bank or they=re -- or they=re under
1285 banked now and it could be access to a local -- you know, to a
1286 bank standing on the corner. But there=s other more complicated
1287 reasons why. And so when you add actually the -- I=m just playing
1288 a little devil=s advocate here -- you add the technology on board
1289 what makes us think that that will help? Be curious to -- anyone.

1290 Ms. Tetreault. I will just -- thank you -- I will address
1291 that very briefly around faster payments. I will use faster
1292 payments as an example as that=s an area where the technology needs
1293 to move into -- it will need to move forward to bring us to
1294 real-time payment, and there are proposals out there.

1295 And how I can see that bringing in underserved consumers is
1296 that it allows for real-time information for better money
1297 management and then there are potential aspects of the -- of the
1298 technology that would ensure that there wouldn't be an opportunity
1299 for things like surprise fees or overdrafts for the way that the
1300 payments actually work.

1301 So I see that. We know for a fact from consumers, due to
1302 extensive research, that it is surprise fees and overdrafts that

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1303 often drive consumers out of the mainstream banking system and
1304 forces them to use, you know, more expensive products or rely on
1305 cash.

1306 So I see this -- I see that particular area as a tremendous
1307 opportunity.

1308 Mr. Bucshon. Okay. Yes.

1309 Ms. Hogarth. And I would add in addition to the faster
1310 payments piece that the ability of financial technology to give
1311 consumers a 360-degree picture of their finances is really, really
1312 important because a lot of times you're operating in one-off
1313 decisions when you don't really understand the interaction of the
1314 decision X with decision Y and financial technology and many of
1315 the apps now are really trying to help consumers get that fuller
1316 picture of their financial lives.

1317 Mr. Bucshon. Okay.

1318 Mr. Saade. I was going to say that just one example that
1319 happens to be a relevant one here is that the biggest generation
1320 of Americans -- 76 million or something of them -- typically would
1321 rather not step foot in any one of the 100,000 or so, give or take,
1322 bank branches in the United States.

1323 So even though there's sort of a dark side of technology kind
1324 of making you anonymous, as we have seen in other industries --

1325 Mr. Bucshon. Oh, yes.

1326 Mr. Saade. -- in the media recently, that sort of faceless
1327 ability enables you to access things with a lot less friction and

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1328 the lack of friction leads to lower cost. So I think the question
1329 is not what but how.

1330 It=s a very good question you ask but the -- and if you look
1331 at it from a business perspective, 2 billion people are not getting
1332 banked around the world. That is a huge business opportunity.

1333 So there=s a lot of people thinking about this exact issue,
1334 not just venture capitalists or the people here but people across
1335 the spectrum.

1336 Mr. Bucshon. Okay.

1337 Mr. Van Valkenburgh. The only thing I would add is that the
1338 user interface matters a great deal with technology. Google was
1339 actually the fifteenth search engine thereabouts.

1340 There were several that tried to make the web accessible to
1341 people and help them find the information they wanted but simply
1342 didn=t make it intuitive. It just didn=t make sense to people
1343 when they tried to use it. Rapidly prototyping and the ability
1344 of new people to come in with a fresh idea of how to get people
1345 excited about their financial futures is very important and to
1346 the extent that open block chain networks create infrastructure
1347 that they can build on top of minimizing the costs of trying
1348 something new I think will see much more rapid consumer adoption
1349 of these new tools because they=ll suddenly make sense when
1350 they=re finally built by the right people had the right vision.

1351 Mr. Bucshon. Yes. My concern is that what do you -- what
1352 do you think will happen to more traditional ways that people

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1353 access the banking system?

1354 Because as you know already technology is such where -- say,
1355 from example, my parents, you know, who have gone to a bank for
1356 years and years. What happens when there=s no longer a bank on
1357 the corner? So I think we need to think about that question also
1358 and I know -- and I=m all for technology.

1359 I think it=s great. But we need to be -- to your point, we
1360 need to make sure that the services that are available are
1361 intuitive, are easily accessible not only to my sons who are in
1362 their 20s but to my in-laws and my parents who are in their 80s
1363 if we are going to backtrack a little bit on more traditional type
1364 service availability.

1365 Thank you. I yield back.

1366 Mr. Latta. Thank you. The gentleman yields back.

1367 And the gentleman from California is recognized for five
1368 minutes.

1369 Mr. Cardenas. Thank you, Mr. Chairman.

1370 Once again, I appreciate the opportunity for us to have this
1371 hearing. This question goes out to any of the individuals who
1372 want to chime in and answer.

1373 Could you give some examples of how often is a bank account
1374 needed to participate in these technologies and count as a
1375 traditional bank account?

1376 Mr. Van Valkenburgh. Especially in the digital currency and
1377 open block chain space, despite the fact that the technology I

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1378 described in some ways supplants the correspondent banking
1379 system, there will still be a need to onramp people into these
1380 new digital currency networks.

1381 So it will be very common for the company to have banking
1382 relationships that they process payments for and it will be
1383 necessary for the user to have a bank account that they can connect
1384 in order to exchange their dollars for digital currency.

1385 Unfortunately, many of the companies that are working in this
1386 very exciting space have had trouble getting and maintaining
1387 banking relationships because they're seen as a money-laundering
1388 risk.

1389 That is despite the fact that all of the companies operating
1390 in the U.S.'s exchanges are fully registered and compliant with
1391 anti-money laundering requirements from FinCEN.

1392 I think there is a bit of a cultural problem here where
1393 perhaps the examiners look at this as a fringe technology that
1394 should simply be ignored and banks take a derisking approach.

1395 I think that approach may be misguided because we want these
1396 companies in the regulatory system because if these technologies
1397 exist outside of the regulatory system we'll simply have less
1398 information about what people are doing with them and will not
1399 allow them to flourish as hubs for innovation in these services.

1400 Mr. Cardenas. Okay. Well, Mr. Van Valkenburgh, how do you
1401 open block chain networks? How does open block chain networks
1402 encourage financial inclusion and diversity in the financial

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1403 marketplace?

1404 Mr. Van Valkenburgh. So the primary mechanism, I think, is
1405 allowing for the rapid prototyping of new tools that can be
1406 intuitive for users and meet their goals.

1407 So transactions can be faster when their back end is running
1408 through an open block chain network. It can be cheaper for the
1409 customer and it can also be cheaper for the business to try new
1410 approaches.

1411 So I think in that competition you find more likely there
1412 will be an emergence of apps and services that speak to underserved
1413 communities, make them want to use those technologies and make
1414 it easier for them to use those technologies safely.

1415 Mr. Cardenas. Okay. Thank you.

1416 Ms. Tetreault, are there occurrences of deceptive practices
1417 in the financial industry that consumers should be aware of and
1418 if there are what can -- what role can Congress play in helping
1419 to alleviate that issue?

1420 Ms. Tetreault. There are many abusive practices.
1421 Fortunately, we've seen a tremendous enforcement of consumer
1422 financial protection laws by the Consumer Financial Protection
1423 Bureau. So that's where you have these 29 million Americans
1424 getting back \$12 billion in relief.

1425 In terms of existing problems, they -- having a strong cop
1426 on the beat is really essential to ensuring the consumers are
1427 protected and we are very eager to see the strength and integrity

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1428 of the Consumer Financial Protection Bureau ensured by keeping
1429 a strong leadership structure, no attacks on funding and
1430 maintaining its singular focus on consumer financial protection
1431 as opposed to dissipating and across a number of federal
1432 regulators.

1433 Mr. Cardenas. So having a cop on the beat is a good thing?

1434 Ms. Tetreault. Absolutely, and I think, you know, you can
1435 see every day it seems that there=s another example of a financial
1436 institution or financial service provider behaving badly and to
1437 see them held to account not only holds that business to account
1438 but it sets an example so that other services providers know that
1439 they need to mind their p=s and q=s.

1440 So it=s incredibly important to consumers to have this cop
1441 on the beat, or as we like to refer to it, consumer watchdog so
1442 that folks, you know, are protected and make sure that there are
1443 protections in -- not only protections in place because of the
1444 rulemaking authority but also people watching out to ensure that
1445 there is -- there are safe financial service products available.

1446 Mr. Cardenas. I mentioned earlier in my opening statement
1447 about the opportunity or idea that perhaps this technology -- this
1448 opportunity could give unbanked individuals and households an
1449 opportunity to get involved in access to capital and financial
1450 stability.

1451 What does this technology bring to bear when it comes to
1452 underwriting and giving someone an opportunity to get access to

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1453 capital versus the old brick and mortar, you know, old-fashioned
1454 underwriting methods?

1455 Ms. Tetreault. So the one thing I would say that we do see
1456 a lot of attempts to -- from service providers to quantify the
1457 creditworthiness of consumers. I would just raise two quick
1458 concerns.

1459 In many instances there=s a lack of transparency and then
1460 there=s the concerns around the way that data is collected and
1461 used and would urge service providers to be considerably more
1462 transparent in the way that they quantify consumers.

1463 Mr. Cardenas. Thank you. Yield back.

1464 Mr. Latta. Thank you. The -- I=m sorry -- the gentleman=s
1465 time has expired and the chair now recognizes for five minutes
1466 the gentleman from Illinois.

1467 Mr. Kinzinger. Thank you, Mr. Chairman. Thank you all for
1468 being here today. This is a very important hearing. This
1469 committee having jurisdiction over consumer affairs, I=m very
1470 pleased that we are continuing to shed light on the importance
1471 of financial technology and the benefits it can provide.

1472 FinTech is improving the speed, convenience, efficiency and
1473 accessibility of financial information for consumers. At last
1474 Congress I introduced a resolution with Congressman Cardenas
1475 highlighting the potential positive impact technology can have
1476 on a consumer=s financial health and expressing the sense of
1477 Congress that there should be a single national strategy to ensure

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1478 the development of FinTech.

1479 In many cases we see out here technology always leads
1480 Congress and government and we basically kind of wake up and see
1481 what=s happening and then have to figure out a strategy to deal
1482 with it.

1483 So some of you have already answered to an extent this
1484 question but I just want to ask it of all of you and I will start
1485 with Mr. Van Valkenburgh because he has the coolest last name on
1486 the committee or on the -- on the panel. No offense to the rest
1487 of you.

1488 But what are the issues and trends that we in Congress need
1489 to watch for to ensure that consumers benefit from innovation in
1490 a responsible and a secure way?

1491 Because it sounds like developing the regulatory framework
1492 can obviously be a huge challenge. But this access to the
1493 financial account is very serious and should be treated as such.
1494 So I=d appreciate all your thoughts. I will start with you, sir.

1495 Mr. Van Valkenburgh. So I think the key -- the key
1496 distinction to be made is between technologists who are building
1497 these technologies and holding other people=s value, playing that
1498 custodial role, and technologists who are simply building the
1499 future infrastructure, really -- the pipes for the future economy.

1500 Making that distinction is key because I think you=re
1501 absolutely right that we need a unified approach to regulating
1502 those custodians to make sure consumers are protected and we very

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1503 much appreciate your and Congressman Cardenas= resolution
1504 emphasizing that point.

1505 But it=s also very important that people who are building
1506 the fundamental infrastructure are not swept up in a burdensome
1507 regulatory regime that isn=t aimed at the risks they create
1508 because they don=t take custody, because they don=t actually hold
1509 other people=s valuables.

1510 Mr. Kinzinger. That=s interesting. Okay.

1511 Ms. Tetreault. I would say first the importance of strong
1512 rules of the road as exhibited with the Consumer Financial
1513 Protection Bureau=s final prepaid rules.

1514 So having that extend to digital wallets that hold funds I
1515 think is a great example of how regulations can be in place at
1516 the federal level.

1517 And then to the question about any sort of streamlined
1518 oversight is so long as the state consumer financial protection
1519 rules are not preempted, you know, there=s opportunity there.

1520 Mr. Saade. Yes, we=ve been, obviously, very focused on
1521 lending and kind of the debt side of the balance sheet. But just
1522 to highlight that, there=s a whole other side of the balance sheet
1523 which is equity and the SEC, for example -- I=m just going to answer
1524 it this way -- tried a lot of really interesting things to allow
1525 for common citizens to participate in let=s call them high-value
1526 potential investments and for otherwise companies raising capital
1527 or projects raising capital or people raising capital -- not loans

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1528 but actual capital -- is Title 3 of the Jobs Act and they worked
1529 pretty diligently to get it -- to get it done but what it -- what
1530 it highlighted was that as they were going through that all of
1531 the states= regulatory entities for securities were doing their
1532 own fixes and they were doing them only with the hope that the
1533 SEC would then work with the preemption.

1534 So I think that the jobs all of you have is very difficult.
1535 But if you put things into the perspective -- into the perspective
1536 of what benefits -- what benefits consumers respond to you end
1537 up in a place that actually is solutions that could work.

1538 Mr. Kinzinger. Thank you.

1539 Ms. Hogarth, I'm going to actually -- I have another question
1540 for you and since time is limited I will just ask that.

1541 You discussed seeing competition in the FinTech space around
1542 savings products and financial health for employees where there=s
1543 been little innovation in the past.

1544 Can you talk a little further about what changed in that
1545 environment that spurred innovation and competition?

1546 Ms. Hogarth. Thank you.

1547 Breaking into the employer channel is very, very difficult
1548 and one of the things that we have found that is very, very helpful
1549 is to just do proof of concepts and pilots.

1550 And by having somebody be bold, to go first and to try out
1551 something gives other people confidence that they too can do it.

1552 This actually gets to my answer to your original question,

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1553 which is thinking about how bright lines used to work when we had
1554 a nice segmented marketplace, but there is significant blurring
1555 of lines right now.

1556 And thinking about in terms of trends, how we regulate in
1557 the 21st century not so much with specific rules but perhaps with
1558 principles and guidelines. For example, thinking about consumer
1559 outcomes as the metric of success, not whether or not your
1560 disclosure is in 18 point font.

1561 Mr. Kinzinger. Very good. Very interesting.

1562 Well, I thank all of you for your participation. Well, I
1563 thank all of you for your participation. I will yield back my
1564 negative 37 seconds, Mr. Chairman.

1565 Mr. Latta. The gentleman yields back.

1566 And the chair now recognizes the gentleman from New Jersey
1567 for five minutes.

1568 Mr. Lance. Thank you very much, Mr. Chairman.

1569 My district in New Jersey has a lot of constituents who work
1570 in the financial services industry either in New Jersey or in New
1571 York itself.

1572 Are the innovations in FinTech being driven predominantly
1573 by start-ups or by the more traditional banking institutions and
1574 are there partnerships between the two -- between start-ups and
1575 more traditional banking institutions and I defer to all members
1576 of the panel.

1577 Mr. Van Valkenburgh. Some very fruitful partnerships have

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1578 emerged even in the open block chain space. I think in the early
1579 days many people believed Bitcoin was just a strange internet
1580 phenomenon. But that has radically changed as block chains
1581 become a popular almost buzzword in Wall Street and elsewhere.

1582 One particularly exciting partnership to highlight is the
1583 partnership between Ethereum, Zcash and innovators at JPMorgan
1584 to build a block chain that will be flexible for smart contracts
1585 like Ethereum's open block chain network that will have some
1586 privacy elements taken from the Zcash network and that will serve
1587 potentially heavyweight enterprise type clients.

1588 Mr. Lance. Thank you. Others on the panel, would you like
1589 to comment? Yes.

1590 Ms. Hogarth. So, obviously, JPMorgan Chase is clearly
1591 involved in trying to stimulate innovation not only outside of
1592 the bank but certainly within it as well and there are a number
1593 of other incumbent banks who have their own innovators hubs.

1594 And I think there are a number of other entities like CFSI
1595 who are trying to stimulate in the start-up community. So I think
1596 it is a both end, Congressman.

1597 Mr. Lance. And are these more traditional forms of banking
1598 the coordination -- are they the American banks or is this also
1599 true of banks in other parts of the world?

1600 Ms. Hogarth. Well, certainly, we've seen a lot of
1601 innovation across the globe. I think we need to look to our
1602 colleagues in Australia, Singapore, Hong Kong, beyond the U.K.

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1603 The U.K. is always getting lifted up as the -- as the
1604 prototype here. But there are a lot of really great innovations
1605 coming out.

1606 But I would agree with Mr. Saade that the U.S. is, you know,
1607 bar none the leader in this arena.

1608 Mr. Lance. I, obviously, have a bias toward New York as
1609 opposed to London or Shanghai or Singapore. Is there something
1610 that we should be doing here in Congress to make sure that we are
1611 preeminent in FinTech?

1612 Mr. Van Valkenburgh. I would say, quickly, that for
1613 noncustodial developers of these technologies -- these open block
1614 chain networks -- the state by state money transmission framework
1615 is a bit of a maze to navigate.

1616 They are really not money transmitters. They build pipes.
1617 They don't push the water through the pipes. But they'll have
1618 to get an opinion from 53 different states and territories from
1619 the regulator in that jurisdiction that says that they're safe
1620 and they won't be on the hook for unlicensed money transmission,
1621 which carries a \$5,000 -- well, no, five years in jail and
1622 potentially multi-thousand-dollar fines.

1623 So those are very real liabilities and I think they frighten
1624 people away to some extent from building their infrastructure here
1625 in the U.S.

1626 Mr. Lance. This is always a challenge regarding our dual
1627 sovereignty. What would you recommend that we do? Because we

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1628 do have dual sovereignty in this country.

1629 Mr. Van Valkenburgh. Yes, and I think the states have a
1630 valuable role to play as far as licensing custodian -- custodians
1631 of other people=s digital currency.

1632 However, I think we do need a federal safe harbor that would
1633 basically clarify the legal landscape across all the states saying
1634 that noncustodial businesses should not need to be licensed.

1635 Mr. Lance. Are there others on the panel who have an opinion
1636 on that? Yes.

1637 Mr. Saade. I=m going to take a little bit of a different
1638 angle and that is something that the federal government has done
1639 for decades is invest in extremely basic seed money and basic R&D
1640 science and development, which at the end of the day, after Defense
1641 uses the technology or whatever the technology is being used for,
1642 the private sector comes in and innovates on top of that.

1643 So one thing I think that, irrespective of are you developing
1644 clean energy technology or a cybersecurity thing that could be
1645 applied here or anywhere else to protect our borders, that=s
1646 something the federal government can do and is the only entity
1647 that can do it -- spend significant money looking into the future.

1648 Mr. Lance. Thank you. This is a very interesting and
1649 important topic and I hope that the Commerce Committee takes the
1650 lead on this issue as we have taken the lead in so many areas and
1651 it=s a very distinguished panel.

1652 Thank you, Mr. Chairman.

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1653 Mr. Latta. Thank you very much. The gentleman yields back
1654 the balance of his time.

1655 And at this time, the chair recognizes the gentleman from
1656 Mississippi, the vice chairman of the subcommittee.

1657 Mr. Harper. Thank you, Mr. Chairman, and thanks to each of
1658 you for being here.

1659 Ms. Hogarth, I will start with you, please. The number of
1660 companies applying to be a part of the Financial Solutions Lab
1661 is remarkable -- 358 for this upcoming group of companies.

1662 In your testimony you mentioned three key trends from that
1663 applicant pool, one of them being companies focused on products
1664 subject to complex regulatory oversight. Understanding that the
1665 finalists have not been announced yet, can you give us some
1666 examples of what sorts of services might fall in this category?

1667 Ms. Hogarth. Sure. You know, just as consumers' lives are
1668 not sort of unidimensional, the products that our lab companies
1669 develop are cut across traditional financial services products.

1670 They're not just a transaction card. They're not just a
1671 credit card. They're not just a savings product. They feature
1672 some of those multiple features.

1673 We -- in our last cohort we had a company that worked with
1674 freelance workers. We had a company that was in a loan servicing
1675 arena and we had a very interesting company called Remedy that
1676 looks at medical bills and errors on medical bills and how do you
1677 structure the -- how do you help consumers understand what's in

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1678 their bill and protest any duplicative charges, things like that.

1679 That company actually saved their customers about a thousand
1680 dollars a year in mis-billing on medical products. That=s not
1681 a bank account. That=s not a stock or a bond or a mutual fund.

1682 It=s not an insurance product. And so there are these kinds
1683 of really complex kinds of financial issues that consumers face
1684 where it doesn=t fit neatly into a regulatory box.

1685 Mr. Harper. Okay. Thank you.

1686 Mr. Valkenburgh, you know, we understand that innovations
1687 in the financial industry have incredible potential to offer great
1688 benefits to consumers and we are also mindful of consumer
1689 protections and, of course, privacy concerns.

1690 Can you speak to the role the FTC can play to ensure the
1691 latter?

1692 Mr. Van Valkenburgh. I=m sorry, Congressman. That was the
1693 FTC?

1694 Mr. Harper. Yes.

1695 Mr. Van Valkenburgh. The FTC plays a valuable role
1696 enforcing unfair and deceptive acts and practices somewhat
1697 mirrored by the CFPB=s authority there.

1698 However, I think they play a valuable with respect to these
1699 open block chain networks in that many of the applications that
1700 people build on these networks will not be custodial and, as I
1701 suggested, should not therefore be regulated as money
1702 transmitters.

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1703 You might then ask okay, well, who=s going to check their
1704 code as a regulator, make sure that the app does what it says even
1705 if the money is not being held by the app designers.

1706 Unfair and deceptive acts and practices have a long track
1707 record in making sure that people build their tech right on the
1708 internet for nonfinancial website and I think the FTC can continue
1709 to play that role with respect to these new open block chain
1710 networks.

1711 Mr. Harper. You know, in your testimony you also talked
1712 about digital assets outside of digital currencies, of course.
1713 Can you help us understand exactly what those digital assets could
1714 be and help -- you know, help me visualize what the future looks
1715 like if this technology can develop.

1716 Mr. Van Valkenburgh. Absolutely. So you can think of these
1717 things as bearer instruments and the bearer instrument we are most
1718 familiar with is, of course, cash. It=s a way of doing peer to
1719 peer money transfer.

1720 But there are other bearer instruments in our real world.
1721 There=s tokens for a fairground. There=s tickets for a concert.
1722 There=s vouchers for certain goods and services that won=t be used
1723 for other goods and services.

1724 One particularly exciting network that=s being developed is
1725 called the Interplanetary File System, which I=m really glad I
1726 get to say here in the subcommittee.

1727 That is a decentralized cloud storage network that would

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1728 allow people to just use the internet to store files without
1729 contracting with one or another company like Amazon or Dropbox.

1730 The way that the files would be stored would be encrypted
1731 for privacy and then they=d be verifiably stored at different
1732 places by people running computers who are rewarded for providing
1733 that storage with a voucher, Filecoin, that can only be spent on
1734 buying storage.

1735 Mr. Harper. I mean, it=s incredible to comprehend and I=m
1736 so glad you got to use that phrase, too. That=s very good.

1737 I see my time is almost up so with that I will yield back.

1738 Mr. Van Valkenburgh. Thank you, Congressman.

1739 Mr. Latta. Thank you. The gentleman yields back the
1740 balance of his time and the chair now recognizes the gentleman
1741 from Florida for five minutes.

1742 Mr. Bilirakis. Thank you. Thank you, Mr. Chairman. I
1743 appreciate it very much and I want to thank the panel for their
1744 testimony today.

1745 I will start with Ms. Hogarth. Maybe I mispronounced that.
1746 I apologize. Hogarth.

1747 In your testimony you talk about the Financial Solutions Lab
1748 which helps start-ups focused on improving consumers= financial
1749 health and outline a few companies.

1750 One of those companies, Digit, uses an algorithm to help
1751 people automatically save money without having to move the money
1752 themselves. Would you tell us -- again, tell us more about how

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1753 they made it to your program and what their experiences have been
1754 so far.

1755 Ms. Hogarth. So they made it to our program by -- we have
1756 -- once you apply to our program there is a series of evaluations
1757 that we do. A number of, you know, like, sort of is this really
1758 helpful to consumers. CFSI bases a lot of our work on our compass
1759 principles, which are to build inclusion, build trust, promote
1760 success and create opportunity.

1761 And so we always ask people ourselves how much does this
1762 company help with inclusiveness, trust, opportunity and success.

1763 We do financial due diligence so we look at the business model
1764 of the company and we also do sort of a -- what I will call a gut
1765 check in is this actually going to improve the financial health
1766 of U.S. households.

1767 Mr. Saade=s company has helped us in the past in reviewing
1768 so we are not just looking at these ourselves. We have a number
1769 of outside and expert reviewers including consumer advocacy
1770 organizations.

1771 The company Digit has grown substantially over time. Most
1772 of the companies in our cohort, our labs, have grown. As a matter
1773 of fact, they now reach a total of about 10 million U.S.
1774 households, which is 10 times what they were when they joined the
1775 program in the beginning.

1776 So it is really, I think, on the whole the companies find
1777 it a very positive experience.

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1778 Mr. Bilirakis. Okay. Thank you very much.

1779 This question is for the panel. We'll start with you, Ms.
1780 Hogarth, if you wish. Many individuals own and run small
1781 businesses. These businesses powerB-they are a major part of the
1782 economy -- obviously, jobs, financial well-being. How is FinTech
1783 and the innovation you are seeing in this space going to help small
1784 businesses find capital, reduce paperwork or filing costs or any
1785 other examples you can share? We'll start of with you, please.

1786 Ms. Hogarth. Sure. Well, I think that one of the things
1787 you've seen in the market over the last several years is new
1788 business models.

1789 The marketplace lenders and other kinds of opportunities for
1790 small businesses to get access to capital is really, really
1791 important and when we are talking about access to capital you have
1792 to remember that financial institutions -- the incumbent
1793 financial institutions often don't want to make that \$25,000 loan.

1794 They want to make the \$250,000 loan or the \$250 million loan.
1795 So having an opportunity to serve the market that the really small
1796 business guy needs -- the food truck guy, the guy that just needs
1797 a pizza oven or a dentist chair -- those become really, really
1798 important.

1799 Mr. Bilirakis. That's good. Anyone else, please?

1800 Mr. Saade. Yes. I would say that 30 million or so U.S.
1801 small businesses, half of them, when you're looking to give them
1802 credit, it's actually a person credit.

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1803 So at the end of the day, a lot of these small businesses
1804 actually are basically personal guarantees and all this stuff.

1805 So that=s one thing is that helping consumers access credit
1806 means that they can start these micropreneurial businesses.

1807 The other thing is the, like she was saying, has to do with
1808 the size. Typically, because pools of capital have become so big,
1809 especially banks and things of that nature, they don=t get out
1810 of bed for anything less than some big number.

1811 So there=s a huge swath of underserved small businesses not
1812 for any macabre reason other than it doesn=t make any business
1813 sense. So a lot of these innovations actually label you to scale
1814 the ability to deliver capital to these tiny pipsqueak companies
1815 which, as you said, are the beating heart of our economy. So it=s
1816 -- it=s critical to small businesses.

1817 Mr. Bilirakis. Very good. Would you like to add something?

1818 Ms. Tetreault. If I may, I just would want to emphasize that
1819 micropreneur is another thing that can be incredibly important
1820 is receipt of payment and that faster payments can really enable
1821 receipt of those funds so long as banks are held to make those
1822 funds available to consumers upon receipt. The gap needs to be
1823 closed.

1824 Mr. Bilirakis. Very good. Thank you.

1825 Mr. Van Valkenburgh. I would simply echo the rest of the
1826 panel saying that the reduction in costs of provision of these
1827 services and potentially the reduction in costs of having a robust

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1828 in order to discover creditworthiness are things that open block
1829 chain networks can deliver on by streamlining the pipes in
1830 between, you know, persons, small businesses, big companies and
1831 making trust and verifiability easier between those parties.

1832 Mr. Bilirakis. Very good. My time has expired, Mr.
1833 Chairman. I yield back. Thank you.

1834 Mr. Costello. Gentleman yields back. I will recognize
1835 myself for five minutes.

1836 Mr. Van Valkenburgh, I have a block chain company in my
1837 district in Berwyn, Pennsylvania -- AlphaPoint -- who prior to
1838 this hearing echoed much of the details that you shared today.
1839 In fact, they're doubling the size of their team and they expect
1840 that trend to continue.

1841 Preliminarily, I'm curious. When we talk about block chain
1842 technology and job creation and GDP growth, is block chain
1843 technology creating new jobs or displacing old jobs?

1844 Mr. Van Valkenburgh. I think that's an excellent question.
1845 I come from a legal background and when the term smart contracts
1846 started floating around, everyone started suggesting that well,
1847 we'll be able to get rid of the lawyers -- that's great.

1848 I think the reality is that's simply either too optimistic
1849 or foolhardy. Really, what you end up seeing is retraining.

1850 A lawyer, for example, in this space should now learn how
1851 to code. They should learn how to write a contract that is not
1852 only embodied in legal terms in written language but also

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1853 potentially embodied in computer code that runs on top of a
1854 decentralized network.

1855 So I don=t think this leads to substantial job losses. I
1856 think it does lead to challenges with retraining and I think
1857 education and efforts to make sure that people are aware of how
1858 things are changing are important to that end.

1859 Mr. Costello. I discerned a little bit of disagreement on
1860 the panel on the issue of FinTech charters and so I first wanted
1861 to ask you this question and then open it up to those who agree,
1862 disagree or maybe have a slightly different take.

1863 You used an interesting phraseBissue of permissionless
1864 innovation versus responsible regulation. I think that=s what
1865 you characterized it as, and I get what you=re getting at because
1866 I think there=s always that tension when we talk about innovation
1867 between making sure that regulatory barriers don=t get in the way.

1868 At the same point in time, you don=t want innovation to sort
1869 of take advantage of an outdated set of rules or laws that creates
1870 victims and I think that that=s what we are really focussing on
1871 when you talk about FinTech charters and this issue writ large.

1872 The question that I have for you on FinTech charters is why
1873 do you think that they=re needed versus why could it not just be
1874 being a little bit additive to the existing regulatory or legal
1875 framework which already exists?

1876 Mr. Van Valkenburgh. So under existing --

1877 Mr. Costello. It=s a little thing and it=s kind of a big

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1878 step I would -- I would --

1879 Mr. Van Valkenburgh. Yes. Thank you, Congressman.

1880 I think under existing regulatory structures in general if
1881 you want a unified federal regulator you're going to need to be
1882 what we traditionally consider a bank.

1883 You're going to need to take deposits, make loans and maybe
1884 do check paying or payments. If you don't want to do deposit
1885 taking and maybe if you don't even want to do loans -- you just
1886 want to do payments -- you have no choice for a unified federal
1887 regulator. You will have to go state by state and get money
1888 transmission licensing.

1889 Now, that is a severe barrier to innovation from a
1890 permissionless innovation standpoint because you're going to have
1891 to have 53 conversations across the states and territories and
1892 explain, well, in many cases what Bitcoin is and that is a
1893 difficult conversation to have with a state regulator.

1894 Mr. Costello. Right.

1895 Mr. Van Valkenburgh. Now, they may be on board with what
1896 you're proposing long-term but it's a lot of legwork. Now, the
1897 alternative would be can I get one federal regulator and I think
1898 the OCC's FinTech charter presents an opportunity for that because
1899 they've suggested that they're willing to charter banks or, you
1900 know, federal banks who do not do deposit taking -- who only do
1901 payments or only do lending.

1902 I would add that the controversial nature of the charter with

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1903 respect to some consumer groups I think often focuses on
1904 aggregation or preemption of state limits on interest rates.
1905 This is not an issue that we take a position on.

1906 At Coin Center, we are primarily concerned with payments
1907 companies getting federal charters, not lenders.

1908 Mr. Costello. And I don't see what -- I mean, you can have
1909 preemption but it doesn't mean everything is preempted.

1910 Mr. Van Valkenburgh. Precisely.

1911 Mr. Costello. So that would -- I tend to see the argument
1912 your way there. Others?

1913 Ms. Tetreault. I would emphasize that it is the preemption
1914 of those lending caps that raises a particular concern and then
1915 there also is a question about whether or not there will be enough
1916 oversight in particularly examination and supervision.

1917 And then there are the concerns around, obviously, the safety
1918 and soundness requirements. I think also one other piece of it
1919 is when it comes to information sharing that there are tools
1920 available at the state level that may not exist presently at the
1921 federal level. So that would need to be addressed as well.

1922 Mr. Costello. But safety, soundness, oversight -- could you
1923 make the argument, though, that given the sophistication of this
1924 that that might be done better at the federal level but you
1925 wouldn't preempt issues such as interest rates, et cetera?

1926 Because I understand state banking law, state banking law,
1927 but on some of this stuff it just strikes me that preemption might

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1928 be the way to not have innovation be hampered by state patchwork.

1929 Ms. Tetreault. I understand around the duplicative efforts
1930 and the concerns there and, again, that could be something that
1931 is more streamlined with a national licensing systems.

1932 I would not rule that out provided that there are those
1933 essential safeguards in place and no preemption of those lending
1934 caps in particular.

1935 Mr. Costello. Anyone else?

1936 Ms. Hogarth. I would just like to point out that I have a
1937 driver=s license from the state of Virginia and it lets me drive
1938 anywhere across the United States.

1939 And I recently drove in South Africa on the left. So go
1940 figure. But I still have to obey the state speed limits and I
1941 think there=s an interesting analogy there.

1942 Mr. Costello. Thank you.

1943 Seeing there are no further members wishing to ask questions
1944 for the panel, I would like to thank all of our witnesses again
1945 for being here today.

1946 Before we conclude, I would like to include the following
1947 documents to be submitted for the record by unanimous consent:
1948 a letter from Electronic Transactions Association, a letter from
1949 Competitive Enterprise Institute, a letter from Kaspersky Lab,
1950 a letter from Intuit.

1951 Pursuant to committee rules, I remind members that they have
1952 10 business days to submit additional questions.

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1953 [The information follows:]

1954 *****COMMITTEE INSERT 1*****

1955 Ms. Schakowsky. Without objection.

1956 Mr. Costello. Very good. And I ask that witnesses submit
1957 their response within 10 business days upon receipt of the
1958 questions. Subcommittee is adjourned.

1959 [Whereupon, at 11:54 a.m., the committee was adjourned.]