



May 21, 2019

RE: NCRC Comment Letter on Monzo's Charter Application

To Whom it May Concern:

The National Community Reinvestment Coalition (NCRC) maintains that Monzo's charter application has not demonstrated a significant commitment to meeting the convenience and needs of the community to be served as required by the Community Reinvestment Act and the OCC's licensing manual.<sup>1</sup> Monzo has developed an incomplete plan for its Community Reinvestment Act (CRA) responsibilities that does not adequately serve the credit and deposit needs of the communities, including low- and moderate-income (LMI) communities. NCRC opposes Monzo charter application and urge the OCC to deny it.

Receiving a bank charter is a privilege, not a right. On-line lenders have proliferated, exploiting unproven and untested marketing and underwriting approaches that raise significant questions regarding disparate impact, fair lending, abusive lending practices, and safety and soundness, particularly during the current global pandemic. Monzo is one of these on-line financial institutions; it would be a new market entrant to the United States and as such, has a special obligation to demonstrate its responsibility and inclusiveness.

As a financial company based in the United Kingdom with four million customers, Monzo offers its customers an array of products including digital checking accounts, short-term installment loans, and overdraft lines of credit. The company represents it aims to serve all socioeconomic groups and wants consumers to avoid "unfair fees and charges."<sup>2</sup> Upon its entry in the United States, Monzo aims to offer a "financial control center" that will help consumers better manage their finances through real time transaction updates and "budgeting tools."<sup>3</sup> Monzo also represents that in the future they will investigate offering credit cards and longer-term installment loans with terms ranging from 18 to 60 months.

Despite its assertion of seeking to serve all socioeconomic groups, Monzo's CRA plan does not contain any goals for the retail products Monzo describes in its application. Instead, Monzo is seeking a designation as a limited purpose bank, which would only need to engage in community development financing, not retail lending.<sup>4</sup> This audacious move occurs at a time when the OCC just finalized a new CRA regulation. The rule would include an examination of consumer lending, which would include Monzo's installment loans.

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<sup>1</sup> Comptroller's Licensing Manual, Charters, September 2016, p. 96, <https://www.occ.gov/publications/publications-by-type/licensing-manuals/charters.pdf>,

<sup>2</sup> Monzo application, pp. 10-11.

<sup>3</sup> Ibid, pp. 12-13.

<sup>4</sup> Ibid., p. 37.

The federal bank agencies have touted mobile and on-line banking as a means of serving traditionally underserved populations. The agencies have devoted considerable time amending the Interagency Question and Answer (Q&A) document on CRA in order to encourage and evaluate on-line banking. Yet, Monzo’s application has not provided any data indicating that its on-line and mobile service is effectively serving low- and moderate-income (LMI) populations. If the OCC does not require a rigorous CRA plan from Monzo with specific goals for serving LMI borrowers and communities, an approval of an inadequate plan will merely exacerbate the digital divide and encourage more fintechs to apply for bank charters without any ironclad plans for serving LMI communities.

In contrast to Monzo’s CRA plan, NCRC believes the OCC should consider the following as minimal requirements for an online lender applicant creating a rigorous CRA plan. Such a plan must be comprehensive, qualities lacking in Monzo’s proposed plan:

### **Towards a Substantial CRA Plan that Utilizes the Talents and Expertise of the Applying Institution**

A non-bank applying for a bank charter must apply its talent and expertise in serving the LMI population. Monzo describes admirable education efforts in the United Kingdom including “No Barriers to Banking,” financial education, access to credit scores through its website for customers, and initiatives aimed towards customers with disabilities.<sup>5</sup> Monzo also describes a “U.S. Monzo Community forum page” on its website to ascertain needs and aspirations of residents of the United States. However, despite the list of initiatives in the United Kingdom and its virtual outreach in the United States, Monzo does not describe how it will replicate its financial education initiatives in the United States. These would represent community development services but Monzo does not seem interested in impressing either the OCC or the general public with details on how it would offer an exciting and substantial array of these services in the United States.

### **Measurable Goals**

A CRA plan must have measurable goals so that the public can judge the extent of concrete benefits for the LMI community. Commitments to provide loan or bank deposit products without measurable goals can result in a financial institution declaring that a minimal number of products for LMI populations over the CRA plan time period meets the requirements of the CRA plan. In addition, measurable goals provide a substantive opportunity for the public to comment on the adequacy of the CRA plan. Monzo aims to dodge this completely by applying to be designated as a limited purpose bank under CRA that would not be examined for its retail activities.

For its mobile banking, Monzo should adopt benchmarks based on the specific guidance on how CRA examiners evaluate alternative delivery systems in the Interagency Questions and Answers

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<sup>5</sup> Ibid, p. 55.

Regarding CRA (Interagency Q&A).<sup>6</sup> The Interagency Q&A advises that CRA examiners will scrutinize whether a financial institution’s alternative delivery systems are effectively delivering services to LMI populations by considering a variety of factors including: ease of access; cost to consumers; range of services delivered; ease of use; rate of adoption and use; and reliability of the system.<sup>7</sup> Monzo should establish specific performance measures and goals for the LMI community for these factors. Factors like the rate of adoption and use and the reliability of the system should have separate metrics and goals for rural as well as urban areas, and for previously under-phoned and under-banked populations.

The federal bank agencies have an opportunity to use its Q&A guidance and insist that Monzo’s CRA plan incorporate these metrics for its loan and deposit products so that the public can discern whether Monzo’s charter application would specifically meet the convenience and needs of LMI communities instead of the vague promises in its current application. In addition, the OCC would be acting inconsistently with its new CRA rule if it did not ask Monzo to indicate goals for its consumer lending, which would be examined on a proposed retail test.

Monzo should provide the public with metrics that indicate the volume and percent of its products that will be offered to LMI borrowers and communities. It is not enough to simply list the numbers of accounts because a large number could still be a low percent of the company’s portfolio.

### **Community Development Lending and Investment Goals**

Monzo listed possible entities with which it would offer loans to and make investments in for community development purposes. It did not offer any expected levels of community development financing or compare itself to the dollar amounts or ratios of community development financing to assets offered by its peers. It states that its CRA officer will determine annual levels of community development financing at the beginning of each year.<sup>8</sup> Moreover it cites affordable housing as a priority need in the San Francisco area, where its assessment area will be, but does not describe expected levels of financing or priority neighborhoods with particular shortages of affordable housing.

The application is also tone death to the COVID-crisis. How would Monzo use its installment lending, for example, to help borrowers and communities in economic distress? How would Monzo respond to the needs for improved health care facilities, including testing and contact tracing? Could it identify community health facilities serving LMI communities in its proposed assessment area and pledge proposed financing for them to be equipped with improved COVID-responses?

### **Community Development Investments to Increase Broadband Access**

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<sup>6</sup> Community Reinvestment Act; Interagency Questions and Answers Regarding Community Reinvestment Act Guidance, OCC, Board of Governors of the Federal Reserve System, FDIC, Fed. Reg. 81, 142 at 48506, <https://www.gpo.gov/fdsys/pkg/FR-2016-07-25/pdf/2016-16693.pdf>

<sup>7</sup> Interagency Q&A at 48542.

<sup>8</sup> Monzo application, p. 56-57.

Monzo should also consider investments in improving broadband access. The Federal Communications Commission’s (FCC’s) 2016 Broadband Progress Report concluded that 10 percent of Americans across the country still lack access to adequate broadband Internet service. While only 4 percent of people living in urban areas lack adequate broadband services, 39 percent and 41 percent of residents of rural and tribal areas, respectively, lack access.<sup>9</sup> It is important for Monzo, as a fintech, to acknowledge the “digital divide” and work toward closing this gap through its CRA plan. The Federal Reserve Bank of Dallas extols using CRA qualified investments in broadband as an effective means of closing the digital divide and providing LMI individuals access to safe and sound banking products.<sup>10</sup>

### **Fair Lending and Consumer Protection Commitment**

Monzo and other fintechs must include a section in their application detailing how they will comply with consumer protection and fair lending laws. Fintechs have come under intense scrutiny regarding fair lending concerns associated with their unorthodox underwriting. Algorithms and machine learning have been alleged to judge consumers’ creditworthiness based on characteristics like particular colleges attended that can exclude protected classes and create disparate impacts not justified by business necessity. Fintechs are under an obligation to describe in detail how their unusual underwriting will not be exclusive.

### **Assessment Area Cannot be Narrow but Must Include Areas Where a Substantial Amount of Business is Conducted**

Monzo’s plan establishes the metropolitan area of San Francisco-Oakland-Berkeley as its assessment area because the bank’s headquarters would be located there.<sup>11</sup> This narrow assessment area would not be truly responding to credit and deposit needs where Monzo would be conducting business and would thus fall short of meeting the convenience and needs requirement for a charter application. NCRC believes that Monzo’s CRA plan must to be national in reach since it is serving a national market.

It is a contradiction in terms for a branchless fintech to establish its assessment area where its headquarters is located. In this case, Monzo is acting as if its headquarters location is a branch and as such, the headquarters location will make loans in its contiguous community. But the headquarters is not a branch and would not be used for making loans. This sleight of hand mocks the intention of CRA to serve credit and banking needs wherever a lender is conducting business.

Instead of designating San Francisco as its sole assessment area, Monzo needs to identify areas including states, metropolitan areas, and rural counties that would receive considerable amounts

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<sup>9</sup> Broadband Progress Report, Federal Communications Commission, Jan. 29, 2016, <https://www.fcc.gov/reports-research/reports/broadband-progress-reports/2016-broadband-progress-report>

<sup>10</sup> Closing the Digital: A Framework for Meeting CRA Obligations, Federal Reserve Bank of Dallas, July 2016, <https://www.dallasfed.org/assets/documents/cd/pubs/digitaldivide.pdf>

<sup>11</sup> Monzo application, p. 37.



of its business activity. Since it is not yet offering retail loans in the United States, it can make a commitment that it will map the future geographical distribution of these loans as well as deposits. This mapping exercise would help identify future assessment areas. The CRA regulations do not prohibit a branchless bank from establishing assessment areas beyond its headquarters. Assessment areas can include areas where substantial amounts of lending activity occur.<sup>12</sup>

NCRC notes that the OCC requires all lending institutions, including branchless ones, to designate “deposit-based” assessment areas where they received significant amounts of their deposits. NCRC has proposed that designation of assessment areas should also include the use of loan data. We provided a number of examples of how to do this citing previous CRA exams as precedents and using the Lending Club as an example in our comment letter on the proposed changes to CRA.<sup>13</sup> If the OCC does not require Monzo to commit to identifying additional assessment areas in this manner, the OCC would be acting in a manner inconsistent with its changes to CRA and would fail to hold Monzo up to its CRA responsibilities.

## Conclusion

Monzo’s charter application cannot be approved by the OCC. The current CRA plan does not illustrate a willingness to meet credit and banking needs in all areas in which Monzo would be conducting business as required by the convenience and needs factor for charter approval. In addition to a lack of a robust CRA plan, Monzo does not offer an explicit and ironclad commitment to responsible and fair lending in its charter application. We ask the OCC to reject this application and implement a high standard for any non-bank seeking the privilege of a bank charter.

Thank you for the opportunity to comment on this important matter. If you have any questions, you can reach me or Josh Silver, Senior Advisor, on 202-628-8866.

Sincerely,

A handwritten signature in black ink that reads "Jesse Van Tol". The signature is written in a cursive, flowing style.

Jesse Van Tol  
CEO

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<sup>12</sup> See § 345.41 (c) (2), Assessment area delineation, of the FDIC CRA regulation via <https://www.fdic.gov/regulations/laws/rules/2000-6500.html#fdic2000part345.41>

<sup>13</sup> NCRC Comments Regarding Notice Of Proposed Rulemaking (Docket ID OCC–2018-0008 And RIN 3064-AF22), April 7, 2020, <https://ncrc.org/ncrc-comments-regarding-notice-of-proposed-rulemaking-docket-id-occ-2018-0008-and-rin-3064-af22/>