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The U.S. Treasury's Fintech Report: Six Takeaways And The Potential Credit Implications For Nonbank Financial Institutions

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At the end of July, the U.S. Department of the Treasury published its fourth and final report, in response to a 2017 presidential executive order, containing recommendations for financial reform. The report, titled "A Financial System That Creates Economic Opportunities – Nonbank Financials, Fintech, and Innovation," focused on how federal and state regulations affect nonbank financial institutions (NBFIs) and the rapid evolution of financial technology, or fintech. It emphasized modernization, harmonization, and experimentation in regulation at the state and federal levels to preserve America's competitive edge in financial markets.

S&P Global Ratings believes the recommendations could reduce compliance costs, create revenue opportunities, and ease legal uncertainty for the rated NBFIs. However, they could also leave room for new entrants, which could increase competition. Overall, we don't expect to take any rating actions until we have greater clarity over what recommendations will succeed.

The many recommendations to Congress, the Federal Reserve, the Consumer Financial Protection Bureau (CFPB), state governments, and others have drastically varying probabilities of adoption. Here we provide our views on the potential credit implications if the recommendations became a reality. Although many of the recommendations would apply to both banks and NBFIs, we focus on the NBFI sectors--particularly mortgage lenders and servicers, market place and payday lenders, money transmitters and payment processors, student lenders and servicers, and wealth management companies.

Overview

- The Treasury report is an ambitious call to foster financial innovation by recommending a national Office of the Comptroller of the Currency (OCC) fintech charter, harmonizing state regulations, and creating a regulatory sandbox--moves we believe would, in most cases, mitigate legal uncertainty for the nonbank finance companies we rate.
- With the exception of possible minimum capital and liquidity standards for entities regulated by the OCC, we do not believe the enactment of these recommendations would cause us to take any rating actions on nonbank finance companies in the near term.
- We do, however, believe the recommendations could reduce compliance costs and create new revenue opportunities in the medium term. Beyond that, economic rents will likely lead to new competitive threats and pressure on margins.

Table 1

Treasury Recommendations

Industry	Treasury recommendation	Policy responsibility	Ratings impact
Financial technology	Treasury recommends that the OCC move forward with prudent and carefully considered applications for special purpose national bank charters. OCC special purpose national banks should not be permitted to accept FDIC-insured deposits, to reduce risks to taxpayers. The OCC should consider whether it is appropriate to apply financial inclusion requirements to special purpose national banks. The Federal Reserve should assess whether OCC special purpose national banks should receive access to federal payment services.	FRB, OCC	Positive implications, since OCC charter would likely entail minimum capital and liquidity standards.
Financial technology	Treasury recommends that federal and state financial regulators establish a unified solution that coordinates and expedites regulatory relief under applicable laws and regulations to permit meaningful experimentation for innovative products, services, and processes. Such efforts would form, in essence, a “regulatory sandbox” that can enhance and promote innovation. If financial regulators are unable to fulfill those objectives, however, Treasury recommends that Congress consider legislation to provide for a single process consistent with the principles detailed in the report, including preemption of state laws if necessary.	Congress, federal and state financial regulators, SROs	If the recommendation is implemented in totality, we would likely see NBFIs benefit from reduced regulatory risk and the ability to scale their business across state borders.
Financial technology	Treasury encourages regulators to appropriately tailor regulations to ensure innovative technology companies providing tools to regulated financial services companies can continue to drive technological efficiencies and cost reductions. Treasury encourages regulators to seek out and explore innovative partnerships with financial services companies and regtech firms alike to better understand new technologies that have the potential to improve the execution of their own regulatory responsibilities more effectively and efficiently.	Federal and state financial regulators	Same as above.
Mortgage lending and servicing	To address the perception associated with the use of the FCA on mortgage loans insured by the federal government, Treasury recommends that Hud establish more transparent standards in determining which program requirements and violations it considers to be material to assist DOJ in deterring which knowing defects to pursue.	HUD/FHA	Positive implications insofar as it reduces FCA related penalties. However, it could encourage retail banks to reenter the market, which would increase competition and negatively affect profit margins.

Table 1

Treasury Recommendations (cont.)

Industry	Treasury recommendation	Policy responsibility	Ratings impact
Mortgage lending and servicing	Treasury recommends Congress appropriate for FHA the funding it has requested for technology upgrades in the President's Fiscal Year 2019 Budget – a portion of which FHA would use to improve the digitization of loan files. In addition, FHA, VA, and USDA should explore the development of shared technology platforms, including for certain origination and servicing activities.	Congress/HUD/FHA/VA/USDA	In the short term, the transition to technology-based mortgage lending and servicing streamline loan origination and reduce reliance on wholesale funding, which we view as a credit positive. Over time, technology adoption by small or new players could pressure those who were early adopters.
Mortgage lending and servicing	Treasury recommends FHA and other government loan programs develop enhanced automated appraisal capabilities to improve origination quality and mitigate the credit risk of overvaluation. These programs may also wish to consider providing targeted appraisal waivers where a high degree of property standardization and information about credit risk exists to support automated valuation, and where the overall risks of the mortgage transaction make such a waiver appropriate. Treasury supports legislative action where statutory changes are required to authorize granting limited appraisal waivers for government programs.	HUD/FHA/VA/USDA	Same as above.
Mortgage lending and servicing	Treasury further recommends that government loan programs explore opportunities to leverage industry-leading technology capabilities to reduce costs to taxpayers and accelerate adoption of new technology in the government-insured sector.	HUD/FHA/VA/USDA	Same as above.
Mortgage lending and servicing	Treasury recommends that states yet to authorize electronic and remote online notarization pursue legislation to explicitly permit the application of this technology and the interstate recognition of remotely notarized documents. Treasury recommends states align laws and regulations to further standardize notarization practices.	States	Same as above.
Mortgage lending and servicing	Treasury recommends that states pursue the establishment of a model foreclosure law, or make any modifications they deem appropriate to an existing law, and amend their foreclosure statutes based on that model law.	States	Same as above.

Table 1

Treasury Recommendations (cont.)

Industry	Treasury recommendation	Policy responsibility	Ratings impact
Marketplace lending and payday	Treasury recognizes and supports the broad authority of states that have established comprehensive product restrictions and licensing requirements on nonbank short-term, small-dollar installment lenders and their products. As a result, Treasury believes additional federal regulation is unnecessary and recommends the Bureau rescind its Payday Rule.	Bureau	Overall ratings impact is neutral to modestly positive. For companies that could not adequately support longer-duration installment products, a reversal of the payday rule could ease some pressure. However, we would expect nonbank companies to continue to dominate this area of financial services.
Marketplace lending and payday	Treasury recommends that Congress codify the “valid when made” doctrine to preserve the functioning of U.S. credit markets and the longstanding ability of banks and other financial institutions, including marketplace lenders, to buy and sell validly made loans without the risk of coming into conflict with state interest rate limits. Additionally, the federal banking regulators should use their available authorities to address challenges posed by Madden.	Congress/FRB/FDIC/OCC	Modestly positive implications insofar as it will reduce regulatory uncertainty.
Marketplace lending and payday	Treasury recommends that Congress codify that the existence of a service or economic relationship between a bank and a third party (including financial technology companies) does not affect the role of the bank as the true lender of loans it makes. Further, federal banking regulators should also reaffirm (through additional clarification of applicable compliance and risk-management requirements, for example) that the bank remains the true lender under such partnership arrangements.	Congress/FRB/FDIC/OCC	Same as above.
Money transfer and payment processing	Treasury supports the Bureau’s ongoing efforts to reassess Regulation E. Treasury recommends that the Bureau provide more flexibility regarding the issuance of Regulation E disclosures and raise the current 100 transfer per annum threshold for applicability of the de minimis exemption.	Bureau	Limited rating impact.
Money transfer and payment processing	Treasury recommends that the Federal Reserve move quickly to facilitate a faster retail payments system, such as through the development of a real-time settlement service, that would also allow for more efficient and ubiquitous access to innovative payment capabilities. In particular, smaller financial institutions, like community banks and credit unions, should also have the ability to access the most-innovative technologies and payment services.	FRB	Unlikely to affect our view of the sector, however, individual companies’ liquidity could improve as counterparty credit risk is diminished.

Table 1

Treasury Recommendations (cont.)

Industry	Treasury recommendation	Policy responsibility	Ratings impact
Student loans	Education should establish guidance on minimum standards specifying how services should handle decisions with significant financial implications (e.g., payment application across loans, prioritizing repayment plans, and use of deferment and forbearance options), minimum contact requirements, standard monthly statements, and timeframes for completing certain activities (e.g., processing forms or correcting specific account issues). Treasury applauds the required use of Education branding on servicing materials in the new Direct Loan servicing procurement to reduce borrower confusion.	ED	Modestly positive as standardization should reduce operational burdens for servicers and enforcement responsibility for regulators.
Wealth management	Treasury believes that appropriate protection for clients of financial planners, digital and otherwise, can be achieved without imposing either a fragmented regulatory structure or creating new regulatory entities. Treasury recommends that an appropriate existing regulator of a financial planner, whether federal or state, be tasked as the primary regulator with oversight of that financial planner and other regulators should exercise regulatory and enforcement deference to the primary regulator. To the extent that the financial planner is providing investment advice, the relevant regulator will likely be the SEC or state securities regulator.	SEC, FINRA, DOL, Bureau, FRB, OCC, FDIC, state regulators	We expect minimal impact on our rated entities, although implementation would reduce compliance costs

FRB--Federal Reserve Board. OCC--Office of the Comptroller of the Currency. SROs--Self-regulatory organizations. HUD--U.S. Department of Housing and Urban Development. FHA--Federal Housing Administration. VA--U.S. Department of Veterans Affairs. USDA--U.S. Department of Agriculture. FDIC--Federal Deposit Insurance Corp. ED--U.S. Department of Education. FINRA--Financial Industry Regulatory Authority. DOL--U.S. Department of Labor.

1. 21st Century Technology Requires 21st Century Regulations

We view the Treasury's report as a call to action to modernize regulations for 21st century finance. This is consistent with the executive order's call for more efficient and tailored regulation, with the Treasury sometimes simply recommending a reduction in regulation or a less conservative regulatory approach.

Notably, the Treasury has made recommendations aiming to reduce inefficiencies associated with the patchwork of state regulations that NBFIs face, sometimes making it difficult to expand and operate in multiple areas. For one, it supports the OCC's (Office of the Comptroller of the Currency) December 2016 proposal to consider applications from NBFIs to become special purpose national banks. A national charter would allow for the preemption of certain state laws and more of a seamless operation across state lines.

On the same day of the Treasury's report, the OCC announced that it will begin accepting applications for national bank charters from fintech companies. Congresswoman Maxine Waters (D-CA), ranking member of the House Committee on Financial Services, expressed particular concerns about the prospect of payday companies applying for an OCC charter and the Treasury's recommendation to the Consumer Financial Protection Bureau (CFPB) to rescind its payday rules.

We believe an OCC fintech charter, which is arguably the most impactful of the Treasury's recommendations, could reduce regulatory risk for NBFIs--by decreasing the large number of state regulations imposed on them--and could hold them to stricter financial management standards. The report recommends that companies that receive the charter "be subject to the same standard as similarly situated national banks, including capital, liquidity, consumer protection and financial inclusion based on the business model and risk profile of the chartered company." Nonbank finance companies have very little safety and soundness responsibility outside of typical financial creditor agreements and covenants.

An OCC fintech charter could reduce the number of state regulations for NBFIs and hold them to stricter financial management standards.

However, a national charter perhaps could also spark rapid growth for some NBFIs whose strategies have been hamstrung by the patchwork of state regulations. Such growth could come with risk, such as increased competition or loosening underwriting standards.

In addition to the OCC charter, the Treasury encouraged states to harmonize their laws and examinations to minimize duplicative, and hence costly, oversight of nascent fintech industries. For instance, it pointed to one approach in which a "model law" is drafted and then adopted by state legislatures, allowing for identical or similar regulatory laws and requirements in each state. We believe that harmonization of state regulations, which historically has had mixed success, will be tougher to achieve than simply having more special purpose national bank charters approved by the OCC.

The Treasury also recommended that governments and regulators create "regulatory sandboxes." In such sandboxes, regulators relax certain regulations so players can experiment on a small scale with new financial products and innovations. The Treasury believes both the private sector and public regulators would benefit from an environment that fosters innovation by providing some regulatory relief. The report argued that binary outcomes of either approval or disapproval lack "appropriate flexibility" for the myriad of potential considerations of new financial technology, noting that innovation is an iterative process. While what the final form of the U.S. sandbox would look like is short on details, we believe a regulatory-light test environment could create new revenue streams for inventive fintech applications.

The Treasury points to Hong Kong, Singapore, and the U.K. as international examples of agile sandbox regulation. Hong Kong's Fintech Supervisory Sandbox allows firms to conduct pilot trials under lower regulation. The Monetary Authority of Singapore created a policy framework where it will relax certain regulations for accepted applicants into the program. The U.K.'s Financial Conduct Authority selects firms and allows them to test their products on a small scale and provides feedback along the way.

The Treasury recommends that the U.S. version of a regulatory sandbox be open to firms of any size and lifecycle maturity and offered to work with federal and state financial regulators in the design of the test environment. The report provides seven overarching principles, which centered on equal access, consumer protection, financial integrity, and public-private sector communication in order to promote innovation and economic competitiveness.

2. Mortgage Lending And Servicing: Envisioned Regulation Will Exacerbate Competition

The $11 trillion U.S. mortgage market was ground zero of the global financial crisis. Loosely underwritten mortgages in the run-up to 2008 and the wave of foreclosures in the aftermath led to federal and state governments enacting new laws to protect consumers and prevent a repeat. But as new rules were being written and financial penalties were being imposed, the mortgage sector was rapidly evolving from its retail bank brick-and-mortar roots to electronic and online platforms. Look no further than Quicken Loans. The online lender, which considers itself a technology company that originates mortgages, funded $86 billion in mortgages in 2017--taking the top retail spot, over Wells Fargo, since the fourth quarter of 2017.

Even before the Treasury's recommendations, regulation has been front and center for the mortgage industry for the past several years. For example, nonbank lenders that operate in multiple states must acquire lending or credit licenses for each state with a state-specific regulatory regime. The CFPB issued rigorous new mortgage servicing rules under the Truth in Lending Act (TILA) in 2016 and enhanced disclosure requirements for new originations known as TRID (TILA – Real Estate Settlement Procedures Act Disclosure) in 2015. While these new rules were written to inform and protect consumers, lenders and servicers argue that they have increased costs as well.

The Department of Justice (DOJ) has been the largest regulatory threat to the industry. Through 2016, the DOJ recovered $7 billion under the authority of the False Claims Act (FCA) for deficient mortgages insured by the U.S. Federal Housing Administration (FHA). Penalties can range from $11,181 to $22,363 per false claim as well as triple the amount of damages to the government. Freedom Mortgage settled a claim for $113 million in 2016, and Quicken Loans has charges that are pending. Lenders and industry groups argue that the penalties can be on mortgages that still could be eligible for FHA insurance and that the DOJ extrapolates data on a sample set of mortgages and then applies monetary damages to a larger population to inflate fines.

The Treasury report made several recommendations centered on improving mortgage technology and regulation, which we believe could have both positive and negative credit implications. The Treasury recommends that Congress appropriate funding for technology upgrades at the FHA and explore ways to foster electronic mortgages and remote online notarizations. In terms of regulation, it recommends that the FHA establish more transparent guidelines on what it considers material violations and offer lenders remedies to cure loans identified as deficient. It also encourages state regulators to align laws and pursue the establishment of a model foreclosure law.

The mortgage recommendations could standardize regulations and reduce uncertainty, which could encourage entry of new competitors and squeeze profit margins for existing companies.

On the surface, and certainly in the next two to three years, the recommendations would support credit conditions for the nonbank mortgage lenders we rate. Enhanced technology would lead to faster mortgage closings, less reliance on wholesale funding, and greater control over compliance functions than with legacy paper-based documentation. To the extent that states could standardize their laws and co-opt the oversight of companies, there would be cost savings to existing companies and lower barriers for new entrants. Fewer and less severe FHA-related monetary penalties would also be an obvious and big victory for the mortgage industry.

Over the longer term, however, many of the technology-related recommendations could further standardize an already commodity-like mortgage product. Although this would be a win for consumers, we believe it could encourage entry, or reentry, of new competitors and squeeze profit margins for existing mortgage companies. Inefficient markets create economic opportunities. Quicken Loans, for example, has a strong competitive advantage with its electronic and mobile interface platforms. These advantages could wane as others adopt electronic mortgage practices, which would then make marketing spend the key differentiator.

Penalties under the FCA, however, remain one of the greatest uncertainties facing FHA lenders. The incurrence of FCA penalties is a leading reason many larger retail banks scaled back originating FHA mortgages. Greater clarity on what constitutes a material underwriting deficiency and opportunities to rectify defective mortgages would likely encourage retail banks to reenter the market. Again, this would be a clear win for consumers but could pressure profit margins for companies such as Freedom Mortgage and PennyMac Financial Services, which have thrived in the government-insured market over the past decade.

Table 2

Mortgage Lending And Servicing

Ditech Holding Corp.	CCC+/Stable
Freedom Mortgage Corp.	B-/Stable
OCWEN Financial Corp.	B-/Negative
PennyMac Financial Services Inc.	B+/Stable
Provident Funding Associates L.P.	B/Negative
Quicken Loans Inc.	BB/Stable
Stearns Holdings LLC	B-/Negative
WMIH Corp.	B+/Negative

3. Marketplace Lending, Small Dollar, And Payday: Repeal Of The Payday Rules Could Ease Some Of The Regulatory Pressure

The Treasury's recommendation for marketplace lending largely centered on regulation and emphasized the importance of nonbank lending companies to consumers and the broader market. According to the Federal Deposit Insurance Corp., almost 20% of U.S. households are considered underbanked, meaning consumers lack traditional bank access to credit, check cashing, and depository services. Traditional retail banks shy away or altogether avoid customers who have unsteady employment or limited financial resources. Nonbank lenders, however, have picked up the slack and represented 36% of the U.S. personal loan market in 2017, according to a report the Treasury cited.

With this backdrop, the Treasury report recommends that the CFPB rescind its November 2017 rule, "Payday, Vehicle Title, and Certain High-Cost Installment Loans," which is known as the payday rules. From a credit perspective, a repeal of the CFPB rules would alleviate pressure on small dollar lenders to curtail payday loans, which still account for a meaningful proportion of total revenue for many of the companies we rate. The rules, which were designed to protect consumers from a "cycle of debt," have forced many of the payday lenders we rate to shift to longer-duration installment products. This transition has been challenging to the industry because longer-duration installment loans require more balance sheet capital than payday loans, which turn over more quickly. We have lowered many ratings on small dollar lenders as they have struggled to make this transition while grappling with unsustainable leverage. For more, see "The Consumer Financial Protection Bureau's Final Rule Is Likely To Further Pressure Payday, Title, And High-Cost Lenders," published Oct. 6, 2017.

A repeal of the CFPB rules would ease pressure on small dollar lenders to curtail payday loans--which account for a meaningful portion of revenue for many.

The recommendation differs from other parts of the report, where the Treasury called for states to harmonize their rules or cede control to a federal regulatory. Instead, the Treasury "recognizes and supports the broad authority of states that have established comprehensive product restrictions and licensing requirements." According to the National Conference of State Legislatures, 37 states have laws allowing payday lending in some form, while 13 states prohibit payday lending. The Treasury also supports efforts by federal and state regulators to encourage "responsible" short-term and installment lending by banks. Despite the Treasury's plea, we do not believe banks are likely to enter the market anytime soon even if regulation were relaxed, although they could partner with or provide credit to consumer lenders.

The report also recommends that Congress codify the "valid when made" doctrine and the existence of an economic relationship between a bank and a third party to establish the "true lender"--both of which affect relationships between banks and NBFIs and essentially deal with preemption issues between federal and state law. We believe both of these recommendations would provide greater certainty for bank-NBFI arrangements when a nationally charted bank originates and then sells a loan to an NBFI without a national charter. The "valid when made" doctrine would ensure that a loan that was legally originated under one state's usury laws would still be valid if purchased by debt collectors in another state. In Madden v. Midland Financing LLC, the Second Circuit ruled that a debt collector attempting to recover interest rates in excess of the state's public policy violated the law even though the loan's interest rates were legal in the state where originated. The Treasury believes this ruling could lead to unintended consequences, such as diminished marketplace lending and securitization, because of the risk of litigation of state usury laws.

"True lender" legal uncertainties arise when banks partner with nonbank finance companies. Under these funding models, courts have wrestled with which party has the "predominant economic interest" in order to determine the true lender. In making such a determination, courts consider the terms and conditions negotiated between the bank and nonbank lender. If the court determines the nonbank holds the predominant economic interest, the company then becomes subject to state-based interest rate limits and licensing requirements. The Treasury believes this discourages alternative funding models and raises unnecessary legal uncertainty.

Table 3

Marketplace Lending, Small Dollar, And Payday

ACE Cash Express Inc.	B-/ Stable
CNG Holdings Inc.	CCC+/Positive
Community Choice Financial	CC/Negative
Curo Group Holdings Corp.	B-/Positive
Enova International Inc.	B/Negative
OneMain Holdings Inc.	B+/Positive
Sterling Mid-Holdings Ltd.	CCC/Negative
TMX Finance LLC	B-/Negative
World Acceptance Corp.	B+/Negative

4. Money Transmitters And Payment Processing: Industry Participants Could Benefit From A Faster System And The Elimination Of Duplicative Examinations

We believe the Treasury's recommendations pertaining to the payments sector would ease some regulatory challenges for money transmitters (such as Western Union and MoneyGram). The Treasury supported the CFPB's ongoing reassessment of Regulation E, which sets strict disclosure requirements on remittance transfers and recommended more flexibility around disclosure. But more broadly, the recommendations probably would not heavily affect the fast-changing dynamics in the sector. The innovation occurring in the payment space comes with risks and opportunities for the companies we rate.

Outside of money transmission, the Treasury mostly supported the Fed's efforts to work with industry players to speed up and modernize automated clearinghouse (ACH) and other forms of non-card-based payments. The report supported efforts of the Faster Payments Task Force, which was created in 2015 to implement safe and faster payment capabilities and settlements. Related to that, Visa and Mastercard and a variety of other players are competing to win a piece of the very large business-to-business payments pie. These payments currently flow largely through the slow ACH system, which typically involves settlement in a few days. Visa and Mastercard, as well as banks, PayPal (partially through Venmo), and others are also competing to win more person-to-person (P2P) payments. The Treasury recommended that regulators help small banks tap into the P2P market, perhaps by connecting with the Zelle product many large and regional banks have partnered on.

We don't believe the Treasury's recommendations in these areas would greatly change the dynamics playing out in the industry, which over time will result in winners and losers. For instance, the money transmitters face some threat that financial technology will advance to allow for new and less expensive ways of transferring remittances abroad.

The Treasury's recommendations could reduce regulatory pressure for money transmitters but are unlikely to change broader industry dynamics.

We believe a faster payment system would reduce counterparty credit risk for all financial participants and would improve a company's liquidity position, all else equal. Although fintech has seen many new entrants in the payment and money transfer space, most of the technological advancements have focused on consumer-friendly mobile interfaces while the plumbing of financial networks has largely been unchanged. Because new entrants still rely on existing financial plumbing, they are less exposed to the regulatory rigor that established players face.

As a practical matter, for example, a money transmitting firm with a nationwide footprint would need to obtain licensing from 49 states and the District of Columbia in order to conduct business. Money transfer companies must register with FinCEN (Financial Crimes Enforcement Network) at the federal level, which is a bureau of the Treasury, to combat illicit movement of money through the financial system, which could violate the Bank Secrecy Act (BSA) or Anti-Money Laundering (AML) statutes. Although individual states test for safety and soundness, they also test for compliance with BSA and AML rules. The Treasury said that this often leads to duplicative examinations that create a monetary cost for both the company and state agencies.

Monetary penalties for violating BSA or AML rules can be substantive. In January 2017, Western Union paid a $586 million penalty and entered into a five-year deferred prosecution agreement (DPA) with the DOJ and Federal Trade Commission to resolve an investigation into the company's oversight of its agents and whether its anti-fraud program, as well as its anti-money laundering controls, adequately prevented misconduct by those agents and third parties. MoneyGram International also has an ongoing DPA with the DOJ relating to transactions involving certain U.S. and Canadian company agents, as well as fraud complaints and the anti-fraud program, from 2003 to 2009. Although the final charges could be higher, MoneyGram has recorded $95 million accrual year-to-date 2018 in connection with a possible resolution.

Table 4

Payment Processing

Euronet Worldwide Inc.	BBB-/Negative
FleetCor Technologies Inc.	BB+/Stable
Mastercard	A/Positive
MoneyGram International	B+/Stable

Table 4

Payment Processing (cont.)

PayPal	BBB+/Stable
Visa	A+/Positive
Western Union Co. (The)	BBB/Stable
WEX Inc.	BB-/Stable

5. Student Lending: Establish Minimum Guidelines

The Treasury report recommends establishing minimum student loan servicing standards, noting that a borrower today with two different servicers may end up with different results. In particular, it suggests minimum standards address prioritization of payments, use of deferment and forbearance options, and the standardizing of monthly statements. The Treasury believes states could cede regulation to federal authorities following such enhancements. Although we believe that is unlikely, we do believe minimum standards can reduce ambiguity for servicers, borrowers, and regulators. We would view this positively from a credit perspective because it should reduce operational procedures on the part of the servicers and enforcement actions on the part of regulators.

One recent high-profile instance of an enforcement action occurred in January 2017, when the CFPB sued Navient Corp. over its servicing of student loans. Navient services $294 billion of federal student loans and is the second-largest student loan servicer in the U.S. In the complaint, the CFPB requests restitution, disgorgement of ill-gotten revenue, and civil monetary penalties. Offices of the Attorney General for the State of Illinois and the State of Washington also filed civil actions against Navient. The lawsuit centers on whether Navient steered borrowers experiencing financial hardship into forbearance options, rather than income-driven repayment plans, which resulted in additional earnings for the company. Navient has stated that the allegations are "unfounded" and that it would welcome "well-designed guidelines that all parties can follow."

Table 5

Student Lending And Servicing

Navient Corp.	BB-/Stable
Nelnet Inc.	BBB-/Stable

6. Wealth Management: Regulation Is Too Fragmented

Regarding wealth management, the Treasury is recommending that an existing regulator of a financial planner, whether federal or state, be designated as the primary regulator and all other regulators defer to the primary. If the financial planner is offering investment advice, the Treasury recommends that it be the SEC or a state securities regulator. We believe a single regulator would simplify registration requirements and the cost of compliance examinations for the entire wealth management sector, but we do not expect such changes to meaningfully affect the companies we rate.

The Treasury supports its recommendation by arguing that, for the wealth management industry, duplicative or fragmented regulation is inhibiting innovation. It points to the multitude of bodies that regulate wealth management--the SEC, state securities regulators, the Department of Labor, the CFPB, federal and state banking regulators, state insurance commissioners, state boards of accountancy, and state bars.

The Treasury points out that "disparities in access to financial expertise can lead to increased wealth inequality in the United States" and that digital financial planning is expanding wealth management to more individuals and families. In the report, the Treasury underscores the importance of financial literacy for both the retail customer and the government.

With a simpler regulatory structure, digital financial planning may be able to more easily evolve to serve more people with varying financial situations.

We expect the recommendations to have the broadest impact on start-up companies and established players that target consumers with less access to traditional retail wealth management services. Although these new companies could chip away at the market share of the producers and distributors of retail investment and wealth management products that we rate over time, we believe competitive products and services, and not regulation, will be the defining factor.

A simpler regulatory structure could benefit wealth managers and support innovation in the industry.

Table 6

Wealth Management Services

Affiliated Managers Group Inc.	A-/Stable
AllianceBernstein L.P.	A/Stable
Blackrock Inc.	AA-/Stable
Blucora Inc.	BB/Stable
Charles Schwab Corp.	A/Stable
CI Financial Corp.	BBB+/Stable
E*Trade Financial Corp.	BBB/Stable
Edelman Financial Center LLC	B/Negative
FMR LLC	A+/Stable
Focus Financial Partners LLC	BB-/Stable
Franklin Resources Inc.	A+/Stable
IGM Financial Inc.	A/Stable
LPL Holdings Inc.	BB/Positive
Oppenheimer Holdings Inc.	B+/Stable
Raymond James Financial Inc.	BBB+/Stable
Russell Investments Cayman Midco Ltd.	BB-/Stable
Stifel Financial Corp.	BBB-/Stable
TD Ameritrade Holding Corp.	A/Stable
Waddell & Reed Financial Inc.	BBB-/Stable

As Fintech Innovation Continues, Being Ready To Adapt To Changing Regulations Is Key

We believe the Treasury's final report on financial reform recommendations could meaningfully alter the regulatory landscape if implemented. The likelihood of adoption, however, varies greatly, and the implementation of these recommendations could take a long time.

Harmonizing state regulation is a tall order, especially when states such as New York and California are the epicenters of finance and technology and have prominent state regulatory bodies that are unlikely to cede any control. We believe recommendations to federal departments and regulatory bodies are more likely to succeed because of the president's ability to direct policy goals through staffing decisions. This, however, can change with administrations.

Outside of the OCC fintech charter, we do not expect many wholesale changes from the Treasury's report over the next three years. As a result, we don't expect to take any rating actions outside of our outlook horizons as federal and state regulatory bodies digest the Treasury's report. That said, the pace of fintech innovation will continue rapidly, and it will be important, in our view, for industry participants to be prepared for regulatory changes.

This report does not constitute a rating action.