Barefoot Innovation Podcast with Kyle Hauptman, Vice Chairman of the National Credit Union Administration

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Jo Ann: We have a fantastic show today because my guest is Kyle Hauptman, the vice chair of the National Credit Union Administration. Thank you for joining me today.

Kyle Hauptman: Happy to be here.

Jo Ann: It's wonderful to be able to talk with you. I'm so excited about our conversation. And as I think you know we have a lot of guests from around the world. I've got listeners from around the world as well as guests. And so we're going to talk a little bit about the credit union industry sector in the United States and a lot of really interesting regulatory issues that are on the play.

Kyle Hauptman: You just amped the pressure up on me a little bit 'cause you just told me that my Democratic colleague, Chairman Harbor just did a podcast with you-

Jo Ann: He did.

Kyle Hauptman: ... which is as of this moment not up yet, so I can't even listen to it. So I'm wondering if I'm going to be as good a guest as he is.

Jo Ann: I am totally confident the two of you together are going to be educating everybody to a tremendous degree. And it's an important topic. We've got thousands of credit unions in the United States. They're playing a vital role in our financial sector and so I'm thrilled to have you with us today.

Kyle Hauptman: I'm here to learn from you too. It's one of the reasons I wanted to do it.

Jo Ann: Oh, great. So let's start by zeroing right in on one of the most timely topics that we've got and that is cryptocurrency. We're recording this a few weeks after the implosion of FTX. So much going on in this sector, so much unclear as to what will be happening going forward. And so I wanted to get your take on that and then relating that to what credit unions may or may not be doing in the crypto domain.

Kyle Hauptman: Yeah. Now FTX was obviously a disaster. I don't pretend to know the ins and outs. I'm not even sure that the guy SBF knows the ins and outs. At least he says he doesn't. As I understand it, you had an exchange that had a related investment fund and they took customer money, lent it to the fund and all of these sort of scandals, it's when markets go down that you find these things out. Madoff's thing work for a while until market went down.

And that is not the fault of the asset, that's the fault of the people. If Fidelity took my money without me knowing it and lent it to some unrelated hedge fund, that's not the fault of my index fund, that is the mutual fund I hold a Fidelity. Right? But you know what, I think there's a benefit too. People call it Crypto Winter. I know the blockchain association, the group here in dc, their December party, the name of it is Crypto Winter. That's what they're calling it.

But this is what markets do. They shake out bad actors and they assign costs. They help and hurt reputations. Some business models were fragile and in a way it's healthy. I mean, FTX may have regulatory issues. They may have legal issues. There may be criminal charges. But in the meantime already, market forces are doing street justice and they are assigning costs harshly. They're assigning costs very quickly. Investors got burned.

Very top tier Silicon Valley venture capital firms who will go on at length to you about their investment process and how they do it. And even the people who invested in the venture capital funds like endowments, reputations got burned. And this is kind of how it is. I mentioned, I grew up in the National Park System. My father was National Park Service 30 years and the US government policy for National Park Service or BLM land, they don't put out forest fires that are naturally occurring from a lightning strike, even though forest fires are awful and they destroy habitat and animals die.

Forest fires are part of the ecosystem. They serve a purpose. And that is how I look at... Let's call it bear markets in the Crypto Winter. They are serving a purpose and shaking out various things that we want shaken out. So that was a lot there.

Jo Ann: No, very, very, very interesting. So we don't know where the large regulatory trends may be heading in terms of crypto markets, but we do know that there's a role that credit unions potentially play. And it'd be great to hear about the way that credit unions fit in to this stuff.

Kyle Hauptman: I'm proud of this. We've put out a couple pieces of guidance at NCUA. And for those that don't know, it's the regulatory agency that ensures deposits at America's 5,000 credit unions similar to FDIC for banks. And we're the regulator for about two-thirds of them. The rest are state regulated, but it's only 10% of the assets that the banking system has. Okay? So it's 2 trillion in assets. That's a lot of money. 130 million people, that's a lot of people.

But again, 2 trillion is one division of JP Morgan that has that. Right? So I think it's very important. That's one of the reasons I'm on your show today is to get people thinking about credit unions. That's a market worth pursuing. And the guidance we've put out on distributed leisure, blockchain, crypto, I'm proud of, and I think more so than the banking world, which again is 10 times larger in assets to say nothing of the investing world or insurance.

Credit unions, they're not in a place to push away talent. And you have to make products a little differently for credit unions than you do for banks. Little things, sometimes credit unions don't have customers, they have members. It's called a share account. Little things like that. And we put out guidance in May. That's very broad, okay? It's just principles. And let me say this, all it says is distribute ledgers here, it's new. But it was a signaling mechanism to Silicon Valley, to tech people. "Hey, credit unions are here."

There's going to be use cases, many of which I probably can't even think of right now. The same way the internet has use cases that I didn't think about in 1998. I want to do a little bipartisan thing here. There's broad principles about blockchain. This new thing exists. It's a new technology. It's out there. It's a signal. Go forth and experiment, follow the rule, follow the laws, but go and experiment.

I modeled that offer in 1997. In my opinion, the best economic policy out of DC in my lifetime. This is just my opinion. Right? Clinton-Gore, principles for the internet. They put on whitehouse.gov five principles. Whitehouse.gov had only existed for a couple years at that point. Number one, the private sector shall lead. You know what happened next? Right? America won the internet. We got all the disruption everybody else did, but we got the most upside, the most jobs, the most headquarters, the most investment dollars, the most life-changing circumstances where people joined a startup and got up.

I modeled it after that. That was a signal from upon high back in '97 from the White House, which wasn't even a law, it was just principles, but it was a signal to all the departments of the federal government and everybody around the world, we're going to let this new thing blossom. What's the absolute worst thing that can happen with disruptive technology? The worst thing is to get all the downside and none of the upside.

My mantra is sort of, I don't want to see credit unions become Blockbuster Video because their regulator wouldn't let them compete. And there's been some interesting stuff.

Jo Ann: Yeah, great. We will link in the show notes to the guidance that you've put out so that everybody can find it easily. So another piece I think of your philosophy or your thinking about regulation is on the question that comes up a lot of the time of whether to regulate by rulemaking or whether to regulate by enforcement. I know that you've got some views on that. I'd love you to share that.

Kyle Hauptman: Yeah. Regulation enforcement is not supposed to happen. Almost no regulator admits they're doing it and it's a source of tension. I'll say one thing that the credit union world, most credit unions are very small. The vast majority have less than 250 million in assets. So there's not much incentive at NCUA regardless of who's in charge to have big press releases and settlements announced on the website that we've collected $50 million in a settlement with so-and-so. Even if you wanted to do that, you couldn't because there just isn't that kind of money around.

There's a couple big credit union that could pay a fine of 10 million. The rest of them would go under. So there's no career enhancement. And the way government is, and this is not unique to NCUA or it's not even unique to the United States, people respond to incentives in the long run. And we don't have a profit motive if you're a government agency. So what guides people? In the long run, it's going to be the incentives in front of them. Paycheck, power, publicity, prestige. And you could add another one, which is post-employment job opportunities.

The more complex an agency's rules are, the harder it is to comply. And the harsher the enforcement. By definition, that increases the market value of former regulators. Just by definition. Just a simple example is we have the longest, most complicated tax code in the entire world. There isn't a massive tax preparation industry in a lot of other countries. It's pretty simple.

Our IRS commissioners can make NBA NFL type money afterwards. At place, like you mentioned, if you were in Singapore with a simple flat tax where people do their taxes on their lunch break, even companies, no one wants to pay their version of IRS commissioners seven figures. And it's not because they have ethics rules or stop the revolving door, there's just no market for it because it's easy enough to comply. So that's an issue. It's one of the reasons that drove me into government. I'm a career switcher, was trying to alter those incentives.

Jo Ann: I just realized I skipped over asking you my usual first question, which is to tell us about yourself. Apologies for that. But yeah, actually, let's go back and capture that real quick, your own background.

Kyle Hauptman: Yeah, sure. Like I said, National Park System. I'm from Bar Harbor, Maine, a wonderful place. My father was superintendent of Acadia National Park.

Jo Ann: Been there. Beautiful.

Kyle Hauptman: I love any opportunity to promote it. It's beautiful place. But I hated the long winters back then. So I looked at schools that were good schools and warm places. Now depending on how you define good and how you define warm. Anyway, I went to UCLA, worked in software for a bit, and then I got my MBA at Columbia in New York. And then there was a couple neat opportunities when I was graduating then and small companies. But you know what, Jo Ann? I took the safe route. I joined a prestigious old company called Lehman Brothers in 2004.

I was with them when it all fell apart. They sent me to Tokyo Lehman. I wound up leaving there. I was actually in Sydney, Australia when it all fell apart where we wasted a year creating Lehman Australia. My job was to make Lehman Brothers what we call a primary dealer, meaning you could participate in the Central Bank's auctions and that sort of thing.

I did succeed, but it all crashed. Lived in Tokyo. And then in 2011, I was in Tokyo at the time, unmarried no kids and the Dean of Columbia Business School had advised Mitt Romney's presidential campaign in 2008. Now he lost in the primary to John McCain in 2008, but then Mitt Romney was looking like he was going to run again. 2011, hadn't officially announced, but it was happening. So I pinged Glenn Hubbard who was a chair of Council of Economic Advisors under George Bush.

I said, "Hey, it looks like you're with Mitt Romney again." I've loved politics. It was my first love. My degree was political science. I've always loved it. I got in trouble for watching one of the Democratic convention when I was a kid after bedtime and I snuck into the den.

Jo Ann: Oh my goodness.

Kyle Hauptman: That's how weird I was, right?

Jo Ann: That's pretty weird.

Kyle Hauptman: I said, "I have to do this." I picked up in Tokyo, moved to Boston where the Romney campaign was headquartered. I'm like, "It's a US presidential race. This is nuts." If you want to get in politics, this is the Super Bowl, right? It's not city council, it's not a governor. And it was a guy I could get behind and as your listeners may well know, Romney did win the nomination but lost to Barack Obama in 2012. And that's when I moved down here, which why I've lived here almost exactly 10 years. Moved down here November 13th, 2012. It was seven days after the election.

My one year experiment in following your passion, like everyone says follow your passion. Right? But you and I both know... You know anybody who loves food and they're a foodie? But then they open a restaurant and they realize that is a harsh business. Right?

Jo Ann: Yeah.

Kyle Hauptman: You know what? I'm going to have my passion stay in my hobby. Restaurant business is tough. So I didn't know if I was going to pursuing my first love politics and policy, but I definitely caught the bug, right? So obviously Romney lost and then I moved down to DC. Not a a triumphant member of the new Romney administration coming in and everybody wanting to talk to me. But I came down as an unemployed person trying to find a job in a city that retained Democratic control. And I got this basement apartment with one little window and just looked for work.

Anyway, long story short, wound up working for Senator Tom Cotton from Arkansas in the Senate and then was fortunate enough to be nominated by President Trump in 2020 and did my confirmation hearing, which was entirely virtual at that time because of COVID. And then in almost exactly two years ago, December 2nd. Well today is December 2nd, right? Yes, exactly two years ago the Senate finally confirmed me.

I was one of the last people confirmed before the Biden administration came in and it's been great. I have a term for three more years and it is been a lot of fun.

Jo Ann: I'm glad I asked. That's fascinating. So again, sorry for jumping around.

Kyle Hauptman: Sorry for long answers.

Jo Ann: Not a bit. No, this is fascinating. So we were talking about regulation by enforcement and the fact that in the digital assets world we are seeing a certain amount of that the roles of the road aren't crystal clear. So did you want to say more about how you're looking at that relation to the crypto space?

Kyle Hauptman: So obviously I am just a regular insurer of credit unions and nothing else. So there's a lot that my agency has no role in when it comes to this country having a clear regulatory scheme. I think you and I agree it could use one. And this country has all the opportunity to win just like we did with the internet, because we're going to get the downside anyway. We have everything in place in this country to capture it. We have the envy of the world, the whole venture capital system. I didn't realize for a long time how amazing that is in this country. You have Mezzanine funds.

I'm worried we're going to fumble the football on the one yard line. And for those who don't know American football, that means you were really close to succeeding and then you screwed up. So we put out guidance and they're doing neat things. Credit unions, Right? There's the basic crypto product, buy, sell, hold. But I think the interesting thing is really the use of blockchain and that in this country is doing fine, commercial blockchain where you're not really investing in anything.

I'll give you some examples if you wish. So title for real estate. If you've ever bought property in America, I find the title system a little bit bizarre. How much I have to pay for title insurance to prove that the house that you sold me was actually yours to sell me. Putting that on blockchain. The country of Columbia just did this, right? It's also an anti-corruption mechanism.

So Columbia can have a coup and a revolution or a volcano erupt, and those property records are there, immutable, unalterable forever. Right? So what credit unions do, they're very Main Street. They do mortgages and car loans. That's over 85% of the whole assets, right? Again, very Main Street. What do mortgages and auto loans have in common? Well you don't have title. If you're getting a loan, that means you don't have title. So title transfer.

So a credit union member and some of this, this is in early days. The credit union member is going to benefit from, let's call it crypto and blockchain, but not even realize it. Title is going to be transferred to their lender from the seller. That's all happening in the background, but it's going to be easier, quicker, cheaper. Title insurance should go down. So that's one use of it. That's really neat.

Here's some other things. ID, know your customer roles. You know in this country in particular, KYC, know your customer AML. Some really neat stuff. Blockchain-based identification to allow to know who somebody is. And the CEO, I talked to, Becky Reed in Lone Star Credit Union Texas, right? Small credit union. She's like a super experimenter. I find her very impressive. And she talks about, as a woman, when she does her ID, why does the kid at the liquor store need to have your address? They're trying to find out if you're of legal drinking age. That's it.

Jo Ann: They don't even really need your birthday. They just need to know if they're old enough.

Kyle Hauptman: Are you over the legal drinking age and that?

Jo Ann: Yeah, exactly.

Kyle Hauptman: Right. But instead they get your address. In some states, your height and weight, your birthday, which can be used to... So it's kind of clunky. And the people at TSA, know your address. They don't need to, they want to know if they're the same name on the flight manifest. So really neat stuff that's anti-fraud. I mean real concrete uses. I know crypto itself is the shiny object. We watch CNBC and they have the DOW, the S&P and then the Bitcoin price. But I think at least what I see in credit unions is just mechanics doing the same stuff they always did, making loans, doing title, et cetera, identifying customers.

Same stuff you always did, but changing how you did it. The same way the internet didn't change what financial stations do, it changed how you check your balance, how you pay your bills, that kind of thing. So a whole bunch of neat stuff. But there are also people partnering with crypto standards to do buy, sell, hold of Bitcoin because banks and credit unions all over the country saw all this money flowing out to Coinbase.

They saw the ACH transfers to various exchanges. And the other thing was the vast majority of people in polling say they prefer their first foray into crypto investing, be it with their trusted financial partner that they've had for years and not in app they downloaded five minutes ago. So you combine those two things and now credit unions, if they want now have a source of non-interest income for people to buy, sell the same Bitcoin they could do anyway, but now they're doing it with their credit union app not leaving it.

And the credit union doesn't hold... Just collect a piece of the commission, just a source of... Just makes it a little easier. That's all. These are some new opportunities that have been happening the last couple years.

Jo Ann: Am I right that the rules affecting credit unions currently are a bit different from those affecting banks?

Kyle Hauptman: Yes. So at a regulatory agency, our product, we don't make anything. We don't sell anything. The only product we do are words on a page. We pass rules and those we do that vote at the board of commission votes. And then there's guidance. Our guidance has been different. So at the banking agencies, Fed, FDIC, OCC, in their wisdom, theirs are before you do anything in digital assets, that's the phrase used, you have to get written notice of non-disapproval from your examiner. Okay?

They're not saying you can't do anything, they're just saying give your examiner a heads up and make sure they at least don't disapprove. They don't have to approve it, they have to not disapprove. Okay, ours is your way around, which is the rules are what they are. You have to comply with your state laws, federal laws, and our credit union rules. And if you're not breaking those, then go forth and experiment. Because the danger to me is not a partnership gone bad or doing partnering with a FinTech. It doesn't work out.

The danger is becoming Blockbuster Video. That's the danger. And again, credit unions are only one 10th the size of banks cannot afford to push away innovation. Just cannot. Right? I know it's hard for a government agency to think of risk that way. There won't even be an NCUA if the credit unions go away and if there's fewer and fewer of them, it could go back to being part of another agency like the credit union division of the FDIC for example. NCUA wasn't even independent until 1970. So anyway, that's different. I think especially the way they phrased it, digital assets? So you know why we're talking about title for a mortgage?

Jo Ann: Mm-hmm.

Kyle Hauptman: I remember asking people at the Fed, "Do you think that that situation..." Nobody is buying and selling crypto, right? It's just title. Do you think that that is covered when you say digital assets? No, that's not what we're referring to as digital assets. It's using blockchain and there's an NFT of the title is transfer. And I said I can tell you right now for a fact, there are banks that think that falls into it and regulators don't realize that we're like bam, bam. Everything we do, we don't know our own strength. They don't realize their words land like a ton of bricks.

So anyway, I'm proud to say that there will be, I think more innovation in credit unions then again, because they're smaller. We're the left-handers of the world. We have to have that innovation. You'll say, "Are you worried there's going to be problems?" I say, "Oh no, I know there'll be problems." But remember, the danger is becoming Blockbuster Video. That's the problem we want to avoid. Any new technology, there's issues. There were zero plane crashes before we had planes. Not one. So anyway, that's how I look at it.

Jo Ann: Yeah, that's so interesting. As you say, we don't even have the terminology clear yet, do we?

Kyle Hauptman: Yeah.

Jo Ann: I mean this whole sector is so new. What's covered by what term? And then I completely agree with you about the risk that even though we need to deal with the rising risks of the... That definitely are a rising with these innovations, there's huge risk that we won't innovate enough. So getting that right, I always say the regulators, our listeners have heard me say this a million times. The regulators have the hardest job in just figuring out how to get that balance right.

Kyle Hauptman: I know I'm going to get blamed for things that go wrong and I just hope that it's after things are more established because this is kind of my baby within the agency and I made sure that I called some of the vendors that people I working with. I said, "Please tell me you have absolutely no exposure to FTX." "No, no, no." Even the crypto exchange say no. All of our users could go at the same time and withdraw their crypto, right? It's not re-hypothecated. Right?

You talk about Singapore being so attractive. Let me ask you a question. Is it jarring to you or bother you as an American, this is where people are supposed to want to be? And to have creativity and investment, be elsewhere is jarring. Do you remember our Facebook at Libra?

Jo Ann: Sure.

Kyle Hauptman: Later called Diem. Actually the Fed said it was the most well designed and stable, coin but they gave up on the whole thing. But anyway, the guy, David Marcus who was in charge of that at Facebook, he testified in the Senate and he went around and he met people at the banking committee where I was working and he told me something interesting. So he's from France, from outside Paris I believe. But he moved to the United States in the '90s because he wanted to work in the internet world.

France is a nice country. We don't have refugees from there. It's a pleasant place. But he came to America because that's where you had to be because he wanted to work in this new dot com internet world. And so he's had a great career. He said it is very strange to him as an immigrant to now hear the reverse. "I wish I was an investor in another country. I would get better access to more to better deals. I wish I was a worker in another country because I could get a job in the crypto blockchain world. I wish my company wasn't headquartered in the US because we have headaches." That's not how it's supposed to be.

Jo Ann: Yeah.

Kyle Hauptman: Right? Is that jarring for you?

Jo Ann: I definitely agree with you that US policy makers need to be thinking about the fact that there is real risk and already evidence of people not innovating in the United States because our environment is either unclear or perceived as hostile or both. It is a big issue. Especially when you're dealing with something like this. It doesn't stay inside your borders. I mean, you can regulate part of it, but these are very global, fluid activities.

Kyle Hauptman: Again, the parallels to the internet. I'm glad Bill Clinton did not decide to appoint an internet regulator. One, I think it would be harmful, but also it's a hard thing to regulate. The Chinese do it with an unbelievable army of people every single day. It's not easy to regulate. So even if you thought regulating was a good idea, it's very hard to do.

Jo Ann: So let's turn to that. The Biden administration put out an executive order this year and has had a so-called all of government approach to looking at how are we going to regulate digital assets. What should our policies be? Isolating all the key issues that arise of which there are many. Where do you think that is going, should go? What should be our-

Kyle Hauptman: I would say I'm cautiously optimistic. The main thing is, and maybe this is just a few years passing, but the association with crypto with illicit activity, which is how a whole lot of people first heard of it, right? Somebody at Fed saying-

Jo Ann: That's a drug thing.

Kyle Hauptman: Yeah. Every time I hear it, but it's a bad guy. Well, yeah, if people use that. If you think crypto is often used for illicit activity, you're going to freak out when I tell you about cash. So they're noting it and chain analysis and stuff, they work with the government tracing things, right?

Jo Ann: Right.

Kyle Hauptman: Bitcoin is an absolutely horrific way to do criminal activity since the transaction is there forever and cannot be changed. And at some point they'll figure out which node was which, right? So I'm pleased to see they see the upside, a lot of these things. And the language at least so far has been pretty good. Maybe I'm being too optimistic, but they get the sense that there's upside. It's not just protect us from this thing that can hurt people. And yes, investors got hurt. I understand that.

But man, what a terrific future we can have. The positive of it. Canada and Mexico lost all their video rental jobs too. We did too. But we at least got the upside. Netflix headquarters, the jobs, the investment, the IPO people. You're going to get the downside anyway. So the people who are skeptics, and I meet Democrats like this. Listen, if you think this is all fad, all right, then don't worry about it. This is going to, it's going to go away. But if it's not and it is disruptive, that means you're going to get downside. That's what disruptive means. We are so ready to capture the upside if we get the regulatory scheme right.

Jo Ann: Do you think that the next presidential election will include discussion with candidate on this?

Kyle Hauptman: Sure do. Yes. I think it'll be a game changer. I think 2024, who knows? We may have open primaries on both the Republican-Democrat side. It's possible Biden runs again and you just have a Republican primary. But we may have an open primary on both sides, meaning you're going to have lots of debates just in the primary. In the year 2000, that election, that was the first time that internet mattered.

John McCain's campaign was notable because he put his website on his signs, which was new back then. And you had to have a policy. You had to have a view. I remember George W. Bush, "Yeah, I surf around on it," he said. And if you watch it now, it's a little cringe in the debates. They say, "Okay, we have a question here from the internet." They would announce it at the debates. I think 2024 is going to be that, right? I think you probably agree.

The mayor of Miami, Francis Suarez, he's such an energetic guy and he said, "We're going to have a Bitcoin president." I also think that, and again, I don't particularly evangelize for Bitcoin itself, but that was the phrase he used. It's going to be asked about in the debates. I can tell you that when you do, let's say up in New England, or I'm from Jack Heath's radio, okay? It is The Pulse of New Hampshire. Every presidential candidate goes on it, right? Obama did. Hillary Clinton, Mitt Romney. Everybody goes on it.

If you want to be competitive in the New Hampshire primary, you're going to go on his show. And I can tell you right now that Jack Heath is going to ask... He's going to. And that's just one tiny example. I think there's a voting block too out there.

Jo Ann: It's interesting that... And I'm sure you've seen these statistics that people of color are disproportionately likely to be invested in crypto in some form. And there's a very lively debate about if you say that to people, there's a group who will say, that's the most terrifying thing I ever heard of. And there's a group who will say, "That's right. People need to be able to get access to these new kinds of assets." And the way we protect people traditionally has been that you can't invest in these high opportunity types of assets unless you've already got a lot of money.

So there are a lot of particularly black leaders in crypto who are saying, "We've got to change that." I find myself wondering if we need some sort of a new model for investor protection as we think about the way financial markets are changing.

Kyle Hauptman: Bitcoin in 2008, it started all this reaction to the financial crisis. Can't trust government, you can't trust banks. That was the ethos behind that, white paper. You could buy it for 10 cents. There's a famous pizza that the first time someone did a transaction, they sent a Bitcoin for pizza. Which even now, after everything that's going on, it's still a $17,000 pizza. Right?

Jo Ann: That's right.

Kyle Hauptman: So let's say I bought it back then for 10 cents. Let's say I bought it for a dollar. How much would you want protection, Jo Ann? Buying a dollar is now 16,000. Would you want to be protected from that?

Jo Ann: You would not. But obviously the question is-

Kyle Hauptman: It's very volatile. Listen, I think a normal portfolio, I think at this point it's kind of commodities where in a large enough portfolio that's balanced to have some exposure to it, I think is reasonable. Now the people who put all their life savings in it and borrow money are, woo. I mean, you shouldn't do that with any investment. I wouldn't do that buying General Motors or anything. So that's insane. You still have normal investing principles.

But I think it is. Can I say one thing that I try to say a lot? 'Cause I think it matters and you can tell me if you think it matters at all or a little. I am not allowed to own a single dollar of digital assets. I can't own NFT. I cannot own $1 of Bitcoin. I can't own anything. That is the federal ethics rules. You can't own these assets and work on it. You can be a government employee, like a postal worker or something and own it. And that doesn't matter 'cause you're not working on the policy.

And it's not because anybody in the government ever said no crypto. No one ever actually did that. It's the other way around. The office of government and ethics has a list of what federal employees can own and a de minimis amount. Okay? So it's small enough that it doesn't really matter. For example, you can own up to $15,000 of an individual stock. Your spouse can own up to $25,000 of an individual stock in an area you work in because it's a small enough amount of money. How much are you gonna influence? It's a luminous amount. You're not forced to sell it to take the job. And then there's rules for sector funds, et cetera.

I think it might not be a bad idea for Office of Government Ethics to maybe have a luminous amount crypto. I don't care what people invest in. But if your listeners listen to US policymakers and it sounds like maybe they don't really understand this stuff, it's because don't. All of the policy is made by non-users. Crypto hasn't even been around that long. So if you're a 20-year employee of treasury, you've never had a digital wallet, nor has your child, nor has your spouse. Assuming you're following the rules, right?

Imagine you worked at the FAA making airline policy and you've never been on a flight nor had anyone in your family, you'd never been to an airport. You'd never gone through TSA. That's what's happening now. The 535 members of Congress, they have separate rules. But nobody at SEC, CFTC, my agency, Federal Reserve, treasury, FinCEN, can own a single dollar.

The former director of FinCEN replied on Twitter 'cause I was talking about this on Twitter, went on a little rant and he replied and said, "Yes, when I worked in treasury under the former president, I kept trying to get them to buy and sell 50 bucks just to learn how you do it, right?"

Jo Ann: Yeah.

Kyle Hauptman: To try to teach them what a digital wallet was because I think the secretary thought it was kind of like online banking and he always fights with lawyers and no, you literally can't. Even if you buy and sell it today, you still own and you're not allowed to. Let me ask you, now that I've gone on my little rant again about this, do you think it matters, the policy making?

Jo Ann: I think that people who want to understand crypto and digital assets should buy some. I advise people to do that for just the reasons that you said, just to go through the process and understand how it works and get a little bit of demystification of it. I have wondered about the same thing that the absolute prohibition on it compared to owning stocks.

Kyle Hauptman: You can own up to $15,000 of your United Airline stock and work at, let's say the FAA. Okay? Your spouse can own 25. I think something like that may be reasonable. Again, I don't care about the investing. In the two years I've been in the job where I wasn't allowed to own any, I think two years ago Bitcoin was like

$60,000. So I've probably benefited by not owning any, right? But I would have my staff if I could that said, "If you haven't already download a wallet, buy and sell. I don't care if you own it, buy and sell it the next day."

Maybe even do buy 50 bucks and take a $10 loan against it just to see how it works. I just think it would be useful. My career in financial policy last 10 years, you know how much harder it would've been if I'd never personally had a bank account, never had a 401k, never bought a mutual fund, never had a mortgage? You could read about these things. But it's a lot easier having done it. Anyway, I think that's not the main issue, but I think it matters at the margin.

Jo Ann: So I think that's very well taken and let's broaden that topic a little bit to the question of how the regulatory world is going to attract and retain the talent. We need to do a good job with crypto, but also with all these other tech changes that are coming. I mean financial services are being transformed by digital technology and we're still mostly trying to regulate it with analog tools and with very traditional approaches and with... It's not the regulator's fault that they don't have a bunch of tech people there because why would they have until recently?

They've got their IT people. But I think there's a challenge that the government itself needs to be able to attract tech talent and it's very hard to do. The pay scales are limited, the process is very difficult. We've had guests on the show before, talk about, I remember one of them from treasury talking about it taking her a year to fill a key job that she was trying to fill just because of the cumbersomeness of it. What could we do about that? If you agree that it's a problem?

Kyle Hauptman: Yeah, you're going to have... Going back to what I said about incentives and what gets measured is what gets done. Behavior that we reward. So for example, yesterday we had a very nice thing. We had our annual award ceremony at NCUA where we signal out employees that have done well. They get a little medal and medallion and they get a cash bonus. It was nice. People brought their families and stuff. What we select for those awards is within the board's purview. And the same thing with the SEC.

Yes, we have government rules and most of our workforce is unionized, but I think sometimes the government, we throw up our hands say, "Ah, it's government. What are you going to do?" "No, hold on, hold on. We have some tools here. We'll give you an award public recognition and five grand or so." That's a tool we have. So what are we rewarding? And so I think that even in creaky bureaucratic agencies, there's some room there to try to fundamentally change it. But it's hard. You saw the column written by the former FDIC. The gentleman wrote a column and I haven't read it yet.

Jo Ann: Sultan Meghji.

Kyle Hauptman: Yes. And the headline... Again, there's fine people at the FDIC, I've never worked there. But his column that he wrote in the journal or someplace was we called it technophobia or something and he quit. That's an issue. That's not even sell your personal investments or get fired issue. He just quit because he wasn't achieving what he wanted to achieve. And again, I don't know him, nor did I work at the FDC, so I don't really have a view on this, but I do know what he wrote in his public column.

I mean, going back to the investing side, which is not that big a deal, but saying you have to sell everything and create a taxable event for yourself. And you have to tell your spouse, we have people we can't hire because their kid owns Bitcoin.

Jo Ann: Really?

Kyle Hauptman: Yes. Because immediate family, spouse and children, there's no de minimis for this. The kid can own 20 grand of a vendor that works for credit union for example. A lot of them use Amazon... We do too at NCUA, we use Amazon, the cloud web services. So that's a vendor. In theory that could be a conflict. You can own a small amount because it's de minimis, right? We have people... Remember a spouse too. I'm talking to a woman who at a different agency didn't get the job. Her husband owned some various crypto. Not a ton. But they're divorcing. Okay? And some divorces, as you know, the acrimonious ones take a long time. So still legally married, going through a rough divorce calling the soon to be ex-husband and says, "Listen, I can't take this job until you sell your 20 grand or whatever."

Now some divorces, the spouse would say, "Oh really? This hurts you? I'm going to buy more." In nasty divorce that can happen. Is this the best way to get the best people? I think we agree it's going to be a national security issue. Every new technology winds up being a national security issue. We are engaged in cyber warfare big time right now again with Russia, both offense and defense. The Iranian nuclear program.

It's great that we have this massive internet industry in this country and we can hire top quality people who can pass security clearance, who can pass FBI background checks, who are citizens. And we can pull from this industry because it is incredibly important to win the cyber war, which is going on 24 hours a day. And go on before that, rockets matter. Planes matter for national security. I think someday we're going to very much wish or be happy that we did have a thriving blockchain crypto industry, even just for national security issues. We don't want to see this, that excellence and that know-how to someone else.

Related note, the US dollar retaining its supremacy. Some say we abuse our privilege a little bit. Certainly Europeans say that. But if you think mortgages are expensive right now, wait until the dollar loses its reserve status around the world. And that's kind of in the background for me at least, is something I worry about. Since World War II, the dollar has taken over from... It was the British pound before that, French Frank before that. And it's been a massive privilege for us.

Now exporters don't like it that much, but it allows us to live a way that we would not otherwise. And American businesses have a huge advantage if they're international, far less foreign exchange issues. A lot of transactions are in dollars even abroad. And they only have to do one foreign exchange transaction, whatever the other currency is to dollars. As you know, if you go from Korean won to Mexican pesos, you don't actually do that directly. You go from Korean won to dollars, dollars to pesos. So it costs more.

Anyway, that's a side issue. But I think it's related to national security. I hope that we don't lose our status. One of the advantages of a stablecoin or a Facebook Diem is their dollar buying machines.

Jo Ann: You've covered a lot of ground.

Kyle Hauptman: I have.

Jo Ann: But I'll just reinforce the point you're making on national security and these technologies. I think our defense and intelligence agencies have gotten... They're very good at using technology. They've worked their acquisition system so that they can buy what they need and so on. I don't think we see as much of that in the financial sector, that flexibility or that leaning in.

I think we need it among other things as the national security issue and the cyber security, cyber war issue. We're going to have to be sure we have great tech in not only in the private sector but in the regulatory sector as well in finance because it is an arena of international competition and potential insecurity.

Kyle Hauptman: Yeah. I 100% agree, but again, I always try to look at the upside. We have phenomenal upside potential.

Jo Ann: Totally agree. So I know we're going to run a little bit short on time. Jumping topics a little bit. Something that you've done at the NCUA is to try to create a real-time feedback loop for your examiners. And this sort of fits in our conversation here about government excellence and effectiveness. Talk a little bit more about that initiative, what you're learning from it, what maybe... We have many regulators listening all over the world. What people can learn from that?

Kyle Hauptman: It's one of the reasons I took the job and you worked in the Senate as well. It drove me absolutely crazy when constituents would call and complaining about the regulator and say, "We were just told to do this. We don't have to do it by law." "All right, do you have any record of it? Do you have a recording? Do you have anything? You can send me an email, a form?" "No, it was all verbal and they wouldn't let us record it." Okay, now what do we do? Right?

Because the people in DC are going to say it never happened. So now what? Now, if you are a federally chartered credit union, which is 3,000 out of the 5,000, you are encouraged to record your exit interview. It's when you get your report card after an exam. Okay? So there's a place for private conversation. But when the examiner is all done and gives you a report card. In banks and credit unions, it's called camel rating.

You get one through five. One is good, five is bad. When they go over that and here's what you have to do for next year and this is why you're a two and not a one, et cetera. Record that. And that was amazing. I even suggested while I worked in the senate, the Committee of Oversight suggesting to somebody at one of the agencies, "Can I record our conversation? Just because we've had arguments here about what happened last..." No, I didn't say... No, that was crazy talk. What happens when you call United Airlines? This call is a recorder for quality assurance.

Even my local government in DC, my District of Columbia government, which is not anybody's idea of enlightened governance. When I call the department of whatever, it's recorded and it's useful. I can record it too if I want to. So you can now record the exit interview. I think is very useful. I think it's a tool too. It's not so much gotcha. First of all, it's conveying that we want transparency. If you don't have any method of doing any customer service stuff that is common in the private sector, then you're also conveying that you're not that open to communication. These are choices you've made.

When I would talk to other agencies, they only have an ombudsman complaint line. I've been very happy the NCUA career staff has been on board with the recording. We now put as part of in our software, was it recorded? Yes, no. Right. And then it's obviously easier now. You can do it on Zoom. And also for all of them, just like Uber or DoorDash. As soon as it's over, just a real quick survey.

Now, some states were doing this, state regulators, they had different ones. So that's the two things. Recording for federal credit unions, for federal charters, and then for all of them, an immediate feedback survey. Just asking like five questions. And you're signaling in the five. This is not so much to catch some misconduct. Yeah, that could happen.

But it's just useful. One of the questions, and you can understand why. I made sure it said, "Was everything you have to do put in writing?" And both examiner and the CEO of the credit union hit yes, no. So first of all, you find out right away if there's a disconnect. I want to give credit to President Biden on this. This White House sent out to all the agencies. It doesn't apply to us as an independent agency, but the VA to do like Uber style one through five star ratings.

For example, if you're a veteran and you get service at a VA hospital, how was your service? And he directed all of them to come up with some sort of quantifiable, for lack of a better term, customer service. By the way, I use that phrase. We're a regulator and insurer not our customers. And someone said, "Hey, well they're not your customers. You're the kind of their boss in a way." I said, "You're right. They're not customers. Customers can leave. Customers can go elsewhere." We're the captive market. We don't really have competition. We're the only federal insurer of credit unions.

So I think it's incumbent and I think it's respectful. But the career staff who help with these things, one of the reasons I was so pleased is in their personal lives they deal with this all the time. They rate their Uber drivers. They themselves want to have a good rating. Their calls are recorded with American Airlines. And so all of this is normal outside of some government agencies.

Jo Ann: So you didn't get pushed back saying this?

Kyle Hauptman: A little bit.

Jo Ann: [inaudible 00:50:03] the art of communicating with-

Kyle Hauptman: So some of the state regulators, we have a good relationship. I said, "Who says you don't?" Jo Ann, can you write down right now the first 10 words I said? No, I couldn't either. We haven't even left the table. So trying to remember what was said a year ago at an exam, if I was a brand new examiner, checking out a credit union I've never been to and let's say the credit union was a brand new CEO. No one was around for the last exam. What at godsend it would be to go and listen to the 20, 30 minute, that's usually what they are, the recording to know.

People disagree on things. We had a credit union stop a project 'cause of one word said by an examiner. The examiner and the supervisor was in the room too. They had no idea that they halted a project.

Absolutely stunned when they found out. It had to do with what we were talking about where you can connect to a crypto exchange and buy and sell Bitcoin, let's say via your credit union app. That never broke any rules. You can do it if you want to. I'm not here to say anybody should or shouldn't. And they were telling their examiner about their plan to do this, connect via the credit union app. And the word risky was used.

Now, they were referring to Bitcoin itself and investing and fair enough, super volatile. I get that. They thought they were referring to the partnership and the project as risky. So the 2021 financial results for three entities were changed.

There was the credit union, there was a crypto exchange, and then they had a connector FinTech company. All three of them pencils down. And they were absolute. The examiner had no idea.

This is what I mean about bam, bam. We don't know our own strength. And sometimes as we say, they hear and it's not always the same thing. I think it's fair. I think it's the right thing to do, especially when you have a captive audience. If Hilton doesn't send me that email about how is your stay, that's fine. Hilton doesn't have to exist. I can go someplace else. But when we're a government agency, I think it's incumbent upon us to provide that kind of transparency especially since the technology allows it now.

Jo Ann: Are you the only US regulator doing that? I haven't ever heard of this before.

Kyle Hauptman: I believe so, yes.

Jo Ann: Yeah, interesting. I certainly agree with you that regulators and examiners often underestimate the fear factor and the-

Kyle Hauptman: A hundred percent.

Jo Ann: ... potential for overreaction.

Kyle Hauptman: That guidance at the banking agencies. It says you have to get written notice of non-approval for digital assets. I can tell you that people are interpreting that, those words digital assets differently. And you don't want to be on the wrong side of your regulator. And it's not so much that you're terrified, it's that you have other things to do with your time and money.

If Kyle has got a project at our bank that maybe has some regulatory risk, meanwhile Jo Ann's got a project to use that same time and money that doesn't have any. We're going to do yours. Why wouldn't you? So yeah, that definitely happens. I will say this, some of the agencies... [inaudible 00:53:12] got the CFPB to do. They do a survey anonymous and I think there is a place for anonymous, right?

Some people don't do it because they're worried that they're still tracked, that the IP address... It's online. So the FDIC has one, CFPB has one. It's an anonymous survey. They send it out once a year. It's some good stuff. Again, I think we might want to do an anonymous one also 'cause it's different when it's anonymous. But people are afraid they're going to see the IP address and they don't fill it out. And the agencies all told me, "Oh no, we have dialogue." We have great communication.

Then why are people afraid to fill it out? Why do they call their senator or congressman and complain and say, "Please don't use my name." Some are afraid to even call us because they think we're going to narc on them to the agency. And then the agency says, "Well, who was it?" What? And the fact that they're terrified to tell them that, that is the cancer in the system.

Jo Ann: Yeah. I'm a former regulator myself and I vividly remember when I left the OCC. It's just finding out all these things that people were thinking that they wouldn't tell me when I was still in the agency and then suddenly just eyes open all over the place.

Kyle Hauptman: And the regulators, they will tell me that doesn't happen. Maybe here and there someone is a little weird, but they say no. We have pure true serum type dialogue. No, you do not. I can assure you, you don't. Any time there's a power differential. That's why I think it's so important to communicate and show transparency. If you're not having this kind of feedback, you can't tell me you care that much because it's pretty easy to do and you're not doing it. That says something. Body cameras for police.

We know why they were brought in because of misconduct allegations. But the cops, apparently, the good cops love them. It's just useful. Instead of saying suspect got away in a four-door sedan, hold up. That's a Nissan Sentra. Now, you're focused on the suspect and you're not pulling over the guy in the Toyota Camry for no reason.

Meanwhile, the bad guys get away. It's just useful. We humans have done an awesome thing. We now all have photographic memories if we want to because there's little device in our pocket. I have 36,000 photos of my phone and a lot of them are just pictures of signs and stuff during because anyway... So I think it's important. Regulators don't realize that often.

We had an event with one of the regulators when I was in the Senate and I said, "Listen, one of your regular institutions called me CEO, CFO, board chair, heated angry, and about what had just happened in their exam, heated angry. Thought there was misconduct by the employee, by the regulator. And then I said to them... They're all on speakerphone. I said, "All right, so what's the name of the examiner?" And then there's an awkward silence.

Now, listen in the position I was in, I could find out the name of the examiner if I wanted to. And then they were all quiet. Nobody wanted to say. If the regulator understands why there was that awkward silence from a very well run, respected back. If you understand why they were afraid to say that, then I think we can help start solving the problems and giving the American public, the government they deserve.

Jo Ann: Very interesting. Another thing I want to touch on before we run out of time is that the digital asset space does not have a common regulator. We have debate over how the sector should get divided up among regulators because it doesn't fit in the old molds neatly and there's ambiguity there. What are your thoughts on the fragmentation of this area and maybe what principles we should be using to figure it out?

Kyle Hauptman: So you know of a Commissioner Hester Pierce?

Jo Ann: Yes.

Kyle Hauptman: People call her Crypto Mom. I know, and like, and very much respect her. I agree with her statement when people say, "We should just have one crypto regulator, so we don't have these turf fights and everything." And she said, "Okay, maybe." But what often happens is you just wind up having another regulator. You don't want to pile a new one on. If there is going to be a regulator, it's got to be very clear that you have one regulator and that's it.

Otherwise, you're just adding another one on top of it and creating a new bureaucracy, which will never go away and we'll never reduce its power, will always expand it. So I don't really know. There's clarity. I think that could be done. I know some people are waiting on the administration. Congress obviously can make any policy at once anytime. Congress created all these agencies. Congress can get rid of the agencies.

So this country kicks a lot of power to the agencies. Congress does that. But Congress will probably have to get involved here. Number one on stablecoin. Number two on whatever is going to happen with a Central Bank digital currency. I mean, we need some clarity from somebody. I don't know about a brand new regulator. I'd have concerns.

Jo Ann: So maybe last question and then if we haven't covered anything you want to talk about, I'd love to hear it. But you've had a background at the Senate, background in the private sector. Now, you're a regulator. When you think about the next steps for getting to more regulatory certainty, what are the roles to be played? You sort of already touched on it, but where do we look for the pathway to figuring out what to do next?

Kyle Hauptman: Well, regulators play a role, but people don't even agree on who has jurisdiction. What I tell the credit unions is, I say, "Listen, in terms of what Bitcoin or ether is, is it a commodity or security, et cetera? I have nothing to do with that. That's somebody else." So my rules, our rules, you can do these things, but be aware that there's aspects of this that are not in my control. So I don't know. Congress is going to have to get involved, for sure. Absolutely, for sure.

Jo Ann: I feel like we need to be working our way toward more public-private models for some of this. And those are hard. Obviously, the industry and regulators have to keep a distance between each other and yet we need more dialogue. We need more rapid learning, I think back and forth between the two and across the pieces. Especially, when you take something like crypto or digital assets, which has so many facets that are falling into different regulatory jurisdictions.

Kyle Hauptman: Politicians, the system works. They're responsive to their voters and the needs of voters. At the end of the day, that's what moves. Action happens. There's a bit of a chicken and egg problem in this country in a way, because so much of the crypto industry is not in the United States. You don't have a ton of constituent to work in it. Okay? Any congressional district or state, you listen to big employers. If you have 500 jobs or you're going to invest there, people answer your phone call because those people vote.

Agriculture has a lot of people. It gets a lot of attention. Manufacturing requires a lot of people. Hospitality employs millions upon millions. It has a seat at the table. So the only real block to move things from the private sector are the owners, those young people. Disproportionately men and women of color, younger people. That's a block and I think it's going to matter.

If you look at just our presidential elections, how close they've been recently. I don't want to tick off even a single issue voter who's 3% of the population. I don't want to tick them off. But a little bit of chicken and egg when it comes to employees. The people who work in an industry, if you have a lot of them in your state or your district, you listen to them.

Jo Ann: Yeah. Is there anything we haven't talked about or anything you want to add?

Kyle Hauptman: No. Well, I mean, listen, there's a lot of things we haven't talked about, but I know we're right about an hour and I get excited about so many things and I have trouble not talking too much about it. So if somebody is cutting me off, that's probably a good thing for everybody.

Jo Ann: Definitely not cutting you off. I wish we had more time to go, but I can't thank you enough. So if people want to find information on what the NCUA is doing, is it ncua.gov?

Kyle Hauptman: Yep, ncua.gov. The one social media that I post on about sort of work stuff is LinkedIn.

Jo Ann: Okay, great.

Kyle Hauptman: So you can follow me on LinkedIn. I'm very easy to find. You can ping me there. Although given our rules, if you hit me up on Twitter or LinkedIn, I'm going to reply. Please email this to kylehauptman@ncua.gov. Right?

Jo Ann: Yeah.

Kyle Hauptman: Because I have to communicate that way. But I am easy to find on those if anybody wants to chat.

Jo Ann: Fantastic. So Kyle Hauptman, thank you so much for being our guest today. It's been absolutely fascinating.

Kyle Hauptman: Jo Ann, this is the best podcast I've done. It's been fun.

Jo Ann: Oh, Great. Thank you so much.