

August 31, 2018: Bloomberg News: [TNB Says Federal Reserve Bank of N.Y. Blocking its Business](#)

By Chris Dolmetsch and Liz Capo McCormick

- Company filed suit in federal court Friday over account denial
- Suit seeks court order allowing TNB to open master account

(Bloomberg) --

TNB USA Inc. sued the Federal Reserve Bank of New York Friday seeking a court order forcing the organization to open a master account that the company says it needs to do business.

The company plans to take in deposits from “only the most financially secure institutions” and place them into a master account at the Federal Reserve Bank of New York, according to its complaint. That would enable TNB to earn higher interest rates than are currently available to non-financial companies and consumers.

With that model, the firm’s goal is to function as a “narrow bank” -- a term dubbed to describe a financial institution with a limited focus that curtails risks for depositors.

TNB’s chairman and Chief Executive Officer is James McAndrews, a former 28-year employee of the Federal Reserve system. The company said it has spent more than two years preparing to open the business and has been granted a temporary certificate of authority by banking regulators in Connecticut, but needs access to the Federal Reserve payments systems to function.

The company said the Federal Reserve Bank of New York has repeatedly refused to allow it to open a master account, “effectively preventing TNB from doing business.”

‘Policy Concerns’

TNB said it initially filed for a master account at the reserve bank in August 2017, and also completed an additional “protracted internal review” the bank requested. The review was concluded in TNB’s favor, yet the New York Fed “also apparently referred the matter to the Board of Governors of the Federal Reserve System,” in Washington, according to the complaint.

TNB was informed by the Fed in December 2017 that “approval would be forthcoming -- only to be called back later by the same official and told that the board had countermanded that direction, based on alleged ‘policy concerns.’”

America’s savers and companies have faced extremely low interest rates on their deposits for years in wake of the Fed’s unprecedented monetary easing to end the financial crisis. Although the Fed has begun to reverse course -- with its policy rate up to a range of 1.75 percent to 2 percent from about zero in December 2008 -- banks have been slow to push through higher rates to depositors.

TNB’s objective is to help alleviate that shortfall, yet can’t do so if it isn’t allowed to put its own deposits at the Fed through a master account. TNB wants its clients to receive rates on their deposits close to those that the New York Fed would pay the firm in the master account. Banks with reserves deposited at

the Federal Reserve receive the Interest Rate on Excess Reserves, or IOER, which is currently 1.95 percent.

The Fed's actions "have the effect of discriminating against small, innovative companies like TNB and privileging established, too-big-to-fail institutions," TNB said in its suit.

The Federal Reserve Bank of New York declined to comment on the suit.

Norwalk, Connecticut-based TNB, which stands for "the narrow bank," was founded in 2016 by Gene Park, a veteran of AIG Financial Products who was credited by writer Michael Lewis as one of the first people to identify the bubble in subprime mortgages that led to the financial crisis.

The case is TNB USA Inc. v Federal Reserve Bank of New York, 18-cv-7978, U.S. District Court, Southern District of New York (Manhattan).

(Updates with excerpts from complaint starting in second paragraph.)

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