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Tom Wheeler
Chairman
Federal Communications Commission
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Richard Cordray
Director
Consumer Financial Protection Bureau
1700 G Street, NW
Washington, D.C. 20552

June 24, 2014

Dear FCC Chairman Tom Wheeler and CFPB Director Richard Cordray:

Dwolla is an Iowa-based payments company that launched nationally four years ago aiming to provide the nation's first payment network since Discover in the 1980s. We have driven several inefficiencies out of traditional payments processing, so Dwolla members enjoy real-time, extremely low-cost and secure online and mobile payment options within the network.

The concept behind Dwolla was born out of my frustrations with credit card transaction fees. As a business owner running a successful online shop, I realized I was spending upwards of $50,000 a year on credit card fees, or "interchange," alone. I painfully internalized this expense, money that could have gone to hiring, new equipment or an expansion. The inefficient, expensive and entrenched nature of the payments system at that time inspired Dwolla's creation.

Since 2010, we've developed an Internet-based solution that enables anyone or anything to send and receive payments for only 25 cents or free for transactions $10 or less. The new platform uses Internet connected devices, like computers or smartphones, to bypass existing card networks while operating within the existing regulations and purview of the U.S. financial system and its stakeholders. As a result, we have developed improved settlement times and lower-cost transactions than those of plastic cards or checks. We've made the network open, allowing members to leverage Dwolla's breakthroughs inside of their applications and software for free. This has empowered an app developer to build a hyperlocal mobile payments wallet to help communities bypass expensive interchange fees at mom and pop shops; a SaaS company with 600,000 small businesses to create a check replacement solution inside their existing bookkeeping software; and one of the world's largest operating systems to offer a 30 percent increase in additional revenue to digital publishers that build on its platform.

This simple, but powerful value proposition fueled our success, putting over ten million dollars worth of savings back to work in the economy. By 2012, we developed a payments network of 500,000 users and proudly counted 30,000 businesses, enterprise companies and even governments as members of the network.

Using the Internet, we've also been able to re-imagine security, transparency and privacy for consumers. For instance, in a typical check or card transaction your name, 16-digit card, bank routing, account or security numbers can be seen, stored and shared. As we've seen, the proliferation of this data has not only made sensitive information a valuable target for hackers or disgruntled employees, but a liability concern and line item for even the most compliant, well-to-do businesses and middlemen. To that point, Dwolla's network was designed to remove this sensitive information from its transactions and eliminate the risk of consumer fraud. We also use a new type of payment authorization, called Tokenization, for transactions initiated by third-parties through our open API (Application Programming Interface). Along with removing the sensitive banking information noted above, this encrypted process does four unique things: 1) transparently notifies the sender of the additional information and privileges, which may be needed by the third-party in order to complete the service or deliver value; 2) requires explicit authorization from the sender to use said information; 3) provides the receiver with a unique "token" that only the authorized receiver can use; and 4) allows the sender or Dwolla to revoke or invalidate the token at anytime. This design helps our community reduce its digital "financial fingerprint," offers greater transparency to our users and improves privacy controls. This also helps mitigate the liability that traditionally comes with storing and protecting this valuable data from harm (see: Target data breach).

The Internet is a conduit for payment innovation within the existing banking system. In addition to leveraging the Automated Clearing House (ACH), which can take several days to process and transmit payments, Dwolla has used the Internet to create a banking Application Programming Interface (API) for financial institutions called FiSync. When integrated in partnering banks and credit unions, Dwolla offers our customers real-time payments straight from their banks or credit union accounts.

We represent a small piece of the emerging digital payments landscape. The Electronic Transaction Association, the e-payment industry's trade group, reports that 70 percent of consumer spending is done electronically. In 2013, 82 billion electronic transactions were processed in the U.S., with $4.9 trillion worth of volume on credit cards. Analysts have projected that by 2015, $56.7 billion will be exchanged through mobile payment transactions.

Recently, in response to the decision Verizon v. FCC, the FCC proposed a rule that we believe will harm both innovation and competition in the payments ecosystem. The rule tentatively concludes that both fixed and mobile providers of broadband Internet access, primarily phone and cable companies, should technically be able to discriminate amongst applications and to charge companies varying fees for varying levels of quality of service. This is a radical departure from how Internet access currently operates and is a grave threat to an open Internet and to every industry that relies on the Internet for commerce and innovation.

While we cannot foresee all the impacts that eliminating net neutrality may have on payments, we believe this proposed rule sets a precedent that may threaten innovation in at least five ways.

- First, it will harm competition. Payments processors benefit from having low latency and high reliability, largely because consumers and businesses expect speed and dependability when making transactions. Cable and phone companies may have an incentive to harm competitors and benefit either their affiliated or partnered products. The FCC already received complaints that the three phone companies that form the mobile payments joint venture ISIS have discriminated against Google Wallet.[1]
- Second, the FCC's proposal would harm innovation, as emerging payments processors will be unable to compete purely on the merits of their innovations.
- Third, handcuffing the latency and bandwidth of data will only limit the ability of payment networks to combat consumer fraud. The process through which payment networks identify users, calculate risk and flag fraud involves complex algorithms and models based on a limited set of slow moving pseudo-analog data points; as new technologies develop to replace static plastic cards, millions of data points will be created. The secure, unburdened, real-time flow of this information to financial service providers for the

sole use of consumer protection will enable new fraud models and machine learning systems to provide greater national security, consumer confidence and economic stability.

- Fourth, even if all payment processors could afford to pay for "fast lane" quality of service, these payments would force the industry to add new fees on all transactions to cover the costs of paying for access to the fast lane. Such fees would make it very difficult to drive costs down in the payments industry and will ultimately pass a greater burden along to the consumer.
- Finally, and most importantly, the proposal will negatively impact the market for payments processing by quelling innovation among small businesses in all sectors. Indeed, as we drive down the cost for payments, we can serve more and more smaller businesses offering low-margin and low-cost goods (both virtual and real) that have not yet had affordable payments options.

When it comes to payments, Net Neutrality represents a powerful equalizer for small businesses that do not have the volume or frequency to negotiate reduced interchange fees with payment processors. Without neutral access to the Internet, such businesses would face higher costs or competitive disadvantages in reaching users, and therefore might not even be in a position to take advantage of low-cost payment processing.

Dwolla supports an open Internet and we rely on it for the success of our business. Without an open Internet, companies, such as ours, would not be able to achieve the level of innovation made possible today. Technical discrimination and pay-to-play deals may directly harm Dwolla. We are working hard to develop our networks and scale our breakthroughs to the masses. Dwolla does not believe we can sustain our low-cost value proposition should a pay-for-priority come to fruition. We believe that there are legitimate concerns around the payments incumbents' ability to outbid newer companies, such as ourselves, with existing cash on hand. Should we be negatively affected, Dwolla could be forced to increase transaction rates to our users, which conflicts directly with our low-cost business model. Additionally, Dwolla's real-time payments service is dependent on the speed and reliability of payments. This impacts both us and our users. First, conducting business outside of the fast-lane would mean slower transactions and an impairment of one of our major competitive advantages; second, our users would not be able to transact amongst themselves with the same ease and assurances.

Government policy should encourage competition and innovation in payments processing, which would result in greater efficiency, speed and low-costs for businesses and consumers across the economy. The FCC should impose a rule against unreasonable discrimination, relying on Title II of the Communications Act. Technical discrimination and pay-for-play arrangements considered by the FCC will only stymie the types of innovation and creative solutions needed to address our country's financial needs, which we believe the CFPB should encourage for the benefit of all consumers.

Sincerely,

Ben Milne

Founder and Chief Executive Officer

Dwolla Corp.

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[1] Barbara van Schewick, Letter to FCC re Google Wallet, Dec. 19, 2011, http://www.scribd.com/doc/76026861/Van-Schewick-Letter-to-FCC-Verizon-Google-Wallet.