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IN THE UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF IDAHO

PAYSERVICES BANK, Plaintiff, vs. FEDERAL RESERVE BANK OF SAN FRANCISCO, Defendant.	Case No. 1:23-cv-00305-REP **DECLARATION OF MEREDITH KARP IN SUPPORT OF DEFENDANT FEDERAL RESERVE BANK OF SAN FRANCISCO'S MOTION TO DISMISS PLAINTIFF'S COMPLAINT FOR DECLARATORY AND INJUNCTIVE RELIEF**

I, Meredith Karp, declare as follows:

1. I am one of the attorneys for Defendant Federal Reserve Bank of Francisco, am over 18 years of age, am competent to make this declaration, and make this declaration based upon my personal knowledge.

2. Attached to this Declaration as Exhibit A is a true and correct copy of the Federal Reserve Bank of San Francisco's May 31, 2023 Letter to PayServices, Inc. that is identified in Paragraph 43 of the Complaint.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on August 14, 2023.

/s/ Meredith Karp
Meredith Karp

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 14th day of August, 2023, I filed the foregoing electronically through the CM/ECF system, which caused the following parties or counsel to be served by electronic means, as more fully reflected on the Notice of Electronic Filing:

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/s/ Robert A. Faucher
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EXHIBIT A

Federal Reserve Bank
of San Francisco

May 31, 2023

Lionel Danenberg
PayServices, Inc.
14061 Pacific Point Place, #204
Delray Beach, FL 33484

Dear Mr. Danenberg,

The Federal Reserve Bank of San Francisco (FRBSF) has reviewed the request by PayServices Bank to obtain a Federal Reserve Master Account and financial services. FRBSF is unable to grant your request because the request does not meet the standards outlined in the Board of Governors' Guidelines for Evaluating Account and Service Requests (Guidelines). PayServices has obtained "preliminary approval" from the Idaho Department of Finance to establish an uninsured Idaho state-chartered bank and would not be subject to prudential supervision by a federal banking agency. PayServices intends to operate exclusively as an online bank and to focus its business model almost entirely on providing payment processing solutions to foreign import and export merchants and buyers, and foreign governments. Under the Guidelines, PayServices is a Tier 3 institution and thus subject to the strictest level of review. The proposed novel, monoline business model and focus on transactions that are largely foreign in nature or involve mostly foreign participants presents undue risks.

PayServices Bank's unproven risk management framework is considered insufficient to address the heightened risks associated with its novel, monoline business model, including its ability to mitigate money laundering and terrorism financing risks. Most notably, the significant risks and concerns in the areas of BSA/AML and OFAC risk management, credit and settlement process and controls, cyber and information security risk management, enterprise risk management, strategic planning, and the limited banking and bank-specific risk management experience among management, presents undue risk to the Reserve Bank. The proposal also presents potential concerns with respect to PayServices' ability to be resolved safely and effectively upon failure, due to its uninsured status. Should the institution allow the Master Account to fund or facilitate illicit activity, undue reputational risk may also be posed to the Reserve Bank, Payment and/or U.S. financial system.

Please let us know if you have any questions.

Regards,

Wallace Young, Vice President, Credit Risk Management