CSBS Supports H.R. 1109 - The Bank Service Company Examination Coordination Act

COMMENT LETTER

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The Honorable Patrick McHenry
Chairman, Committee on Financial Services
U.S. House of Representatives
Washington, DC 20510

The Honorable Maxine Waters
Ranking Member, Committee on Financial Services
U.S. House of Representatives
Washington, DC 20510

Dear Chairman McHenry and Ranking Member Waters:

On behalf of the Conference of State Bank Supervisors (CSBS), I am writing to express our strong support for H.R. 1109, the Bank Service Company Examination Coordination Act, led by Rep. Williams and Rep. Meeks. This legislation will enhance the ability of state and federal regulators to share information on and coordinate the examination of bank third-party service providers in an effective and efficient manner.

Banks contract with third-party service providers for a wide variety of critical banking services. Third parties perform core business operations for banks such as those related to lending and deposit taking, debit and credit card programs, appraisals or appraisal management, payment services, IT security and testing, and call centers. Increasingly, banks are seeking to partner with fintech firms. This bill will support banks' ability to leverage technology through these business relationships in a safe manner that protects consumers.

The Bank Service Company Act (BSCA) authorizes federal regulators to examine service providers to assess the potential risks they pose to individual client banks and the broader banking system. Currently, 38 states have similar authority under state law. However, the BSCA is silent regarding the ability of federal regulators to share information with state regulators, resulting in duplicative and inefficient supervision of service providers. Amending the BSCA to remove any perceived barriers to information sharing will improve state-federal coordination and promote more efficient and effective supervision of firms that perform critical services for a broad range of banks. This bill does not create any new authority at the state level.

The 2022 Annual Report of the Financial Stability Oversight Council addresses this need, stating:

“The Council also recommends that federal banking regulators continue coordinating third-party service provider examinations, work collaboratively with states, and identify additional ways to support information sharing among state and federal regulators.”[1]

Service providers supply banks with a substantial number of core solutions, making their compliance with banking law as important as the bank’s itself. Improved information sharing and exam coordination among state and federal regulators will allow regulators to use limited resources more efficiently and promote more effective supervision of service providers. State bank regulators firmly support passage of H.R. 1109, the Bank Service Company Examination Coordination Act, and look forward to its enactment.

Sincerely,

James M. Cooper
President and CEO

cc: Members of the House Financial Services Committee

Footnotes

2 See: “2022 Annual Report.” Financial Stability Oversight Council, pg. 72.

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