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VIA ELECTRONIC SUBMISSION

September 21, 2020

Robert E. Feldman, Executive Secretary
Attn: Comments to Request for Information
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, D.C. 20429

Re: RIN 3064–ZA18 – Response to Request for Information on Standard Setting and Voluntary Certification for Models and Third-Party Providers of Technology and Other Services

Dear Mr. Feldman:

On behalf of two clients, each a technology service provider to supervised financial institutions (the "Clients" or "we" and "us"), we appreciate the opportunity to provide this response to the request for information by the Federal Deposit Insurance Corporation ("FDIC") regarding standard setting and voluntary certification for models and third-party providers of technology and other services. The comments and suggestions offered in this letter are being made on behalf of the Clients and the views contained herein do not necessarily reflect the views of any other client or clients.

We have a practical perspective of the ways in which technology service providers assist insured depository institutions in providing credit solutions to consumers and small businesses who are not well-served by traditional bank products. We support the FDIC's efforts to implement a voluntary certification or assessment program applicable to such providers. The FDIC's ongoing leadership to facilitate bank partnerships with financial technology service providers continues to be a vital driver in the provision of financial services to unbanked and underbanked people in the United States.

As a general matter, we commend the FDIC for its efforts to promote the efficient and effective adoption of technology at FDIC-supervised financial institutions, and to facilitate the supervision of technology usage at these institutions without increasing costs or regulatory burden. As the FDIC correctly recognized, technological innovations play an important role in transforming the business of banking. Technology service providers provide important functions to financial institutions—including the development of specialized credit underwriting models, preventing and managing fraud risk, credit management, operational risk management and valuation, servicing loans, and conducting collection activities in a manner that is fair and transparent to consumers —that enable financial institutions to better serve underbanked customers and expand access to fairly priced banking services. Technology service providers are able to commit considerable time, focus and resources to develop innovative technology and analytics that are less easily developed within large, established banking organizations. These technological systems and analytics capabilities can be developed over many years based on hundreds of millions of customer interactions, resulting in unparalleled technical systems. Through partnerships with these technology service providers, banks are able to benefit from their unique technical expertise, while at the same time focusing on their core mission of providing banking services to the communities in which they operate.

For example, non-prime customers and small businesses are more likely to be denied credit by many traditional bank lenders due to factors outside of their control that make it difficult for banks to safely underwrite credit risks associated with such customers. Financial technology service providers, however, employ proprietary underwriting systems based on data collected over years of experience with non-prime customers' and small businesses' credit risks to help solve their immediate financial needs with competitively priced credit. These systems employ advanced risk analytics, as well as a variety of scores and strategies, to inform credit approval decisions, allowing supervised financial institutions to reach otherwise untapped segments of the financial services market, and allowing non-prime customers to access otherwise unavailable credit. Such financial technology service providers thereby facilitate greater access to credit and financial inclusion to traditionally underserved communities, including underserved minority and rural communities, as well as small businesses in those communities, thereby reducing economic inequality in our nation.

In addition to their specialized underwriting capabilities, financial technology service providers are uniquely able to bring underbanked non-prime customers into the banking system through their expertise in multi-channel marketing strategies (including digital marketing and strategic partnerships). The online convenience offered by financial technology service providers' products and services and their constant availability to accept and process credit applications with quick approval decisions provide competitive advantages to, and support the ongoing growth of, the supervised financial institutions with which the financial technology service providers contract. Moreover, in the face of increasing closures of brick-and-mortar bank branches, such online convenience offered by financial technology service providers allows underserved rural and other communities to access the banking and financial system despite the lack of a traditional banking presence in their geographic area.

As another example, financial technology service providers have played a key role in facilitating credit to the communities that are the hardest hit by the COVID pandemic. Financial technology service providers, in partnership with FDIC-regulated banks, have been among the largest providers of loans under the Paycheck Protection Program established by the CARES Act. Financial technology service providers have allowed banks to reach customers and provide critical financial services during this unprecedented economic unrest.

The Clients are committed to providing their respective underwriting models and other financial services to supervised financial institutions in full compliance with applicable regulatory requirements, and maintain robust compliance systems and controls to ensure that supervised financial institutions can safely rely on the Clients' models and services consistent with regulatory risk management expectations. As the FDIC rightly notes, however, supervisory expectations for a bank to identify and control risks arising from third-party technology vendor relationships (including through model review and validation) often create barriers to banks benefitting from the technological innovation offered by such vendor relationships.

We therefore support the development of relevant standards for assessing third-party models, along with the development and application of a voluntary certification process to ensure that models conform to those standards, as a helpful mechanism for facilitating bank access to technological innovation with mitigated regulatory burden while nevertheless maintaining appropriate risk management and safety and soundness standards. The ability of banks to harness financial technology to deliver safe, transparent and convenient financial products and services to customers, depends upon the establishment of a regulatory framework that creates certainty and transparency among the bank, the technology provider, and the regulator.

Specifically, we support adopting a standard-setting, validation and certification approach for technology service providers that acknowledges the evolving risk environment by avoiding a rigid or overly prescriptive regulatory framework. The nature of technological innovation requires nimble and discretionary operational responses from service providers in the face of ongoing risks and financial institution needs. Accordingly, a standard-setting framework that relies on principles and industry best practices, and that is clearly identified and construed as high-level guidance, is the most appropriate way to allow supervised financial institutions and third-party service providers the requisite flexibility to address risk management and model validation issues. Since the Clients and similarly situated service providers already have robust validation and reliability controls in place, the need to codify additional requirements is minimal and risks hindering existing best practices through overly prescriptive requirements. By allowing financial institutions and third-party service providers to appropriately tailor their model validation and other vendor reliability programs to their own unique systems and infrastructures, the FDIC would ensure that risk management practices and standards are permitted to evolve as technology, markets, and best practices evolve.

Similarly, the FDIC's standard-setting, validation and certification approach for technology service providers should seek broad applicability to all technology service providers that meet the operational certification requirements and otherwise operate in accordance with applicable laws and regulatory risk management expectations. The FDIC should not condition participation in any such voluntary certification program on other particulars of the service provider's business model (such as the target customer base, product offerings or model pricing).[1]

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We appreciate the opportunity to comment on the FDIC's request for information, and support the FDIC's efforts to facilitate financial institutions' use of technological innovation offered by third-party service providers through a voluntary certification or assessment program. We suggest that the FDIC allow flexibility in implementation of the standard-setting and certification requirements and give deference to currently existing best practices, while seeking broad applicability to allow financial institutions a wide selection of certified service providers. Doing so will promote the efficient and effective adoption of technology at FDIC-supervised financial institutions without compromising on appropriate risk management and safety and soundness standards.

Very truly yours,

[redacted]

Keith Noreika

[1] Although not the subject of the FDIC's request for information, we also would support the FDIC implementing a regulation to determine when a state bank makes a loan and is the "true lender" in the context of a partnership between a bank and a third party, similar to the rule recently proposed by the Office of the Comptroller of the Currency. *See* 85 Fed. Reg. 44223 (July 22, 2020).