

# **HB250 Letter of Support.pdf**

Uploaded by: Amy Hennen

Position: FAV

January 23, 2024

House Economic Matters Committee

Chair: Delegate Wilson  
House Bill 250 – Third-Party Service Providers - Examinations

**Re: Letter of Support**

As Maryland’s Consumer Financial Protection Agency, the Office of Financial Regulation (OFR) requests a favorable report on HB250 which provides OFR with enhanced authority to ensure that regulated financial service providers are operating in a safe and sound manner for the protection of Marylanders and the stability of the financial industry.

In keeping with the increasingly digital nature of the financial services sector and financial products generally, financial institutions licensed or chartered by OFR all, to a greater or lesser degree, rely on third-party service providers (“TSPs”) for a range of services. Some of these services are for the operation of their core services and others are for important, but not core, functions. While the use of TSPs provides financial service providers with many benefits, it also multiplies the risks the financial service providers, and their products pose to consumers and the financial system. OFR currently lacks the authority to examine such TSPs. This lack of authority limits the OFR’s ability to fully examine and investigate many regulated entities or join with, or receive information from, other state and federal regulators who may be examining or investigating critical TSPs. In turn, this opacity may conceal the risks TSPs pose to institutions operating in Maryland and their customers. Hence, OFR, through HB250, seeks to expand its examination authority to include TSPs.

OFR underwent a reaccreditation examination of its bank examination function in 2022. That examination report noted OFR’s lack of authority to examine bank TSPs and recommended that “the Agency acquire the authority to examine TSPs.”

Regulators in 37 states currently have the ability to examine bank TSPs. Having the ability to examine TSPs of such depository institutions as well as persons offering financial services in Maryland provides OFR with the ability to gain an insight into the operations of critical service providers to financial services companies and enhances OFR’s ability to ensure the safety, soundness, and legal compliance of companies providing financial services to Maryland residents. It also allows OFR to receive the examinations of such TSPs conducted by federal and other state regulators.

The legislation is modeled after banking and credit union TSP examination authority granted to regulators in Texas and Michigan. Those states have significant experience in examining TSPs and their legal framework provided a good model for Maryland to follow.



OFFICE OF FINANCIAL REGULATION  
1100 NORTH EUTAW STREET; SUITE 611  
BALTIMORE, MARYLAND 21201  
ANTONIO P. SALAZAR, COMMISSIONER

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The OFR seeks the authority to conduct TSP examinations to (i) enhance the effectiveness of the OFR's examination programs; (ii) allow the OFR to participate in, or receive information from, TSP examinations by other regulators; and (iii) better assess the safety and soundness of Maryland financial service providers and protect their customer.

Because the costs of the TSP exams are to be borne by the third parties that are examined, OFR anticipates no fiscal impact from this bill.

With that, we urge a favorable Committee Report.

# **HB250 Third Party Service Providers EconAction\_FAV**

Uploaded by: Marceline White

Position: FAV



**Testimony to the House Economic Matters Committee**  
**HB250: Financial Institutions-Third Party Service Providers-Examinations**  
**Position: Favorable**

January 23, 2023

The Honorable C.T. Wilson, Chair  
House Economic Matters Committee  
Room 231, House Office Building  
Annapolis, Maryland 21401  
cc: Members, House Economic Matters

Honorable Chair Wilson and members of the committee:

Economic Action Maryland (formerly the Maryland Consumer Rights Coalition) is a statewide coalition of individuals and organizations that advances economic rights and equity for Maryland families through research, education, direct service, and advocacy. Our 12,500 supporters include consumer advocates, practitioners, and low-income and working families throughout Maryland.

We are writing today in support of HB250. HB250 enables the Commissioner of Financial Regulation to examine third-party service providers as to services and activities performed on behalf of a regulated entity as if the regulated entity was providing services or activities. As more and more firms contract or subcontract services and work with global and remote providers, it makes sense to ensure that third-party providers would be subject to examinations for regulated financial services providers and that the Commissioner should have the authority to conduct examinations of third party providers as needed.

For these reasons, we support HB 250 and urge a favorable report.

Best,

Marceline White  
Executive Director

For these reasons we support HB246 and urge a favorable report.

Best,

Marceline White  
Executive Director

**CSBS Support Letter for MD HB 250 (1-18-24).pdf**

Uploaded by: Mary Pfaff

Position: FAV



January 18, 2024

Delegate C.T. Wilson, Chair  
House Economic Matters Committee  
Room 231  
House Office Building  
Annapolis, Maryland 21401

Dear Chair Wilson:

The Conference of State Bank Supervisors (“CSBS”)<sup>1</sup> appreciates the opportunity to comment on Maryland House Bill 250. The bill will authorize the Commissioner of Financial Regulation to examine third-party service providers (“TSPs”) that perform critical activities on behalf of a Maryland licensed or chartered financial entity. This legislation will enhance the Commissioner’s ability to promote consumer protection and the safety and soundness of regulated entities. Currently, 37 states have similar authority under their respective state laws.

Financial institutions have long partnered with third-party service providers, which can be affiliates, subsidiaries, or contracted vendors, to outsource a range of critical business services and help leverage technological innovations. TSPs are expected to comply with the same applicable laws and regulations as the financial institutions using their services.

While financial institution and vendor relationships are common, they can expose financial institutions and their customers to unique and serious risks, particularly cybersecurity or business continuity risks. Recent cyber incidents at technology vendors underscore the serious vulnerabilities that can exist at TSPs. Ensuring effective regulatory oversight of financial institutions’ partners and vendors is important to mitigating these risks.

We appreciate your efforts to bring this bill to the House Economic Matters Committee for its consideration and look forward to its enactment.

Sincerely,

Karen K. Lawson  
Executive Vice President, Policy & Supervision

cc: Antonio P. Salazar, Commissioner of Financial Regulation

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<sup>1</sup> CSBS is the nationwide organization of state banking and financial regulators from all 50 states, American Samoa, the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands. CSBS supports the state banking agencies by serving as a forum for policy and supervisory process development, facilitating regulatory coordination on a state-to-state and state-to-federal basis, and providing training, educational programs, and exam resources.

# **HB0250\_MBA\_Richards\_FWA.pdf**

Uploaded by: Evan Richards

Position: FWA





**HB 250 - Financial Institutions - Third-Party Service Providers - Examinations**

**Committee:** House Economic Matters Committee

**Date:** January 23, 2024

**Position:** Favorable with Amendments

The Maryland Bankers Association (MBA) **SUPPORTS HB 250 WITH AMENDMENTS.** This legislation authorizes the Commissioner of Financial Regulation to conduct examinations on third-party service providers who provide services on behalf of an institution licensed or chartered by the Office of Financial Regulation. Amending this legislation to conform examination standards with those under the federal Bank Service Company Act (BCSA) will provide uniformity to banks undergoing examinations by their respective regulators.

Maryland banks and their vendors are subject to the federal BCSA. The BCSA requires banks to notify their federal banking regulator, in writing, of contracts or relationships with businesses that provide services on their behalf. The services covered by the Act include check and deposit sorting and posting, computation and posting of interest, preparation and mailing of checks or statements, and other clerical, bookkeeping, accounting, statistical, or similar functions, including data processing, internet banking, and mobile banking services. The BCSA subjects these service providers to regulation and examination by the federal banking agencies to the same extent as if the services were being performed by the depository institution.

Because Maryland banks and their service providers are already heavily regulated in this arena under federal law, it is our hope that amendments can be worked out with the Commissioner of Financial Regulation that would have this new Maryland law follow those requirements.

Accordingly, MBA urges issuance of a **FAVORABLE** report on HB 250 **WITH AMENDMENTS**.

*The Maryland Bankers Association (MBA) represents FDIC-insured community, regional, and national banks, employing more than 26,000 Marylanders and holding more than \$209 billion in deposits in over 1,200 branches across our State. The Maryland banking industry serves customers across the State and provides an array of financial services including residential mortgage lending, business banking, estates and trust services, consumer banking, and more.*