

March 20, 2024

Senate Finance Committee

Chair: Senator Beidle

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

OFR seeks the authority to conduct TSP examinations to (i) enhance the effectiveness of OFR's examination programs; (ii) allow 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 customers.

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. After HB250 was introduced in the House, OFR received feedback from some banks and, later, large third-party service providers, and it worked to incorporate language into the bill so that all parties are satisfied with the iteration of the bill that is before the Committee. Those changes are reflected in the additional sponsor amendments.

With that, we urge a favorable Committee Report.