October 18, 2021

Ms. Ann E. Misback
Secretary
Board of Governors of the Federal
Reserve System
20th Street & Constitution Avenue, NW
Washington, DC 20551

Chief Counsel's Office
Attention: Comment Processing
Office of the Comptroller of the Currency
400 7th Street, SW
Suite 3E-218
Washington, DC 20219

Mr. James P. Sheesley
Assistant Executive Secretary
Attention: Comments-RIN 3064-ZA26
Legal ESS
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: Proposed Interagency Guidance on Third-Party Relationships: Risk Management (Federal Reserve Docket No. OP-1752; FDIC RIN 3064-ZA26; OCC Docket No. OCC-2021-0011)

Dear Agency Leaders:

The Community Bankers Association of Illinois ("CBAI"), which proudly represents nearly 300 Illinois community banks, appreciates the opportunity to provide our observations and recommendations regarding the federal banking agencies ("Agencies") proposed interagency guidance on managing risks associated with third-party relationships ("Proposal" or

"Guidance"). Community banks are increasingly developing and participating in third-party relationships to provide a variety of financial services to their customers. CBAI appreciates the inter-agency collaboration on this Proposal to provide clarity and consistency in their regulatory expectations, which will benefit community banks and enhance their ability to compete against the largest bank and a host of not-bank financial service providers.

The importance of community banks developing third-party relationships to enhance their product and service offerings, while existing for decades, has grown recently in importance. The unique challenge for community banks in developing these capabilities internally is their limited financial and human resources. For example, few community banks continue to do their own core data processing or use their own account and loan documentation software or payroll processing, to name just a few. Rather, community banks partner with experienced firms to assist them.

Y2K preparedness brought a laser focus on all of the bank service partners' ability to continue to deliver services to community banks at the turn of the century. Several years ago, fintechs began their ambitious journey by thinking they could replace banks but were soon confronted with that daunting regulatory reality and quickly shifted to a "partner rather than replace" strategy. The COVID-19 pandemic accelerated the movement towards technology-assisted delivery of banking services and presented new challenges with bank staff working remotely. While the nation appreciated how community banks stepped up and delivered services and benefits to individuals and small businesses, the pandemic highlighted where banks need to focus their future efforts to operate effectively and efficiently, remain relevant, and attract and keep customers. Their ability to succeed will be enhanced by thoughtful and reasonable guidance on how to manage third-party relationships with their product and service providers.

Community banks continue to face challenges, not of their own making, which should encourage the Agencies to construct this guidance so as not to add to an already significant regulatory burden and competitive imbalance. The banking and financial service industry, our economy, consumers, small businesses, and American taxpayers will be harmed by a further reduction in the number of community banks, a further concentration of banking assets in the largest banks and financial firms, exacerbating the competitive imbalance which favors credit unions and Farm Credit System lenders, and the increasing number of not-banks (i.e., fintechs, crypto firms, SPNBs, ILCs and others.) These not-banks are escaping critical regulatory and supervisory requirements to ensure their safety and soundness as well as threatening harm to the banking industry, the FDIC's Deposit Insurance Fund, and American taxpayers. **CBAI urges the Agencies to support community banks, not increase their regulatory burden, and certainly**

not provide those which unfairly compete against community banks an additional advantage, through thoughtful and appropriate guidance for third-party risk management.

CBAI urges the Agencies to approve Guidance which is not one-size-fits-all, but tailored to meet the reasonable and legitimate needs of community banks now and flexible enough to allow community banks to adjust the guidance to different scenarios and environments in the future. This guidance should be forward-looking but also encourage and permit the reassessment of existing relationships that may have been impacted by the ever-changing environment. Two years ago, no one could have envisioned how bank operations and customer preferences would have changed as a result of the pandemic. The pace of change in business, even absent a pandemic, is moving faster than ever, and guidance on how to manage third-party relationships should be adaptive to the ever-changing environment.

CBAI finds merit in and urges the Agencies to consider incorporating a third-party risk management matrix to be used as a helpful framework for analysis of the severity and duration of the risk. This risk management tool will encourage community banks to use a more holistic, dynamic, disciplined, comparative, and consistent approach to third-party risk management now and throughout the life of the bank's third-party relationships. This risk management approach should also assist examiners in their assessment of bank compliance efforts over periods of time and from institution to institution.

If properly constructed, this guidance will provide much-needed joint-agency clarity and consistency regarding third-party risk management to help ensure the safety and soundness of community banks and to not further advantage other not-bank financial service providers. Thank you for considering our thoughts and recommendations on this important matter. If you have any questions or require any additional information, please contact me at davids@cbai.com or (847) 909-8341.

Sincerely,

/s/

David G. Schroeder
Senior Vice President
Federal Governmental Relations