LinearFT

October 18, 2021

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

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

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

Re: Proposed Interagency Guidance on Third-Party Relationships: Risk Management

Agency/Docket Numbers:

Docket No. OP-1752

Docket ID OCC-2021-0011

RIN:3064-ZA26

Linear Financial Technologies ("Linear") appreciates the opportunity to submit comments to The Board of Governors of the Federal Reserve System ("the Board"), the Federal Deposit Insurance Corporation ("FDIC"), and the Office of the Comptroller of the Currency's ("OCC"; jointly, "the agencies") Proposed Interagency Guidance and Request for Comment on Managing Risks Associated with Third-Party Relationships.

As a technology service provider to an array of financial institutions, both large and small, Linear holds a unique perspective regarding the balance between technology-driven innovation and the need to ensure customer protection and the safety and soundness of individual financial institutions.

About Linear

Linear is a market-leading technology service provider that offers integrated, private-label small business loan and account origination solutions to five of the largest 25 banks in the United States, and to many smaller financial institutions. Our list of clients is expansive and diverse, including top U.S. banks such as Citizens Bank, PNC Bank, Fifth Third Bank, Huntington Bank and Bank of the West. To date, our super regional, regional and community bank clients have provided more than $13 billion in affordable, critical capital to businesses through our platform.

We have also recently expanded into the Canadian and Australian markets through a partnership with American Express.

Linear's technology was also heavily involved in the Paycheck Protection Program ("PPP") as a partner to large financial institutions and was responsible for facilitating applications for qualifying small businesses for billions of dollars of critical PPP loan access. Our flexibility as a digitally native enterprise allowed us to deploy our technology stack against a time-sensitive need to build access for banks and their small business customers to a newly created government program, which proved critical in meeting the unparalleled time-sensitive need for small business credit extension. The average size of PPP loans that we facilitated was well below $100,000, underscoring our experience as a provider of critical credit access to the smallest of small businesses in the United States.

In October 2020, we submitted a comment letter in response to the FDIC's Request for Information on Standard Setting and Voluntary Certification for Models and Third-Party Providers of Technology and Other Services (RIN 3064–ZA18). We applauded the FDIC for this outreach effort, provided our perspective on the many existing barriers to wider adoption of innovative third-party financial services and noted that the proposal had the potential, if implemented, to significantly reduce the friction between smaller financial institutions and technology partners accredited by this process. We are now requesting that similar standards be applied to the agencies' joint supervisory guidance proposal – that any certification of a technology service provider such as Linear should be sufficient to satisfy any concerns raised by a bank examiner derived from this guidance and suggest that the final version of the agencies' supervisory guidance clearly reflect this position.

Our Existing Due Diligence and Regulatory Oversight

While Linear is not an insured depository institution, our business has many operational similarities to banks due to our close and long-standing banking relationships. As an integrated service provider to the banking industry, we undergo a minimum of eight comprehensive bank vendor due diligence exercises annually and are indirectly subject to third-party risk management guidelines issued by the prudential regulatory agencies. Additionally, our sophisticated institutional-quality infrastructure includes:

- SSAE 16 SOC II Type II certification
- An Information Security program reviewed by independent third party for consistency with NIST's FFIEC and ISO27000 series Guidelines
- Application security and penetration testing performed by independent third-party experts
- Disaster Recover and Business Continuity plans reviewed by all our bank partners
- Robust cyber and information security incident management and response processes
- Multiple validations by our bank partners and credit providers
- Internal audit function and an external audit program by a professional third party
- Ongoing employee training and testing program
- Comprehensive vendor management program in place for our third-party vendors

By demonstrating our commitment to a rigorous, comprehensive compliance regime, we have proven that third-party service providers can and do operate with high standards of compliance and controls in the areas that regulators care about most.

Current Barriers for Third Party Service Providers

While scrutiny of third-party partners is critical to ensure customer protection and safety and soundness, many smaller financial institutions do not have the resources required to adequately vet third parties in compliance with regulatory expectations, which can be a deterrent to partnering with technology companies. While the objectives of the onboarding and ongoing risk management oversight processes for every bank are identical – ensuring customer protection and meeting the requirements of the prudential and state regulators' requirements to maintain safety and soundness – the implementation of third-party partner risk management varies with each of our clients, based on their own interpretation of their regulators' expectations.

For both parties, the cost, in terms of both time and resources, of onboarding and maintaining these relationships becomes *more* burdensome with each client we add or, in the case of the financial institution, with each new partner they rely on to help them innovate and compete. This ultimately results in less choice and less options for smaller institutions in particular. Therefore, identifying opportunities to streamline the process of meeting regulatory expectations when leveraging third-party technology service providers has the potential to meaningfully improve the ability of smaller financial institutions to compete in the digital era.

Current Barriers for Our Small Bank Partners

Smaller banks face two primary challenges in advancing their technology systems. First, most small institutions rely heavily on their core banking system provider to advance their digital goals, as smaller institutions naturally have fewer human and financial resources to pursue, procure, implement, and manage technology relationships with multiple third-party providers. More so, most technology solutions available to banks, both large and small, have the greatest impact when they are integrated with the core operating systems of a bank. As a result, core providers are critical to any technology decision that a small bank faces, and, subsequently, are the primary providers for many of the technologies used by banks today.

The data underscores this reality. In 2019, 68 percent of small bank respondents said that application program interface ("API") technology is provided by a core provider, 47 percent reported depending on a core provider for peer-to-peer payment technology, 43 percent reported that business process automation was provided by a core provider, and 42 percent indicated a core provider was responsible for enabling data aggregation.[1] Concentration and lack of competition in the core provider marketplace, where just a few companies provide most of the technology solutions for thousands of smaller financial institutions, has made it unnecessarily difficult for many banks to adequately meet their technology needs and, by extension, has limited their customers' ability to access innovative financial tools or more affordable credit products.

[1] Bank Director 2019 Technology Survey

The second challenge that small banks face is an overall lack of resources to vet and onboard new technology partners in a manner compliant with regulators' third-party partner risk management guidance. Certain institutions may lack in-house expertise regarding due diligence, the structuring of contracts that adequately protect against the risks a third-party provider may present, and resources to monitor whether the provider is adhering to all necessary regulatory requirements. Faced with these challenges, the natural response for small financial institutions is to resist implementing technology tools altogether out of a perceived abundance of caution against non-compliance with regulatory requirements.

Uniform Supervisory Expectations Will Foster a More Competitive Market

In the small business market, Linear's clients and, by extension, their regulators, expect their customers to enjoy the same quality of experience with any third-party technology provider as they do with their bank. It is therefore in the best interest of bank customers, technology partners, and regulators to encourage responsible innovation by streamlining the partnership process and giving all parties involved the confidence to ensure regulatory expectations have been met. In the absence of this regulatory certainty, fewer financial institutions will be willing to transition from existing third-party partner risk management practices to a less onerous approach.

With respect to the procurement process for technology providers, a certification of adherence to third-party partner risk management requirements, either by a standards body or by a self-regulatory organization, would provide assurance to small financial institutions that a third-party vendor meets the compliance requirements expected by prudential regulators. This would provide any supervised financial institution that wishes to work with that vendor with a significantly lower burden to onboard and work with that firm and would significantly reduce the friction for smaller financial institutions when working with technology partners that have been accredited by this process.

Such a certification process could enable any supervised financial institution to leverage information that has already been provided or certified which would result in a less time-consuming process. An example of this could be that a bank that wants to implement with a third party could rely on all or some of the same information that was previously vetted, utilizing a standardized package of information such as audit, SOC reports, and other policies typically all required by banks from their third-party partners to comply with third-party partner risk management requirements.

Instead of merely providing guidelines which supervised banks can interpret in myriad ways, we submit that the agencies should themselves assume more responsibility for ensuring due diligence through clear, uniform, unambiguous supervisory expectations. We respectfully offer that this joint agency effort would best facilitate confidence for banks and third-party providers of all sizes by clarifying regulatory scope and jurisdiction over this rapidly-evolving market. Such a regime should create a safe harbor for smaller financial institutions to partner with technology providers. A uniform joint guidance that integrates established best practices helps

LinearFT

financial technology service providers would meaningfully reduce the barriers smaller financial institutions face under the existing supervisory regime.

Once again, thank you for the opportunity to provide Linear's perspective on these proposed guidelines. We appreciate this joint effort to encourage innovation in the marketplace and recognition of the potential benefits to banks and their customers.

Sincerely,

Sam Graziano

Sam Graziano
Chief Executive Officer
Linear Group LLC