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Via regulations.gov

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

RE: Docket ID OCC-2025-0537 Request for Information Regarding Community Banks Engagement with Core Service Providers and Other Essential Third-Party Service Providers

To Whom It May Concern:

The Independent Community Bankers of America (ICBA)¹ appreciates the opportunity to comment on the Office of the Comptroller of the Currency's ("OCC") Request for Information (RFI) regarding community banks' engagement with core service providers and other essential third-party service providers.

Community banks are vital to the strength of the U.S. economy due to their outsized role in consumer, small business, and agricultural lending. ICBA welcomes this RFI as an opportunity to share concrete, actionable recommendations that will tailor supervisory frameworks to community bank business models and risks, enhance innovation, and support safe, sound, and competitive technology partnerships. While the RFI contains six sections and thirty-three numbered questions, including many with subparts, ICBA focuses below on areas of greatest impact to community banks.

Executive Summary

Community banks rely heavily on core processors and a growing network of essential technology partners to support mission-critical functions. These functions include transaction and payments processing, account and data management, online and mobile banking, customer relationship

¹ *The Independent Community Bankers of America® has one mission: to create and promote an environment where community banks flourish. We power the potential of the nation's community banks through effective advocacy, education, and innovation. As local and trusted sources of credit, America's community banks leverage their relationship-based business model and innovative offerings to channel deposits into the neighborhoods they serve, creating jobs, fostering economic prosperity, and fueling their customers' financial goals and dreams. For more information, visit ICBA's website at icba.org.*

management, compliance and reporting, cloud infrastructure, and fraud prevention. The market for core processing services remains concentrated, with a limited number of dominant providers and a broader but still constrained ecosystem of ancillary technology vendors. At the same time, heightened examiner scrutiny of novel technology partnerships, particularly those involving fintech firms and artificial intelligence, can make innovation slower, more complex, and more costly than necessary for community banks.

This submission highlights common themes raised by community banks regarding their relationships with core service providers and other essential third-party service providers and identifies pragmatic actions the OCC could consider to reduce burden while preserving safety and soundness.

Summary of Key Themes

- Community banks face growing challenges in modernizing technology and remaining competitive due to legacy core system limitations, high integration and conversion costs, vendor concentration, and uncertainty in supervisory expectations, rather than a lack of willingness or capacity to innovate.
- Principles-based third-party risk management guidance is generally appropriate, but inconsistent or overly prescriptive application can create unnecessary burden, discourage responsible innovation, and unintentionally reinforce reliance on legacy service providers.
- Community banks would benefit from greater regulatory clarity through timely interpretive tools such as Frequently Asked Questions, supervisory highlights, and no-action letters, rather than new prescriptive regulations, particularly with respect to emerging technologies and evolving payment environments.
- Regulatory facilitation of shared due diligence, improved access to relevant supervisory information about service providers, and greater consistency in oversight could significantly reduce duplication, lower compliance costs, and improve community banks' ability to negotiate and manage third-party relationships.
- Targeted tools such as limited-scope regulatory sandboxes, stronger interagency coordination, and structured dialogue among regulators, community banks, and service providers can support responsible innovation while maintaining appropriate safeguards for safety and soundness.

Collectively, these actions would meaningfully reduce regulatory friction, improve transparency, and enable community banks to modernize responsibly while continuing to safeguard customers, communities, and the financial system.

ICBA Responses to Specific Questions

Innovation

What challenges have community banks faced, or do they expect to face, in relation to their core service providers and other essential third-party service providers in implementing innovative solutions or accessing services necessary for community banks to remain competitive in a rapidly evolving marketplace?

Community banks' experiences with innovation vary significantly depending on their core service provider and third-party relationships. Some community banks report strong, collaborative partnerships with their core providers, where providers stay abreast of emerging technologies, remain receptive to banker input, and allow banks to evaluate and implement innovative solutions on a timely basis. These banks are better positioned to achieve essential speed-to-market and view their core provider as a strategic partner in supporting long-term competitiveness.

However, many community banks face material challenges when attempting to implement innovative solutions or access new services through their core service providers and other essential third-party vendors. These challenges include limited innovation options from core providers, reliance on outdated technology architectures, high integration and conversion costs, and regulatory and supervisory hurdles that disproportionately affect community banks.

A significant challenge arises from the complexity and cost of integrating third-party solutions with legacy core systems. Many core platforms lack sufficient flexibility or modern, open architectures, requiring banks to layer additional third-party components to modify processes or introduce new functionality. This, in turn, introduces challenges related to interoperability, application programming interfaces (APIs), data access, and ongoing operational risk, all of which slow innovation and increase costs.

Supervisory expectations related to third-party risk management also present meaningful barriers to innovation. While managing third-party risk is essential, examiner scrutiny of innovative fintech partnerships can make such relationships appear unduly risky or burdensome to pursue. Community banks report that supervisory expectations for third-party due diligence are often unclear or applied inconsistently, and that partnering with fintechs or newer technology firms attracts heightened examiner attention compared to relationships with established, legacy providers. As a result, community banks frequently feel compelled to apply exhaustive due diligence processes regardless of the risk profile or criticality of the technology involved, diverting scarce resources and delaying implementation timelines.

This dynamic can unintentionally discourage innovation. The cost and intensity of regulatory scrutiny can make legacy core service providers appear to be the lowest-risk option from a supervisory perspective, even when those providers rely on outdated technology or offer limited innovation. Over time, this reinforces dependence on a small number of core service providers, reduces banks' negotiating leverage, and effectively makes some community banks captive to a single vendor.

Community banks also face an uneven competitive landscape relative to credit unions. Current law permits credit unions to outsource technology and certain services to Credit Union Service Organizations (CUSOs) that are not subject to the same examination and supervisory framework that applies to bank service providers. In contrast, the OCC and other federal banking agencies have authority to examine bank third-party service providers directly. This disparity contributes to unequal regulatory burdens and further challenges community banks' ability to adopt innovative solutions on comparable terms. ICBA has long advocated for legislative changes to grant the NCUA equivalent third-party oversight authority to ensure greater regulatory parity across the financial services sector.

Most community banks lack the scale or in-house resources necessary to develop cutting-edge technology internally and therefore rely heavily on external providers for digital banking and other innovative services. When regulatory frameworks are slow, process-heavy, or insufficiently tailored to the size and risk profile of community banks, these banks struggle to balance the need for innovation with compliance expectations.

In summary, community banks expect continued challenges in remaining competitive due to the combined effects of legacy core system limitations, high integration and compliance costs, constrained vendor choice, and supervisory uncertainty surrounding innovative technologies. Without greater clarity, flexibility, and regulatory parity, these barriers will persist and continue to limit community banks' ability to innovate and meet evolving customer expectations.

What challenges have community banks faced, or do they expect to face, in relation to their core service providers and other essential third-party service providers in responding to developments in artificial intelligence?

Artificial intelligence (AI) presents both significant opportunities and material challenges for community banks. AI technologies offer meaningful potential benefits, including enhanced transaction monitoring, fraud detection, operational efficiency, and customer service. At the same time, AI also introduces new risks, particularly as fraudsters increasingly leverage AI-enabled tools to deceive customers and financial institutions.

Few, if any, community banks have the scale, specialized talent, or data resources necessary to develop AI solutions in-house. Hiring personnel with the technical expertise required to design, train, and maintain AI systems is cost-prohibitive for most community banks, and that talent is not readily

available in many geographic regions. In addition, community banks typically do not possess the large, diversified data sets required to effectively train many AI models. As a result, partnering with core service providers or other third-party technology firms is the most practical—and often the only—path forward for community banks seeking to responsibly leverage AI.

However, reliance on third-party AI providers introduces additional challenges. Community banks must navigate heightened supervisory scrutiny when adopting AI-enabled technologies, particularly when those technologies are novel or provided by newer fintech firms. While community banks understand and support the need to manage third-party risk, inconsistent or unclear supervisory expectations regarding AI technologies can create uncertainty and delay adoption.

Community banks primarily manage these risks using the principles-based framework set forth in the federal banking agencies' Interagency Guidance on Third-Party Relationships: Risk Management (TPRM Guidance). The TPRM Guidance is intentionally scalable and risk-based, and it provides a sound foundation for assessing and overseeing AI-related third-party relationships. Community banks do not believe that new, AI-specific regulations are necessary at this time. Instead, the existing principles-based framework should continue to be applied in a manner tailored to a bank's size, complexity, and risk profile.

What community banks do need is greater supervisory clarity and timely guidance on how existing expectations apply in the AI context. In particular, ICBA encourages the OCC and the other federal banking agencies to reinstate and enhance the use of Frequently Asked Questions (FAQs) as a complement to formal guidance. Previous FAQs provided flexibility, practical examples, and real-time regulatory insight on emerging issues, including artificial intelligence, data aggregation, and alternative data.

Are there specific tools or training that the OCC could provide or facilitate to assist community bankers in developing their technological expertise to better manage innovation, whether internally or in managing their core service provider or other essential third party service provider relationships?

Community banks do not need to become technology developers in order to responsibly manage innovation. The primary challenge facing community banks is not a lack of technological capability, but the significant time and resource burden associated with managing third-party relationships under fragmented and duplicative supervisory expectations. Community banks are well positioned to evaluate business needs, oversee vendor performance, and manage risk when clear regulatory benchmarks and reliable information are available.

The OCC can most effectively support community banks by facilitating their ability to manage innovation through third-party service providers rather than by providing technical training. In

particular, the OCC could assist community banks by developing or facilitating access to a centralized repository of regulatory due diligence materials for core service providers and other essential third-party service providers. Such a repository would allow community banks to focus on governance, oversight, and strategic alignment, rather than duplicating extensive compliance reviews already performed by regulators.

Regulators are uniquely positioned to assess third-party service providers for compliance, financial condition, operational resilience, cybersecurity controls, and risk management practices. Community banks should be able to rely on regulator-performed due diligence for these foundational matters. Today, banks often expend substantial time and resources collecting the same documentation repeatedly, including audit reports, cybersecurity assessments, insurance certifications, control testing results, and compliance attestations. While banks can often obtain some background materials under nondisclosure agreements, they generally cannot access examination findings or supervisory assessments unless they already have a contractual relationship with the provider.

Requiring thousands of community banks to independently gather, validate, and monitor the same information creates unnecessary burden without materially improving safety and soundness. These reviews are more efficiently conducted once by regulators rather than repeatedly by individual institutions. With access to regulator-reviewed information, community banks can better allocate their limited resources toward evaluating whether a service provider is an appropriate long-term partner, assessing operational fit, and establishing effective governance and contractual oversight.

By reducing duplicative due diligence requirements and improving transparency into regulatory assessments of service providers, the OCC could meaningfully enhance community banks' ability to adopt innovative technologies. This approach would lower compliance costs, improve efficiency, and allow community banks to innovate responsibly without needing to develop in-house technical expertise or significantly expand compliance staffing.

Are there actions that the OCC could or should take to facilitate community banks in developing their own technology solutions? For example, are there actions that the OCC should consider to encourage and enable community banks to pursue joint ventures or to invest in subsidiaries for the purpose of developing their own innovative technology solutions?

Most community banks do not have the scale or resources to develop proprietary technology solutions independently. However, many community banks are increasingly pursuing alternative approaches to innovation, including participation in fintech-focused venture funds, joint ventures, and minority investments in technology companies. When structured prudently, these approaches can provide community banks exposure to emerging technologies while maintaining appropriate risk management, capital discipline, and consumer protection safeguards.

Under existing legal and supervisory frameworks, investments in venture funds or technology-focused subsidiaries can be permissible, but community banks often face uncertainty regarding supervisory expectations. The OCC could facilitate responsible innovation by providing clearer guidance designed for community banks on permissible investment structures, governance expectations, capital treatment, and risk management practices applicable to these activities. In particular, broadening the types of eligible funds subject to the 5% of bank capital limit. Bank-focused technology investments, including investments in venture funds, convenient to the business of banking, would not create unsound practices in the banking system and would enable banks to invest in additional technologies or business lines that do not fit neatly in the “bank permissible investment” guidelines. Greater clarity would help community banks assess whether and how to pursue such investments without fear that innovation efforts will later be viewed as inconsistent with supervisory expectations.

The OCC can also support innovation by fostering an environment that encourages responsible experimentation rather than discouraging it. Community banks are more likely to pursue innovative solutions when regulatory expectations are transparent, consistent, and applied in a risk-based manner. When banks believe that well-considered innovation efforts may lead to heightened or unpredictable supervisory scrutiny, they are less likely to invest in new technologies or explore alternative development models.

In addition, the OCC can play a valuable role by engaging directly with industry-led innovation initiatives that are focused on the specific needs of community banks. For example, ICBA’s ThinkTECH Accelerator is the only fintech accelerator dedicated exclusively to community banks and has helped bring to market technology solutions designed for community bank business models, scale, and risk profiles. OCC participation in industry forums such as ThinkTECH’s annual Regulator Day would provide meaningful opportunities for engagement with fintech developers, community bankers, and other regulators.

Such engagement allows regulators to better understand emerging technologies at an early stage, share supervisory perspectives, and provide feedback that can help shape products before they are widely deployed. At the same time, visible regulatory engagement with innovation initiatives can increase confidence among community banks that pursuing new technology solutions is compatible with safety and soundness and regulatory expectations.

In summary, the OCC can facilitate community bank innovation by providing clearer guidance on permissible investment and joint venture structures, encouraging risk-based and consistent supervision of innovation activities, and engaging constructively with industry-led innovation initiatives. These actions would help community banks pursue innovative technology solutions responsibly, without requiring each bank to independently develop complex technology capabilities or navigate undue regulatory uncertainty.

Due Diligence & Transparency

To what extent could some of the concerns voiced by community banks discussed in this RFI be addressed by the OCC establishing a publicly searchable database related to banks' experiences with core service providers and other essential third-party service providers?

Community banks have reservations about the establishment of a publicly searchable database focused on banks' experiences with core service providers or other essential third-party service providers. While increased transparency is an important goal, a public and experience-based database may not reliably capture the full range of bank and service provider relationships. Such platforms can reflect a limited subset of experiences and may lack sufficient context regarding an institution's size, complexity, contractual arrangements, or specific operational circumstances.

In addition, requiring community banks to participate in a public experience database could introduce additional operational and compliance burdens without clear corresponding benefits. Relationships between community banks and their core or other technology providers are complex, technical, and highly dependent on business models, governance frameworks, and negotiated contract terms. These relationships are not easily summarized or compared through standardized, publicly searchable entries without risking oversimplification or misinterpretation.

Community banks also note that public-facing databases raise concerns regarding confidentiality, data security, and the potential chilling effect on candid communication between banks and service providers. Public disclosure of experience-based information could discourage open dialogue and constructive problem solving, which may ultimately undermine the quality of bank-vendor relationships rather than improving them.

At the same time, community banks are supportive of improved transparency regarding the performance and risk management practices of core service providers and other essential third-party service providers when information is collected, evaluated, and shared in a responsible and secure manner. The OCC and other federal banking agencies already possess significant supervisory insight into these service providers through their authority to directly examine companies that provide mission-critical services to large numbers of financial institutions. Core service providers are commonly examined under established supervisory programs, including the Multi-Regional Data Processing Servicers Program, which focuses on firms whose operations may pose heightened operational or systemic risk.

Rather than establishing a public experience database, the OCC could leverage existing examination processes by sharing appropriate supervisory information directly with regulated financial institutions. Such information would not need to be made publicly available. Instead, it could be provided to banks through secure channels with appropriate confidentiality protections. Access to regulator-reviewed

information derived from service provider examinations would enhance community banks' ability to conduct meaningful due diligence before entering into or renewing service provider relationships.

Providing banks with access to this type of information would reduce duplicative compliance efforts, improve efficiency, and allow community banks to make better-informed decisions about their technology partners. This approach would promote transparency where it is most effective, preserve the integrity of supervisory information, and avoid the risks associated with a public, experience-based review system.

In summary, a publicly searchable database of bank experiences would be unlikely to address the concerns raised in this RFI and could introduce additional risks and burdens. A more effective approach would be for the OCC to enhance the secure sharing of supervisory insights derived from service provider examinations, thereby supporting informed decision-making by community banks while maintaining appropriate safeguards for confidentiality, accuracy, and regulatory integrity.

To what extent would it assist community banks with contract negotiations if the OCC were to explore the feasibility of developing a "registry" system in which core service providers and other essential third-party service providers would be required to provide certain information to the OCC and if some or all of this information were then made available to community banks? Should the OCC consider exploring ways to make applicable core service provider and other essential third-party service provider reports of examination (ROEs) (or targeted information obtained from the ROEs) accessible to OCC-regulated banks as they are conducting their due diligence into such service providers, before a contract is executed?

A registry system that supports a shared due diligence model could meaningfully assist community banks in contract negotiations and third-party risk management if it is structured appropriately. Due diligence for technology partnerships is highly resource intensive and largely duplicative. Each community bank is required to independently assess a service provider's cybersecurity controls, financial condition, regulatory compliance, and operational resilience, even when those providers are already subject to direct supervisory oversight. Certain foundational information could be collected once by the OCC and made securely available to community banks without creating a public registry or disclosure framework.

Community banks manage a large and growing number of third-party relationships. ICBA survey data indicate that the average community bank maintains approximately 160 vendor relationships, with roughly 20 percent classified as critical. Institutions with broader product offerings may have closer to 200 vendors, with more than 100 considered high or moderate risk. While much attention is often placed on core processors, community banks rely on a wide range of essential technology providers to support payments, digital banking, compliance, data analytics, and emerging technologies such as artificial intelligence.

To reduce redundancy and improve oversight, regulators should support shared due diligence frameworks, either through an OCC-managed registry or through recognized standards-setting organizations. These frameworks could establish consistent baseline evaluation criteria and reduce the need for each bank to conduct costly and repetitive assessments of the same service providers. Regulatory recognition of standardized third-party certifications could function as a form of regulatory passporting by preserving accountability while easing onboarding and contract negotiations. Ultimately, regulators are best positioned to determine whether a technology partner meets compliance and risk management expectations and to hold that partner accountable.

ICBA also urges the OCC and other federal banking agencies to make fuller use of their existing authority under the Bank Service Company Act (BSCA), which permits regulators to examine third-party service providers as though the services were being performed by the bank itself. More robust and coordinated use of this authority would reduce duplicative examinations, promote consistency across agencies, and support the development of shared supervisory findings. It would also enable the issuance of a single examination report or standardized supervisory summary that both service providers and their client banks could rely upon. ICBA has long recommended that examination findings be shared directly with banks through secure and appropriate channels.

ICBA recommends that the OCC expand their use of BSCA authority beyond legacy cores. Currently, the regulators primarily use this authority through the Shared Service Provider (SSP) and Multi-Regional Data Processing Services (MDPS) programs, which cover providers delivering mission-critical services to large numbers of institutions. However, community banks report inconsistency and confusion around these exams. Some banks are unaware that SSP exam findings even exist; others know the reports exist but are told by examiners that they must proactively request them. In many cases, reports are outdated, sometimes as old as 24 months, by the time banks receive them. There is also no publicly available list of which providers are designated as SSPs.

ICBA recommends that the OCC and the regulators publish a current SSP database. Without knowing which third-party providers are examined under BSCA authority, banks cannot determine whether exam findings exist or request the information needed to meet supervisory expectations.

Reducing Supervisory & Regulatory Burden

To what extent do current supervisory practices, policies, or guidance or the agency's regulations present challenges or undue burdens to community banks in managing and overseeing their core service provider relationship or in undertaking a core conversion? For example, are there elements of either the TPRM Guidance or the OCC's Third-Party Risk Management: A Guide for Community Banks that community banks believe to be overly prescriptive or not sufficiently

clarified as being a tool to help banks assess and manage risks through practices tailored to the degree of risk present, or that community banks have experienced examiners using in a prescriptive, non-risk-based manner?

Community banks experience challenges in managing and overseeing core service provider relationships and undertaking core conversions primarily due to how supervisory expectations are applied in practice rather than the substance of existing guidance itself. The federal banking agencies' Third-Party Risk Management guidance is intended to be principles-based and scalable, but community banks report that it is frequently applied in a prescriptive manner that does not sufficiently account for differences in size, complexity, or risk profile.

Current third-party risk management frameworks were largely developed around traditional vendor relationships and do not always align well with modern core banking environments. Today's technology relationships often involve shared data environments, real-time consumer interactions, embedded compliance functions, and continuous system updates. These features complicate the application of static due diligence and monitoring requirements and can result in expansive and repetitive compliance expectations that add significant cost and delay without proportionate risk mitigation.

Community banks also report that examiner expectations are not always clearly differentiated based on the criticality or risk level of a specific third-party relationship. Banks frequently feel compelled to apply the most intensive level of due diligence across a wide range of vendors, including when the relationship presents limited risk or involves widely used service providers already subject to regulatory oversight. This approach is particularly burdensome during core conversions, where banks face heightened scrutiny, extensive documentation requirements, and increased examiner involvement that can materially slow or discourage modernization efforts.

In addition, community banks face practical limitations when attempting to modernize or replace legacy core systems. Core conversions are inherently complex and expensive, and supervisory uncertainty can further increase costs and risk. While existing guidance acknowledges the importance of tailoring risk management practices, banks often experience a lack of clarity as to how that tailoring should be implemented, especially during time-limited or transitional periods such as conversions.

ICBA encourages the OCC and the other federal banking agencies to reinstate and enhance the use of Frequently Asked Questions as a complement to existing third-party risk management guidance. Prior FAQs were effective in providing timely, practical clarity on how supervisory expectations applied to novel or evolving issues. They offered concrete examples that helped banks interpret principles-based guidance in real-world situations without waiting for broad guidance revisions.

To improve upon prior practice, ICBA recommends that the agencies maintain a standing list of proposed FAQ topics or periodically solicit input from stakeholders. FAQs should be used to address emerging issues as they arise, rather than awaiting comprehensive guidance updates. For example, prior FAQs provided clarity on topics such as artificial intelligence, data aggregators, and alternative data, issues that were not fully contemplated when earlier guidance was issued. A revised and reinstated FAQs process would allow regulators to provide timely, targeted guidance that better reflects the pace of technological change.

In summary, current supervisory practices can impose undue burdens on community banks when principles-based guidance is applied prescriptively or without sufficient clarity. Greater emphasis on proportional supervision, practical examples, and timely interpretive tools such as FAQs would help community banks manage third-party relationships and pursue core conversions in a manner consistent with safety and soundness while supporting modernization and innovation.

To what extent would community banks benefit from additional supervisory or regulatory clarity?

Community banks would benefit significantly from additional supervisory and regulatory clarity. Community banks face unique challenges navigating complex and evolving regulatory expectations, particularly as they seek to innovate and partner with technology providers. Clear, consistent guidance reduces uncertainty, lowers compliance costs, and enables community banks to move forward confidently while maintaining strong risk management and consumer protection standards.

Unclear supervisory expectations frequently slow innovation. Community banks rely heavily on technology partners for core processing, digital banking, payments, fraud detection, and emerging tools, yet often lack assurance about how existing regulatory frameworks apply to new partnership models. Providing interpretive tools such as Frequently Asked Questions, supervisory highlights, educational guidance, and no-action letters would give community banks timely and actionable insight into regulatory expectations. When uncertainty is reduced, community banks are better positioned to pursue innovation responsibly.

Community banks also face challenges stemming from fragmented regulatory oversight. Technology partnerships often span multiple jurisdictions and implicate regulations enforced by several federal and state agencies. Inconsistent interpretations across agencies increase compliance costs and operational complexity. Stronger interagency coordination, particularly through the FFIEC and collaboration with state banking regulators, would help ensure consistent standards, minimize conflicting interpretations, and avoid duplicative supervision. Improved coordination would meaningfully reduce burden for community banks without weakening oversight.

Consistent application of supervisory guidance is equally important. Community bankers value clear expectations that are applied uniformly across examinations. Sudden shifts in interpretation, even

when well-intentioned, can disrupt decision-making and require costly changes to policies or procedures. Banks report frustration when examiner expectations appear to be driven by individual interpretation rather than clearly articulated guidance. This is particularly challenging when examiner experience with newer technologies or emerging business models is limited. Advance communication of interpretive changes and greater consistency across examination teams would improve the supervisory experience and reduce unnecessary friction.

Are there examples of supervisory or regulatory reform, tailoring, or safe harbors that could allow the agency to better facilitate core conversions or data ownership and modernization that a community bank believes is in the best interest of its business while not downplaying the safety and soundness risks inherent in such practices?

Community banks would benefit from targeted supervisory reforms that allow them to modernize core systems and improve data ownership in a controlled and risk-managed manner. One such approach is the use of time-bound, limited-scope regulatory pilots or sandboxes designed specifically for core conversions, data modernization initiatives, and related third-party technology partnerships.

ICBA supports the use of regulatory sandboxes with clearly defined supervisory expectations, entry criteria, and guardrails. Properly structured sandboxes would allow community banks and their technology partners to test modernization efforts on a limited basis, with reduced documentation requirements proportional to the size, scope, and risk of the activity. These pilots would enable banks to explore new architectures, data solutions, or operational models without fear of punitive supervisory treatment when acting in good faith.

Regulatory sandboxes should be structured as learning environments rather than market tests. The objective is not immediate product deployment or broad customer rollout, but rather the identification and mitigation of operational, compliance, and consumer protection risks at an early stage. By working collaboratively with regulators during sandbox participation, banks can refine controls, validate assumptions, and develop best practices before committing to full-scale implementation. Not all sandbox projects would be expected to result in product launches, and early termination of a project should not be viewed negatively.

Safe harbors within a sandbox framework could further encourage responsible modernization. For example, banks participating in approved pilots could receive supervisory assurance that good-faith testing, conducted within defined parameters, will not result in adverse examination findings solely due to participation. This would relieve a common concern among community banks that even small, controlled innovation efforts might lead to disproportionate supervisory consequences.

Concerns about safety and soundness should remain central to any sandbox approach, but limited-scope pilots by definition pose minimal systemic or institutional risk. Sandbox activities can be

capped in scale, restricted to non-critical functions, or conducted using anonymized or parallel data sets. When appropriately designed, these safeguards ensure that early-stage experimentation does not threaten the safety or soundness of participating institutions.

In summary, time-bound, well-defined regulatory sandboxes and related safe harbors could meaningfully facilitate core conversions and data modernization for community banks. By promoting early risk identification, regulatory engagement, and iterative learning, these tools would enhance rather than undermine safety and soundness, while giving community banks the confidence needed to take necessary steps toward modernization.

Costs

How has the cost of contracting with core service providers or other essential third-party service providers evolved over the last ten years? What role might the OCC be able to serve in addressing concerns and challenges posed by costs?

Over the last decade, the cost of contracting with core service providers and other essential third-party service providers has increased for community banks, particularly as technology and compliance demands have grown more complex. These cost increases have not been driven solely by market pricing for technology services, but also by the growing volume and specificity of regulatory data, reporting, and compliance requirements that must be supported through technology platforms.

Research consistently shows that smaller banks bear a disproportionate share of compliance and data processing costs relative to their size. Community banks' technology costs associated with supporting compliance range from approximately 16.5 percent to 22 percent of noninterest expense, compared with about 10 percent for banks in the largest asset quartile. These costs are largely related to third-party technology and data services that are necessary to meet regulatory expectations rather than optional business investments. Similarly, the smallest banks report spending roughly 11 percent to 15.5 percent of payroll on compliance tasks, compared with 6 percent to 10 percent at larger institutions.² This gap has persisted consistently over time and represents a structural disadvantage for community banks.

The OCC can play an important role in helping address cost pressures by continuing to tailor regulations and supervisory expectations for community banks. Thoughtful tailoring can directly reduce the volume of data requests and technology enhancements that banks must fund through core service providers. Clear guidance, reduced duplication in supervisory requests, and proportional

² Too Small to Scale: What 10 years of Data Says about Community bank Compliance Costs, Conference of State Bank Supervisors, Nov 13, 2025, <https://www.csbs.org/too-small-scale-what-10-years-data-say-about-community-bank-compliance-costs>

expectations can significantly lessen the need for banks to initiate costly system changes or projects solely to satisfy regulatory requirements.

As discussed elsewhere in this response, practical tools such as a centralized due diligence repository or shared supervisory information about service providers could also help reduce costs. Reducing duplicative vendor assessments would lower compliance spending and decrease the administrative burden placed on both banks and their technology partners.

It is important to recognize that technology costs are not inherently problematic. Banking depends on the secure and efficient movement of funds, and investments in technology that enhance security, resilience, and customer service are both necessary and appropriate. In competitive markets, these costs are typically disciplined by choice and innovation. While there are a limited number of large core service providers, community banks do have options, and cost management remains an essential part of bank governance.

At the same time, many core service providers are themselves constrained by legacy technology architectures. These limitations can make it more expensive to develop and deploy new functionality, which in turn raises costs for community banks seeking to remain competitive. Market forces, rather than regulatory intervention in pricing, are best suited to address these challenges over time.

ICBA does not believe government price controls are an appropriate solution to rising technology costs. Instead, the OCC can most effectively support community banks by continuing to pursue risk-based tailoring, improving supervisory clarity, facilitating shared due diligence and information-sharing frameworks, and providing timely interpretive tools such as FAQs. These actions would reduce unnecessary costs driven by regulatory processes while preserving market discipline and safety and soundness.

In summary, the OCC can help mitigate cost pressures on community banks not by controlling prices, but by reducing regulatory-driven inefficiencies that amplify technology costs. Tailored supervision, clearer guidance, and reduced duplication would allow community banks to better manage expenses while continuing to invest in modern, secure technology solutions.

Billing Statements and Errors

To what extent are community banks able to timely and effectively review billing statements from core service providers or other essential third-party service providers? What challenges do community banks face in reviewing these billing statements, including as to length and complexity? What resources do community banks need to dedicate to reviewing these billing statements?

Community banks, like other businesses, seek billing statements that are clear, concise, and predictable. However, many community banks report significant challenges in timely and effectively reviewing billing statements from core service providers and other essential third-party technology providers. These challenges stem primarily from the length, complexity, and structure of invoices, as well as concerns about billing accuracy.

Billing statements from technology providers are often lengthy and difficult to interpret, containing numerous line items, legacy billing codes, usage-based charges, and incremental add-ons that require detailed analysis to reconcile against contract terms. Reviewing these invoices can require considerable staff time and specialized knowledge, diverting resources away from core banking activities and community investment. Community banks are particularly concerned about billing errors, as inaccuracies may expose service providers to contractual liability and, in some cases, potential violations of applicable law related to billing practices.

To manage these challenges, community banks have generally adopted one of two approaches.

One approach is the use of flat-rate billing arrangements, which are more commonly offered by non-large core service providers. Under these arrangements, banks pay a predictable monthly fee over the life of the contract based on agreed-upon services. Flat-rate pricing reduces the need to track individual transactions or reconcile extensive invoices, allowing accounts payable functions to operate more efficiently. Community banks value this predictability and transparency. Banks recognize, however, that invoices may still increase over time as additional products or services are added during a multi-year contract, reflecting the evolving nature of bank offerings and customer needs.

The second common approach is the use of third-party billing consultants. Many community banks initially engage these consultants during contract negotiations or core conversions to help analyze pricing structures and terms. In many cases, banks retain these consultants beyond implementation to conduct periodic or ongoing invoice reviews. Billing consultants provide subject-matter expertise, including familiarity with contract language, pricing models, and legacy billing codes that do not always clearly align with contract descriptions. This outsourcing allows bank staff, particularly in accounts payable and operations, to focus on other priorities while relying on specialized expertise to identify discrepancies and manage billing complexity.

Community banks note that billing challenges are not unique to core service providers. Similar issues arise with other critical vendors, such as telecommunications or utilities, that produce opaque or highly technical invoices. However, due to the scale, duration, and critical nature of core and technology provider contracts, billing opacity in this context presents a particularly persistent operational burden.

In summary, while community banks can and do review billing statements, doing so often requires significant time, specialized expertise, or outsourced support. Greater billing transparency, clearer invoice structures, and improved alignment between contract terms and billing practices would

materially reduce this burden. Reducing unnecessary complexity in billing would free community bank resources for activities that directly support customers and communities while maintaining appropriate oversight of vendor costs.

Facilitating Community Bank and Service Provider Dialogue

Prior to the pandemic, the OCC held annual meetings with various core service provider and other essential third-party service provider executives. To what extent would reviving those annual meetings or otherwise establishing contact channels help facilitate the sharing of community bank concerns with such service providers?

ICBA strongly supports structured and transparent communication between regulators and core service providers and other essential third-party service providers, including through in-person meetings. Reviving annual meetings or establishing regular contact channels could be valuable if those engagements are clearly focused on issues where regulators are uniquely positioned to provide guidance, coordination, or leadership.

To maximize their effectiveness, these meetings should have clear and targeted agendas that address regulatory and supervisory matters rather than platform-specific operational issues. Core service providers and technology vendors already host user groups and customer forums that address product features, system updates, billing practices, and implementation questions. Regulatory meetings should therefore focus on broader, industry-wide topics such as supervisory expectations, regulatory clarity, risk management trends, and emerging issues affecting community banks' ability to adopt and manage technology.

These forums could also serve as an effective venue for discussing cross-cutting issues that extend beyond a single provider or platform. Examples include third-party risk management expectations, data access and portability, cybersecurity standards, fraud mitigation responsibilities, and transparency in billing and contracting practices. By framing discussions around common challenges rather than individual vendor concerns, regulators can help promote more consistent practices across the service provider market.

Coordination among regulators would further enhance the value of these meetings. ICBA encourages the OCC to work through the FFIEC and coordinate with other federal and state banking agencies to avoid duplication and ensure consistent supervisory messaging. Joint participation would reduce the risk of conflicting interpretations and improve the likelihood that service providers receive clear and aligned guidance.

The composition of these meetings should also reflect the subject matter under discussion. For example, discussions related to fraud and consumer protection would benefit from the participation of relevant agencies such as the Federal Trade Commission, while discussions focused on due diligence

and third-party oversight could include a broader range of essential service providers beyond large core processors. Including the appropriate agencies and stakeholders would promote more productive dialogue and more meaningful outcomes.

In summary, reviving annual meetings or establishing other structured contact channels could meaningfully facilitate the sharing of community bank concerns if those engagements are well-defined, coordinated, and focused on issues within the regulators' purview. Thoughtfully designed forums would strengthen communication, improve mutual understanding, and support responsible innovation while avoiding duplication of existing industry efforts

What would be the benefits and challenges of the OCC facilitating community banks and other interested parties in establishing ad hoc or standing groups that could work towards planning and implementing private market solutions to any of the concerns addressed in this RFI?

The OCC can play a constructive role in facilitating dialogue among community banks, technology providers, and other stakeholders to support private-market solutions to the concerns identified in this RFI. Structured engagement can improve communication, increase mutual understanding, and help align innovation efforts with supervisory expectations. These benefits are particularly meaningful when regulators serve as conveners rather than solution owners.

ICBA supports regulatory engagement with private-sector innovation efforts that provide clear channels for communication among regulators, community banks, and technology partners. One example is ICBA ThinkTECH Regulator Day, which brings together regulators, community bankers, and fintech companies focused on building solutions designed specifically for the community banking model. These engagements allow regulators to share supervisory perspectives, help identify potential risks early, and better understand how emerging technologies are intended to be deployed in practice. Continued participation by the OCC in venues such as webinars, workshops, and industry conferences hosted by trade associations can further support responsible innovation and enhance supervisory understanding without duplicating market activity.

At the same time, it is important that the OCC's primary focus remain on developing tailored regulation, supervision, and tools that support the efficient functioning of the existing market. Efforts such as improving regulatory clarity, supporting shared due diligence frameworks, and reducing duplicative supervisory requirements will do more to enable private-market solutions than direct government involvement in product development. Ad hoc or standing groups should therefore complement, rather than substitute for, these foundational supervisory responsibilities.

There may be limited circumstances where market structure challenges warrant more direct public-sector involvement to ensure fairness, interoperability, or access. There are historical examples in the financial system where government intervention has supported private-market development

and facilitated commerce. The Federal Reserve's long-standing role in supporting the automated clearing house network helped ensure interoperability and broad access to electronic payments, which in turn enabled the growth of direct deposit and online banking. More recently, the introduction of real-time settlement services expanded choice in the payments market and addressed barriers faced by smaller institutions. These examples demonstrate that carefully designed public-sector solutions can, in certain contexts, enhance competition and innovation rather than crowd them out.

ICBA would support consideration of similar approaches only if market conditions evolve in a way that meaningfully limits community banks' ability to compete or access essential infrastructure. Any such efforts should be narrowly tailored, carefully coordinated with other agencies, and designed to support, rather than replace, private-market activity.

There are also challenges associated with regulator-facilitated working groups. Without clear scope and governance, these groups risk duplicating existing industry forums, creating confusion about regulatory expectations, or blurring the line between supervision and solution development. To be effective, any ad hoc or standing groups should have defined objectives, appropriate stakeholder representation, and a focus on issues within the regulators' authority.

In summary, the OCC can add value by convening and engaging stakeholders to support private-market solutions when done in a targeted and coordinated manner. Facilitated dialogue can improve transparency, reduce misalignment, and encourage responsible innovation. However, the OCC's most important contribution remains the development of clear, tailored supervision and regulatory tools that allow private-market solutions to emerge and scale in a safe and sound manner.

Closing

ICBA appreciates the OCC's leadership and engagement in addressing the challenges community banks face in managing core service provider and other essential third-party relationships. Our recommendations are designed to reduce duplicative supervisory burden, improve access to meaningful information, and foster a more competitive and interoperable technology marketplace. We believe these steps would meaningfully support community banks' ability to innovate responsibly while maintaining safety and soundness, and we welcome continued dialogue as the OCC evaluates potential actions. Please feel free to contact me at kari.mitchum@icba.org if you have any questions about the information shared in this RFI.

Sincerely,

Kari Neckel

Kari Neckel

Vice President Payments & Technology