

SENATE BILL REPORT

SB 5602

As of January 6, 2022

Title: An act relating to service providers working with state-regulated financial institutions.

Brief Description: Concerning service providers working with state-regulated financial institutions.

Sponsors: Senator Mullet; by request of Department of Financial Institutions.

Brief History:

Committee Activity: Business, Financial Services & Trade: 1/11/22.

Brief Summary of Bill

- Authorizes the Department of Financial Services to examine third party service providers to banks and take enforcement actions against them under certain circumstances.

SENATE COMMITTEE ON BUSINESS, FINANCIAL SERVICES & TRADE

Staff: Clinton McCarthy (786-7319)

Background: The Washington State Department of Financial Institutions (DFI) regulates state chartered depository institutions, such as:

- banks;
- credit unions;
- savings banks;
- non-depository trust companies; and
- foreign bank branches.

Under current statute, DFI has limited ability to examine third party providers that contract with banks to provide a wide range of services. Banks rely on third party servicers to provide or enable key functions and services.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Summary of Bill: A regulatory framework that gives the director of DFI the authority to examine third party service providers that provide covered services to banks is created. The director can examine and regulate service providers to the same extent as if the covered service was performed by the bank itself. The director has rulemaking authority to implement its framework for examining third party providers.

The director has broad discretion to enter into joint examinations or joint enforcement actions with other states or federal agencies. The director may also accept examinations made by other states or federal agencies, and has the authority to enter into information sharing agreements with any state or federal agency that has a joint or concurrent jurisdiction over a service provider.

Examinations written by or received by the director are confidential and subject to applicable state and federal bank confidentiality laws. The director is authorized to take enforcement action against a service provider that:

- has violated or is currently violating state or federal law; or
- has engaged or is currently engaging in an unsafe or unsound practice.

Appropriation: None.

Fiscal Note: Requested on January 4, 2022.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.