

REPUBLIC BANK

**Testimony of Steven E. Trager
Executive Chair
Republic Bank & Trust Company**

**Before the
U.S. House Committee on Financial Services
Subcommittee on Financial Institutions and Monetary Policy**

**“Financial Institution-Fintech Partnerships:
Leveraging Third-Party Relationships to Increase Access to Financial Services”**

July 12, 2024

Good morning I’m Steve Trager, Executive Chair of Republic Bank & Trust Company. Thank you for inviting me to speak with you about the benefits to consumers and community banks from bank and fintech relationships. Republic Bank is a \$6.6 billion Kentucky state-chartered, community bank operating in Kentucky, Tennessee, Indiana, Ohio, and Florida, and is among 5% of the largest 4,500 U.S. banks. The Bank is headquartered in Louisville, Kentucky and is a wholly owned subsidiary of Republic Bancorp, Inc., a one-bank holding company. The Company’s common stock is traded publicly on the NASDAQ.

The Bank has 47 full-service banking offices and offers a full range of banking products and services for business and personal needs, including time and demand deposits and a variety of products including:

- Commercial, home mortgage, and consumer loans;
- Traditional deposit products; and
- Business services including corporate cash management, direct deposit of payroll, ACH debit originations, state and federal tax payments, business to business payments, purchase and payroll cards.

Republic has always been committed to its customers, the communities we serve, and our employees. The Bank earned an “Outstanding” rating from the FDIC in its most recent Community Reinvestment Act evaluation. We use innovative and flexible lending practices in order to serve the credit needs of the communities we serve. Some of those include:

- Providing to or assisting borrowers in obtaining down payment assistance grants to support home ownership for low- and moderate-income consumers;

- Supporting access to credit and the ability for consumers to repair or establish credit through programs including secured credit cards, credit builder loans, below market rate Neighborhood Housing Program mortgage loans, and revolving and installment mortgage second mortgage products for low to moderate income customers.

The Bank has always made significant amounts of community development investments and loans. Many of those loans and investments are the type not routinely provided by private investors and include:

- A \$1.5 million lead donation for the construction of the Republic Bank Foundation YMCA in a low-income area in Louisville's West End. The \$28 million project is a one-stop complex for services such as fitness, behavioral, mental, and family medical care, nutritional support, and out-of-school learning.
- Serving as the lead bank in creating a participation loan to complete construction of the Louisville Urban League's \$50 million Sports & Learning Center.
- Commitment of \$6 million to date to the Bank's Community Loan Fund for loans up to \$100,000 to help support small businesses in communities impacted by inequity and inadequate access to capital.
- Significant donations of funds and volunteer hours to organizations in the communities we serve.
- Investment since January 2023 of more than \$73 million in low-income housing projects in the markets we serve.

As you see, I'm very proud of the work our Bank does to serve our customers and communities. I'm also proud of the business we've built in our Republic Processing Group, a business segment which offers a variety of specialty consumer and commercial products and services through three divisions:

- Tax Refund Solutions offers tax payment and loan products nationwide through tax preparation offices and software providers.
- Republic Credit Solutions offers small dollar consumer credit products marketed and serviced by financial technology, or "fintech", program managers. Products include installment and line of credit loans as well as medical debt financing products.
- Republic Payment Solutions issues prepaid debit and payroll cards and accounts, and business to business payments marketed and serviced by fintech program managers.

We believe these programs help address the needs of American consumers who often have or choose to have little or no connection to the traditional banking system or in some cases who have nonprime credit ratings. The products are marketed and originated in a responsible manner and offer quick and convenient access to deposit and credit programs.

As I noted, the products offered through our Republic Processing Group are offered through arrangements with third parties, including fintech companies. This is sometimes referred to as

Banking as a Service (BaaS). In this relationship each party benefits from the strengths of the other party. This is a very collaborative process and has created a great deal of innovation in the marketplace urging competitors to offer better and less expensive consumer services. This also allows community banks such as Republic to offer programs on a national basis and to compete with much larger national financial institutions. Think of Republic Bank as the restaurant that creates and funds the meals and our fintech partners as UberEats that helps market and deliver the meals. We believe partnerships with fintechs provide benefits to consumers and small businesses, our Bank, and the fintech companies. The strong relationships we develop leverage each party's expertise to strive toward providing great products and experiences for our customers.

- Consumers, including those with little or no connection to the traditional banking system or some of whom have nonprime credit ratings, benefit by the expanded availability of responsibly offered banking products. Consumers can be assured the products offered through joint bank- fintech programs comply with consumer protection laws including credit reporting, debt collection, privacy, and electronic funds transfers. The products meet consumer demand of digital product offering and management.
- Banks benefit by collaborating with fintechs to offer the services and products with better customer experiences, improved efficiencies, and better and faster decision-making through improved technology and data analytics.
 - The 2023 *Interagency Guidance on Third-Party Relationships: Risk Management* issued by the banking regulators includes a good summary of the benefits to banks in fintech relationships where it says: “The use of third parties can offer banking organizations significant benefits, such as quicker and more efficient access to technologies, human capital, delivery channels, products, services, and markets.”
 - I agree that banks benefit from fintech relationships through access to new markets of consumers and small businesses. In particular, community banks also benefit through diversification of our assets and income. The diversification of assets and income support the community bank independence which is vital to American communities. Further benefits to banks include the challenge from fintechs to explore customer-focused innovation, increase and improve digital banking offerings, and improve efficiency as a benefit to customer pricing and bank earnings.
- Fintechs benefit from banks' provision of backend infrastructure, knowledge of financial products, compliance oversight, and the regulatory controls and benefits that become part of the relationship. Fintechs also benefit from bank capital strength in both product development and offering. Through their collaborations, banks help fintechs develop a

culture of compliance to assure fair and responsible product offerings and longevity in the market.

I've mentioned the oversight and compliance aspects of the bank-fintech relationship and would like to take a few additional minutes to highlight Republic's oversight program to illustrate the depth necessary to operate in the bank-fintech business. The June 2023 *Interagency Guidance on Third-Party Relationships* clarified regulatory expectations of the life cycle of a third party and bank relationship including:

- Planning
- Due Diligence
- Contract Negotiation
- Ongoing Monitoring
- Termination
- Oversight and Accountability
- Supervisory Reviews of third-party relationships.

Republic has processes that address each stage and expectations of the regulatory guidance. Management and the Board set risk tolerance expectations for products and third parties. Management reviews all product proposals in regular multidisciplinary meetings prior to and during the due diligence process.

A dedicated team gathers due diligence materials, performs risk assessments of the proposed fintech along with any necessary additional parties, and presents findings to the Bank's Third-Party Management Committee. The due diligence process includes reviews by established Compliance, Legal, Information Security, Privacy, Credit, and Third-Party Management programs.

During and following the due diligence process, similar teams engage in product development and the contract process. This includes collaboration between Republic and fintechs including contract negotiation, underwriting, modeling, marketing, origination, and servicing reviews.

Republic has established product, portfolio, and service provider oversight and monitoring programs in both the Republic Processing Group and risk management levels. This includes ongoing reporting from the fintech and servicers, regular portfolio reviews, model risk management, customer feedback management, BSA/AML oversight, and regular third-party risk assessment updates. As part of the contract and ongoing monitoring process the Bank develops relationship and product termination plans.

All this work takes talented and trained staff. Republic Bank has 25 Associates in its Compliance and BSA department, more than most banks our size. In addition, the Republic Processing

Group has its own compliance and marketing officers and a staff of 8 dedicated solely to partner and product oversight.

The Board and its Risk Committee receive regular reports on the product and fintech relationship life cycle. Similarly, the FDIC and the Bank have regular updates about the third-party relationships and products, including compliance exams of at least one aspect of the Bank's fintech program annually.

While the Bank was generally in step with the 2023 guidance when released, we believe that adequate regulation and guidance related to fintech relationships, and the products offered through those relationships exists today. We hope that Congress continues to monitor the regulatory agencies to assure that regulation or regulation through enforcement of these relationships and products doesn't increase unnecessarily. In this way innovation can continue to be fostered in a controlled and regulated environment while simultaneously increasing financial inclusion to underserved consumers. In addition, as part of the Community Reinvestment Act improvements, we believe there should be consideration of banks' services to low to moderate income and underserved consumers regardless of location.

Thank you for your time today and I'm happy to reply to any questions you have.