

Written Statement of Alexandra Steinberg Barrage
Partner, Morrison Foerster

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The House Committee on Financial Services
Digital Assets, Financial Technology, and Artificial Intelligence Subcommittee
United States House of Representatives
Washington, D.C.

**Partnering for Innovation: How Bank-Fintech Collaborations
Enhance Financial Infrastructure**

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I am a Partner in the Financial Services group of Morrison Foerster where I represent banks and technology companies of all sizes and co-lead the firm's Digital Assets Practice Group. I advise clients on a wide range of matters, including new bank charters, strategic investments, supervisory enforcement, payments, bank-fintech arrangements, and stablecoin issuance and product development.

Previously, I was an FDIC Executive and served as Associate Director and Lead Policy Expert for the Division of Complex Institution Supervision and Resolution. I am a graduate of Williams College and the Georgetown University Law Center.

I am here today in my individual capacity and not on behalf of any client. The views I express are my own, and not those of my firm or any client of the firm.

Introduction

Chairman Hill, Ranking Member Waters, Subcommittee Chairman Steil, Subcommittee Ranking Member Lynch, and members of the Subcommittee, I am honored to be testifying before you today. I am a Partner in the Financial Services Group of Morrison Foerster. I am a lawyer and regulatory policy expert who advises a wide range of banks and technology companies that engage in bank-fintech partnerships and build innovative products at the forefront of payments and AI. I also bring years of bank regulatory experience as a former FDIC executive.

This Committee has long championed innovation and responsible partnership between traditional financial institutions and technology companies. Bank-fintech partnerships, when structured thoughtfully and subject to appropriate regulatory oversight, represent a significant opportunity to expand access to financial services, modernize payments infrastructure, and enhance U.S. competitiveness. At the same time, these partnerships require sustained and robust compliance frameworks and oversight, subject matter expertise, and targeted reform.

My testimony focuses on how bank-fintech partnerships have changed over the past five years and how new partnerships are modernizing our U.S. financial infrastructure. I also offer several ways our regulatory framework could be enhanced to strengthen safety and soundness and support innovation.

Bank-Fintech Partnerships

Bank-fintech partnerships have evolved significantly over the past five years. Beginning in 2021, these arrangements were marked by the rise of “banking-as-a-service” or “BaaS” models. Community banks worked with fintechs and middleware providers to offer a range of services like deposit accounts, debit cards, lending products, and payments infrastructure. A number of fintechs scaled rapidly during this period, in reliance on their sponsor bank relationships.

Despite the rise of these models, many banks and fintechs were not equipped to manage the various operational and compliance related expectations of regulators. Middleware platforms became the link between banks and fintechs, abstracting away many of these functions. These companies provide software solutions for accessing and initiating transactions through a bank’s legacy core system, allowing banks to service the high volume of transactions driven by fintechs. Both middlewares and fintechs (in their role as program manager) offer a variety of compliance tools covering identity verification, sanctions screening, transaction monitoring, and fraud detection. Both also typically maintain a sub-ledger or virtual ledger layer that tracks individual end-user balances within one or more omnibus or pooled fund accounts held for the benefit of end user customers (commonly termed “FBO” accounts).

Beginning in 2022, as these partnerships grew, federal banking regulators increased their scrutiny over these relationships. For the next several years there was a significant rise in public

consent orders and enforcement actions against sponsor banks focused on several common deficiencies: BSA/AML compliance, third-party risk management, and the banks' ability to maintain adequate oversight over their fintech partners.

In June 2023, the OCC, FDIC, and Federal Reserve issued final interagency guidance on third-party relationships, providing a framework for how banks should manage risks arising from third-party relationships.¹ This guidance reinforced the idea that banks cannot outsource responsibility for compliance. It is also principles-based and therefore applies to different kinds of bank-fintech relationships and services.

By then, middlewares and fintechs had launched a variety of products through bank partnerships. 2024 was a watershed moment for these partnerships as high-profile disruptions within the BaaS ecosystem highlighted vulnerabilities in certain partnership structures and drew increased attention to the operational and risk management challenges underlying these arrangements. In some instances, failures in core infrastructure functions, particularly account recordkeeping and reconciliation processes, revealed gaps between customer expectations and institutions' ability to accurately track and verify funds.

These incidents were not representative of all bank-fintech partnerships. Yet, they underscore the fragility of some fintech ledgering infrastructure and represented how, in the absence of appropriate oversight, expertise, and sound risk management, things can go colossally wrong, with grave risks to consumers and sponsor banks.

Since then, regulatory pressures have meaningfully shifted market practice. Several sponsor banks were required to terminate their fintech relationships and exit BaaS. Fintechs faced higher expectations, which sometimes made it harder for them to partner with banks. The sponsor banks that continued to manage these partnerships increasingly narrowed their choice of fintech partners.

Many sponsor banks have built strong third-party risk management programs that undergo regular independent audit. They have modern tech stacks that integrate directly with fintechs, giving them increased visibility into the product. Established fintechs run their own compliance programs rather than relying solely on the sponsor bank or outsourcing to service providers. And over time, some fintechs that have scaled faster than the community banks they partnered with are considering, or have already been conditionally approved to become full-fledged banks themselves.

Naturally, the products offered through these partnerships have also changed. While many partnerships remain focused on deposit, lending, and debit card products, new types of partnerships are forming. For example, our financial services practice has seen a meaningful

¹ Interagency Guidance on Third-Party Relationships: Risk Management, 88 Fed. Reg. 37920 (June 9, 2023).

uptick in the past year of bank and tech clients seeking to facilitate the use of payment stablecoins for their bank customers, along with an array of other digital asset-based use cases discussed below.

Modernizing U.S. Financial Infrastructure

From a global standpoint, U.S. payments infrastructure, while reliable, has historically lagged that of many countries in speed and accessibility. Some of this is due to historical reliance on legacy infrastructure like ACH and wire transfers, which are not designed for 24/7 real-time payments.² We also have thousands of banks serving many different customer needs. Implementing a unified, instantaneous payment system is far more challenging in the U.S. than it is in countries with much fewer and less diverse banks.

That said, our payments infrastructure is now evolving at a rapid pace, with new payment rails, tokenized money, and emerging regulatory clarity following the bipartisan passage of the GENIUS Act and various interpretative letters issued by the OCC.³ Today, national trust bank applicants are seeking to offer fiduciary custody and payments related services. The Federal Reserve has introduced the idea of a payments account, signaling its commitment to payments innovation.⁴ And the FDIC recently issued a regulatory proposal addressing tokenized deposits.⁵

Against this backdrop, bank-fintech collaborations are driving U.S. innovation. Just over the past year, we have seen:

- Banks partnering with digital asset custodians to meet the increasing demand for digital asset custody services;
- Banks partnering and adopting AI to combat money laundering;
- Banks partnering with payments companies to support new types of 24/7, real-time payments;

² Daniel Gorfine, J. Christopher Giancarlo & Brian Peters, *The Case for Payments Modernization*, Milken Inst. Rev. (Feb. 18, 2025), <https://www.milkenreview.org/articles/the-case-for-payments-modernization>.

³ See, e.g. Office of the Comptroller of the Currency, Interpretive Letter No. 1183 (Mar. 7, 2025), <https://www.occ.gov/topics/charters-and-licensing/interpretations-and-decisions/2025/int1183.pdf>; Office of the Comptroller of the Currency, Interpretive Letter No. 1184 (May 7, 2025), <https://www.occ.gov/topics/charters-and-licensing/interpretations-and-decisions/2025/int1184.pdf>.

⁴ Request for Information and Comment on Reserve Bank Payment Account Prototype, 90 Fed. Reg. 60096 (Dec. 23, 2025).

⁵ Statement by Chairman Travis Hill on the Proposal to Implement the GENIUS Act, Federal Deposit Insurance Corporation (Apr. 7, 2026), <https://www.fdic.gov/news/speeches/2026/statement-chairman-travis-hill-proposal-implement-genius-ac> (“[T]okenization’s value proposition isn’t just about offering faster and more convenient payments. Instead, it unlocks a suite of new functionalities, including programmability, atomic settlement, and immutability.”).

- Banks partnering with stablecoin issuers, who provide banks with the infrastructure needed to launch new products that bridge traditional and tokenized markets;
- The integration of tokenized deposits into traditional banking systems, including various regional banks preparing to launch a new tokenized deposit network; and
- The largest banks working with major digital asset exchanges to launch products enabling the buying, holding, and selling of Bitcoin, or to launch tokenized deposits on public Ethereum-based blockchains.

These are just a few examples, yet together they underscore the brisk pace of change occurring across financial services and banks' role in the growth and modernization of our financial infrastructure. Now is an especially important time for policymakers to consider what is working and what is not, and what improvements to our regulatory framework could further support sound risk management and U.S. innovation.

Strengthening our Regulatory Framework

Policymakers have an important role to play in supporting bank-fintech arrangements and facilitating innovation in a way that supports safety and soundness. There are a wide variety of arrangements covering different regulatory frameworks. For example, some fintechs operate as licensed money transmitters, subject to state regulation and supervision, including examination for compliance with federal AML laws and regulations. Others engage in licensed lending activities. The topics below generally apply to all types of bank-fintech arrangements, irrespective of how a fintech may be regulated.

1. Upskilling: Collaboration with the Private Sector

Bank examiners want advanced skills and training to better understand these new partnerships. A GAO Financial Technology Report from September 2023 concluded that federal banking agencies could better support the expertise of their workforce. The GAO reported that agency staff said they needed "a better understanding of financial technology services and products, the risks that financial technology may present to consumers and financial institutions, and how institutions manage those risks."⁶ Staff also mentioned the need for additional knowledge in specific areas such as "information technology . . . blockchain, and digital assets."⁷

The rapid evolution of bank-fintech partnerships has created a significant knowledge gap between exam teams and the banks they supervise. How do we ensure banking agency staff

⁶ U.S. Gov't Accountability Off., GAO-23-106168, *Financial Technology: Agencies Can Better Support Workforce Expertise and Measure the Performance of Innovation Offices* 14 (Sept. 2023), <https://www.gao.gov/products/gao-23-106168>.

⁷ *Id.* at 14.

get the resources and subject matter expertise they need? Beyond implementing the GAO’s recommendations that the agencies develop “performance goals and measures,” if we want highly trained examination teams that ask the right questions and know how to prioritize risks, our supervisory framework should encourage regular collaboration with the private sector.

One way to achieve this collaboration would be to periodically convene regulators and industry to discuss representative, anonymized case studies. This structure could be divided into training modules, which would include a basic understanding of the product, fund flows, discussion of who handles customer funds and ledgering, key product terms, dispute handling, and related risks and controls focused on outages and fraud events. In exchange, a frank discussion of what resources examination teams need and find helpful, as well as a better understanding of what their knowledge gaps are.⁸ This is the kind of “upskilling” the industry needs, too.

Structured collaboration is an important way to improve our regulatory framework, and there are various ways to proceed. To start, federal banking agencies could establish and maintain a formal, ongoing training program on bank-fintech partnerships that includes private-sector participation. This could involve a practical element that would enable staff to use and experiment directly with the technology. In the case of blockchain, this could involve using software in a test environment to create a crypto wallet and swap tokens that have no monetary value. Or it could involve simulation of fiat to stablecoins, and vice-versa. A related approach could involve curriculum development addressing, for example, API-based integrations and data flows and the use of blockchain-based settlement and digital identity. This curriculum would be developed in collaboration with industry participants, including banks, fintechs across various verticals, industry trade associations, and technology standard-setting bodies.

2. Rethinking Confidential Supervisory Information (CSI)

The treatment of confidential supervisory information (CSI) is a significant friction point in bank-fintech arrangements. Under current law and regulation, CSI—information generated in connection with the federal bank examination and supervisory process—is subject to strict confidentiality protections that can impede effective risk management and compliance coordination between banks and their fintech partners. CSI generally includes examination reports, supervisory ratings (e.g., CAMELS), enforcement-related communications, and other information created by or for federal banking agencies in the course of supervision.

Under existing regulations,⁹ banks are prohibited from disclosing CSI to third parties—including fintech partners—without prior written authorization from the relevant supervisory agency. This

⁸ For a more detailed and thoughtful discussion of these issues, see Nat Weber, Ian P. Moloney & Dan Swislow, Regulators and Fintechs Need to Talk, *Open Banker* (Mar. 31, 2026), <https://openbanker.beehiiv.com/p/needtotalk>

⁹ E.g., 12 C.F.R. Part 4 (OCC), 12 C.F.R. Part 261 (Federal Reserve), 12 C.F.R. Part 309 (FDIC).

creates a practical problem: when a bank enters into or manages a fintech partnership, it may be unable to share critical supervisory findings, risk assessments, or compliance deficiencies with the fintech partner, even when doing so would improve the partnership's risk management outcomes. Conversely, fintechs may not fully understand the supervisory expectations applied to their bank partners because the bank cannot share the underlying CSI. This information asymmetry can undermine the very objectives that regulators are trying to achieve—namely, that banks and their fintech partners maintain robust, well-coordinated compliance and risk management programs ensuring that risks are identified and remediated *early*.

Banks have good reason to tread carefully. The federal banking agencies' rules on CSI state that unauthorized disclosure of CSI may be subject to criminal penalties under 18 U.S.C. § 641,¹⁰ a general statute relating to the misappropriation of federal government property.

Any proposed solution to this issue should be addressed uniformly by the banking regulators, ideally through interagency rulemaking.

Where We Are Headed

Bank-fintech partnerships are rapidly evolving, and some of yesterday's fintechs will be tomorrow's newly formed banks. The integration of AI and automation tools for transaction monitoring, KYC, and regulatory reporting will be a key differentiator for both banks and fintechs seeking to manage the compliance burden of these partnerships at scale. AI is also fundamentally changing how value moves. AI agents are becoming embedded directly into payment flows. Banks and bank regulators need a much deeper understanding of open-source payment protocols and how AI agents will transact autonomously using fiat, stablecoins, and potentially also tokenized deposits.

Conclusion

Our financial infrastructure is modernizing fast, eclipsing the pace at which our regulatory framework is designed to pivot. Relevant risks vary across bank-fintech partnerships; so do the underlying technologies and products. To remain agile and competitive, we need to do a better job of connecting and empowering *all* stakeholders – banks, fintechs, bank Boards, and banking agencies – with the knowledge they need to do their jobs effectively. In support of safety and soundness, we need to make it simpler for the parties involved to address issues early, without the threat of criminal penalty.

¹⁰ See Steve Gannon, Graham Steele & Meg Tahyar, For Meaningful Reform to Take Root, Regulators Must Exit the Shadows, *Open Banker* (Sept. 16, 2025), <https://openbanker.beehiiv.com/p/outoftheshadow> (discussing *Kelly v. United States*, 590 U.S. 391, 401 (2020) and recommending that all three federal banking regulators announce that they will no longer consider CSI to be their property and will no longer pursue criminal cases against banks and bankers for disclosing it).

This Committee's commitment to fostering bank-fintech partnerships and unlocking U.S. innovation comes at an especially critical time. Our rapidly evolving financial infrastructure is poised to offer institutions and consumers more choice, but those choices will only be as strong and as safe as our frameworks, and our ability to continually heed the lessons from the not-too-distant past.

Thank you for the opportunity to speak with you today. I would be happy to address any questions.

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