[State Financial Regulation 101](#)

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Did you know that most of the financial regulation in the U.S. happens ***outside*** **of Washington, D.C?**

Every day, millions of Americans rely on financial services provided by banks and nonbanks that are chartered and licensed by states. The people who charter, license, examine and supervise these banks and nonbanks are called **state financial regulators**.

What is a State Financial Regulator?

A state financial regulator is an employee employed by a state to ensure that banks and nonbanks operating in that state are doing so in a safe and sound manner.

Each state has at least one **banking or financial services agency** that:

- Monitors safety and soundness of chartered institutions
- Ensures that financial institutions are operating within the law
- Protects their communities from illegal and predatory practices
- Promotes local economic growth

In most states, the state banking department is led by someone appointed by the state governor. Common titles for the head of these departments include commissioner, director or superintendent.

What Companies do State Financial Regulators Oversee?

State regulators are responsible for **chartering**, **licensing** and **supervising** state-chartered banks and nonbank financial services providers, including mortgage lenders.

You may be surprised to learn that most of the nation's banks are state chartered. In fact, state regulators supervise over 3/4 of the nation's banks.

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Most of the nation's banks are state chartered. In fact, state regulators supervise over 3/4 of the nation's banks.

State regulators also license and examine thousands of **nonbanks.**

How are State Financial Regulators and Federal Financial Regulators Different?

State and federal financial regulators continuously collaborate with one another to ensure the U.S. financial system is safe, sound and resilient. Both state and federal financial regulators share many of the same skills and expertise.

However, state bank agencies and state financial regulators differ from federal financial regulators in a few ways:

- In addition to chartering banks, state financial regulators grant licenses to **nonbanks**. They are also the primary regulator of nonbank financial services.
- State regulators have a **dual mission**. Like federal financial regulators, state regulators ensure financial institutions are operating in a safe and sound manner and that consumer protection laws are being followed. However, state financial regulators are also required to support the economic health of their local communities.

This dynamic - where state and federal regulators each bring their unique strengths and collaborate on bank supervision - is a unique aspect of the **dual-banking system**.

What is CSBS?

CSBS is the national organization for state financial regulators in all 50 states, District of Columbia and U.S. territories.

CSBS gives state supervisors a forum to:

- Coordinate supervision of their regulated entities
- Develop unified legislative and regulatory policies
- Provide training to regulators and staff

What is the Value of the Dual-Banking System?

The value of the dual banking system comes from choice — the choice whether to be a state-chartered or federally-chartered bank. This choice reinforces ideas that go back to our country's founding: decentralized power and economic self-determination.

State regulators are unique among regulators in that their mission includes safety and soundness, consumer protection and local economic growth.State regulators construct supervision based on their local knowledge, authority and focus.

Federal regulators provide a framework to manage systemic banking issues: the FDIC brings insight as an insurer and the Federal Reserve provides a stabilizing force for the U.S. economy.

Many bank products and services that now seem commonplace — like the checking account, adjustable-rate mortgages (ARMs) and home equity loans — originated in state-chartered banks and matured into the broader dual-banking system

Value of the Dual Banking System

The state regulatory system provides banks and nonbanks the opportunity to serve the specific needs of local communities under the supervision and guidance of a supervisor directly connected to those communities. This dynamic provides the space for new and innovative products to enter the marketplace, with some eventually being offered nationwide.

Many bank products and services that now seem commonplace — like the checking account, adjustable-rate mortgages (ARMs) and home equity loans — originated in state-chartered banks and matured into the broader dual-banking system

What is a Bank Charter?

When a bank is first formed, they are required to receive a charter.A charter is a broad grant of authority to conduct a wide range of financial services.

Banks provide critical financial services to consumers and businesses across the country. When a bank receives a charter, they are given authority to provide a wide range of financial products across the nation, regardless of where they receive their charter.

Because of this, receiving a bank charter involves a long process that could take a year or more, with several additional years of heightened supervision as a bank begins operations.

Because not all financial businesses want to accept deposits or provide a wide range of financial services, state financial regulators provide a separate option to businesses called a **license**.

What is a License?

A license is a permission granted by a state to provide a specific financial product or service in that state for a period of time. Financial services that can be provided through a license and do not require a bank charter are oftentimes referred to as **nonbank financial services**.

If a financial services provider wishes to operate in multiple states, they must be licensed in each state they do business.

Some common financial services that may require a license include:

- Mortgage broker or mortgage loan originator
- Money transmitters
- Consumer finance
- Debt collecters

How are Licenses and Charters Different?

A license is different from a charter. While a charter provides authority for a company to operate across the entire United States and provide a wide range of financial services, a license provides authority for a company or individual to provide a *single type* of financial service *within the state granting the license*. So, while the requirements for a license are not as rigorous as for a charter, a license still ensures every company providing a financial service in a state meets a minimum standard.

A license is also different from a registration. When a company is registered, a company is simply identifying itself as a provider of a service. When applying for a license, a state financial regulator undertakes a credentialing process to ensure the company or individual meets certain requirements and has the capability, character and fitness to provide the services in a professional manner.

What is a Nonbank?

Whether taking a home loan or car loan, sending money electronically to your friend or landlord, or buying a prepaid card or paying off debt, you are likely using a nonbank.

A nonbank is a company providing financial services without holding deposits. Like many banks, nonbanks are overseen by state regulators working together in a robust network to:

- Ensure companies handle transactions safely
- Protect consumers money
- Operate soundly

Many nonbank financial services companies are licensed by state financial regulators through the **Nationwide Multistate Licensing System**, or NMLS.

What is NMLS?

The **Nationwide Multistate Licensing System**, or NMLS, is the common platform for state regulation. Through NMLS, mortgage lending, consumer finance and money services companies can obtain multi-state licenses and operate across state lines.

In 2008, Congress mandated mortgage professionals to be licensed and registered through NMLS.

NMLS also allows consumers to obtain critical information about their financial services providers.

What is SRR?

CSBS, on behalf of state regulators and in cooperation with the American Association of Residential Mortgage Regulators (AARMR), established the State Regulatory Registry (SRR) in 2006. SRR oversees the development and operation of NMLS.

The SRR Board of Managers is responsible for system development, operations and policy matters concerning NMLS.

Through NMLS, SRR promotes the interest of financial services companies and professionals and their state and federal regulators by providing, among other services, the following:

- Business advisory services concerning the regulation of the financial services industry
- State regulators a supervisory platform for non-bank financial services employees and companies
- Industry participants with a unified system for obtaining and renewing their state licenses
- Data management services, namely, collection, aggregationand reporting of financial services industry data
- An online website for state-regulated financial services companies and professionals to apply for, amend, renew, and surrender licenses via the Internet.

Can I See if My Financial Services Provider is Chartered or Licensed?

Yes. The process can differ depending on the company and whether it is a bank or nonbank.

- **If you are looking up chartered banks**, you can use **FDIC BankFind** to look up a bank by name or by their website address. You can look at the bank's record to see if it is state-chartered or chartered by the federal government.
- **If you are looking up a nonbank**, many companies are registered in the Nationwide Multistate Licensing System, or NMLS. You can look up records by name or NMLS ID at **NMLS Consumer Access**.
- **If the nonbank you are looking for is not in NMLS Consumer Access**, you can **contact your state bank agency** to determine if the company is licensed.

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