How State Regulators Are Addressing the Pandemic Economy

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Identifying scams that consumers must avoid. Urging the Federal Reserve to shore up a critical link in the mortgage finance system. Making sure that thousands of state-chartered banks can quickly channel federal financial relief to small businesses. And more.

While attention during the pandemic has been rightly focused on policy responses from the federal government, a lot of everyday life is managed at the state level. For instance, state financial regulators charter roughly four of every five banks in the United States. We also license and supervise most nonbank financial institutions such as mortgage companies and money transmitters.

In some areas, we share supervisory responsibilities with our federal counterparts. In other areas, we are on point. We often refer to this construct as networked supervision.

Thus, during the crisis, think of state activities as the essential supplement to federal action that ensures all consumers and businesses are supported by the financial services industry, no matter the regulator.

Indeed, in recent months state regulators have been actively engaged in all aspects of our public mandate. We are responsible for ensuring the safety and soundness of our financial system. We must protect consumers. In addition, we are tasked with supporting
local communities and their economic health.

Nowhere is our nation under greater financial strain than at the local level caused by the sudden, massive shutdown in many aspects of our economy. So, let me provide a sampling of the work that state regulators are doing to mitigate the negative financial impacts created by the pandemic.

**Protecting Consumers**

To help the 30 million (and counting) consumers who have lost their jobs during the past several weeks, nearly every state has posted information on its website on how consumers can identify and then avoid scam artists who prey on the uninformed. From the Pacific West to middle America to the East Coast, state regulators have worked with their governors to raise public awareness of the help available to them and issue fraud notices to guard against various scams.

Additional actions have been taken by a number of states, such as granting loan forbearance, suspending foreclosures, and delaying evictions on mortgages supported by financial institutions chartered or licensed by the states. Some states, such as Colorado, took action before Congress could approve relief legislation at the federal level.

Roughly a dozen states, from California and Washington State to New Jersey and Massachusetts, have reached agreements with servicers of privately funded student loans (i.e., non-federal) to agree to forbearance terms, providing significant relief to millions of student loan borrowers.

Many states, including Connecticut and Illinois, have urged their financial institutions to disallow any garnishment of federal relief checks to consumers. The District of Columbia has gone even farther by banning garnishment, asset seizures or new lawsuits related to any delinquent debt until 60 days after the city’s emergency declaration has been lifted. New York has eliminated fees for ATM withdrawals, bank overdrafts and credit card late
fees for consumers experiencing financial hardship due to the pandemic.

In this crisis, the priority is clear: help the consumer.

**Supporting Local Economies**

State regulators also have taken actions to support their local economies and communities.

We are ensuring the ongoing functioning of the mortgage origination market by providing business continuity guidance to industry...keeping open and functioning the Nationwide Multistate Licensing System – our call center is operating at full capacity -- temporarily suspending certain on-site licensing requirements due to social-distancing orders...and adjusting testing and training schedules so mortgage originators can continue to conduct business.

South Carolina and many other states also have changed location-based rules to allow originators to conduct business from home, in an effort to support mortgage refinancing transactions that save homeowners money.

At the same time, demands on depository institutions have been especially great. For instance, in Mississippi the federal portal for small-business relief opened on the same day that other customers typically deposit their monthly Social Security checks. The combination resulted in a long line of cars at the drive-through and bank staff working in parking lots to assist customers.

All state regulators are monitoring and, where appropriate, supporting the community banks we supervise to work with small-business customers and gain access to essential federal relief. To help process and speed these loans, we have been collecting feedback from banks and raising key concerns with policymakers in Washington, covering everything from program eligibility to the impact on bank liquidity of lending so much money at once.
At the outset, community banks across the nation were among the quickest to get federal loan applications approved and transmitted to local small businesses. Now, several weeks later, the Small Business Administration reports that about half of its federal relief has been channeled through community banks.

Some states have begun thinking ahead to the next stage. In New Hampshire and Tennessee, for instance, the state regulator is involved in governor-led working groups planning how to safely reopen their economies.

Supporting local economies is a mandate that sets state regulators apart from other regulators in the financial system, and its importance comes through during a crisis like this pandemic.

**Ensuring Safety and Soundness**

Lastly, state regulators are providing guidance to financial institutions so they can continue to operate amid stay-at-home orders. The lobbies in many banks might be closed, but transactions can still be made at the drive-through or remotely under the state regulator’s supervision. Further, as consumers conduct more financial transactions online, Texas and other states have urged banks to focus on their cybersecurity protocols.

Just about all states have moved their examination process offsite and suspended onsite visits. Some states like Georgia are aligning their schedule changes with the FDIC’s to minimize the time commitment from banks. Other states have paused all exams to allow industry to focus on their customers.

In a fortunate coincidence of timing, in mid-March CSBS had just launched a new technology platform, the State Examination System, to support online collection and sharing of exam information for nonbanks. Today, roughly a dozen states -- with another dozen in the queue -- are taking advantage of this new tool to conduct online examinations from remote locations. Indeed, this crisis will surely shape how the
examination process evolves.

State regulators touch on many aspects of the mortgage finance value chain. Here, we have flagged one weakness that might threaten how the system functions. CSBS has called on the Federal Reserve to create a credit facility for nonbank mortgage servicers who face an economic challenge: with millions of homeowners stopping their mortgage payments, servicers are substituting their own capital to keep making these same payments to securities investors; at some point, that capital might run out.

The regulator of Fannie Mae and Freddie Mac has taken partial action here. But a broader federal response is in order to minimize any disruption consumers might experience in obtaining forbearance or other relief.

Also at the national level, state and federal financial regulators have partnered in providing joint guidance in areas such as bank operations, mortgage forbearance and foreclosures, appraisals and troubled debt restructuring. To err on the side of mitigating the downside risks of the crisis, these regulators have given banks, mortgage servicers, and other financial institutions a certain amount of supervisory flexibility and extensions of quarterly reports.

Keeping the financial system open and functioning is vital to helping consumers and small businesses during the crisis.

**Ready to Do More**

Maintaining a safe and sound financial system to support the nation during this crisis requires efforts from many different policymakers, regulators and business leaders.

Within the financial system, state regulators are pursuing a two-track approach of collaborating with federal regulators on matters where Washington is involved, and then collaborating within the state system and with their own state leadership on matters beyond Washington’s reach.
I realize that it might be early in seeing the pandemic’s full effect on the economy and consumer finance, and that additional regulatory responses will be necessary. On behalf of all state regulators, I can confidently say: we stand ready to act.