State and Federal Coordination in Consumer Finance Sphere

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Effective partnership between federal and state regulators is an essential aspect of successful regulatory oversight, especially when it comes to the consumer finance industry. The states and the Consumer Financial Protection Bureau (CFPB) recognize this and actively find ways to work together.

Their ability to coordinate and collaborate ensures a balanced regulatory environment that focuses on both the specific needs of consumers as well as nationwide concerns. To maintain this balance, it is imperative that state and federal regulators find ways to work together to protect consumers from harmful practices.

Earlier this year, CFPB established the Taskforce on Federal Consumer Financial Law to assess the current legal and regulatory environment facing consumers and financial services providers. Following thorough analysis of consumer financial laws in the United States, the Taskforce will provide recommendations to CFPB Director Kathy Kraninger on ways to harmonize, modernize and update enumerated consumer credit laws.

This new taskforce found inspiration in part from the National Commission on Consumer Finance of 1968, a body established by the Consumer Credit Protection Act to provide insight on the consumer finance industry. The 1968 commission investigated the regulatory landscape of consumer credit and subsequently reported their findings, analysis and recommendations to Congress.

Their report led to significant legislative and regulatory developments in consumer finance and ultimately helped shape the industry’s perspective for years to come. The new taskforce intends to conduct similar research into consumer financial laws and regulations with the ultimate goal of proposing improvements to the existing legal and
regulatory environment.

Recently, the chair of the taskforce met with CSBS staff to discuss its high-level objectives and gain insight on the areas of concern for state regulators in the consumer finance industry. The discussion centered around the different yet equally important perspectives that state and federal regulators contribute to this area. This dialogue is one of the many instances where state and federal regulators come together to further their joint supervisory mission of consumer protection.

Since the establishment of the CFPB in 2010, state regulators have exercised concurrent regulatory, supervisory and enforcement authority with their federal counterpart. As the consumer finance industry has grown and evolved with changes in innovation and technology, state regulators have continued to develop standards to foster a more efficient and effective regulatory system.

Currently, state regulators license and regulate more than 20,000 nonbank financial services providers. This supervisory authority makes state regulators responsible for ensuring these providers operate in compliance with state and federal consumer protection laws while continuing to provide consumers with access to a wide array of financial services. State regulators often act as the first regulatory point of contact for consumers and play a critical role in intaking, reviewing, and following-up on consumer complaints. They also provide a unique perspective of the industry basing many of their regulatory responses off local knowledge and direct ties to the needs of the community.

In addition to establishing the CFPB as the primary federal regulating authority for consumer financial issues, the Dodd-Frank Act recognized the need for state regulators as a force multiplier for consumer protection. This law empowers state regulators to enforce statutory provisions of federal consumer financial laws within their respective states either as a co-enforcer with the CFPB or an independent actor.

In order to facilitate a coordinated system of supervision and information sharing, state regulators and the CFPB in 2013 established the State Coordinating Committee, which
improved regulatory coordination in the oversight of nonbank entities and enhanced the supervisory capacity of both state and federal regulators. In recent years, coordinated efforts between the states and the CFPB proved that this valuable partnership fostered a more efficient and effective regulatory system.

Federal and state regulators share the supervisory mission of protecting consumers from potentially harmful practices of consumer financial services providers. Together, they can achieve this pursuit by maintaining the spirit of coordination and collaboration they have held for many years.

The Conference of State Bank Supervisors looks forward to the CFPBs’ continued engagement with the states as the Taskforce undertakes their work.