SES Consumer Finance Standards Expand State Exam Uniformity

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State financial supervisors are increasing coordination with each other through Networked Supervision, a dynamic and collaborative approach to supervision. The State Examination System (SES) launched in 2020, is leading the way for CSBS technology platforms by allowing company exams to be conducted in a more uniform, efficient manner.

Today, **South Dakota Department of Labor and Regulation license examiner Paul Giovanetti, who chairs the National Association of Consumer Credit Administrators Consumer Finance Examination Standard Committee**, discusses new consumer finance standards that were added to SES in October and what they mean for regulators, companies and consumers.

SES is an efficient and secure platform for states to conduct exams, investigations and manage consumer complaints in a collaborative, networked manner that preserves state control over information sharing. To date, 53 state agencies have adopted SES, and more than 3,800 company exams have been conducted through the system.

SES already included common exam standards for mortgage companies, debt companies and money services businesses. With the new consumer finance standards added to the suite of SES exam standards, state agencies can adopt to achieve a more uniform process and minimize the need for companies to respond to differing, state-specific exam standards.

Q: What was the consumer finance industry experiencing as it relates to the examination process that drove the need to implement the standards in SES so quickly?

The National Association of Consumer Credit Administrators (NACCA) had exam standards for pay day lenders and auto finance company exams. In addition, the Consumer Financial Protection Bureau has its own exam manual. However, when state agencies began adopting SES, we noticed there were no standards for the consumer finance industry, and we had to enter all of our information requests and exam procedures in the system. Second, it was difficult to embrace Networked Supervision without standards. There were work programs established for the mortgage debt, and money services businesses industry, but NACCA did not have one.

Q: What barriers, if any, do you think state agencies will face in adopting the consumer finance standards and how will states be supported in achieving adoption?

State agencies have accepted consumer finance exam standards. NACCA adopted the exam standards in June 2022. The challenge is when do we start using the standards. We need some states to lead this effort. We are using the consumer finance standards at the South Dakota Department of Labor and Regulation, but we need other state agencies to start using them.

Fully adopting consumer finance standards will require states to be open to change and accept that change. This is the first time we have a set of uniform standards for the consumer finance industry. Achieving successful state implementation means state agencies will have to compare their state-specific requirements to the standards, and use the standards instead of the state-specific requirements when possible

We are helping state agencies adopt the standards by showing them how the standards are structured in SES and how to best use system functionality to conduct consumer finance exams. For example, we offered an SES session during the NACCA Examiners' School in the fall of 2021. We will coordinate with NACCA to offer more sessions in 2023, including discussing the standards as part of regularly scheduled calls with SES state agency users.

Q: Aside from exam process uniformity, in what other ways will consumer finance standards benefit both state agencies and consumer finance companies?

The standards will help state agencies make more immediate decisions about coordinating exams in SES, as well as leveraging and accepting exams that are already in the system. This will save them time and potentially cut travel costs since they won't have to conduct as many in-person exams.

Consumer finance companies will benefit because they will undergo fewer exams. The exam timeframe will also be shorter because companies can review the standard information requests (IRs) in SES and save their responses to the standard IRs for use on future examinations.

Q: What are the risks for state agencies that do not adopt the consumer finance standards?

Potential risks include: less opportunity to coordinate with other state agencies on exams; licensees' experiencing frustration from being examined multiple times and with variations of the same exam questions; and longer exams.

Q: Have state agencies that use SES already adopted the mortgage, debt and money services businesses standards that are in the system?

Yes. For the most part, state agencies have adopted the standards. However, states need to apply the standards as a rule during exams and only use their state-specific requirements as an exception (for example, when there is no comparable state-specific IR in the standards). The mortgage standards in SES are currently being refined to help achieve greater state agency adoption.

Q: How do the consumer finance standards align with other recent regulatory advances for this industry?

Most of the consumer finance exam standards focus on federal regulations and the standards are used to assess a financial institution's compliance management system. The standards evaluate a company's board of directors, and management oversight and compliance program. All institutions, regardless of size, should maintain an effective compliance management system.

Q: What is the consumer impact of state agencies adopting the new consumer finance standards?

Adopting the standards enables state agencies to accept the work of another state, which closes the government performance gap. The number of nonbank licensees offering new innovations and products has increased over the last four years. This requires more time and more exams, coupled with most states having limited resources. We are required to ensure consumers are protected, which in turn requires more exams or investigations arising from consumer complaints.

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