The Three C’s for Success: Communicate, Collaborate, and Commit

May 15, 2024

CSBS Incoming Chair Charlie Clark

SFSF Remarks

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Chicago

Thank you, Sebastien. And thank you to everyone here today. I truly believe the stage is set for an amazing year for CSBS and the state and federal regulatory system.

This forum began more than a decade ago when then-CSBS president John Ryan realized the need for state and federal regulators to talk with each other. As I look across the room at more than 130 of you, I already can see the benefits. In addition to great presentations over the next two days, this forum gives us lots of time to connect over a meal or in the corridors. These conversations are important.

It is appropriate that we are meeting in Chicago for this forum. It is a good middle ground between my home base, the state of Washington, and what we call the other Washington, from where many of our federal counterparts and CSBS staff have traveled.

And I think middle ground is an appropriate phrase for what I see as the priorities for the next 12 months. We talk a lot at CSBS about the value of partnerships. I am really pleased with how we are advancing in that area – both states partnering with each other and with state and federal agencies finding alliances.

But we must do more to break down barriers that exist. We need to have more open communication. We need to find the middle ground to collaborate. And we have to commit to our roles in the dual banking system. I’ll touch on each of these in my remarks.

Let’s start first with communication. While I was named chair of the CSBS Board on Tuesday, I have been on the executive committee for many years. By design, all chairs work their way through the various officer positions over about five years. The executive committee meets with federal agency leaders to address various concerns between the states and federal agencies. We just did so last month at our Government Relations Fly-In.

Our concerns often have common themes. I’ll just be candid here. One common theme is that when matters get sent to D.C., they can fall into a black hole that takes forever to get a response. I’ve heard this for more than 10 years. Another theme is that federal agencies should consult with the states more before taking action.

In response to raising these concerns, the questions we get often fall into the same categories. For example, federal agency leaders ask for specific examples, and the states sometimes struggle to offer up specific instances of their concerns.

We can all do better. We have to all work together to change the narrative. As you have heard before, it is not state or federal regulation. It is state and federal regulation. Working together is the strength of the dual banking system.

So, I hope everyone in this room will ask themselves – how can I improve communication with other regulators?

I acknowledge that we have our differences. I think that can be healthy. We don’t want a homogenous financial system, and we don’t want monolithic regulation. But we need to consider how we can better work together, how we can collaborate.

We can’t just meet here once a year and say that ticks the box. Collaboration throughout the year is important. I think that is important now more than ever.

Consider our workforce. I can tell you that my agency has a lot of new employees. I don’t think we are alone. Across the nation, whether you are a state agency or a federal agency, we are facing the same issue. We are losing institutional knowledge as people retire or leave financial regulation.

That means we have younger examiners and other staffers. They didn’t live through the financial crisis, which was now more than 15 years ago. They are experiencing a high interest rate environment for the first time. These are harder times for banks than they are used to.

But we can help them. Look around the room. You are now the ones with the institutional knowledge. We need to work together to make sure we have well-prepared agency staff. We have the tools to help them. I encourage all examiners to take advantage of the trainings and education opportunities that CSBS, the Federal Reserve, FDIC and FFIEC offer. Also, given the high demand for training, the increasingly complex financial environment, and the evolving post-Covid work life expectations, we may need to explore new approaches to examiner learning and development.

Collaboration can take many forms. States currently are focused on Networked Supervision, which empowers states to act as a “system” through common standards and practices supported by technology and a skilled state workforce. Each state functions as part of a whole through a more networked system for stronger regulation and better risk detection and mitigation while retaining its self-governance authority.

Networked Supervision allows us to know the pulse of the entire country. When anyone in the federal agencies is talking to a regulator in one state, you are gaining the perspective of 54 state agencies.

We are implementing Networked Supervision through many initiatives, which focus a lot on the nonbank side right now. For example, multiple states are conducting a single, comprehensive exam of a licensed company through the State Examination System. The One Company, One Exam program for money services business serves as another good example. State financial supervisors can either participate in, leverage, or accept the results of a company’s multistate exam of companies that operate in 40 or more states. We plan on expanding the program to nonbank mortgage exams in the next year.

But I ask state supervisors, what more you can do in the coming year? It is not always easy, especially when we are dealing with our individual state legislatures and finding the right time to advance a new bill.

The Money Transmission Modernization Act, which we call MTMA, is a set of nationwide standards and requirements designed to protect consumers and enable local innovation. I think it is really important model legislation, but in my state, it is going to take a little time to bring back to our legislature. That doesn’t mean it won’t be a priority when the opportunity is right, and I may have to go back to my legislature more than once. My ultimate goal is to be successful.

Even when you face challenges, keep trying. The biggest threat that I see is inaction and staying in the status quo. And as you make advances, share that with your state and federal legislatures. Let your governor know. Share the value of the state system.

We have also expanded our coordination and engagement in large bank supervision. Thirty-three states have a large bank, defined as $10 billion or more, and 57% of the nation's banks over $100 billion are state-chartered. Large bank supervision is critical to our agencies, and we must prioritize our supervision of these entities. Last year we developed large bank examiner best practices; we also share training resources and discuss emerging risks. CSBS offers an annual large bank examiners forum. We just held our second commissioner roundtable on large bank supervision, and we are building out our large bank supervision training program. Moreover, we have quarterly coordination calls among state large bank examiners and large bank supervision staff from the FDIC and Federal Reserve.

There have been many advances in breaking down barriers between state and federal regulators as well. We are seeing momentum on better communication and coordination between states and federal agencies. Among them, there is a new CFPB working group and more frequent meetings with CFPB Director Chopra. We are having more meetings with the Federal Reserve Board of Governors and Vice Chair Barr. We have increased the number of meetings with FDIC Chairman Gruenberg. States are bringing specific examples of challenges rather than just anecdotal stories.

Just a couple of weeks ago, CSBS and the Federal Housing Finance Agency entered into a formal agreement designed to facilitate information sharing with respect to nonbank mortgage companies. Memos of understanding like this play an important role in partnerships with the federal agencies.

But just a week before that signing, FHFA's Office of Inspector General issued a report that summarized nonbank mortgage regulation that completely ignored the state's role.

It is an old story. State regulators are routinely omitted from national policy discussions when discussing banks and especially nonbanks, despite thousands of state regulators on the job every day across the country, whether they are conducting licensing, examination, or enforcement work. Our supervisory role is substantial and is critical to the financial health of our nation. It should not be left out of policy discussions.

I don't think that it is just state regulators who should be speaking up in this space. I ask federal regulators to join us. This is where I believe we can all improve in our commitment to our nation's financial regulation.

Whether we agree or disagree on the value of a federal prudential regulator for nonbank financial services, I think we can all agree that there is a robust state licensing and supervisory system in place that has tremendous value.

We are going to have a lot of conversations here in Chicago. I hope that they continue well after this forum. I want us to reach out through out the year. Remember – communicate, collaborate and commit. When we talk with each other and support each other – recognizing our differences, industry, consumers and our nation's financial health benefits.

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Statements & Comments

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