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Incoming CSBS Chair Address

CSBS Board of Directors Chair Rhoshunda Kelly

State Federal Supervisory Forum

Seattle, Washington

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My Vision for the State System

Thank you for that introduction Sebastien. And thank you Commissioner Charlie Clark for hosting us here in Washington State. It is a privilege and an absolute pleasure to welcome my state colleagues and federal partners to the State Federal Supervisory Forum here in Seattle.

I'm honored to give my first official remarks as the Chair of the CSBS Board of Directors and am looking forward to working to advance our priorities for the state system over the next 12 months.

Before I get into my remarks, I would like to recognize a few people.

- First, I want to thank Tony Salazar for his leadership over the last year. Tony, your work has helped ensure the modernization of our state technology platforms, improved our outreach to industry and consumer advocates, and helped harmonize supervision and enforcement among the states.
- Thanks to the CSBS Staff for all the planning and coordination that went into this event.
- I also want to thank my team at the Mississippi Department of Banking and Consumer Finance. Many of my staff are in attendance today. They work hard to ensure that my vision and the agency's mission are met. Thank you for what you have done ….. and what you will continue to do …… as I fulfill my term as Chair of CSBS.

On a personal note, I want to thank someone not in attendance today – my husband Mike. Mike chose to be the stay-at-home parent to our two daughters, who are now teenagers, so that I could pursue a career that had purpose. His sacrifice, coupled with my passion to build something good for the State of Mississippi and the State Banking System, led me to today.

I'll be honest, I never imagined that I would be the Commissioner of the agency when I began my career nearly 25 years ago. I definitely didn't imagine standing before this group to address you as the Chair of CSBS. For this opportunity, I'm truly humbled.

As Chair, I am a new face, but I carry the same message as many CSBS chairmen before me. As state regulators, we want….

- Strong, competitive, and innovative financial markets;
- Supervision that protects consumers and promotes safety and soundness … AND is tailored to the size and complexity of our institutions; and,
- A dual-banking framework that respects the authorities and responsibilities of both state and federal government.

This last point relies uniquely on the relationship between the states and our friends at the FDIC, Federal Reserve . . . and even the OCC. For this relationship to prosper, we need…

- Better coordination;
- More effective collaboration on policy changes and consistent implementation of supervisory standards; and,
- Transparent and open dialogue.

There has been continuity in this state message……. our priorities, ……….. our purpose, ……….and our passion. Our goal is to build strength in state supervision, our people and our supervisory processes. Ultimately, we want a strong, resilient financial system.

State regulators charter banks, we also are the primary regulators, and we jointly supervise these institutions with our federal partners. I have been a state regulator my entire career. I appreciate the sovereignty of the state-chartering framework, but I also appreciate the federal role in financial supervision and regulation and the balance it provides to the dual banking system.

The dual banking system provides choice, and 79% of banks have chosen a state charter. It offers the value of local supervision and local accountability, combined with the national perspective of our supervisory partners – the FDIC or the Federal Reserve. The national charter offers unitary supervision – some may call it one-size-fits-all – in a single, federal regulator.

The differences in the scope, regulatory requirements, and supervisory posture make the charter choice meaningful for institutions. That choice represents the true power of the dual banking system. It allows for different business models, new technologies, and competitive access to credit.

The vitality of the state charter must be preserved, and the level playing field between state and federal charters must be respected.

Threats to the State System

State supervisors care deeply about the success of our financial system. We not only have a focus on safety and soundness and consumer protection, but we are often mandated by our states to advance economic growth.

Most of the banks that we charter and supervise – 92% – are community banks, which provide vital credit and services to local consumers, small businesses, and farmers. Their footprint is especially important in rural areas, where a community bank is often the only physical banking presence.

Our dual banking system is resilient. It has endured almost two centuries, through 37 different administrations, through five wars, through multiple financial stresses, from the 19th Century Panic to the 2008 financial crisis to the 2023 bank failures. It has encouraged innovations . . . from ATMs, to online banking, to mobile wallets.

Neither the value nor the strength of our dual banking system can be taken for granted. And while it has faced threats over the years, we are at another inflection point today.

Our banking footprint is shrinking nationwide.

Community banks are facing pressure—from competition, innovation, changing business models, and unlevel regulatory playing fields. If we want these institutions to survive and if we want the communities they serve to thrive, we need to understand the merits of new business models, as well as the extrinsic and inherent risks, before they scale. The principles of banking haven't changed. But the platforms, speed, and scale absolutely have.

Fewer bank charters… and fewer bank assets. These are trends that we should all care about.

I have seen it in my own state. Twenty years ago, bank asset growth in Mississippi was on the rise through the acquisition of out-of-state bank assets. Over the past 10 years, I have watched the number of both state-chartered and nationally chartered banks decline through consolidation. Most recently, our largest financial institution, with assets more than $50 billion dollars, was purchased by a large national bank.

Competition

The competitive landscape has also changed. Historically, community banks competed with large regional banks, credit unions, and agriculture or farm credit banks. Now there are new market entrants – notably, fintechs, digital asset companies, and a new breed of national trust companies. The GENIUS Act provides a framework for stablecoin issuers, but the broader regulatory and supervisory outlook for national trust companies and digital asset-related activity is less clear.

Our community banks should be able to compete with these new entrants, but they need a clear path, particularly for banks that want to incorporate new technology. CSBS has asked the FDIC, for example, to issue guidance and standards for tokenized deposits in tandem with federal stablecoin regulations. That way, banks would have a clear path for adopting blockchain capabilities for their customers who want this flexibility.

If banks are not allowed to adopt new technologies, we could see further erosion of bank customers and assets. As regulators, we want to work with our federal partners to foster innovation….including digital assets…. in a manner that preserves safety and consumer choice.

Technology and Innovation

As we look at how community banks can stay competitive, we must look at obstacles to innovation. The current administration seems open to encouraging new technologies – but there are cost restraints for community banks that already operate on tight margins.

Recent results from the CSBS Annual Survey of Community Banks carry a familiar refrain – adopting technology is important, but costs, integration, and skilled staffing remain barriers. Community banks are often reliant on third parties – including core providers and other technology firms – to effectively incorporate recent technologies into their business model. Third-party guidance has often been used as an impediment to adoption instead of a mechanism for fostering innovation.

That is why CSBS has encouraged our federal partners to provide operational guides for integrating technology and third-party providers. This guidance will be critical as banks look to incorporate new tools, like artificial intelligence, into their business model.

The consequences if banks are not allowed to innovate could be dire. Take stablecoins for example. Right now, that market is about $300 billion. Treasury estimates indicate it could go to $3 trillion by 2030. If those $2.7 trillion in deposits leave banks, that accounts for $2.2 trillion in lending.

If banks cannot innovate . . . if they can't reach new markets and new consumers . . . the slow decline from consolidation and exits will continue . . . and our communities will lose a vital source of economic growth.

Unlevel Playing Fields

Congress granted the OCC specific chartering authorities in the National Bank Act.

But increasingly, the OCC has interpreted those authorities expansively—particularly around national trust charters and preemption. In doing so, it risks undermining the balance at the core of the dual banking system.

They have been working very hard to expand what it means to be a national trust company . . . dropping any reference to fiduciary activities and implying that these entities could engage predominantly in non-fiduciary activities.

Perhaps more concerning, in Interpretive Letter 1176, the OCC attempts to reserve for itself the authority to grant banking powers to any nationally chartered entity . . . that is, deposit-taking, lending, and payment activities.

You should consider the implication of that startling reservation of authority, particularly in the context of the many trust charter applications clogging the OCC's docket.

These uninsured trusts do not require holding companies or deposit insurance. They do not share the compliance obligations of banks. They do not share the capital requirements of banks . . . and the OCC is actually attempting to lower those requirements ever further in its stablecoin regulations.

On top of all this, the OCC has been attempting to aggressively expand its preemption authority – proposing a watered-down "unnecessary burden" standard that would preempt any state law that was "inefficient," "inflexible," or "unusual."

These actions by the OCC fundamentally shift the underpinnings of the dual banking system. They create an unlevel playing field for all banks, particularly the trust charter expansion. And, they undermine the value of the state charter.

Congress did not grant this authority to the OCC. The OCC has reserved it for itself and is exercising it with little to no transparency. Read the public portions of the pending trust charter applications and the OCC's conditional approvals. Can the public tell what business models and activities have been authorized?

To restore the dual banking framework, the OCC must bring its chartering and preemption activity in line with the law.

Supervision

Preserving the value of the state charter also means ensuring that our institutions operate in a safe and sound manner, meet legal and regulatory obligations, and protect their consumers. As regulators, however, it is healthy to periodically revisit our supervisory frameworks to ensure that the costs and benefits are properly weighed.

Cost of compliance is a top challenge for community bankers. Recent analysis of 10 years of the CSBS Community Bank survey results shows that these smaller, less complex banks bear a disproportionately high—and growing—cost of compliance compared with larger institutions. Small community banks devote roughly twice the share of their operating expenses to compliance, shouldering relatively higher personnel, data processing, accounting, and consulting costs.

State supervisors and CSBS have advocated appropriate supervisory and regulatory tailoring for years. Meaningful tailoring should reduce unnecessary compliance burdens, provide transparent standards, and preserve essential examiner supervisory discretion.

We are encouraged by recent efforts across the federal agencies to move away from a process-focused, check-the-box supervisory mentality, and toward new approaches focused on material financial risks.

While there is general alignment on policy with our federal partners, it is important that these policies are implemented consistently and without undermining state supervision. While focus on material financial risk is appropriate, this does not diminish the importance of sound governance, risk management, and legal and regulatory compliance, which can materially harm an institution or consumers.

Sustainable changes to supervisory processes should be grounded in these basic tenants of safe and sound banking. As a career regulator, I understand the merits and potential impact of financial and operational risks. To be effective at our job, we should appropriately identify and communicate all relevant risks to our regulated institutions.

Many state banking departments continue to work with our federal counterparts in FDIC regional offices and across the Reserve Banks to strike the right balance of tailoring and effective supervision.

I ask our federal partners to commit to this critical coordination. We must implement these changes to supervisory expectations consistently. We must try to avoid unnecessary differences between our exams. And, when we must disagree, we must make certain that the banks and their boards understand why.

The supervisory tailoring effort is critical, and it will take all of us working together to create a lasting, durable framework.

Building Strength in the State System

I have spent much of my time talking about the value of the state charter, and this will be a core focus of mine as CSBS Chair. But, our mission as state supervisors is broader than just banks, it extends to the licensing and supervision of consumer facing non-banks, and CSBS is a critical enabler of these efforts as well.

Training

The strength of the state system begins with our examination teams, and that strong foundation starts with a state training system that can deliver quality content with consistency and predictability.

As our federal partners have reduced available resources, CSBS has answered state demand. Last year, we increased examiner training by 33%, reaching an estimated 1,550 state agency staff.

We added programs like the nonbank Examiner-in-Charge, cyber, and financial condition and analysis schools, and later this year will have an advanced crypto bootcamp.

We are exploring the benefits of a centrally located Learning Center, which will increase the quality and consistency of state training for state examiners.

Nonbank Policy and Supervision

As the primary regulator of many nonbank financial services firms, the states are continuing our collective and coordinated efforts to make the entire financial system safer, more sound, and more stable.

We must remain focused on the adoption of our prudential standards and money transmission model laws, but as importantly, we must expand their application through coordinated multistate workflows and exam scheduling.

One Company, One Exam will only fully come to fruition when every state is able to leverage or accept the results of any other state exam – multistate or otherwise. When we trust the exam results of our sister states, we promote the consistent application of state standards and reduce unnecessary compliance burden on state licensed institutions.

Again, I want to highlight the important work of my predecessor, Tony Salazar. He has worked to promote dialogue with industry and consumer advocates. He has promoted an effective legal guidance framework for the Money Transmission Modernization Act, and increased coordination of multistate exams and enforcement activity. I promise to sustain this focus and build on this foundation, Tony.

As just one example, I believe it is critical for the states to continue to improve their supervisory efforts by developing an enhanced supervisory framework for the largest mortgage servicers. It is equally important that we understand and improve multistate resolution frameworks for these complex firms.

Digital Platforms

CSBS continues to make investments in technology to support the state system.

NMLS and its supervisory component, SES are regularly delivering new capabilities to industry and the states, and new development efforts could change the way we schedule exams, coordinate enforcement actions, conduct BSA/AML transaction analysis, and analyze consumer complaints.

The Learning Hub will help coordinate training and certification activities for state examiners . . . allowing each state to create state-specific learning plans throughout an examiner’s career and accessing CSBS in-person and virtual contact more effectively.

I am also excited to help mature the Catalyst Initiative. Identifying new technology to support examination challenges can cut our program development costs, increase exam effectiveness and efficiency, and reduce compliance costs for industry. Partnering with the states and the private sector to test these tools in real-world environments can also encourage adoption. Catalyst will help states test emerging technology collaboratively instead of building expensive, one-off solutions.

Advocacy

CSBS is member-driven; however, CSBS staff work to amplify key state messages with the press, at industry events, on podcasts and social media. These efforts enhance the visibility of state supervisory priorities, underscore the value of the dual banking system, and expand our policy outreach with Congress and federal policymakers.

As Chair, I will focus CSBS efforts on promoting resilient, common-sense regulatory and supervisory reforms that support community banks, restrain federal excess, and foster competitive and dynamic financial markets.

I would also like to encourage a more member-led approach to advocacy. So, please consider this my personal invitation for more in-person engagement. With me. With members of the Executive Committee. With our Board of Directors.

We each represent the values and priorities of our individual states. Together, we represent the strength of the state system.

There is passion and purpose in our message and our mission. . . Let's commit to sharing that vision with our governors, our state legislatures, our congressional delegations, and our federal partners.

Closing

I share your vision for a strong state system.

You and your teams are the backbone of this system.

Working with our federal partners, we can build on our legacy of strength - through resources,……… knowledge,…….. and capacity to support our evolving financial sector.

Every single one of us is invested in the dual banking system for a very simple reason: the state charter is the common bond of the state-federal relationship.

This annual gathering matters. It reminds us not only of our interconnectivity, but also our interdependence. It memorializes our shared responsibility to maintain a strong, coordinated, and resilient system of supervision.

Together, our teams are the connective tissue of a centuries-old framework that continues to depend on our stewardship and support.

We need to engage with intention and supervise with purpose. When we are united in supervisory intent and application, we provide stability, consistency, and credibility. When we are disjointed, we create uncertainty and unnecessary regulatory burden. In a sense, we become part of the problem.

So, my call to action is simple: let's recommit to working together—not just in principle, but in practice. Let's collaborate through active dialogue on current issues to find durable solutions. Collaboration means working together on a shared project to achieve a common goal.

We must remember that we are not competitors—we are co-stewards. When we get this partnership right, the dual banking system doesn't just endure—it prospers.

Thank you.