CSBS

January 16, 2025

The Honorable John Thune
Majority Leader
United States Senate
Washington, D.C. 20510

The Honorable Chuck Shumer
Democratic Leader
United States Senate
Washington, D.C. 20510

The Honorable Mike Johnson
Speaker
United States House of Representatives
Washington, D.C. 20515

The Honorable Hakeem Jeffries
Democratic Leader
United States House of Representatives
Washington, D.C. 20515

Dear Congressional Leaders:

On behalf of state regulators and the Conference of State Bank Supervisors[1] (CSBS), I congratulate you on your election as leaders of the 119th Congress. Working together, we can make this Congress a turning point for strengthening community banking and the state-federal partnerships that support effective regulation and supervision of our nation's financial services industry.

Our state supervisors play a vital role in protecting and strengthening the U.S. financial ecosystem. The states charter and supervise 79% of all U.S. banks, from small local banks to global financial institutions. While state-chartered banks constitute around one-third of the nation's banking industry assets, they outperform in terms of financing local economic activity. For example, they provide more than half of all small loans to businesses and two-thirds of agricultural loans made by the banking industry. The states also license and supervise more than 34,000 nonbank financial services companies in the mortgage, consumer finance, payments, debt collection, and other consumer-facing financial services industries, giving them a uniquely comprehensive view of our multifaceted financial services marketplace.

An effective partnership between state financial regulators and the federal government is critical to maintaining the diversity of America's financial system and to better serving consumers while nurturing innovation and economic growth. As you develop your priorities for this Congress, we urge you to support a dynamic, diverse, and innovative financial sector by fostering community banking, enabling strong state-federal partnerships, and safeguarding the dual banking system.

Strengthen Local Economies Through Community Banking

Community banks are the lifeblood of local economies across the country, particularly in underserved and rural areas. Locally managed, these banks offer relationship-based financial products that power local economic growth. Unfortunately, inappropriately tailored regulations and supervision, outdated federal laws and regulations, and other factors that contribute to rising costs have placed this vital sector of our financial system at tremendous risk.

Over the past decade, the number of community banks has declined by 33%, with scant new bank formation. In 2014, there were more than 6,100 community banks nationwide. Unfortunately, we have

[1] CSBS is the nationwide organization of state banking and financial regulators from all 50 states, the District of Columbia, and U.S. territories.

lost more than 2,000 of these institutions through the end of 2024, largely due to mergers, sales, or closures. Over that same period, a mere 62 new community banks opened, with only two *de novos* last year.

Without coordinated state and federal action, there will be fewer community banks, and more communities will lose access to local banking services. Congress can help mitigate this concerning trend by ensuring the federal banking agencies create a regulatory environment that allows community banks to form and flourish, including support for *de novo* charters, streamlined approvals for healthy mergers between in-market community banks, and right-sized regulatory requirements for small banks. These changes will bolster local economic growth while more accurately managing risk to the financial system and consumers. We look forward to working with members of Congress and our federal regulatory counterparts to reinvigorate community banking as an essential component of the U.S. financial services marketplace.

Enable Strong State-Federal Partnerships to Build a Safer Financial Ecosystem

The complexity of today's financial ecosystem necessitates strong partnerships between state and federal regulators. Effective and efficient information sharing eliminates regulatory blind spots and makes the financial system more secure. This coordination must be cultural. It must be championed by agency leadership in Washington, D.C., and executed daily in local engagements between the states and our federal partners. To support this transformation, we encourage you to pass legislation this Congress to improve examination coordination between federal and state regulators on third-party service providers, including on cyber threats and other operational risks,[2] and to enhance information sharing on financial crimes enforcement.

It is also crucial for state voices to be reflected on federal regulatory boards with joint oversight of state-chartered banks, such as the FDIC and Federal Reserve. Members with state supervisory experience help ensure that the local expertise and deep regulatory knowledge of state supervisors are reflected in the federal decision-making process. To that end, we strongly urge the Senate to prioritize confirmation of an individual with state supervisory experience to the FDIC Board, as required by law, for any future vacancies.[3]

Advance Payments Innovation and Accountability Through State Oversight

As financial services evolve, our system of cooperative federalism – with clearly defined state and federal responsibilities to protect consumers, promote a safe and sound financial system, and foster innovation – is more important than ever. We strongly urge you to avoid unnecessary preemption of state laws, particularly those that would undermine state consumer protections, infringe on state licensing authority, or create an unlevel playing field between state- and federally-chartered entities.

[2] Bank Service Company Examination Coordination Act of 2023, H.R. 1109/S. 1501, 118th Cong. (2023).

[3] 12 U.S.C. § 1812(a)(1)(C) ("The management of the [FDIC] shall be vested in a Board of Directors consisting of 5 members . . . 3 of whom shall be appointed by the President [and confirmed by the Senate] . . . *1 of whom shall have State bank supervisory experience*." (emphasis added)).

Nonbank mortgage companies, money transmitters, and other financial technology firms currently operate under a robust, effective, and coordinated state regulatory framework. The states have proactively adapted regulations to supervise industry innovations and protect consumers. States work as a connected network, coordinating supervisory activities and enforcement actions and developing consistent regulatory standards where appropriate, including the Money Transmission Modernization Act and prudential standards for nonbank mortgage servicers.[4] Preempting the existing state regulatory framework would not benefit consumers or improve the delivery of financial services and, as such, would be an unwarranted expansion of federal power. While targeted reforms made through cooperation between the states and federal government may be appropriate as the nonbank financial services marketplace evolves, wholesale preemption of the existing state regulatory and supervisory framework, either through legislation or regulation, should be avoided.

Preserving the integrity of the dual banking system in emerging areas such as payment stablecoins is equally important. States have already led the way in pioneering regulatory frameworks for stablecoins. Any federal stablecoin legislation should leverage that work and avoid preempting the states' existing authorities. Federal legislative proposals should also leave state legislatures free to enact higher standards and respond to emerging challenges as their local communities deem necessary. We look forward to working with you on a federal stablecoin framework that includes a meaningful state pathway for licensing, regulation, and supervision.

Conclusion

As you consider financial services policy this Congress, we urge you to recognize the essential role of state financial regulation and supervision in fostering a resilient, innovative, and consumer-focused financial system. Local decision-making by state regulators allows for right-sized, efficient governance, reflecting the needs and circumstances of local communities. This proximity to constituents enhances accountability and ensures that regulatory decisions align with public interest.

As you begin the 119th Congress, CSBS remains committed to working with you to grow our nation's economy, protect our consumers, and strengthen the dual banking system.

Sincerely,

Brandon Milhorn
President and CEO

cc: Senate Banking, Housing and Urban Affairs Chairman Tim Scott
Senate Banking, Housing and Urban Affairs Ranking Member Elizabeth Warren
House Financial Services Chairman French Hill
House Financial Services Ranking Member Maxine Waters

[4] *See* CSBS, CSBS Model Laws.