



2018

Annual Report

CORE MISSION

CSBS supports state regulators in advancing the system of state financial supervision by ensuring safety and soundness; protecting consumers; promoting economic growth; and fostering innovative, responsive supervision.



79%

OF ALL U.S. BANKS
ARE CHARTERED
AND SUPERVISED
BY STATE
REGULATORS

State-chartered banks provide:

1/2



OF ALL U.S. SMALL
BUSINESS LENDING

2/3



OF AGRICULTURE
LENDING IN AMERICA



STATES REGULATORS ARE THE SOLE LICENSING
AUTHORITY FOR NONBANK FINANCIAL SERVICES
COMPANIES (*mortgage providers, money services
businesses and consumer finance companies*).



A Letter From the President and CEO

The Conference of State Bank Supervisors (CSBS) supports state regulators by serving as a forum for policy and supervisory process development.

We facilitate effective and efficient state regulation through training, educational programs and examiner tools. And CSBS, on behalf of state regulators, also operates the Nationwide Multistate Licensing System to license and register nonbank financial service providers.

I am very pleased with, and proud of, the accomplishments CSBS achieved in 2018. We advanced our Vision 2020 initiatives to better harmonize the multistate experience among nonbanks and promoted tailoring federal financial regulation to the risks of individual institutions — with several such provisions captured in Congress’s new banking law. We also began development of a new technology platform for state examinations, launched a sweeping cybersecurity training program for state examiners and supported state consumer protections.

While this report is intended to highlight the major accomplishments that CSBS and its members achieved throughout the year, every effort we undertake is to ensure the safety and soundness of our financial system, protect consumers and encourage economic growth — all while fostering innovative and responsive supervision.

Sincerely,

A handwritten signature in blue ink that reads "John W. Ryan". The signature is fluid and cursive.

John W. Ryan
CSBS President and CEO

2018 Accomplishments



ADVANCING VISION 2020

State regulators and CSBS are advancing Vision 2020, a series of initiatives designed to bring greater harmonization to the multistate licensing and supervising of nonbank financial services. Vision 2020 milestones in 2018 include:

Industry Engagement

Our fintech forum in April brought together consumer and industry representatives with state regulators to discuss fintech developments and explore consumer protections. The Fintech Industry Advisory Panel, comprised of 33 payments and lending firms, identified improvements for the multistate licensing and supervision experience, including establishing a clearing house for state licensing resources and laws. Its full recommendations were released in February 2019.

Common Technology Platform

The state system achieved full adoption of the Nationwide Multistate Licensing System (NMLS) Uniform State Test by all state mortgage regulatory agencies completing a multistate effort to simplify their licensing process. Additionally, most states post regulatory actions on and have money transmitter companies licensed through NMLS.

Multistate Harmonization

CSBS laid the groundwork for several new programs, including a state-led process to streamline multistate mortgage examinations. All 50 states and the District of Columbia named innovation contacts, simplifying the process for fintech firms to engage with state regulators.

Enabled Banks to Service Nonbanks

Our new BSA/AML self-assessment tools for both banks and money services businesses built on our efforts to address de-risking, and our job aids helped examiners and bankers with their day-to-day operations.

Coordinated Third Party Supervision

CSBS has sought to change the Bank Service Company Act to better support state regulators' supervision of third-party service providers (TSPs). As written, the law effectively impedes coordinated state-federal TSP supervision. The House Financial Services Committee approved a bill developed by CSBS by a vote of 56-0, drawing supportive statements from senior Republicans and Democrats. CSBS will continue to promote this legislation, building upon its already strong bipartisan support.



GUARDING CONSUMER PROTECTIONS

State regulators have a broad mandate to ensure safety and soundness, consumer protection and local economic health. As such, CSBS has strongly opposed federal preemption of state laws that protect consumers, including the following:

OCC Fintech Charter

Our legal challenge to the Office of the Comptroller of the Currency's (OCC) proposed nonbank fintech charter continued. In May, the U.S. District Court for the District of Columbia dismissed our lawsuit without prejudice, accepting the OCC's assertion that it had not reached a final decision on moving forward with the fintech charter. The OCC announced in July that it would indeed move forward with the fintech charter. In October, we refiled our complaint.

Student Loan Servicing

CSBS publicly opposed both the U.S. Education Department's plan and proposed federal legislation that would preempt state authority on student loans, preventing states from curbing financial abuse of student loan servicers.

STRENGTHENING CYBERSECURITY

State supervisors and CSBS are developing multiple approaches to protect infrastructure in the interest of local communities and the financial system.

In a proactive effort to counteract the national threat of cyberattacks, CSBS in May launched a sweeping \$1.5 million cybersecurity training program for hundreds of bank and nonbank examiners at no cost to states.

A new task force composed of bank and nonbank IT examiners began developing a cybersecurity examination work program for nonbank entities. States participated in updating and issuing the FFIEC Cybersecurity Resource Guide for industry and hosted an FFIEC webinar to inform industry.

PROMOTING PUBLIC POLICY

CSBS promotes tailored regulation and supervision of banks according to their size, complexity and risk, as well as efforts to enhance state-federal working relationships. The landscape shifted for financial regulation in two areas in 2018:

In May, Congress approved sweeping banking legislation, the Economic Growth, Regulatory Relief and Consumer Protection Act, which included certain banking regulatory relief items strongly supported and promoted by CSBS. Our focus then shifted to how the law will be implemented.

The new banking law requires the federal banking agencies to develop an optional community bank leverage ratio (CBLR) that can be used by qualifying banks in lieu of the current risk-based capital requirements. Notably, the law also requires federal agencies to consult with state regulators in the CBLR implementation. CSBS formed a working group of state regulators to examine the issue.

The law also includes a new category of qualified mortgages in a provision — crafted by CSBS — that automatically grants safe harbors for mortgage loans originated and held in portfolio by banks with less than \$10 billion in assets.

Our analysis of rules proposed by the Fed and OCC that would significantly reduce the amount of capital required to be held by the nation's largest banking organizations drew broad attention. We explained the rules could negatively impact small banks (including community banks) by providing large, deposit-taking Globally-Systemically Important Banks with an advantage in deposit pricing.

Our expertise in fintech regulation received attention in Washington. The U.S. Treasury acknowledged state regulators' efforts to harmonize state laws and supervisory processes in its June nonbank financial companies and innovation report as well as the Annual Report of the Financial Stability Oversight Council.

On the Hill, CSBS testified on a range of nonbank financial service issues, including bank de-risking, state licensing and supervision and the key role of NMLS in driving toward a further networked system of state regulation.



OUR EXPERTISE IN FINTECH REGULATION RECEIVED ATTENTION IN WASHINGTON

ENGAGING WITH FEDERAL REGULATORS

CSBS and state regulators frequently work with Congress and federal agencies. Here are some key events from 2018:

Treasury Secretary Steven Mnuchin spoke at the CSBS 2018 Government Relations Fly-In, providing his perspective on community banking, fintech and cybersecurity.

State and federal financial regulators shared perspectives on emerging risks and supervision strategies at the CSBS State-Federal Supervisory Forum.

Through Memos of Understanding, NMLS continued its information-sharing agreements with the FTC, CFPB, Office of Financial Research, FinCen and FHA.

State regulators are represented through the State Liaison Committee on the Federal Financial Institutions Examination Council, which took the following actions:

- Finalized revisions to the streamlined Call Report
- Issued new customer due diligence and beneficial ownership examination procedures
- Identified areas of the supervisory process that could be modernized to reduce burden and improve efficiency

ENHANCING SUPERVISION PRACTICES

CSBS serves as a national forum for state financial regulators to coordinate bank supervision and policy development with other states and their federal counterparts. Highlights from 2018 include:

Through research reports and regulator meetings, CSBS raised awareness of important issues like the problems caused by a lack of appraisers in rural and underserved communities. And through Examiner Fact Sheets, we explained the European Union's general data protection regulation and the potential transition away from LIBOR to help examiners start conversations with banks about the eventual impact of the change.

Our new monthly report of state legislative developments gives state regulators a comprehensive view on legislative activity

across the nation, including block-chain, marijuana legalization and fintech regulatory sandboxes.

CSBS also meets regularly with banks across the nation through state association briefings and the CSBS Bankers Advisory Board. Bankers provided input on the community bank leverage ratio, brokered deposits and Bank Secrecy Act compliance.

SUPPORTING STATE AGENCY TRAINING AND EDUCATION

CSBS supports the professional excellence of state financial supervision through training, professional development, certification and accreditation.

Here are 2018 highlights:

CSBS began offering a course designed to enhance examiner knowledge of capital markets and improve examination skills.

We partnered with state banking departments in Alabama and North Carolina to develop, design and deliver capital markets training for state examiners.

Forty-seven agencies now have CSBS bank accreditation, with the addition of the South Carolina Office of the Commissioner of Banking, which received its initial bank accreditation this year. And 26 state agencies now have mortgage

accreditation, with the addition of both Arizona and Alabama.

CSBS granted 1,225 examiner certificates to 1,100 examiners from 42 states — certifications that allow states to recognize the unique training and skills of their staff.

State regulators partnered with the Federal Reserve Bank of St. Louis on a pilot project that provides states with access to a significant amount of Federal Reserve Board online training content on safety and soundness, IT and compliance topics.

ADVANCING REGULATORY TECHNOLOGY

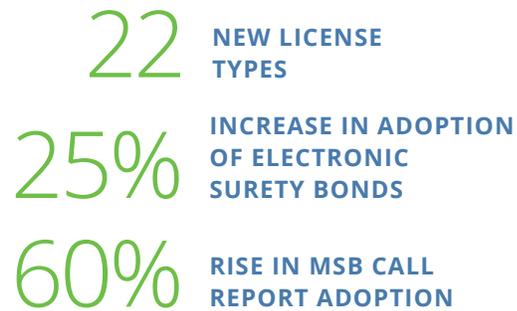
NMLS, which streamlines the licensing process for nonbanks such as mortgage originators and money services businesses, celebrated a milestone: its 10-year anniversary. As NMLS enters its second decade, CSBS is looking to the next generation of this technology platform.

As NMLS matures to cover more industries, CSBS has captured more forms of data. This year, we released the first-ever Money Services Businesses Industry Report, using 2017 NMLS transaction data of licensed money transmission, payments, virtual currency and other businesses. The report is the only one of its kind and showed:

- The industry processed \$1.24 trillion in transactions in 2017
- The money transmission industry is highly concentrated, with the 10 largest companies moving 74 percent of the almost \$685 billion total

Using state data, we developed an algorithm that uses Mortgage Call Report data to successfully identify higher risk companies.

In 2018, 63 state agencies participated in NMLS. Growth in NMLS included:



WE LAUNCHED A NEW ONLINE PORTAL, THE EDUCATION MANAGEMENT SYSTEM, WHICH ENABLES MORTGAGE LOAN ORIGINATORS TO FULFILL THE EDUCATION REQUIREMENTS OF THE FEDERAL SAFE ACT.

RESEARCH AND DATA

CSBS built a liquidity analysis dashboard and developed and implemented several other tools to help examiners, including:

- Mortgage Servicing Examiners Report
- Examiner Workforce Estimate Tool that allows users to analyze the adequacy of staffing levels in each state using both call report and profile data
- An interactive salary data visualization dashboard allows authorized users to compare salary data of custom groups of states or districts with federal salary data across 10 different job functions, from entry-level examiner to the commissioner

CSBS also joined forces with two Temple University economists to develop a formal Indicator of Community Bank Sentiment. Analysis of the 2018 CSBS Community Bank Survey found that 86 percent of community bankers have a positive or neutral sentiment of economic and business conditions.



CSBS BUILT A LIQUIDITY ANALYSIS DASHBOARD AND DEVELOPED AND IMPLEMENTED SEVERAL OTHER TOOLS TO HELP EXAMINERS



COMMUNITY BANK RESEARCH CONFERENCE

CSBS and the Federal Reserve System, joined by the FDIC in 2018, co-sponsored the sixth annual Community Banking in the 21st Century Research and Policy Conference. The conference is a key event for engagement among state and federal policy makers, researchers and community bankers.

Federal Reserve Vice Chairman for Supervision Randal K. Quarles addressed urban and rural community bank trends, FDIC Chairman Jelena McWilliams announced a new transparency

initiative, Cleveland Fed President Loretta Mester discussed CRA reform and CSBS Chairman Charlotte Corley announced the new CSBS Community Bank Sentiment Index.

CSBS and the Fed released the 2018 National Survey of Community Banks at the conference. Key findings include:

- After several years of increases, compliance costs for community banks dropped by 13 percent to an estimated \$4.7 billion
- Two-thirds of bankers who were considering acquisitions cited management succession as a moderately important factor
- The majority of bankers rarely or never eased terms of small business loans by extending maturity, reducing collateral requirements, requiring fewer covenants or allowing more borrower leverage

CSBS released the 2018 Journal of Community Bank Case Studies, which showcased the top three undergraduate student teams of the annual CSBS Community Bank Case Study Competition: Eastern Kentucky University (winner), University of Missouri — Kansas City and Southeastern Louisiana University.

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