"It is the spirit and not the form of law that keeps justice alive."

? Earl Warren, former Chief Justice of the United States, born on this day in 1891

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Updated Information on the COVID-19 Virus

State regulators are committed to providing timely updates to consumers, financial institutions and fellow regulators on actions taken to support communities during the outbreak of COVID-19. In order to facilitate this process, CSBS has created a COVID-19 response web page, which contains valuable updates including:

- A County-Level Map of Coronavirus Cases
- State and Federal Resources and Data
- FAQs and Guidance from State and Federal Agencies
CSBS Supports FDIC Request to Delay Certain FASB Rules Due to COVID-19

Conference of State Bank Supervisors President and CEO John W. Ryan issued a statement today on a letter from FDIC Chair Jelena McWilliams to the Financial Accounting Standards Board (FASB) urging a delay in transitions to and exclusions from certain accounting rules due to COVID-19:

“State regulators believe banks are well positioned and ready to work with their customers as the global COVID-19 pandemic impacts their communities. We fully support FDIC Chairman McWilliams’ request to FASB to address two significant impediments. Allowing institutions to delay their transition to the Current Expected Credit Losses (CECL) methodology will give banks more time to focus on their customers. In addition, providing clarity on the treatment of COVID-19 related loan-modifications for accounting purposes would encourage banks to help their customers in this time of need.”

The Importance of the State-Federal Model for U.S. Financial Regulation
State financial regulators have canceled the CSBS Government Relations Fly-In, planned for the week of March 23 in Washington, D.C., out of an abundance of caution due to the COVID-19 virus outbreak. The decision was not made lightly. This annual event is an important opportunity for state regulators to interact with their federal counterparts and to meet with members of Congress and their staff to discuss important legislation and policy.

But even though the March meetings will not take place, the conversations between state and federal regulators and Hill staff are still happening. That is because the fly-in is not our only interaction with Washington policymakers. Our country has a state-federal system for U.S. financial regulation. To make it work effectively, we are in touch on a regular basis about important policy issues. We call it a network of supervision.

These open exchanges strengthen the U.S. state-federal model for financial regulation. Our nation has a network of supervision, and we each have a role. We share our ideas on the best ways to encourage innovation in financial services, leverage the strength of the state regulatory system, promote a vibrant community banking system and support our efforts to harmonize nonbank regulation. As the financial services industry rapidly evolves in the era of fast changing technology, it is especially important to state regulators that consumers continue to have broad, safe and fair access to credit and other services.

State and federal regulators talk throughout the year in a number of capacities. Regular interactions include meetings of the Financial Stability Oversight Council and the Federal Financial Institutions Examination Council, both of which have state regulator representation. State and federal financial regulators share perspectives on emerging
risks and supervision strategies in the spring at the annual CSBS State-Federal Supervisory Forum, and CSBS partners with the Federal Reserve and FDIC for an annual community banking conference. Recently, the FDIC has formed an advisory committee of state regulators to further formalize mechanisms for coordination.

We also have frequent interaction with Hill staff to share our top policy issues, and we meet with policy makers whenever there are important topics to discuss. In November, for example, we partnered with the American Association of Residential Mortgage Regulators to hold a national mortgage summit. Members of Congress, federal agency leadership, industry leaders, consumer advocates, state regulators and other policy stakeholders discussed the current state of the nonbank mortgage industry and possibilities for supervisory enhancements, including identifying integrity issues with industry data vital to effective supervision.

We interact outside of these scheduled meetings as well. We welcome our conversations as opportunities to explain our top priorities and listen to what our federal counterparts are thinking. Top issues for us currently include:

- **Encouraging the Senate to pass H.R. 241, the Bank Service Company Examination Coordination Act, which would amend the Bank Service Company Act to facilitate coordinated state-federal supervision of third-party providers.** While the current law does not bar state regulators from participating in exams with federal regulators, its failure to include them has been interpreted as a barrier to information sharing and regulatory coordination, even when those third parties provide core services to state-chartered banks. The House unanimously passed the legislation in September.

- **Strengthening the Bank Secrecy Act/Anti-Money Laundering reform proposals to ensure that state regulators are properly incorporated.** We want to make sure that state regulators are included in legislation to ensure that state regulators are properly incorporated.
Filling at least one of the two open slots on the FDIC Board with a director who has state bank supervisory experience, as required by federal law. It is important for someone with this experience be on the FDIC Board. It is important. In addition to being federal law, a director with state bank supervisory experience expands the FDIC board’s knowledge base to include a practitioner with direct experience of the approximately 4,400 state-chartered banks that make up 79 percent of the nation’s banking system. That is important, as the FDIC coordinates with the states to examine most of these banks.

While we are disappointed that we cannot meet for the March fly-in, we know that our network of financial supervision is strong and healthy. And we know that state financial commissioners are where they need to be – in their states, serving their citizens while leveraging the network of supervision.

We hope that this outbreak ceases soon for everybody’s benefit. In the meantime, we look forward to continuing our conversations – by phone and by video conferencing, for now.

SBA Should Consult With CSBS Before Acting on Nonbank Lending

Late last week CSBS sent a comment letter to the U.S. Small Business Administration (SBA) recommending that the agency consult with state regulators before implementing proposed rules that would update SBA loan program rules for nonbank institutions.

The proposed rule, SBA Supervised Lenders Application Process published on January 13, would revise current regulations applying to non-federally regulated lenders that want to participate in the SBA’s loan program. The proposed rule would limit the lending area
to the state in which the lender’s “primary state regulator” is located as well as establish minimum capital requirements and an application and review process for these lenders.

However, as CSBS states in the letter, the SBA’s proposed rule does not fully consider the range of non-depositories and how states supervise them.

State financial supervisors regulate nearly 80% of the nation’s banks and are the primary regulator of nonbank financial service companies involved in mortgage lending, money services businesses, consumer finance, debt collectors, and commercial lenders. The supervision of these two industries is different in some ways.

Unlike depositories, there is no primary single state regulator of a nonbank financial institution. Each nonbank company is supervised, and in many cases licensed, by the state in which it operates. Each state can have different requirements, which leads to states collaborating with each other.

Ultimately, states supervision is activities-based for nonbanks – a concept rooted in the federalism principle that consumer protection is traditionally a matter of local concern.

The SBA’s misunderstanding of how the state supervisory system operates underscores the need for the SBA to consult with CSBS before moving forward with the proposed rules, the letter said.

Simply Stated #20: What Happened in the Repo Market?

Guest: CSBS Senior Economist Tom Siems
Interviewer: Matt Longacre
A lot is going on right now. As companies go remote, businesses shut down, and we all work on social distancing during the COVID-19 Pandemic, we here at Simply Stated have also gone remote.

In the coming weeks, we are completely retooling our programming to focus on the Coronavirus pandemic, steps regulators are taking to strengthen and protect the financial system, and advice for bankers and consumers alike during this time.

One big thing you are hearing about in the news right now is all the steps the Federal Reserve is taking to stave off the economic impact of the pandemic. The Fed has cut interest rates to near zero, is re-starting quantitative easing like it did in the 2008 Financial Crisis, and it’s actively trading in something commonly referred to as the “repo market.”

But this isn’t the first time in the last year that the Fed has been working in the Repo Market. Last fall, another far-less-noticed crisis occurred in that market that led the Federal Reserve to intervene.

So, just a few weeks ago, I talked with an economist who could better explain to me what the repo market is, why the Federal Reserve sometimes participates in the repo market, and what exactly happened last fall.

Even though this recording is just 3 weeks old, some of the information is going to feel dated due to recent developments. But the story and lessons in it are even more relevant today than they were at recording. So, we decided to provide it to you anyway.

Please keep up with us. I’m Matt Longacre, and this is Simply Stated.