"The flags of freedom fly over all Europe."

– Harry S. Truman, who announced the surrender of German forces on this day in 1945

In this Issue...

- CSBS Asks OCC to Withdraw Licensing Amendment Proposal
- How State Regulators Are Addressing the Pandemic Economy
- The Economy in Quicksand: When Will We Escape This Quagmire?
- May Economic Insights Webinar
- 2020 CSBS Community Bank National Survey Opens
- CSBS COVID-19 Resources

CSBS Asks OCC to Withdraw Licensing Amendment Proposal

The OCC should withdraw its complex proposed rule to amend its licensing rules for national banks until after the global pandemic has abated, CSBS said in a comment letter Monday.

Two months is simply not enough time, especially during a period of widespread economic turmoil, to adequately review the 60,000 word rule, which contains 2,000
amendments, CSBS said.

In addition, the OCC made an unusual step to mark the start of the 60-day comment period for the rule from the date the proposal was posted on the OCC website rather than when it was published in the *Federal Register*, giving the public even less time to comment.

---

**How State Regulators Are Addressing the Pandemic Economy**

*By Bret Afdahl*

*Chairman, Conference of State Bank Supervisors*

*Director, South Dakota Division of Banking*

Identifying scams that consumers must avoid. Urging the Federal Reserve to shore up a critical link in the mortgage finance system. Making sure that thousands of state-chartered banks can quickly channel federal financial relief to small businesses. And more.

While attention during the pandemic has been rightly focused on policy responses from the federal government, a lot of everyday life is managed at the state level. For instance, state financial regulators charter roughly four of every five banks in the United States. We also license and supervise most nonbank financial institutions such as mortgage companies and money transmitters.

In some areas, we share supervisory responsibilities with our federal counterparts. In other areas, we are on point. We often refer to this construct as networked supervision.

Thus, during the crisis, think of state activities as the essential supplement to federal
action that ensures all consumers and businesses are supported by the financial services industry, no matter the regulator.

Indeed, in recent months state regulators have been actively engaged in all aspects of our public mandate. We are responsible for ensuring the safety and soundness of our financial system. We must protect consumers. In addition, we are tasked with supporting local communities and their economic health.

Nowhere is our nation under greater financial strain than at the local level caused by the sudden, massive shutdown in many aspects of our economy. So, let me provide a sampling of the work that state regulators are doing to mitigate the negative financial impacts created by the pandemic.

Protecting Consumers

To help the 30 million (and counting) consumers who have lost their jobs during the past several weeks, nearly every state has posted information on its website on how consumers can identify and then avoid scam artists who prey on the uninformed. From the Pacific West to middle America to the East Coast, state regulators have worked with their governors to raise public awareness of the help available to them and issue fraud notices to guard against various scams.

Additional actions have been taken by a number of states, such as granting loan forbearance, suspending foreclosures, and delaying evictions on mortgages supported by financial institutions chartered or licensed by the states. Some states, such as Colorado, took action before Congress could approve relief legislation at the federal level.
Roughly a dozen states, from California and Washington State to New Jersey and Massachusetts, have reached agreements with servicers of privately funded student loans (i.e., non-federal) to agree to forbearance terms, providing significant relief to millions of student loan borrowers.

Many states, including Connecticut and Illinois, have urged their financial institutions to disallow any garnishment of federal relief checks to consumers. The District of Columbia has gone even farther by banning garnishment, asset seizures or new lawsuits related to any delinquent debt until 60 days after the city’s emergency declaration has been lifted. New York has eliminated fees for ATM withdrawals, bank overdrafts and credit card late fees for consumers experiencing financial hardship due to the pandemic.

In this crisis, the priority is clear: help the consumer.

**Supporting Local Economies**

State regulators also have taken actions to support their local economies and communities.

We are ensuring the ongoing functioning of the mortgage origination market by providing business continuity guidance to industry...keeping open and functioning the Nationwide Multistate Licensing System – our call center is operating at full capacity -- temporarily suspending certain on-site licensing requirements due to social-distancing orders...and adjusting testing and training schedules so mortgage originators can continue to conduct business.

South Carolina and many other states also have changed location-based rules to allow originators to conduct business from home, in an effort to support mortgage refinancing transactions that save homeowners money.

At the same time, demands on depository institutions have been especially great. For instance, in Mississippi the federal portal for small-business relief opened on the same
day that other customers typically deposit their monthly Social Security checks. The combination resulted in a long line of cars at the drive-through and bank staff working in parking lots to assist customers.

All state regulators are monitoring and, where appropriate, supporting the community banks we supervise to work with small-business customers and gain access to essential federal relief. To help process and speed these loans, we have been collecting feedback from banks and raising key concerns with policymakers in Washington, covering everything from program eligibility to the impact on bank liquidity of lending so much money at once.

At the outset, community banks across the nation were among the quickest to get federal loan applications approved and transmitted to local small businesses. Now, several weeks later, the Small Business Administration reports that about half of its federal relief has been channeled through community banks.

Some states have begun thinking ahead to the next stage. In New Hampshire and Tennessee, for instance, the state regulator is involved in governor-led working groups planning how to safely reopen their economies.

Supporting local economies is a mandate that sets state regulators apart from other regulators in the financial system, and its importance comes through during a crisis like this pandemic.

*Ensuring Safety and Soundness*
Lastly, state regulators are providing guidance to financial institutions so they can continue to operate amid stay-at-home orders. The lobbies in many banks might be closed, but transactions can still be made at the drive-through or remotely under the state regulator’s supervision. Further, as consumers conduct more financial transactions online, Texas and other states have urged banks to focus on their cybersecurity protocols.

Just about all states have moved their examination process offsite and suspended onsite visits. Some states like Georgia are aligning their schedule changes with the FDIC’s to minimize the time commitment from banks. Other states have paused all exams to allow industry to focus on their customers.

In a fortunate coincidence of timing, in mid-March CSBS had just launched a new technology platform, the State Examination System, to support online collection and sharing of exam information for nonbanks. Today, roughly a dozen states -- with another dozen in the queue -- are taking advantage of this new tool to conduct online examinations from remote locations. Indeed, this crisis will surely shape how the examination process evolves.

State regulators touch on many aspects of the mortgage finance value chain. Here, we have flagged one weakness that might threaten how the system functions. CSBS has called on the Federal Reserve to create a credit facility for nonbank mortgage servicers who face an economic challenge: with millions of homeowners stopping their mortgage payments, servicers are substituting their own capital to keep making these same payments to securities investors; at some point, that capital might run out.

The regulator of Fannie Mae and Freddie Mac has taken partial action here. But a broader federal response is in order to minimize any disruption consumers might experience in obtaining forbearance or other relief.

Also at the national level, state and federal financial regulators have partnered in providing joint guidance in areas such as bank operations, mortgage forbearance and
foreclosures, appraisals and troubled debt restructuring. To err on the side of mitigating the downside risks of the crisis, these regulators have given banks, mortgage servicers, and other financial institutions a certain amount of supervisory flexibility and extensions of quarterly reports.

Keeping the financial system open and functioning is vital to helping consumers and small businesses during the crisis.

**Ready to Do More**

Maintaining a safe and sound financial system to support the nation during this crisis requires efforts from many different policymakers, regulators and business leaders.

Within the financial system, state regulators are pursuing a two-track approach of collaborating with federal regulators on matters where Washington is involved, and then collaborating within the state system and with their own state leadership on matters beyond Washington’s reach.

I realize that it might be early in seeing the pandemic’s full effect on the economy and consumer finance, and that additional regulatory responses will be necessary. On behalf of all state regulators, I can confidently say: we stand ready to act.

---

**The Economy in Quicksand: When Will We Escape This Quagmire?**

*By Thomas F. Siems, Ph.D., CSBS Senior Economist and Director of Research*

With the U.S. Bureau of Economic Analysis’s announcement that real GDP dropped 4.8% in the first quarter of 2020 and with the U.S. economy mostly in lockdown throughout the month of April to contain the spread of COVID-19, all indicators are
pointing to a severe economic contraction that likely began in March 2020. Over the last six weeks, more than 30 million Americans have filed for unemployment insurance benefits?that is roughly the population of Texas?and another 3 million could be added later this week. Consumer and business confidence have plummeted to levels not seen since the depths of the Great Recession in 2008-09. And government policymakers have gone to great lengths in an attempt to blunt the impact to affected workers and businesses. Call this recession the Great Lockdown.

Although the death toll from COVID-19 continues to rise, there are signs that April 2020 will end up being the worst month of the economic crisis as some states and businesses begin to reopen. The questions now are “How bad will this recession be?” and “When will the recovery begin?” While answering such questions are always fraught with great uncertainty, Moody’s Analytics has developed a few scenarios that can help to see some possible paths out of the current quagmire.

The nearby charts show that their scenarios are basically built according to assumptions about when the economy reopens for business: May (dark blue), June (light blue), July (green) or August (orange). One chart shows the percentage change in year-over year GDP growth, and another shows the U.S. unemployment rate for each scenario. Note that the unemployment rate is shown on a quarterly basis as the average of the three months in the quarter. It is likely that the April unemployment rate will top 16% when the official numbers are released later this week, a level never seen since the survey began in 1948.
For all scenarios, the recovery begins in the third quarter of 2020, but each recovery has a slight pause, or slowdown, as businesses and consumers learn to adjust to a “new normal” based on social distancing practices, increased caution, and the likelihood that businesses based on large gatherings of people (sports and entertainment venues, industry conferences, travel, etc.) will be the last to reopen. For the chart showing GDP growth, the W-shaped recovery (May Reopening) is increasingly stretched into more of a U-shaped pattern (August Reopening) the longer it takes to get the economy back to business. For the unemployment rate forecasts, the biggest spike under each scenario is expected to be in the second quarter 2020.
How do these scenario predictions compare to previous recessions? One way to compare economic downturns is to examine the total GDP decline from the peak (or start) of the recession to the trough (or end) when the economic recovery begins. The nearby chart shows the fourteen recessions over the past 90 years, as well as the four Moody’s Analytics scenarios for how the current recession might proceed. The “May Reopen” scenario has a peak-to-trough decline of about 10.5%, whereas the “August Reopen” scenario declines by roughly 14%. By way of comparison, the Great Recession of 2008-09 had a peak-to-trough decline of about 4%, the Great Depression declined more than 25%, and the 1945 recession dropped by nearly 12.5%.
While not shown here, the length of the Great Recession was 18 months, the Great Depression lasted 43 months, and the 1945 recession was 6 months. The current recession is likely to be short but very deep; most like the 1945 recession when soldiers returned home from war while businesses took a few months to ramp up and hire needed workers. Of course, the big difference today is that the enemy (COVID-19) is still out there.
Consumer and business resumption of economic activity on the level of what we experienced just a few months ago is not likely until this invisible enemy is defeated and business-people and consumers are again confident to rejoin large gatherings and engage freely with each other. Indeed, regaining confidence is key. There is still a lot of uncertainty out there: about the virus, about how/when businesses might reopen, about consumer behavior in a mask-dominated economy, about the effectiveness of government stimulus programs and about what kind of unexpected and unintended consequences could result from recent “fixes” to the economy. Together, we will find a way out of this quicksand economy, but the path out remains murky.

May Economic Insights Webinar

CSBS Senior Economist Tom Siems walks state regulators through the current state of the U.S. economy, possible projections for future quarters, and answers questions about differences in regional and state trends.

Download the full presentation [PDF]

2020 CSBS Community Bank National Survey Opens

Gleaning Insights on Future of Community Banking Amidst a Global Pandemic

By Alisha Sears, CSBS Senior Policy Analyst

Community banks are serving an extraordinary role during these unprecedented times.
Now – perhaps more than ever – it is vital to hear from our nation’s community bankers.

That is why we have decided to move forward with the release of the CSBS National Survey of Community Banks. We hope in its seventh year the results from this important survey will enable community banks to inform policymakers, regulators, researchers and their peers about the opportunities and challenges facing the community banking industry.

Last year, 35% of survey respondents said the costs of funds was the factor most likely to influence future profitability – only 4% cited regulation. This year, those numbers may drastically change due to these uncertain times.

To gain a better understanding of how bankers are responding to the crisis, this year, the survey also includes several questions tailored to the COVID-19 pandemic and asks questions about the future of our community banks and the communities they serve.

We hope community bankers will share their voices. We look forward to gleaning valuable insights about the future of community banking and further understanding the immense impact of community banks during this crisis.

Here is a link to the survey. Your response should take about 20 minutes, but the results will have a lasting impact.

Back to Top

CSBS COVID-19 Resources

As fallout from the COVID-19 pandemic continues across the country, state regulators are providing resources to consumers, financial institutions and fellow regulators to help support the financial system and maintain public health.

To keep up with the latest news and data on COVID-19, visit the CSBS COVID-19 information page. If you are a consumer, check out the CSBS COVID-19 Consumer Resources page.
for information on consumer relief programs and tips on how to avoid coronavirus-related scams.