CSBS

The Examiner

Jun 18, 2020

"Let us pray for wise and understanding hearts. Let us lay aside irrelevant differences and make our nation whole."

— President Lyndon B. Johnson, upon signing the Civil Rights Act on this day in 1964

In this Issue...

What is a Crypto Payment? What is a Crypto Exchange?

In this soundbite, CSBS Senior Director and Non-Depository Counsel Matt Lambert walks us through how transactions involving cryptocurrencies are regulated, which activities are licensed at the state level, what "on-ramps and off-ramps" are and more.

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CSBS Chair-Elect Melanie Hall Named to FFIEC

Committee

The FFIEC announced the selection of Melanie Hall to the State Liaison Committee. Hall's term runs from May 1, 2020, through April 30, 2022.

Hall is the commissioner of the Montana Division of Banking and Financial Institutions. As commissioner, Hall provides leadership to the Division which is responsible for the supervision of all state-chartered banks and state-chartered credit unions, as well as licensing and examination of over 500 non-bank financial entities.

Hall is the current chair-elect of the Board of Directors of CSBS and the former chair of the CSBS Education Foundation Board of Trustees. Hall serves as the chair of the State Supervisory Committee which is the functional committee responsible for coordination of multistate examinations with the CFPB and is on the FDIC Advisory Committee of State Regulators. She also serves on the Board of the Montana Council on Economic Education.

The State Liaison Committee is comprised of five members, and also includes:

- SLC Chairman Greg Gonzales, commissioner, Tennessee Department of Financial Institutions, designated by the CSBS
- John Ducrest, commissioner, Louisiana Office of Financial Institutions, designated by the American Council of State Savings Supervisors (ACSSS)
- Tom Fite, director, Indiana Department of Financial Institutions, selected by the Council
- Stephen Pleger, senior deputy commissioner, Georgia Department of Banking and Finance, designated by the National Association of State Credit Union Supervisors

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Mississippi State University Team Wins CSBS Community Bank Competition

CSBS named Mississippi State University students as winners of the 2020 Community Bank Case Study Competition.

The team advanced through three rounds of judging by banking professionals and overcame a pool of 37 student teams representing 33 colleges and universities.

The annual competition is open to undergraduate students in all fields of study as an opportunity to gain valuable first-hand knowledge of the banking industry. This year's case studies examined the impact of the Bank Secrecy Act and Anti-Money Laundering (BSA-AML) requirements on community banks. Student teams partnered with a local bank to examine compliance challenges, associated time and costs and identify potential regulatory reforms.

"These students have done an outstanding job in a trying year," said CSBS Senior Executive Vice President Michael L. Stevens. "Their work is exceptional and is a terrific contribution to the policy discussions on the impact of BSA-AML on community banks."

The winning Mississippi State University team members are Juan Benavides, Liam Benson, Byron McClendon, Jake Mlsna and Kirk Wright. Matthew Whitledge served as the faculty advisor, and Citizens National Bank, based in Meridian, Miss., was the team's community bank partner.

As first-place winners, each student will receive a $1,000 scholarship. The team will be invited to present at the CSBS-Federal Reserve Community Banking-FDIC sponsored Community Banking in the 21st Century Research and Policy Conference and published in the CSBS Journal of Community Bank Case Studies.

A team from James Madison University placed second. The students are Manushree Bhatt, Homer Eliades, Henry Haas, Daniel Horowitz and Alexis Kakar. Carl Larsson served as faculty advisors, and F&M Bank, based in Timberville, Va., was the bank partner.

A team from Mansfield University of Pennsylvania placed third. Team members are Seungho Lee, Anthony Mastroianni, Abi Welch and Sarah Hart. Atika Benaddi served as faculty advisor and Xiaoxuan Ji and Xia Zhou served as co-advisors. Citizens & Northern Bank, based in Wellsboro, Pa., was the bank partner.

Students on the second-place team each will receive a $500 CSBS scholarship, and those on the third-place team each will receive a $250 CSBS scholarship. Both teams also will have their works published in the Journal of Community Bank Case Studies.

CSBS announced the winners online at 12 p.m., Thursday, June 18. For more information on the 2020 Community Bank Case Study Competition, visit www.csbs.org/bankcasestudy.

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Mortgage Forbearance Requests are Manageable…For Now

By Kevin Byers, CSBS Senior Director of Nonbank Supervision and Enforcement, and Thomas F. Siems, Ph.D., CSBS Senior Economist and Director of Research

Following the COVID-19 pandemic and subsequent economic lockdown, one question on the minds of bankers, mortgage service providers, investors, regulators and policymakers is: Will Americans be able to continue to pay their mortgages?

Given that over the past three months, total nonfarm payroll employment has dropped by about 20 million employees and the unemployment rate has increased from 3.5% to 13.3%, this appears to be a legitimate and genuine concern. While it is too early to gauge the long-term impact, recent data show that mortgage forbearance requests have stabilized and are manageable…for now.

When mortgage borrowers cannot make their required payments, lenders may eventually opt to foreclose on the loan. But to avoid this costly and oftentimes messy process and help borrowers get back on their feet, a loss mitigation option for hardships deemed temporary in nature is a forbearance plan: an agreement that allows a borrower to pay less than the full contractual monthly payment due on their mortgage or to suspend monthly payments entirely during the forbearance period.

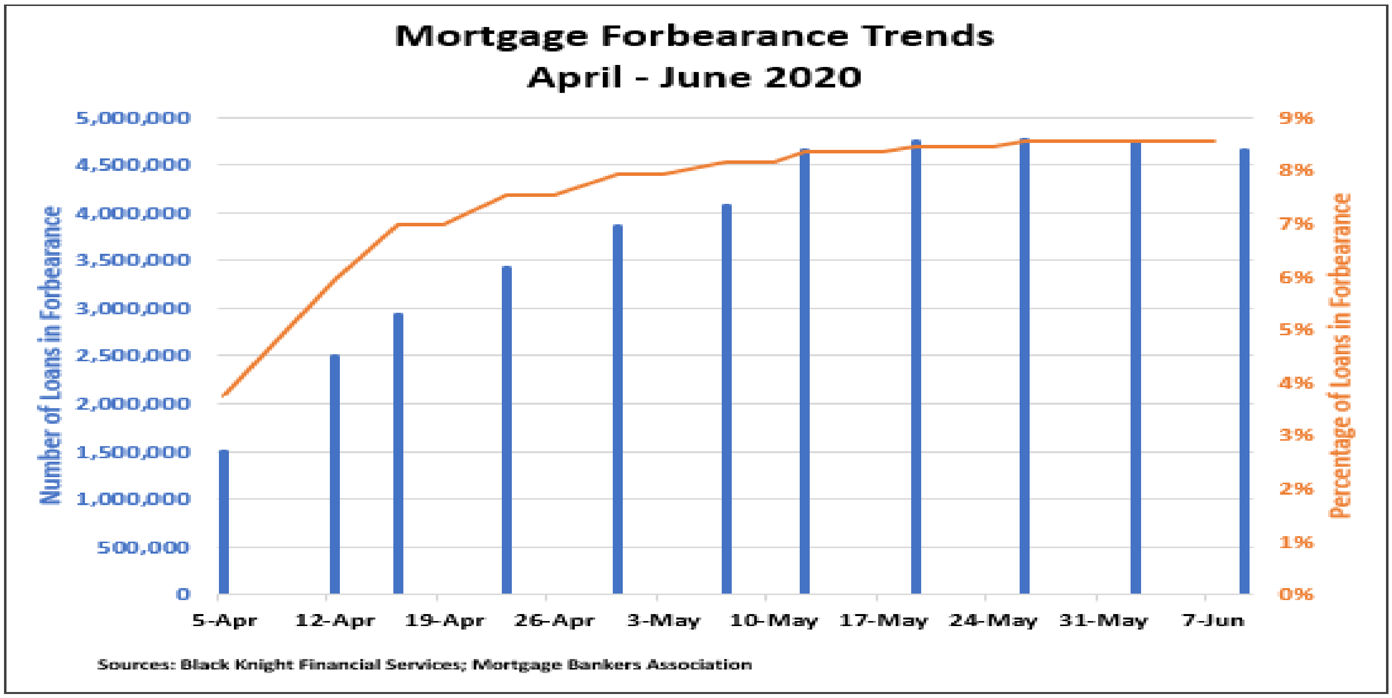
Because of potential COVID-19 related hardships, in late March 2020, Congress passed and President Trump signed the CARES Act into law. This Act provides for streamlined mortgage forbearance that allows borrowers in federally backed mortgages up to 12 months of forbearance upon assertion of a COVID-related hardship regardless of delinquency. Servicers of loans in private portfolios and private-label securities followed suit with similar programs, though non-CARES Act forbearance programs are much less uniform and often shorter in length.

According to survey data from Black Knight Financial Services, of the approximately 4.7 million borrowers on a forbearance plan, 3.4 million are in a loan that is “federally backed,” or owned, insured, or guaranteed by a government-sponsored entity (GSE) or unit of government and thus covered by the CARES Act. Total loans in forbearance represent approximately 9% of all mortgage loans and just over $1 trillion of unpaid principal balance within the roughly $11 trillion mortgage market.

As noted, the CARES Act allows borrowers in covered mortgages to request forbearance regardless of delinquency and upon the assertion of a COVID-related hardship. Data from the Mortgage Bankers Association (MBA) indicates that the vast majority of loans now in forbearance were not prior to the onset of the COVID-19 crisis. (In fact, the MBA’s weekly survey notes that only 0.25% of all loans were in forbearance as of March 2, 2020).

Mortgage servicers have advancing obligations in varying degrees to pay principal and interest to investors in agency mortgage-backed securities, as well as for any real estate taxes or hazard and flood insurance premiums that cannot be covered by escrow balances. As a result and given the length of CARES Act-required forbearance plans, cashflows and liquidity needed to fund these obligations may strain nonbank servicers. Earlier this month, Black Knight Financial Services estimated that the advancing requirement for all servicers of federally backed loans will total $5 billion monthly plus another $2.8 billion for non-federally backed loans (those in portfolios or private-label securities).

Despite these daunting numbers, there are mitigating factors that appear to have helped keep these challenges manageable, at least for the time being. As shown in the nearby chart, the number and percentage of mortgages in forbearance increased significantly in late March and early April as the first wave of layoffs commenced following the unprecedented lockdown of many segments of the economy. Since early May, however, growth in new forbearance plans has leveled off considerably. And by June, the number and percent of homeowners in forbearance plans appears, at least for now, to have stopped growing and actually begun to decrease across all categories of loans.



Two additional factors have helped mortgage servicers manage the potential liquidity strain:

1) Booming refinancing volumes and wider origination margins have boosted mortgage company cashflows even through the onset of the COVID-19 crisis. High levels of prepayments have also boosted excess custodial funds temporarily available to mortgage servicers to fund principal and interest advancing obligations for GSE and Ginnie Mae loans.

(Prepayments from refinancing and home sales result in custodial fund balances that do not have to be remitted to investors until the subsequent month. The GSEs and Ginnie Mae allow servicers to use these float balances to temporarily fund shortfalls of principal and interest from month to month, which relieves liquidity pressure on servicers.)

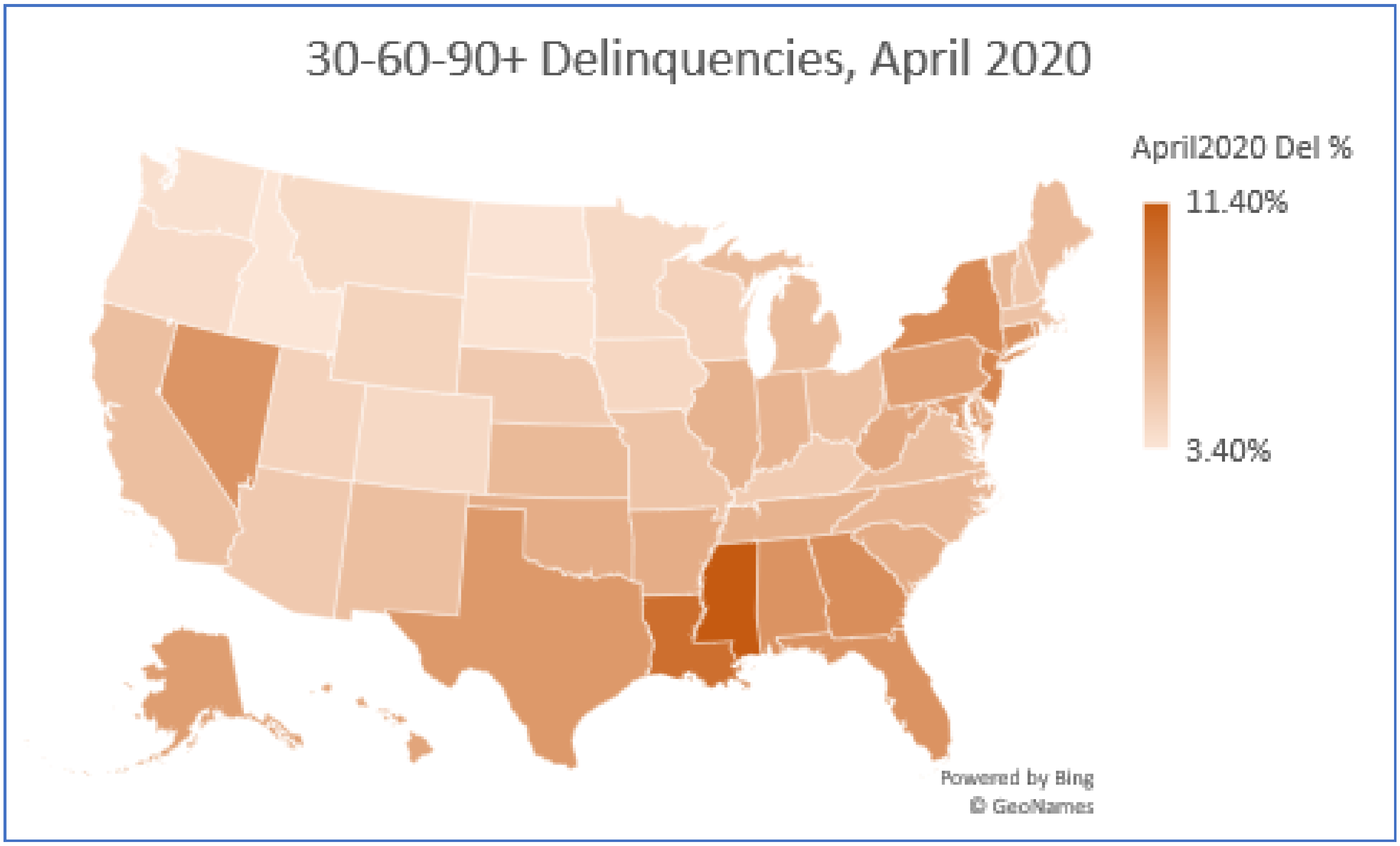
2) Borrowers in forbearance have continued to make full or partial payments: Black

Knight Financial Services reports that for borrowers on forbearance plans, 46% made their April payment, 22% made their May payment, and roughly 10% have made their June payment.

While these numbers and percentages of borrowers in forbearance are nowhere near those originally projected at the onset of the COVID-19 crisis, these borrowers will still present potential challenges to servicer operational capacity for loss mitigation when forbearance terms end. Managing the liquidity requirements of advances could also prove challenging in the longer run as tax and insurance payments become due, though many factors will influence the ultimate cost and ability of mortgage servicers to fund these obligations.

While borrowers in forbearance are not being reported to credit bureaus as delinquent, for investor reporting they are counted in a delinquency bucket (30 days past due, 60 days past due, etc.). As of the end of April, data from Black Knight Financial Services show where delinquencies across the industry are hitting the hardest and where mortgage industry participants and state regulators can expect greater challenges due to the higher relative levels of consumer distress. While every state has seen an increase in delinquencies from January to April 2020?the national average of 30-60-90+ delinquencies increased from 3.2% to 6.4%?some states are clearly being hit harder as seen in the maps below.

Southern states generally had higher than average delinquency levels both before and after the onset of the COVID-19 pandemic, but other states?notably Nevada, New Jersey, New York, Florida, Hawaii, Alaska, Connecticut, Georgia, California, Louisiana and Maryland?had disproportionate increases in their share of delinquent loans relative to the rest of the country (defined as percentage point increase 50% or more higher than the median increase for the country).


30-60-90+ Delinquencies, April 2020
April2020 Del %
11.40%
3.40%
Powered by Bing
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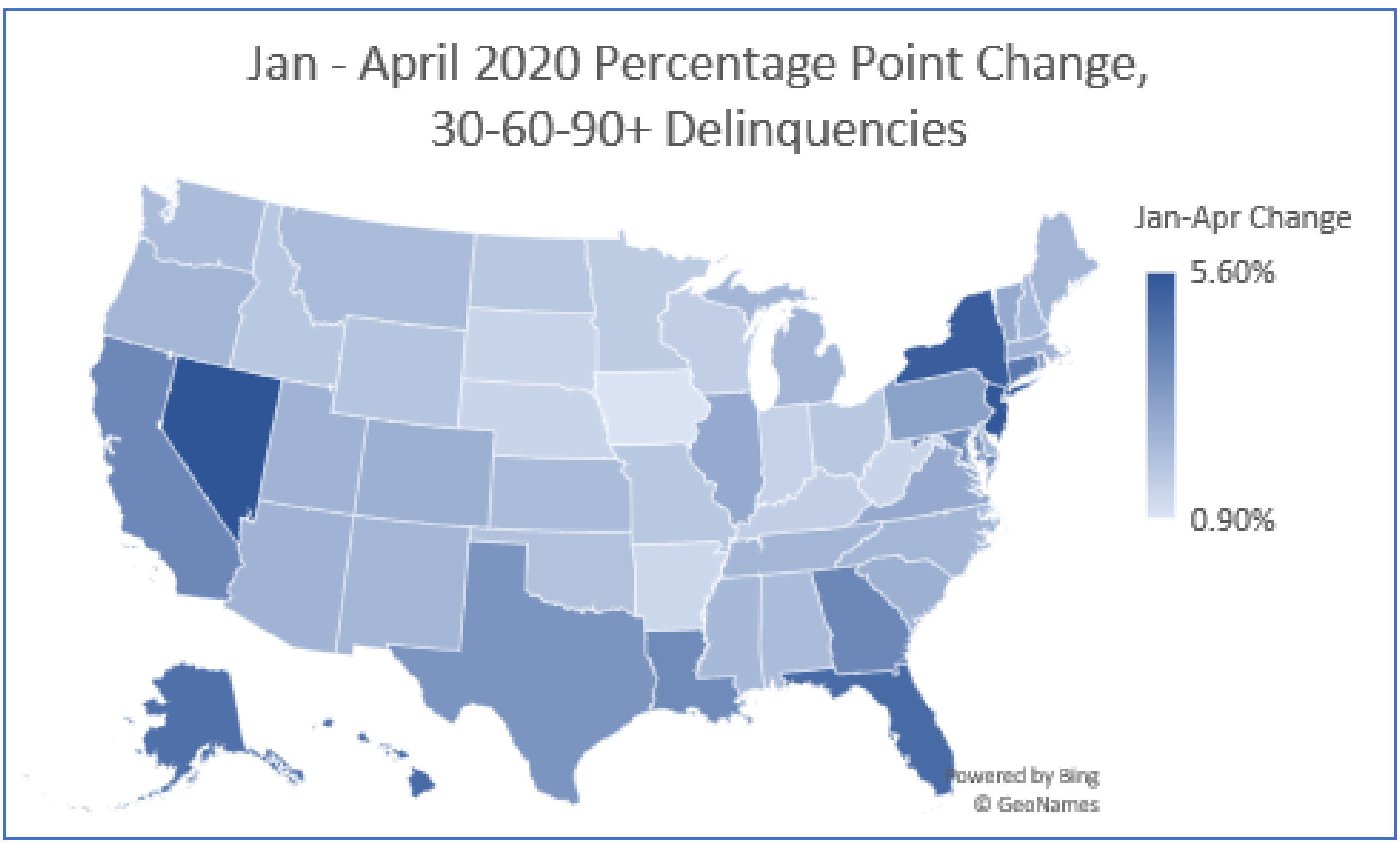
Jan - April 2020 Percentage Point Change,
30-60-90+ Delinquencies
Jan-Apr Change
5.60%
0.90%
Powered by Bing
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Source: Black Knight Mortgage Monitor, January 2020 and April 2020
Accessed at https://www.blackknightinc.com/data-reports/

While borrowers and lenders are still in the early innings of the COVID-19-related impact on continuing payments, the geography of delinquency and forbearance will greatly impact the mortgage industry as well as the economic landscape of communities, states and regions.

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