"Sweat equity is the most valuable equity there is."

Entrepreneur Mark Cuban was born on this day in 1958

In this Issue...

- John Ryan Statement on NYDFS vs. OCC
- What Economic Sectors Concern Community Bankers the Most?
- Ideas Matter: Are We All Keynesians Now?
- Simply Stated #18 - Revolutionizing the Supervision of Fintechs & Nonbanks

John Ryan Statement on NYDFS vs. OCC

CSBS President and CEO John W. Ryan statement on the CSBS brief as amicus curiae in Lacewell v OCC, NYDFS’ suit challenging the legality of the OCC’s proposed fintech charter:

“The OCC does not have the statutory authority to define banking – that power resides with Congress – which is why state bank regulators, through CSBS, filed an amicus brief yesterday supporting the New York State Department of Financial Services (DFS).

Last October, the Southern District of New York agreed with DFS, ruling that the OCC’s special purpose national bank charter for fintech companies was invalid. The court
determined the OCC lacks authority to issue charters to fintech companies that do not receive deposits. The court found that the “business of banking” unambiguously requires taking deposits. And the court explicitly said that its decision applies nationwide.

State regulators are ready to prevent any preemption of state laws that protect consumers and ensure a safe and sound financial system.”
Not surprisingly, community bankers are most concerned about future economic activity in the “high-touch” service industries like tourism (1.51) and restaurants (1.53). More than 60% of respondents rated the tourism and restaurant industry outlooks as “negative.” Indeed, according to the U.S. Bureau of Labor Statistics (BLS), job losses since the beginning of the COVID-19 pandemic and subsequent economic lockdown in March have been most severe in these industries. The June 2020 BLS report conveys that total payroll employment is down about 8.5% on a year-over-year basis. But in the leisure and hospitality industry, jobs are 27% fewer than a year earlier. For food services and drinking places, jobs are off 36%. And given the current state of uncertainty regarding COVID-19 and its potential impact on reopening and operating businesses in these
industries, it may be a long time before these jobs fully recovery.

That is, consumers may need to feel more comfortable before entering establishments where large crowds typically gather, like restaurants and bars, casinos, sports venues, and the like. In fact, for many consumers, “getting back out there” will require a vaccine or treatment that meets their individual definition for herd immunity. And for the economy to bounce back in a meaningful way, many consumers and businesses will need to learn new ways to cope with the risk of the virus in our midst, which will come with a better understanding of who the virus is targeting and why.

The three economic sectors with the most optimistic outlooks are health care (2.87), professional services (2.87) and construction (2.76). However, it is worth noting that the average rating for each of these sectors is below 3.0, implying that the outlook in each of these sectors also lean negative. So overall, as bankers weigh the heavy economic implications of the COVID-19 pandemic on business lockdowns and strategies to reopen, they assess all 10 economic sectors covered in our survey to have a negative outlook.

When examining the CBSI survey responses across CSBS Districts, community bankers’ concerns are remarkably similar, as shown in the nearby chart. The economic outlook for the health care and professional services sectors ranks in the top three for all five CSBS Districts. The outlook for the construction industry, while ranking third nationally, ranks first in the West and fourth in the Northeast and has the largest dispersion of average District response ratings, ranging from 2.59 to 3.21. The outlook for the oil and gas sector also has a fairly wide range of responses, from 1.58 in the South to 2.13 in the Midwest. For the tourism, restaurant, and retail sectors, all five CSBS Districts rated the outlook between negative and slightly negative.
As relationship lenders, community bankers care deeply about consumers and small businesses in their local communities. In the 2018 National Community Bank Survey that was released during the 2018 Community Banking in the 21st Century Research and Policy Conference co-sponsored by CSBS, the Federal Reserve System and the FDIC, some questions were included for community bankers to rate factors they consider when making a small business loan. As shown in the chart below, community bankers stress the importance of relationships and desire to work closely with small businesses to provide sound financial advice that will increase the value of each enterprise.
While relationship lending is foundational and fundamental to the business of community banking, through the federal government’s Paycheck Protection Program created as part of the CARES Act in late March 2020, financial institutions across the nation have shown their value to America. Over the past four months, lenders have distributed more than $500 billion to almost 5 million businesses. Of the nearly 5,500 lenders, almost 98% have been institutions with less than $10 billion in assets, mostly community banks in smaller
communities.

Community banks are the lifeblood for main street businesses across this great land. And while they are concerned about the economic outlook for a myriad of industries, particularly those involving close human-to-human contact, their close relationships with small businesses will help their communities navigate out of this crisis.

Ideas Matter: Are We All Keynesians Now?

By CSBS Senior Economist and Director of Research Thomas F. Siems and Senior Director of Legislative Policy Nathan Ross

In 1965, TIME Magazine printed a story entitled “We Are All Keynesians Now” and attributed this quote to Milton Friedman. Today, Friedman—the 1976 Nobel-prize-winning economist who died in 2006—is considered one of the intellectual giants behind monetarism and neoclassical macroeconomic theory, having firmly rejected Keynesianism and its advocacy for active government policy intervention.

But in just four months, with around $3 trillion of federal government stimulus and an additional $3 trillion added to the Federal Reserve System’s balance sheet, are we all Keynesians now? Moreover, a recent Gallup poll suggested that socialism is as popular as capitalism among young adults. What level of federal, centralized intervention are we comfortable with in our markets? How do we ensure adequate checks on federal overreach? And what might Professor Friedman say in response?

Friday, July 31 marks the 108th anniversary of the day Milton Friedman was born. The occasion gives us an opportunity to reflect on some of his great ideas, and to celebrate his contributions in furthering the values and principles that make free economies around the world exemplars of progress and wealth creation.
One of Friedman’s most influential books, “Capitalism and Freedom,” first published in 1962, examines competitive capitalism—a free, private enterprise exchange economy—and the role that government should play in a society dedicated to freedom and open markets. Friedman asks, “How can we keep the government we create from becoming a Frankenstein that will destroy the very freedom we establish it to protect?” And, “How can we benefit from the promise of government while avoiding the threat to freedom?”

Friedman argued persuasively that “the great threat to freedom is the concentration of power.” At the same time, he recognized that “government is necessary to preserve our freedom, it is an instrument through which we can exercise our freedom.”

Recognizing this tension, Friedman advanced the idea that the scope of government must be limited. In his view, “its major function must be to protect our freedom both from the enemies outside our gates and from our fellow-citizens: to preserve law and order, to enforce private contracts, to foster competitive markets. Beyond this major function, government may enable us at times to accomplish jointly what we would find it more difficult or expensive to accomplish severally. However, any such use of government is fraught with danger.”

Federalism has proven to be the quiet, yet irreplaceable, foundation for Friedman’s economic vision, keeping the harms of unchecked government power (whether at the national or local level) at bay, while simultaneously promoting its essential benefits. Indeed, American federalism is in many ways the public analogue to Friedman’s private, competitive marketplace. Federal and state government interests compete and collaborate with each other regarding public policy, thereby creating and preserving the opportunities for private markets and market participants to freely exchange, innovate, and ensure robust due process.

Take, for example, the United States financial system and its financial markets. They are the most sophisticated and diverse in the world, owing much of their success to our
uniquely federal “dual banking system.” State and federal regulatory agencies share oversight—collaborating and competing with each other—and foster the type of free, competitive private marketplace for which Friedman so convincingly argued. A cursory glance at our financial system proves the point. The number and variety of U.S. financial intermediaries providing credit and capital to businesses and households is unmatched in the world, ranging from small community-focused lenders to large globally active financial organizations. Similarly, to access and raise capital, the depth and liquidity of our financial markets make them the primary choice for companies from all over the world.

We must continue to cultivate our nation’s cooperative and competitive federalism. Friedman warned, time and time again, that the scope of the government’s involvement in the affairs of men must be limited: “The preservation of freedom is the protective reason for limiting and decentralizing governmental power. But there is also a constructive reason. The great advances of civilization, whether in architecture or painting, in science or literature, in industry or agriculture, have never come from centralized government.” The competition between the various state governments and the federal government serves as an inherent check on over-centralization, and it is as critical as open, fair competition between private actors.

When considering the implications of replacing federalism with an alternative form of government, or the invisible hand of the marketplace with a different economic philosophy, let’s not forget the closing words in “Free to Choose,” presented as a 10-part PBS television mini-series and published as a best-selling book in 1980 with Milton’s wife Rose as coauthor: “We are as a people still free to choose which way we should go—whether to continue along the road we have been following to ever bigger government, or to call a halt and change direction.”
Professor Friedman was a champion for freedom and opportunity, for individual liberty and free markets: “By relying primarily on voluntary cooperation and private enterprise, in both economic and other activities, we can insure that the private sector is a check on the powers of the governmental sector and an effective protection of freedom of speech, of religion, and of thought.”

We must continue Friedman's legacy and keep making the case for freedom. As he once said, “Freedom is not the natural state of mankind. It is a rare and wonderful achievement. It will take an understanding of what freedom is, of where the dangers to freedom come from. It will take the courage to act on that understanding if we are not only to preserve the freedoms that we have, but to realize the full potential of a truly free society.”
Right now, in San Francisco, over 800 people have gathered for the 2020 NMLS Conference. The System, initially designed to handle all the work that goes into licensing mortgage loan originators, is now used for all sorts of nonbank financial companies.

This conference attracts everyone in the nonbank space. State regulators, federal regulators, licensees, the press... And the meeting serves as a forum to discuss what's new in licensing and compliance. It's all centered around this platform - NMLS.

That's because NMLS revolutionized how companies got licensed. It sped up the time for approval, it made it easier to get licenses in multiple states and even made completing the test you take to get a license way more straightforward.

This year, there's some big news coming out of the conference. An entirely new piece of tech - the State Examination System - seems poised to revolutionize how regulators examine - or "check in" - on these companies.

All of this is a big push for a more "networked system of supervision."

Today, I sit down with CSBS President and CEO John Ryan to talk about this concept. What does a "networked system of supervision" look like for nonbanks? What is the vision for a fully tech-enabled world of compliance? What is a day going to look like in the life of an examiner?