2021 ANNUAL REPORT

CONFERENCE OF STATE BANK SUPERVISORS

CSBS

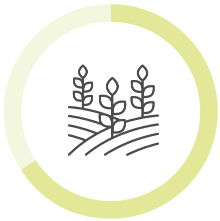
The Conference of State Bank Supervisors (CSBS) is the national organization of state banking and financial regulators that educates and informs policy makers, consumers and other stakeholders about issues affecting states' banking and financial services markets.

Representing a network of financial regulators in all 50 U.S. states and territories, CSBS provides a range of professional development and training programs and serves as a forum for collaborating and developing policies that strengthen financial regulation for the benefit of consumers and communities. CSBS also operates the Nationwide Multistate Licensing System and the State Examination System on behalf of state regulators.

CSBS supports state regulators in their mission to ensure safety and soundness; protect consumers; promote economic growth; and foster innovative, responsive supervision.

79% of all U.S. banks are chartered and supervised by state regulators—approximately 3,890 state-chartered banks with more than $8.2 trillion in combined assets.

State-chartered banks provide **1/2** of all U.S. small business lending.



And **2/3** of agriculture lending in America.

State regulators are the primary licensing authority for nonbank financial services companies (mortgage providers, money services businesses and consumer finance companies).

579,000

There are over 579,000 mortgage loan orginators in the United States—all are licensed or registered in NMLS.

63%

State-licensed mortgage companies originated $2.6 trillion in loans, accounting for 63% of mortgage originations in the United States.

$2.6 trillion

State-licensed money services businesses handled $2.6 trillion in transactions by U.S. consumers in 2020.

LETTER FROM THE PRESIDENT AND CEO

The global pandemic continues to challenge us, but it has also revealed the strength of our financial system. In the past year, state-regulated financial companies safely served millions of consumers and small businesses. From securing Paycheck Protection Program loans and first-time mortgages to transacting trillions of dollars in payments, Americans continued to conduct their financial lives with confidence.

To ensure consumers' safety and trust, the state system continues to evolve and anticipate change. In 2019, the CSBS Board envisioned a more networked system, where states could collaborate and share resources as financial transactions and companies become faster and more complex. We advanced this ambitious goal, which we call Networked Supervision, in 2021 by thinking differently and finding new ways to work together.

We reorganized our staff to eliminate silos and enable more integration between our policy goals and technology solutions. This new "One CSBS" structure is influencing everything we do, including how we communicate with you about our accomplishments. For the first time, we are combining the CSBS and SRR annual reports into one publication. I hope you enjoy this new format.

Also in 2021, the CSBS Board issued its Networked Supervision priorities to ensure that CSBS resources were sufficiently allocated to advance this important initiative. We have had considerable success in advancing these priorities, especially those related to money services and payments businesses. More importantly, the events of the past year have reinforced our vision for a unified and collaborative system that preserves state authority for the benefit of consumers and commerce.

Along with this larger vision, I am pleased to highlight our important ongoing work, which includes advocating for the role of community banks, creating new data tools for our members, preventing federal preemption and more. I am proud of the hard work of our staff to support and advance the state system.

Thank you for your confidence in our nation's dual-banking system. I am pleased to report that the state financial regulatory system is strong and poised for change.

Best regards,
John Ryan

HIGHLIGHTS 2021

The Nonprofit CFO Awards selected CSBS CFO Leila Green as a 2021 Rising Star. CSBS President and CEO John Ryan presented the award.

Advancing Networked Supervision

- Released for state adoption the Model Money Transmission Modernization Act and state regulatory prudential standards for nonbank mortgage servicers.
- Achieved our goal of conducting multi-state exams for 74 money services businesses (MSBs) under the One Company, One Exam program.
- Regularly convened the CSBS Large Bank Peer Group, creating a community of large bank examiners to explore current practices and identify streamlining opportunities.

Serving as a platform

- Created the Findings, Insights, Examiner Level Discussion, or FIELD, dashboard, based on the CSBS Risk ID survey, to provide regulators with quarterly bank-exam insight.
- Exceeded the onboarding goals for the State Examination System (SES), adding 49 agencies in just one and a half years.
- Began to develop the Enterprise Data Platform, a foundational component of a modernized Nationwide Multistate Licensing System (NMLS), that will eventually serve as a common platform for state regulators.

Empowering the state system

- 38 state agencies participated in the MSB One Company, One Exam program; and CSBS began the mortgage One Company, One Exam pilot program.
- CSBS counteracted a number of attempts to preempt state authority by challenging the Office of the Comptroller of the Currency.
- In March, 113 state regulators from 47 state agencies attended the annual CSBS Government Relations Fly-in, virtually meeting with members of Congress, federal financial agency leaders and the Federal Reserve Board of Governors to discuss issues important to the state system.

NETWORKED SUPERVISION

The state financial regulatory system is always evolving to support the dynamic and innovative U.S. economy.

The regulatory needs of today's financial services industry call for states to act and think collectively while preserving local autonomy and authority. To create this federated network, states are increasing state-to-state and state-to federal collaboration, reducing burdensome multistate differences and developing enhanced risk-detection tools.

Networked Supervision is a wide-ranging transformation. Recognizing its large scope, the CSBS Board in early 2021 approved eight priorities for advancing Networked Supervision that focus on creating scalable building blocks and on completing initiatives launched under Vision 2020. This includes the Model Money Transmission Modernization Act; the MSB One Company, One Exam pilot program; and the Multistate MSB Licensing Agreement.

In 2021, the CSBS Board approved the Model Money Transmission Modernization Act, known as the Money Transmitter Model Law, for state adoption. This model law establishes one set of regulatory requirements, creating greater clarity for business and streamlining the regulation of nationwide payments

While Networked Supervision is a new strategy, it is not a new trajectory. State regulators have collaborated for decades to leverage resources and tools to better regulate multistate financial institutions. That collaboration has steadily increased with changes in the financial services space and advancements in technology. Some milestones on the path to greater state collaboration include:

- 1997: Nationwide Cooperative Agreement
- 2008: The Nationwide Multistate Licensing System
- 2017: Vision 2020
- 2021: Networked Supervision

John Ryan discusses Networked Supervision with FinRegLab CEO Melissa Koide at Money 2020.

companies. The law will also inform the MSB experience in the modernized NMLS initiative. Several states have begun the process of state-level adoption.

States advanced the MSB One Company, One Exam pilot to a program by performing single exams for 74 nationwide payments companies, reducing duplicative exams by 78%. States have also reduced the time it takes to license a new MSB by 25% through the Multistate MSB Licensing Agreement (MMLA). Currently, 29 states have adopted the MMLA, and 10 more have committed to join the agreement in 2022 and 2023. By reducing duplicative exams and licensing time, these programs are addressing significant pain points identified by the Vision 2020 Fintech Industry Advisory Panel.

In the mortgage area, states approved prudential standards for nonbank mortgage servicers to coordinate individual state authority into nationwide requirements for financial condition and corporate governance over the fast-growing area of nonbank mortgage servicing. To encourage adoption nationwide, CSBS staff are working with state agencies to understand the path to adoption in their state. The states also kicked off a One Company, One Exam pilot for mortgage. Fifty-one state agencies were part of the pilot, with 27 states participating, nine states leveraging, 10 states accepting and five agreeing to a moratorium. An after-action report on the One Company, One Exam mortgage pilot will yield valuable information to guide more effective and efficient exams in the coming years.

As states find new ways to work together, CSBS continues to enhance technology platforms that allow states to scale and sustain their partnerships. We supported states with the State Examination System, a

2021 NETWORKED SUPERVISION PRIORITIES:

For Money Services Businesses:

- Provide a coordinated exam for MSBs operating in 40 or more states through the One Company, One Exam program to reduce duplicative exams (currently 74 companies).
- Implement a standardized licensing process through the Multistate MSB Licensing Agreement (currently includes 29 participating states).
- Modernize NMLS to automate and strengthen common standards across state lines by implementing the CSBS Money Transmitter Model Law.
- Form an MSB industry advisory group to provide feedback on NMLS development and other priorities.

For Mortgage Companies:

- Pilot a joint, multistate exam for a mortgage company through the One Company, One Exam program to reduce duplicative exams for nationwide mortgage companies.
- Finalize and approve model regulatory prudential standards for nonbank mortgage servicers to create consistent standards for safety and soundness and corporate governance.

For Nonbank Companies:

- Coordinate cyber-risk examinations for nonbank entities to ease regulatory burden, provide more consistency and enhance effectiveness.

For Banks:

- Form a community of large bank examiners to develop a more horizontal perspective regarding current practices and trends.

A coordinated effort between the CSBS State Supervisory Processes Committee and the CSBS Non-Depository Supervisory Committee leveraged partnerships between bank and nonbank IT examination experts resulting in the development of cyber-risk examination procedures for nonbank entities. This effort produced a baseline cybersecurity examination program that has been tested by multiple states. Work is also currently underway to further abbreviate the baseline standards as well as produce a set of enhanced examination standards for publication in early 2022.

nationwide platform that connects agencies and companies in the examination process. Currently, 49 state agencies have used the system for individual state exams. In addition, state agencies used SES as the platform for conducting the One Company, One Exam multistate mortgage examination pilot.

All 50 states, the District of Columbia, Puerto Rico, Guam and the U.S. Virgin Islands used NMLS to license mortgage companies, branches and MLOs. In addition, 35 license types successfully transitioned onto NMLS this year, including 25 for consumer finance and debt. We also advanced initiatives to support a modernized NMLS. Key among them, we completed the core and MSB Business-Specific requirements that will serve as the basis of the modernized NMLS data collection requirements.

Some of the work accomplished this year will not be visible for some time but is important to recognize. For example, CSBS staff have been creating the technical infrastructure for a new modular platform that will support a modernized NMLS. The flexible, secure, reliable, and scalable platform will enable us to develop core services while driving innovation and set the foundation on which products, capabilities and services can be added while simplifying and accelerating delivery.

Networked Supervision requires timely and robust information sharing. In addition to developing platforms that support this objective, CSBS and the states are clarifying and modernizing the necessary legal underpinnings. Through the Money Transmitter Model Law, as well as updated analyses of federal and state law, CSBS is promoting greater legal certainty to enable a networked approach to regulatory and supervisory information.

NMLS AND SES

The Nationwide Multistate Licensing System (NMLS) is used by nearly 640,000 companies and individuals annually to manage their business licensing or registration. These companies and individuals span the mortgage, consumer finance, debt and money services businesses industries – with the mortgage industry accounting for more than 80% of NMLS use.

At the start of the NMLS annual renewal period, which runs November through December, almost 40% more licensees were eligible to renew their licenses than in the previous year. This increased volume—driven by a greater number of mortgage loan originators (MLOs) working in the market—created both challenges and opportunities for NMLS.

THE SAFE ACT

- Congress enacted the SAFE Act to enhance consumer protection and reduce fraud through minimum standards for the licensing and registration of MLOs.
- The law calls on the states to implement and enforce these standards for state-licensed MLOs. Every state has enacted its own version of the SAFE Act that requires MLOs to have at least **20 hours** of pre-licensing education and an annual **eight hours** of continuing education.

Count of State Entities and Licenses in NMLS

	2019		2020		2021	
State licensed	**Entities**	**Licenses**	**Entities**	**Licenses**	**Entities**	**Licenses**
Companies	25,425	69,605	27,655	76,911	29,778	87,564
Branches	35,672	86,225	39,738	100,860	41,774	120,238
Individuals	165,116	569,190	183,630	688,327	217,791	939,284

Count of State Entities and Licenses in NMLS

Federally Registered	2019	2020	2021
Institutions	8,878	8,512	8,372
Individuals	415,978	399,876	391,057

The NMLS program includes an extensive set of support services that enable state regulators, state licensees, federal registrants and other federal agencies to use the system, benefit from ongoing training and more. The NMLS program also includes the NMLS Annual Conference & Training, which draws nearly 1,000 regulator and industry attendees each year.

NMLS EDUCATION HIGHLIGHTS

- 93,000 SAFE MLO national tests administered, a 28% increase over 2020
- Approximately 25% of candidates used the Online Proctored Testing option implemented in response to Covid-19 pandemic
- 2021 was the first full year candidates had the option to take the SAFE MLO test at an onsite test center or online
- NMLS course providers delivered over **2.4 million** hours of pre-licensure education and **1.9 million** hours of continuing education

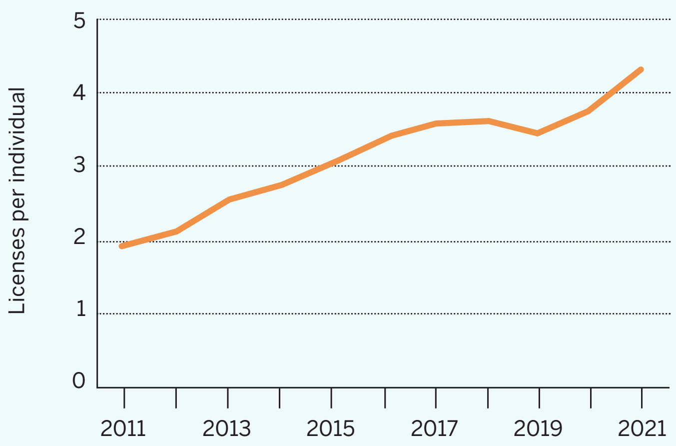
OVERVIEW OF NMLS

SIXTY-SIX state agencies manage the following different license or registration types:

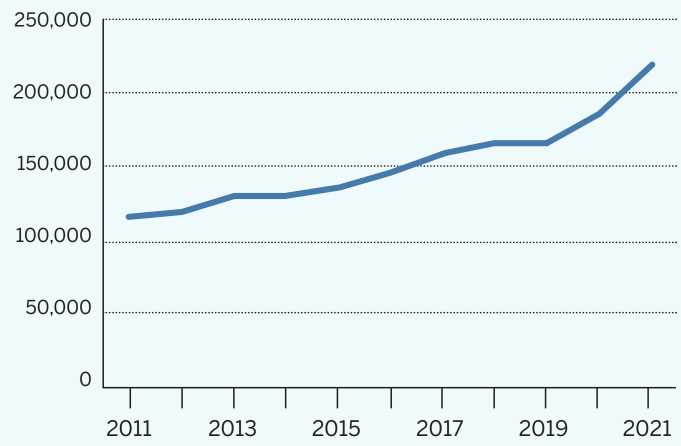
463	285	76
COMPANY	BRANCH	INDIVIDUAL

The charts and statistics below highlight key NMLS successes and metrics achieved throughout the year for the mortgage industry:

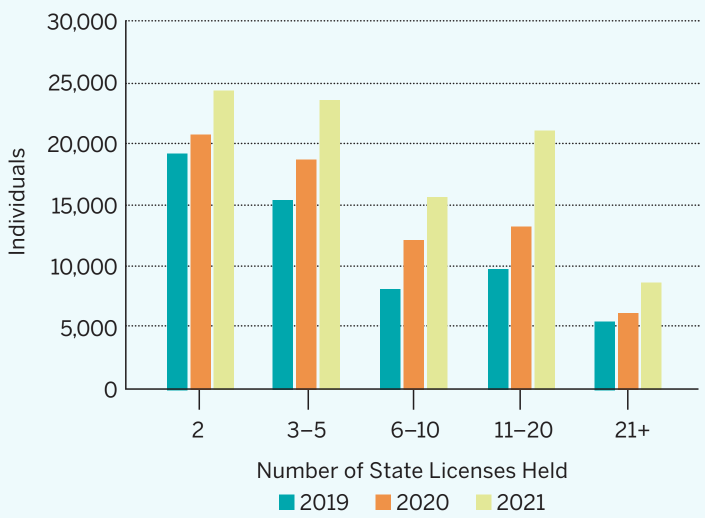
Annual Growth—Average Number of Licenses Per MLO



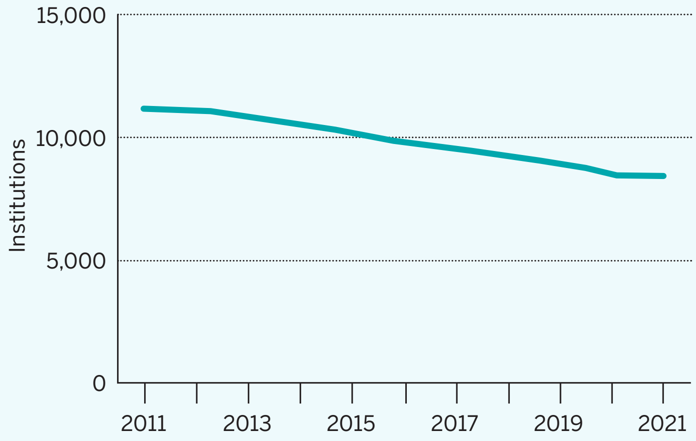
Individuals Licensed by Year



Annual Growth—State Individuals by License Held



Actively Registered Federal Institutions by Year



Growth of Mortgage Loan Originators

All 50 states, the District of Columbia, Puerto Rico, Guam and the U.S. Virgin Islands used NMLS to license mortgage companies, branches and MLOs.

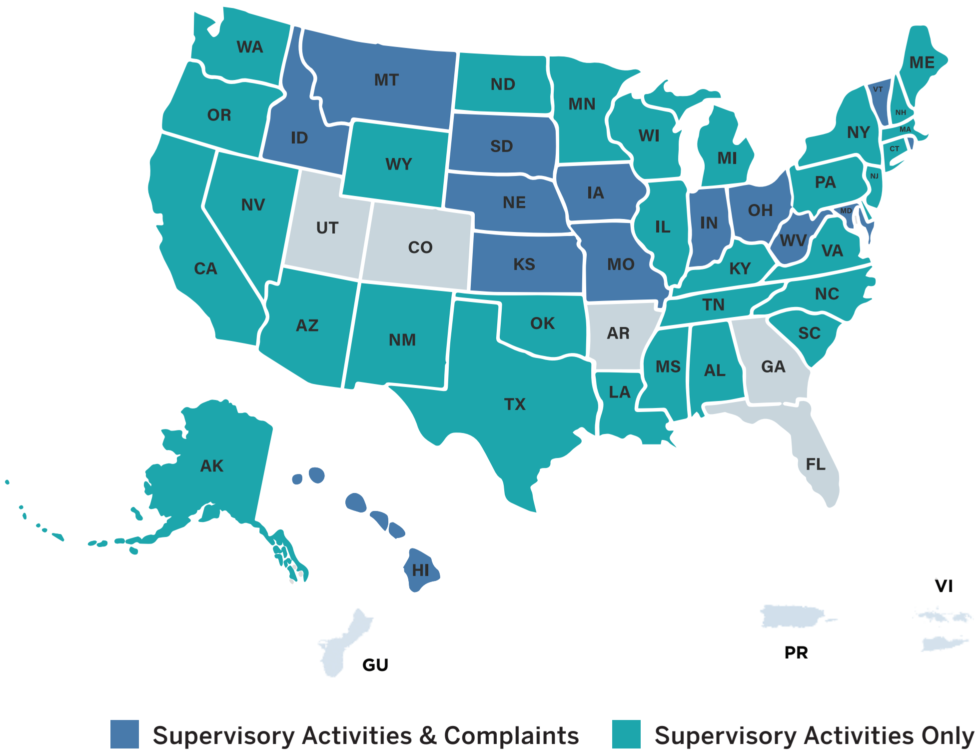
Growth of the MLO population was evident in required professional education. Individuals seeking to become state-licensed MLOs must first complete standard course instruction to obtain their license, then complete continuing education each year to maintain it.

The State Examination System

The State Examination System (SES) connects state agencies and the companies they supervise in the examination process. The online platform has experienced a steady increase in state agency adoption as more agencies realize efficiencies (e.g., collaboration, information sharing, less redundancy) gained from using an online system to manage the examination workflow.

SES received five large-scale enhancements this year to provide agencies and companies with new or improved functionality—leading to a better overall user experience. Also, in support of Networked Supervision, SES facilitated a multi-state exam for the One Company, One Exam mortgage pilot. This tool will continue to be an important part of the state system's evolution toward greater collaboration and efficiency.

49 State Agencies Using SES as of Year-end 2021



PREVENTING FEDERAL PREEMPTION

Our constitutional system is based on a balance of power between state and federal authorities—a balance that reserves broad areas to state authority and that enables the states to effectively protect consumers and promote local economies.

However, calls for federal preemption distort this balance, undermining the states' consumer protection and market stability responsibilities. One of CSBS's objectives is to empower a strong, efficient and assertive state system of financial regulation that results in fewer calls for federal preemption.

When attempts to inappropriately preempt state authority do occur, CSBS takes action. And 2021 was no exception.

First, we were successful in encouraging the U.S. Department of Education to rescind policies made by the previous administration that interfered with state regulation of federal student loan servicers and debt collectors. Our letters to the Education Department, written jointly with the North American Collection Agency Regulatory Association, received public recognition and quick action.

We supported efforts that successfully led to the overturn of an Office of the Comptroller of the Currency (OCC) regulation known as the true lender rule. The Congressional Review Act resolution recognized our position that the true lender doctrine is and should remain a matter of state law as issues of credit affordability and access are inherently matters of local concern.

Meanwhile, we continued legal action initiated in 2017 with the OCC over its attempts to create a national fintech charter. CSBS refiled its litigation in December 2020 challenging Figure Technologies' charter application and the OCC fintech charter program more broadly. In June of 2021, CSBS and the OCC mutually agreed to a stay that was extended into early 2022. Additionally, new leadership at the OCC publicly stated a desire for better coordination and collaboration among all regulators, including state regulators.

In a late 2021 development, Figure Technologies revised its application to include deposit insurance. CSBS withdrew its legal filing shortly after in January 2022.

DATA DRIVEN SUPERVISION

CSBS is focused on finding new and improved ways for our data, technology and analytical products to help state regulators anticipate and mitigate risk within the financial system.

We developed a new bank data analytics product called Risk Identification for State-Chartered Institutions, or RISCI, which provides a score to measure risk and allows users to focus on the most important ratios for their supervised institutions. By using RISCI, anyone involved in the examination or off-site surveillance process can see a list of banks with emerging risk in under three minutes. As state agencies seek to build examiner skills more quickly, this tool allows even entry-level examiners to quickly understand the risk profiles of supervised banks. RISCI shows every data point on a historical basis for time-series analysis, streamlining the monitoring and surveillance process by flagging banks whose risk scores have changed each quarter. In addition to examiners, case managers, off-site surveillance personnel and other state agency staff use RISCI outside of the routine exam process to monitor bank performance between exam cycles and conduct both state and portfolio-level analysis.

Also in 2021, we launched the CSBS data analytics landing page, which consolidates all analytics tools and resources for regulator use. The new page reflects the vision for how CSBS data and analytics products and training will be seamlessly integrated and enrich our members work, help drive innovation and promote more effective supervision. This streamlined experience includes our new Analytics Training Resources Center, which consolidates all training guides, videos, tip sheets and tutorials in one place.

To support our data and analytics efforts, the CSBS Board chartered a group of regulators known as the Data Analytics Taskforce, which has been exploring options for how states can advance supervision by harnessing real-time, or more-frequent, data.

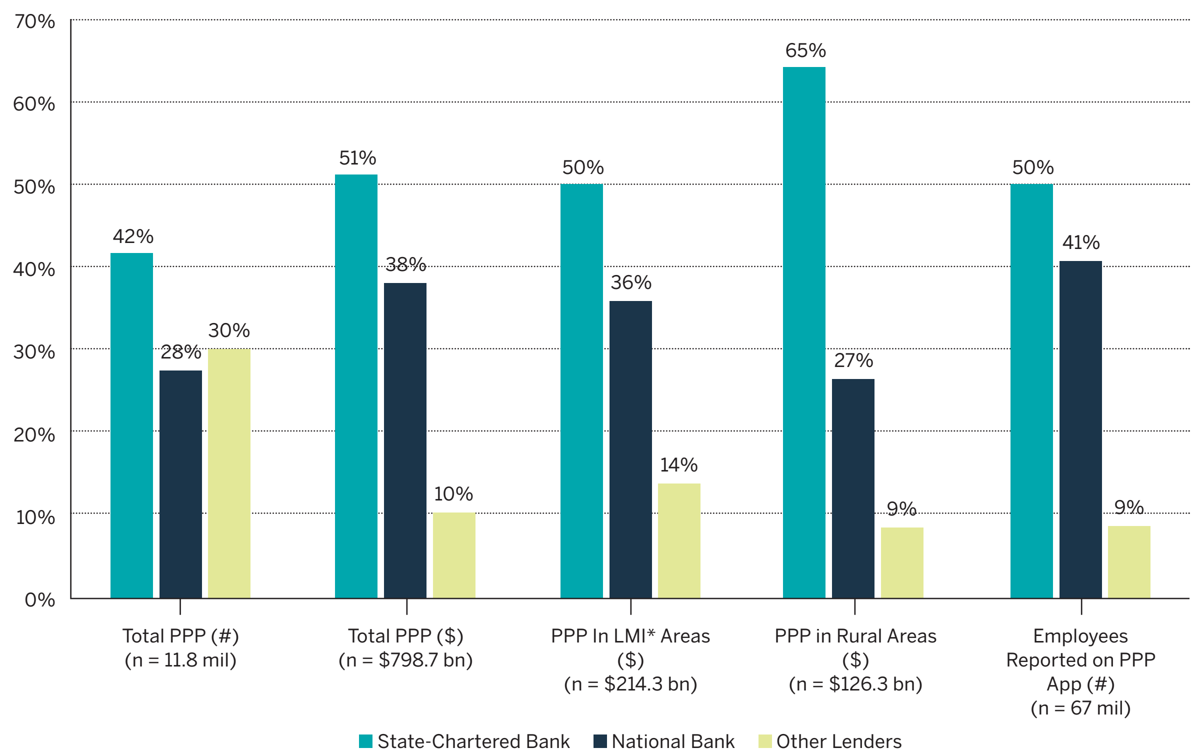
We held our second annual Data Palooza in 2021, attracting more than 200 state regulators representing 45 states. The three-day virtual event helps our members establish a data culture, leverage available CSBS analytical tools and hear from their colleagues on their experiences and data use cases.

We have a number of additional data analytics workstreams in process. CSBS has worked with a group of data-savvy state regulators since 2019 to explore how predictive modeling could be used as an early detection tool for bank risk. This year, staff completed work on the first version of its predictive analytics solution, which includes two models, two predictive dashboards and extensive model documentation, and is slated for a pilot program in 2022.

States also discovered a new way to use our data analytics platform. As part of the CSBS Data Working Group, the Iowa Division of Banking shared that it was developing a comprehensive risk analysis dashboard for banks using the self-service section of the CSBS analytics platform. Recognizing this would be useful for other states, CSBS developed a launchpad capability to quickly deploy select state-created reports to all end-users in a special "Member Created Reports" section of our analytics platform. As a result, 15 states have already used Iowa's risk dashboard. We plan to expand this crowd-sourced capability so states can more seamlessly network with one another on analytics development activities and reduce duplicative efforts.

CSBS Analysis of Approved PPP by Type of Institution

CSBS data analysis found that state-chartered banks were the primary distributor of relief funds to communities. The analysis matched recently available loan-level Paycheck Protection Program (PPP) data with lender demographic data, providing the first estimate of how different types of lenders originated PPP loans for small businesses.



Source: CSBS, August 2021

*LMI = Low-to-Moderate Income

PARTNERSHIPS

CSBS staff members and state regulators regularly share ideas and collaborate with the federal regulatory agencies, which serves to strengthen financial regulation in the United States.

Partnerships were particularly important in a year that ushered in a new presidential administration and new congressional leadership during a pandemic. We also engaged with industry to help inform the strategic direction of key initiatives.

State regulators are represented on the Federal Financial Institutions Examination Council (FFIEC), which is composed of five federal banking regulators and the State Liaison Committee (SLC) and is intended to promote consistent and uniform standards for financial institutions. The five state bank and credit union regulator members of the SLC serve as an important conduit to their state colleagues and represent state supervisory interests. In 2021, the FFIEC issued updates to the Bank Secrecy Act/Anti-Money Laundering Examination Manual, the IT Examination Handbook and provided financial institutions with guidance on effective risk management principles and practices for access and authentication.

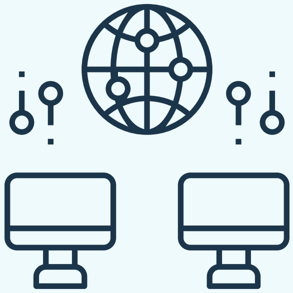
Through our state representative on the Financial Stability Oversight Council (FSOC), we worked with our federal counterparts on the Council's *Report on Climate-Related Financial Risk* and on improving collaboration and coordination with respect to risks present in nonbank mortgage servicing in light of the COVID-19 pandemic. In 2021, the CSBS Chief Data Officer joined the FSOC Data Committee, further ensuring that we have a strong coordinated relationship with our federal partners.

CSBS is one of the 18 federal and state member organizations from across the financial regulatory community that meet regularly to coordinate emergency communications as a part of the Financial Banking Information Infrastructure Committee (FBIIC), chaired by the Treasury Department's Assistant Secretary for Financial Institutions. This year, FBIIC focused on the increase in cybersecurity incidents, assessing industry for preparedness and resiliency within their agencies, the U.S. financial services sector and across the U.S. economy more broadly.

To share information and create a community of large bank examiners, staff facilitated quarterly meetings with the Federal Reserve and FDIC to discuss examination trends, common risks and emerging issues that impact large state-chartered banks. These meetings, along with workstreams for non-branch activities and updates to the cooperative agreement, are helping to identify and address interstate pain points for large banks.

We also partnered with federal agencies on several conferences, among them a fintech conference with the Philadelphia Federal Reserve Bank and the autumn community bank conference with the Chicago Federal Reserve Bank and other federal agencies. And of course, we partnered with the Federal Reserve and FDIC on the ninth annual community bank research conference.

Consistent and strategic engagement with regulated industries is central to our ability to build a federated network and support for our Networked Supervision public priorities. During the year, we convened regulators and fintech industry stakeholders for three discussions covering digital regulatory reporting, reaching the underserved, and meeting the needs of small business. We formed a Regulator-Industry Clearing House, consisting of eight regulators and eight industry representatives, to develop the Money Transmitter Model Law. These same industry representatives are key partners as states begin implementation. Similarly, we engaged with mortgage industry associations to develop the prudential standards for nonbank mortgage servicers.



PARTNERSHIPS AND TECHNOLOGY

In 2021, the states, Federal Reserve Board of Governors and the FDIC began to look at how to best share information technology systems, which are changing rapidly with new, disruptive technologies that provide an opportunity for transformational business change. The potential benefits of shared technology include reduced regulatory burden for the banking community, a simplified technology landscape for supervisory staff, improved access to data leading to more effective analytics, better collaboration between agencies and reduced IT costs over the long term. In the coming years, these new technologies will replace the proliferation of aging, custom-built systems that have created a confusing patchwork of IT tools for internal and external stakeholders.

WORKFORCE OF TOMORROW

CSBS staff are developing and supporting the state regulatory workforce of tomorrow.

CSBS is providing our members with professional education and training to develop their staff. The financial regulatory world is changing quickly, and CSBS staff have been at the forefront of keeping members not only aware but prepared. Following the pandemic-forced "pivot" to all virtual training, most of 2021 saw us build on that successful transition as we continued to offer almost all our educational programs virtually. The December 2021 Supervisors Symposium was the one exception as our first effort at in-person learning and engagement since the pandemic's onset.

Cryptocurrency and distributed ledger technology are not new issues to the state system; however, the pace of industry growth and the rapid emergence of a range of business models signaled to us a training need. In 2021, we began a partnership with Chainalysis to offer a Fundamentals of Cryptocurrency two-day virtual course for state regulators. By year-end, we had held eight course sessions, reaching 199 regulators from 43 states, Puerto Rico and the District of Columbia. We also issued a Cryptocurrency Guide for Commissioners to help educate commissioners and their staff on core concepts and considerations surrounding the expanding digital asset market.

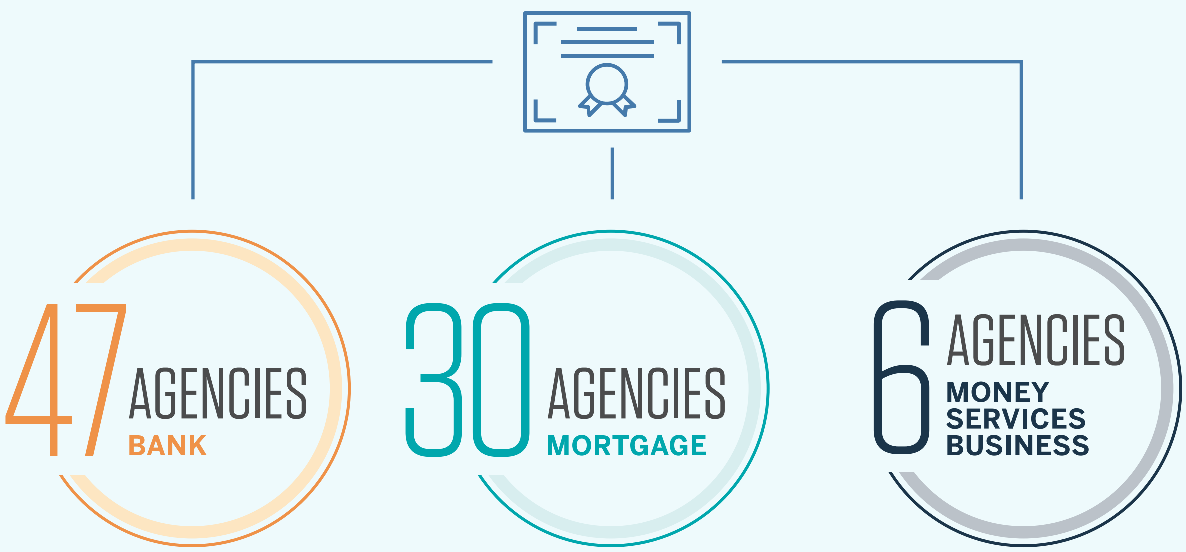
We frequently update our training to ensure that state regulators have the most relevant and timeliest content at their fingertips. This year, we offered live virtual trainings on the nonbank cybersecurity work program, workshops to help states implement the Money Transmitter Model Law and trainings specifically for nonbank examiners on how to use and integrate SES into the examination process. In addition, CSBS launched the Day One: Data Analytics self-study program after strong demand from the states. As a part of our consolidated data Web page, we integrated data analytics training and education resources in one place for easy access.

Technical training is a critical component of the success of the technology platforms that we develop and maintain on behalf of the state system. CSBS has supported the states' continued adoption and use of SES, reaching 426 regulators in 28 states with our on-boarding and training efforts in 2021.

The CSBS Examiner Certification Program is a voluntary program designed to recognize and promote the professionalism and highly specialized skillsets of state financial regulatory agency personnel. Established over 30 years ago and overseen by the CSBS Education Foundation's Certification Committee, the program offers 27 different credentialing opportunities to our state regulatory members, covering bank safety and soundness, mortgage, money services businesses, trust, IT/cyber and other specialty areas. As of November 2021, over 1,250 state regulators from 47 agencies in 41 states actively participate in the program.

The CSBS Accreditation Program involves an in-depth review of an agency's policies, procedures and operations to determine if it meets the standards set by the Performance Standards Committee. These standards have a number of benefits: they create a framework for state supervision, promote process standardization and build trust among state regulators. The standards also help states share best practices for state financial regulation.

We offer accreditation in three areas: bank, mortgage and our most recent addition, money services businesses. In 2021, the number of agencies accredited for each are:



RESEARCH

Research is key to understanding both the strengths and the challenges of the state financial system.

In addition to issuing white papers and periodic risk reports specifically for regulators to highlight current and emerging supervisory matters concerning the nation's financial system, CSBS also conducts and sponsors scheduled public events throughout the year that gather insight into state-regulated financial institutions.

Research

The Community Banking in the 21st Century Research and Policy Conference, co-sponsored by CSBS, the Federal Reserve System and the FDIC, is a one-of-a-kind forum for state and federal regulators, researchers and community bankers to discuss the state of community banking in the United States. To date, this partnership has generated 97 research papers, 188 banker outreach sessions and 21 emerging scholars.

Typically held at the Federal Reserve Bank of St. Louis, the ninth annual conference was held again virtually in 2021. In her opening remarks, Federal Reserve Governor Michelle Bowman emphasized that the future of community banking and the future of banking supervision are deeply interconnected, and FDIC Chairman Jelena McWilliams discussed the importance of trans-

DRIVING A BETTER POLICY OUTCOME

Community banking in the 21st century by the numbers

97
Research papers

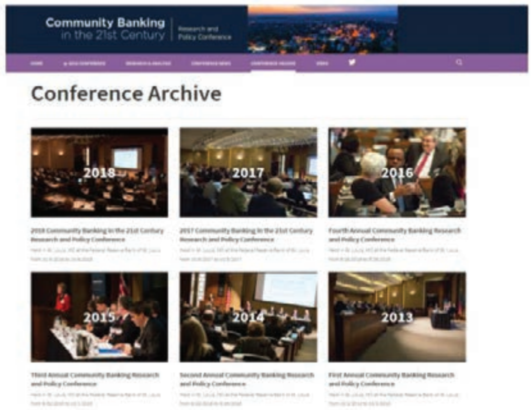
7
Case study competition winners

8
National surveys

20
Videos highlighting community bank

188
Banker outreach sessions

21
Emerging scholars scholarships



communitybanking.org

parency in laying the foundation for a financial system that evolves with technological advances. CSBS President and CEO John Ryan shared how the conference has produced research that helped Washington policymakers understand the value of community banks during the economic challenges of the pandemic.

Annual National Survey

Our eighth annual National Community Bank Survey provided insight into the impact of the lingering Covid-19 pandemic on local economies. The survey canvassed nearly 500 community banks and revealed a shift from the prior year, when local business conditions were foremost on their minds. As the pandemic continued in 2021, bankers reported abundant liquidity; however, 52% of community banks also described loan demand as a "very important" challenge with a decline in lending, particularly in the business, agricultural and commercial real estate categories.

The survey also highlighted some of the pandemic's long-lasting effects, with more than 40% of community bankers saying it increased efficiency and more than 70% of respondents saying prospects for long term lending were improved by new or closer customer relationships.

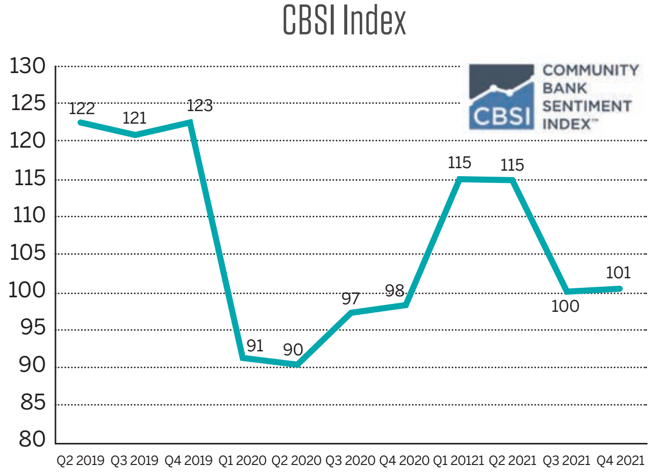
Other key findings from the 2021 survey include:

- Cybersecurity concerns are on the rise, with 81% of respondents calling it a "very important" risk—more than double the rate of any other type of operational risk.
- The cost of technology leapt from one of the least important issues two years ago to among the most important, with nearly 47% of bankers calling it a "very important" challenge.
- Concern about the cost of funds is on the rise, described as a "very important" risk by 22% of respondents compared to a year ago when it barely registered as a challenge.
- Meanwhile, regulation risk continues to be seen as a challenge, with nearly 50% calling it "very important."

Quarterly Sentiment Index

CSBS began polling community bankers in 2019 to gather their view of the economy. The Community Bank Sentiment Index, or CBSI, compiles their responses into a single number. An index reading of 100 indicates a neutral sentiment, while anything above 100 indicates a positive sentiment, and anything below 100 indicates negative sentiment. Information from the CBSI is further distilled in podcasts, blogs and speeches throughout the year, reaching more than 14,000 readers and listeners.

The CBSI revealed that community bankers were optimistic in the beginning of the year, with a reading of 115. However, by the third quarter as the Delta variant spread, the index



University of Tennessee at Martin team members Benjamin Beard, Seth Bishop, Refugio Palacios, Savannah Pham and McKenzie Reagor learn they have won the 2021 Community Bank Case Study Competition.

had dropped to 100, as community bankers became concerned about future profitability and the business conditions outlook. Moreover, community bankers grew increasingly concerned about a heavier regulatory burden throughout 2021. The regulatory burden indicator fell from an average of 58 in 2020 to 23 in 2021.

Student Competitions

CSBS offers two competitions for undergraduate students to build a further understanding of the community banking business model and the role community banks play in local communities, as well as provide an opportunity for students to sharpen their quantitative and qualitative analysis skills.

Community Bank Case Study Competition

The capstone event, the annual Community Bank Case Study Competition is open to undergraduates in all fields of study as an opportunity to gain valuable first-hand knowledge of the banking industry. Now in its seventh year, the case study competition provides students an opportunity to produce original research while making connections with bankers, academics and federal and state regulators. These case studies in turn provide policymakers with invaluable insight into operating conditions in communities across the country, informing future regulatory responses to the obstacles and opportunities facing the community banking industry.

The winners receive scholarships, and their work is published in the *CSBS Journal of Community Bank Case Studies*. The first-place winner presents at the Community Banking in the 21st Century Research and Policy Conference.

The 2021 case studies examined how local community banks navigated the Covid-19 pandemic and what they are doing to encourage greater diversity and inclusion. Thirty-five student teams representing 29 colleges and universities from across the country entered the competition.

The first-place winning team from the University of Tennessee at Martin partnered with TriStar Bank, based in Dickson, Tenn. A team from the University of Arkansas placed second and partnered with Southern Bancorp Bank, based in Arkadelphia, Ark. The third place team from Southeastern Louisiana University teamed with Liberty Bank and Trust Company, based in New Orleans, La.

Data Analytics Competition

In 2021, CSBS conducted its first Data Analytics Competition, engaging with undergraduate students to answer questions about how to predict financial distress in banks by effectively leveraging call report data using advanced data analysis techniques. Through the competition, student teams propose a research idea, build an analytics model to test it, and derive data-driven insights to help policymakers, regulators, scholars and others understand the role that community banks have in the U.S. economy, and, at the same time, develop skills in data science, finance and accounting and communications.

NOW IN ITS SEVENTH YEAR, THE CASE STUDY COMPETITION PROVIDES STUDENTS AN OPPORTUNITY TO PRODUCE ORIGINAL RESEARCH WHILE MAKING CONNECTIONS WITH BANKERS, ACADEMICS AND FEDERAL AND STATE REGULATORS.

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