

CONFERENCE OF STATE BANK SUPERVISORS

Champions of the State Banking System Since 1902

2010 Annual Report

August 18, 2011

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ABOUT CSBS, EFSBS, AND SRR

The Conference of State Bank Supervisors (CSBS) is the nationwide organization of banking regulators from all 50 states, the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands.

State regulators supervise approximately 5,600 state-chartered financial institutions with nearly \$4 trillion in combined assets.¹ Further, the majority of state banking departments oversee mortgage providers and a host of other financial services providers including, but not limited to, money services businesses, payday lenders, check cashers, and finance companies. State regulators oversee approximately 17,490 companies and 139,390 individual mortgage loan originators (MLOs) and approximately 70,000 additional non-depository financial services providers across the nation.

The mission of the Conference of State Bank Supervisors is to support the leadership role of state banking supervisors in advancing the state banking system; ensuring safety and soundness; promoting economic growth and consumer protection; and fostering innovative state regulation of the financial services industry.

CSBS works to:

- Optimize the authority of individual states to determine the activities of their supervised financial entities;
- Enhance the professionalism of state regulatory agencies and their personnel;
- Represent the interests of the system of state financial supervision to federal and state legislative bodies and regulatory agencies; and
- Ensure that all banks continue to have the choice and flexibility of the state charter in the new era of financial modernization.

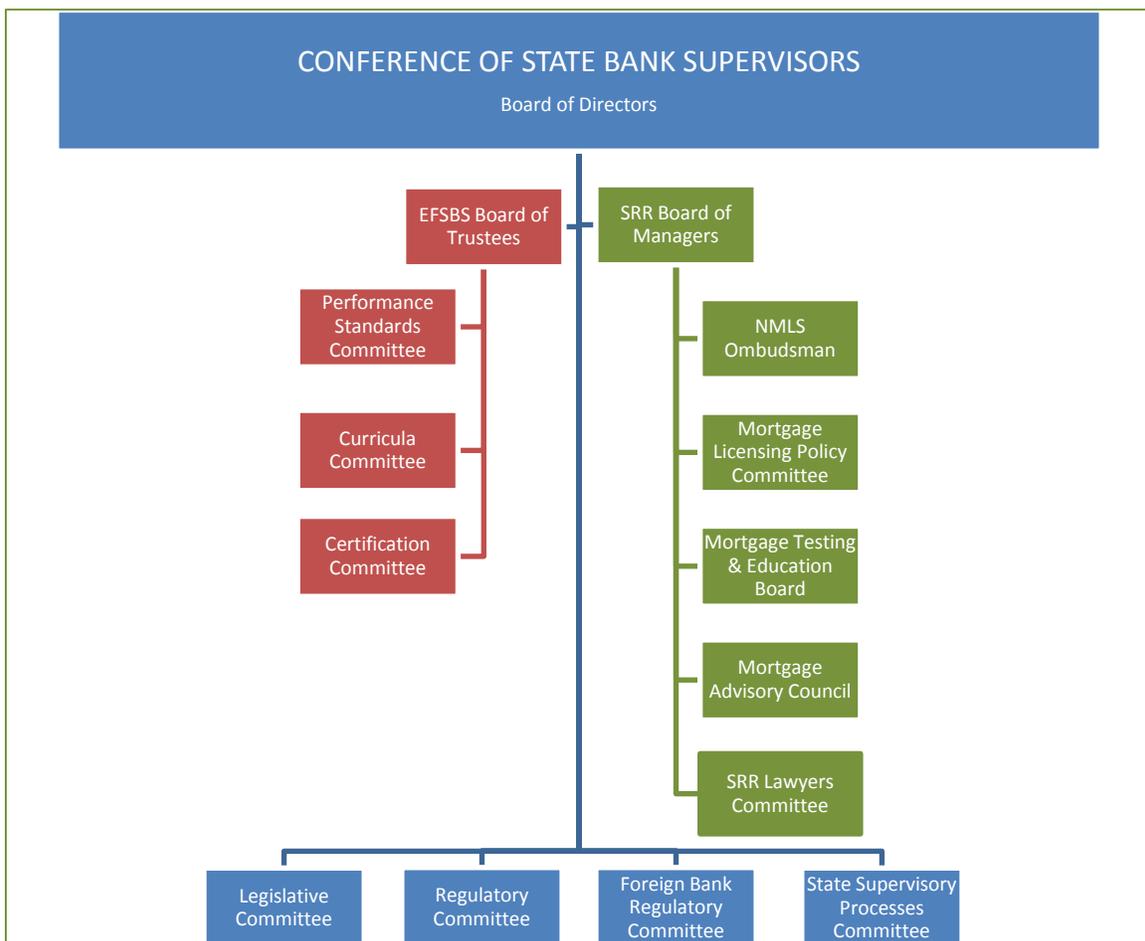
Background and History: CSBS is a non-profit corporation headquartered in Washington, D.C. It was organized in 1902 as the National Association of Supervisors of State Banks. In 1971, the name of the organization was changed to the Conference of State Bank Supervisors to better reflect the ongoing nature of CSBS activities. For over 100 years, CSBS has been uniquely positioned as the only national organization dedicated to protecting and advancing our nation's unique dual-banking system.

Corporate Governance: CSBS is a professional regulatory association, and its voting members and Board of Directors are exclusively state financial regulators. CSBS is governed by bylaws and a Board of Directors comprised of 20 of its regulator members. Directors are elected or appointed annually for one-year terms, except for the treasurer, who serves a two-year term. Officers consist of the chairman, chairman-elect, vice chairman, secretary, treasurer, and immediate past chairman. The chief executive officer of CSBS is its president, who is recruited and employed by the Board of Directors.

¹ Source: Federal Deposit Insurance Corporation as of December 31, 2010.

CSBS invites bankers and other financial service industry entities to participate in the organization in the interests of sharing information, promoting communication between state regulators and their regulated industries, identifying best practices within the state banking system, and preserving a local role in the American financial system.

Affiliated Entities: In 1984, CSBS helped create the Education Foundation of State Bank Supervisors (EFSBS). The purposes of EFSBS are to fund and to direct the education and training efforts of CSBS’s professional development staff. The membership of EFSBS is the same as CSBS and the two entities interact extensively. In 2006, CSBS, in cooperation with the American Association of Residential Mortgage Regulators (AARMR), formed the State Regulatory Registry LLC (SRR), a limited liability corporation, to oversee the development and operations of the Nationwide Mortgage Licensing System and Registry (NMLS, or the System) for the residential mortgage industry on behalf of state regulators.



PERSPECTIVE OF CSBS CHAIRMAN

August 18, 2011

On behalf of the CSBS Board of Directors, I present you with the first annual report of CSBS and its affiliated entities, EFSBS and SRR.

In 2010 CSBS had a momentous year, characterized by the continued economic recession and overarching reform of the nation's system of financial oversight. CSBS fought to preserve local and state economic stability, industry diversity, affordable access to credit, and effective consumer protection, all while operating under a new regulatory regime during a time of significant economic duress and a period of limited resources for some state regulators.

Recession and Economic Challenges

The financial crisis and ensuing recession continued to plague the United States and the world economy in 2010. The largest financial institutions began to see promising shoots of growth and stabilization, but some insured depository institutions continued to struggle under difficult economic conditions and enhanced regulatory burden. A total of 157 insured depository institutions failed across the nation in 2010. Meanwhile, some states continued to face budgetary constraints, forcing a few banking departments to implement hiring freezes, furloughs, or even reduce their workforce. Despite these externalities, the system of state supervision continues to retain high quality and devoted individuals who strive to maintain and improve supervision of state supervised entities.

Dodd-Frank Passage and Implementation

The first half of 2010 largely focused on financial regulatory reform and the possible negative consequences the varying proposals could have on state regulation. The administration's proposal, first issued in June 2009, would have largely consolidated regulatory authority in one federal regulatory agency, as would the initial bill proposed by U.S. Senator Chris Dodd (D-CT). If these proposals had been enacted as originally drafted, the state system of financial supervision, and the dual-banking system itself, would have gradually been phased out. Through the tremendous efforts of state regulators, CSBS staff, and many others, the eventual regulatory reform legislation signed into law, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank, or the Dodd-Frank Act), enhanced the system of state supervision and reaffirmed our nation's unique dual-banking system.

Since the enactment of Dodd-Frank in July 2010, implementation of the many requirements of the law has been the focus of CSBS staff. Considerable analysis is being conducted and policy positions are being carefully crafted to ensure the full impact upon state supervision and industry diversity is understood and communicated to Congress and our federal counterparts.

Coordination

CSBS staff continues to facilitate supervisory coordination on behalf of state regulators. CSBS staff provides administrative assistance to the State Liaison Committee (SLC) and all state representatives serving on the Federal Financial Institutions Examination Council (FFIEC, or the Council). Through the SLC, state regulators hold a voting seat on the FFIEC, which is currently held by John Munn, director of the Nebraska Department of Banking and Finance and Chairman of the SLC. David Cotney, commissioner of the Massachusetts Division of Banks, became the first SLC representative to chair a task force of the FFIEC when he was elected chairman of the Consumer Compliance Task Force in April 2010. Further, CSBS staff provides support for California commissioner William (Bill) Haraf, a non-voting member of the Financial Stability Oversight Council (FSOC), which was established by Dodd-Frank. CSBS staff continues to participate in the Financial and Banking Information Infrastructure Committee (FBIIC), which is charged with “improving coordination and communication among financial regulators, enhancing the resiliency of the financial sector, and promoting the public/private partnership.” CSBS staff was also instrumental in negotiating an information sharing memorandum of understanding (MOU) between state regulators and the Consumer Financial Protection Bureau (CFPB, or the Bureau) transition team at the Treasury Department.

Looking Ahead

As CSBS begins a new decade of service to the state system, the organization shall continue its efforts to maintain, defend, and advance the state banking system and the overall role of states in financial regulation, consumer protection, and local economic development. This will be accomplished by informing and shaping policy to reflect state regulators’ views on the impact of rules and regulations upon the diversity and strength of our financial institutions, the stability and sustainability of our financial system, and access to credit in communities of all sizes. CSBS staff will facilitate coordination among state regulators and between state and federal regulators to ensure the most efficient, coordinated, and comprehensive regulation of all financial services providers possible. CSBS will provide exceptional and accessible training and education for state regulatory personnel and will maintain the highest performance standards for state banking and mortgage departments. Finally, CSBS will look to expand NMLS to accommodate state licensing and registration of non-mortgage and non-depository financial industries, such as money services businesses. We are operating in a challenging banking environment, and by undertaking these initiatives, the state banking system can operate in the streamlined manner required to thrive in the modern system.

Sincerely,

John P. Ducrest, CEM
Commissioner of Financial Institutions, Louisiana Office of Financial Institutions
Chairman, CSBS Board of Directors

CSBS BOARD OF DIRECTORS

As of August 18, 2011

Chairman



Mr. John P. Ducrest, CEM
Commissioner of Financial Institutions
Louisiana Office of Financial Institutions

Chairman-Elect

Mr. William S. (Bill) Haraf
Commissioner
California Department of Financial
Institutions

Immediate Past Chairman

Mr. Joseph A. Smith, Jr.
Commissioner of Banks
North Carolina Office of Commissioner of
Banks

Vice Chairman

Mr. Greg Gonzales
Commissioner
Tennessee Department of Financial
Institutions

Member-at-Large

Mr. Scott Jarvis
Director of Financial Institutions
Washington Department of Financial
Institutions

Secretary

Ms. Candace A. Franks
Bank Commissioner
Arkansas State Bank Department

Member-at-Large

Mr. Lauren Kingry
Superintendent of Financial Institutions
Arizona Department of Financial Institutions

Treasurer

Mr. Charles A. Vice
Commissioner
Kentucky Department of Financial
Institutions

Chairman, CSBS District I

Mr. Lloyd P. LaFountain, III
Superintendent
Maine Department of Professional and
Financial Regulation

Chairman, CSBS District II

Mr. David H. Mills
Director

Indiana Department of Financial Institutions

Chairman, CSBS District III

Mr. John D. Harrison
Superintendent of Banks
Alabama State Banking Department

Chairman, CSBS District IV

Mr. Robert J. Entringer, CEM
Commissioner
North Dakota Department of Financial
Institutions

Chairman, CSBS District V

Mr. David C. Tatman
Administrator
Oregon Division of Finance

Bankers Advisory Board Co-Chairman

Mr. James M. (Jim) Schipper
Superintendent of Banking
Iowa Division of Banking

**Foreign Bank Regulatory Committee
Chairman**

Mr. J. Thomas Cardwell
Commissioner
Florida Office of Financial Regulation

EFSBS Board Chairman

Mr. Jeffrey C. Vogel, CEM
State Banking Commissioner
Wyoming Division of Banking

Regulatory Committee Chairman

Mr. Mark Kaufman
Commissioner
Maryland Office of Financial Regulation

**State Supervisory Processes Committee
Chairman**

Mr. Vaughn M. Noring, CEM
Bank Bureau Chief
Iowa Division of Banking

Legislative Committee Chairman

Mr. Charles G. Cooper
Banking Commissioner
Texas Department of Banking

SRR Board Chairman

Mr. Gavin M. Gee
Director of Finance
Idaho Department of Finance

EX OFFICIO

Chairman Emeritus, 2007-2008

Mr. Jeffrey C. Vogel, CEM
State Banking Commissioner
Wyoming Division of Banking

Chairman Emeritus, 2006-2007

Mr. E. Joseph Face, Jr., CEM
Commissioner
Virginia Bureau of Financial Institutions

Chairman Emeritus, 2004-2005

Mr. John S. Allison, CEM
Commissioner
Mississippi Department of Banking and
Consumer Finance

Chairman Emeritus, 2003-2004

Mr. Mick Thompson
Commissioner
Oklahoma State Banking Department

Chairman Emeritus, 2002-2003

Mr. Gavin M. Gee
Director of Finance
Idaho Department of Finance

Chairman Emeritus, 1998-1999

Mr. G. Edward Leary
Commissioner of Financial Institutions
Utah Department of Financial Institutions

FFIEC State Liaison Committee Chairman

Mr. John Munn
Director of Banking and Finance
Nebraska Department of Banking and
Finance

State Federal Working Group Chairman

Mr. G. Edward Leary
Commissioner of Financial Institutions
Utah Department of Financial Institutions



From left to right: Tennessee commissioner Greg Gonzales, Louisiana commissioner John Ducrest, California commissioner William (Bill) Haraf, and former Iowa superintendent Tom Gronstal at the December 2010 CSBS Board Meeting.

2010 MILESTONES

CSBS saw remarkable achievements in 2010, despite the challenges that the state regulatory system faced. Milestones achieved in 2010 include:

- Successfully engaged the administration and Congress to enhance the role of state financial supervision through the restructuring of the nation's system of financial oversight.
- Launched the State-Federal Supervisory Forum (SFSF), a regulators-only meeting to encourage candid and constructive dialogue on timely issues. The SFSF is a meeting held annually and replaces the CSBS Annual Meeting & Conference.
- Utilized new tools and techniques to provide low-cost, convenient, yet robust training and education programs for state regulators, including an unprecedented number of in-state training programs and partnering with FIS/ComplianceCoach® to provide over 250 online learning modules free of charge.
- Launched the CSBS-AARMR Mortgage Accreditation Program.
- Continued to facilitate state-federal coordination through the FFIEC, the FSOC, and regular interaction with the federal financial regulators.
- Signed an information-sharing MOU with the CFPB.
- Further developed the Multi-State Mortgage Committee (MMC) to conduct joint examinations and facilitate public settlements, as well as coordinate with state Attorneys General and federal regulators on servicing issues.
- All states are using NMLS to license state-supervised mortgage loan companies and individuals.
- Executed a contract with federal regulators to register mortgage loan originators employed by a depository institution with NMLS.
- Achieved several requirements of the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (SAFE Act), including NMLS Consumer Access, testing and education, and criminal and credit background checks.
- Launched the new www.CSBS.org to enhance communications with regulator members, the industry, policymakers, and the media.

PRIORITIES FOR 2011

Moving forward into 2011, CSBS plans to build upon the successes of 2010 and to effectively coordinate efforts by state regulators with the federal regulatory agencies to implement the provisions of Dodd-Frank in a manner that is effective, efficient, and does not unduly burden the industry.

Overall

- CSBS will continue its significant efforts to maintain, defend, and advance the state banking system and the overall role of states in financial regulation, consumer protection, and local economic development.
- During implementation of Dodd-Frank, CSBS will continue to seek active participation to inform and shape policy to reflect state regulators' views on the impact of the rules and regulations on the diversity and strength of our financial institutions, the stability and sustainability of our financial system, and access to credit in communities of all sizes.

State-Federal Coordination

- Continue to assure active state participation in the FFIEC.
- Facilitate the new role of a state bank regulator as a non-voting member of the FSOC as established under Dodd-Frank.
- Facilitate an information-sharing agreement with the U.S. Department of Housing and Urban Development (HUD).
- Facilitate an information-sharing agreement with the Treasury Department on behalf of the CFPB.

Professional Development

- Enhance and improve the efficiency of state regulation through training programs developed and provided by EFSBS.
- Partner with our sister organizations to enhance state supervision of all financial services providers.
- Maintain our Accreditation Program and launching its extension to include mortgage regulation.
- Serve as a facilitator between state regulators and their federal counterparts.
- Develop best practices and examination tools for the states.

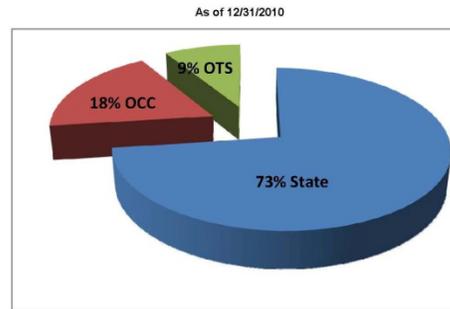
Mortgage

- Expand NMLS to accommodate state use of the System for non-mortgage/non-depository licensing and registration.
- Continue to fulfill contractual responsibilities as a contractor/vendor to the federal agencies to implement the federal registration of mortgage loan originators through NMLS.

STATE OF THE STATE FINANCIAL INDUSTRIES

The U.S. banking system is large and diverse. With nearly 7,700 banking organizations across the country, the U.S. generally enjoys easy access to financial services. These institutions vary widely in terms of size and business model. CSBS views this diversity as a key strength of our system, which served us well during the financial crisis.

Percentage of Charters by Authority



The state system remains the charter of choice for 73% of banks. The state charter, while home to several large institutions, is home to most of the nation’s community banks. These banks value the ability to work with local officials who understand the economics and needs of local communities.

Numbers of Charters by Authority

	STATE	%	OCC	%	OTS	%	TOTALS	Change
12/31/2010	5,611	73%	1,386	18%	669	9%	7,666	-355
12/31/2009	5,855	73%	1,465	18%	701	9%	8,021	-293
12/31/2008	6,034	73%	1,540	19%	740	9%	8,314	-393
12/31/2006	6,216	71%	1,723	20%	768	9%	8,707	-1,046
12/31/2000	6,607	68%	2,231	23%	915	9%	9,753	-1,952
12/31/1996	7,676	66%	2,858	24%	1,171	10%	11,705	-1,662
12/31/1992	8,388	63%	3,593	27%	1,386	10%	13,367	
12/31/1986	Hight Point						18,043	
	Change from 1985 to 2010						-10,377	
	Percentage						-58%	
	Percentage per annum						-2%	

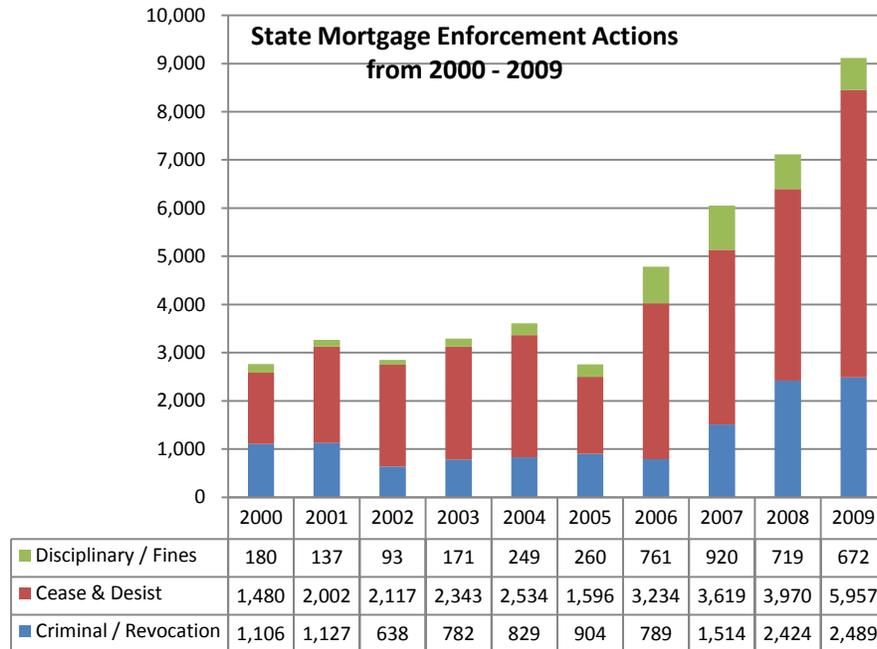
While we maintain a significant number of institutions, the industry has experienced a consistent stream of consolidation. In the last 25 years, we have seen 10,377 institutions disappear. CSBS does not believe that as a country we fully understand all the reasons for this consolidation. We do not believe government policy should be driving consolidation. This is worthy of our consideration to protect the diversity of the system.

While the majority of institutions choose to be state-chartered, the majority of assets are supervised by the Office of the Comptroller of the Currency (OCC). The country’s four largest banks represent 40% of total bank assets and comprise 64% of the OCC’s assets under supervision. As the country continues to enjoy a relatively diverse system, we have witnessed a tremendous consolidation of financial power into just four institutions. This raises significant questions regarding our financial stability and impact on local economies.

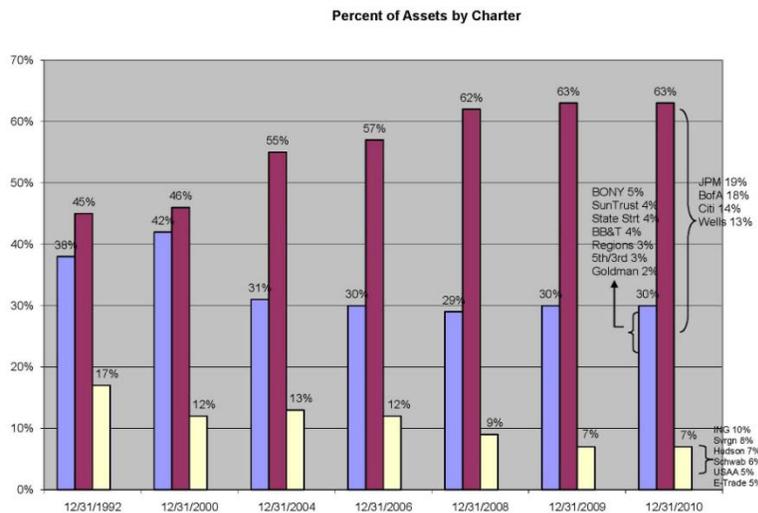
State regulators also oversee a variety of non-bank financial services providers, including mortgage loan originators. In 2010, state regulators utilized NMLS to manage 156,880 unique entities (mortgage companies and individual loan originators) which held 268,775 state licenses from all 58 participating state regulatory agencies.

States have long recognized the need for enhanced supervision and enforcement of the residential mortgage industry, which led to the development and launch of NMLS by state regulators. In addition to creating a supervisory framework for seamless and effective supervision, state regulators and Attorneys General cooperatively enforce state consumer protection laws against mortgage providers. Through several settlements, state regulators have returned nearly one billion dollars to consumers in landmark settlements.

While these cases have received significant public attention, success is sometimes better measured by those actions that never receive media attention. Below is a chart of enforcement actions taken by state regulatory agencies against mortgage providers. In 2009 alone, states took over 9,000 enforcement actions against mortgage lenders and brokers.



Source: LexisNexis Mortgage Asset Research Institute



As the provisions of the Dodd Frank Act, many of which are highlighted in this report, are implemented, we must be mindful on the changes they may cause in the structure of our financial system and individual institutions. With the legislation's focus on systemic risk, large bank and non-bank firms are faced with the prospect of restructuring business lines and balance sheets. These changes will likely have both positive and negative effects

on the broader financial system. Over the next few years, CSBS will be monitoring these changes and the challenges and opportunities presented to community and regional banks. This will have direct impact on the economic growth of local economies.

CSBS DIVISION REPORTS

LEGAL AND LEGISLATIVE DIVISION REPORT

Overview

Through regular interactions with Congress, regulatory agencies and other organizations concerned with financial services and consumer protection, CSBS's legal and legislative division monitors legal and legislative developments to identify policies and policy proposals potentially affecting state bank supervision and regulation.

CSBS provides state regulators with analyses of relevant legislative proposals and, through the CSBS Legislative Committee, develops policy positions on legislative proposals that could have a significant impact on state regulation of financial services. The CSBS Legislative Committee, chaired by Charles Cooper, the banking commissioner of the Texas Department of Banking, also provides a setting for CSBS staff and its regulator membership to formulate pro-active legislative proposals.

In addition to providing legal support for the operations of CSBS and its affiliates, the CSBS legal and legislative division monitors litigation affecting state authority and the operation of applicable state law on financial services providers. In past years, CSBS has submitted *amicus* briefs in seminal cases involving preemption of state law, including *Watters v. Wachovia* and *Cuomo v. Clearinghouse*. With the changes to national bank preemption that will take effect in July 2011, CSBS expects a lot of activity in this area for several years to come. Additionally, staff provides support to counsels in the state banking departments on a variety of legal issues. Since the passage of Dodd-Frank, this work has focused on Dodd-Frank interpretive and implementation issues.

Highlights

The past few years have seen unprecedented legislative activity affecting the U.S. financial regulatory landscape. In the aftermath of the financial crisis, Congress brought to an end almost 18 months of work with passage of Dodd-Frank in July 2010. Going into the regulatory reform debate, CSBS sought to represent state banking regulators' support for a financial regulatory system that helps state regulators carry out their responsibilities by bringing together multiple regulatory perspectives, maintaining local accountability, and providing appropriate mechanisms for coordination and collaboration with federal banking and financial regulators.

From the perspective of state banking and financial regulators, Dodd-Frank is a re-affirmation of the value of the dual-banking system and of the importance of diversity in the financial services industry. Congress explicitly rejected regulatory structures—such as a single federal banking regulator—that would have accelerated industry consolidation and significantly marginalized state regulation and state-chartered banks. Similarly, Dodd-Frank presents the

opportunity for a new state-federal dynamic that recognizes the important role of state regulation. While CSBS and state regulators still face significant challenges in navigating the new federal regulatory regime, the opportunities are significant as well. With the passage of Dodd-Frank, state banking regulators could have a major role in shaping financial consumer protection, as well as the chance to have a greater role in systemic risk supervision going forward.

Because of the breadth of proposed regulatory reform, the CSBS Legislative and Regulatory Committees jointly established working groups to develop specific policy positions on several key reform issues, including consumer protection and systemic risk. Each working group's deliberations were lively and thoughtful, as different commissioners brought to bear a variety of perspectives and concerns. At the end of the process, the Legislative and Regulatory Committees and, subsequently, the CSBS Board of Directors, approved positions: 1) expressing the need to end "too big to fail" with tougher regulation and clear resolution processes and authorities; and 2) supporting the creation of a federal consumer financial protection agency in concept, provided that states retain the ability to set tougher standards and expressing concern about separating prudential and compliance examination functions. CSBS is pleased that, thanks to the untiring efforts of CSBS members, the new law meets the mandates expressed by the CSBS Board of Directors.

Informed by the policies developed by the CSBS Legislative and Regulatory Committees, CSBS testified several times on regulatory reform and submitted letters on key positions. Additionally, throughout the legislative process, the members of CSBS were very engaged with House and Senate members on both sides of the political aisle on several issues of significance to the dual-banking system and state regulators. Dodd-Frank contains several provisions reflecting the input and accomplishments of state banking regulators. Some provisions of Dodd-Frank of particular interest to CSBS and its membership include:

- Applicable State Law: Dodd-Frank seeks to reset national bank preemption to the pre-2004 standard, providing that state consumer protection laws are a floor to tougher state standards. The law provides for a case-by-case carve-out for federal banks and thrifts where a state consumer financial law prevents or significantly interferes with authority granted to a national bank or thrift.
- State Enforcement with Visitorial Authority: The law codifies the Supreme Court *Cuomo v. Clearinghouse* decision. The law does not include language proposed by some House members that would have eroded the ability of state regulators and law enforcement officials to enforce federal consumer protection standards against national banks and thrifts.
- "Too Big to Fail": Dodd-Frank includes language closing the thrift deposit loophole in the 10 percent nationwide deposit cap that was included in the original Riegle-Neal Interstate Branching Act of 1994. As a result, banks and thrifts are now uniformly subject to the 10 percent nationwide deposit cap.

- De Novo Branching: Dodd-Frank also provides for nationwide interstate de novo branching for all federally insured depositories, eliminating the disparity between bank and thrift branching powers.
- Lending Limits: The law preserves state banking regulators' authority to set and interpret state lending limits for state-chartered banks. Earlier legislative proposals would have applied national bank lending limits to all banks, regardless of charter. However, under Dodd-Frank, if a state-chartered institution wants to engage in derivative transactions, the state lending limit must take derivative transactions into consideration.
- Valuation of Waived Dividends in Mutual Conversions: The law includes language that ends, going forward, Office of Thrift Supervision (OTS) policy that essentially allowed for the enrichment of "insiders" at the expense of the depositors of formerly depositor-owned mutual banks.
- State Regulator Membership on the FSOC: The law includes state banking, securities and insurance commissioners as non-voting members of the FSOC. California commissioner William (Bill) Haraf represents state banking regulators on the FSOC.
- Establishes a Federal Consumer Financial Protection Bureau: Importantly, Dodd-Frank calls upon this new consumer protection regulator to coordinate and collaborate with state regulators. Additionally, during CSBS's work to develop policies around the proposed CFPB, members expressed concerns about regulatory structures that separate consumer compliance from safety and soundness supervision—concerns that were addressed by the provisions in Dodd-Frank that leave consumer protection supervision for institutions below \$10 billion in assets with the prudential regulators.



Charles Cooper, banking commissioner of the Texas Department of Banking, is chair of the CSBS Legislative Committee.

In conclusion, CSBS was successful in ensuring that Dodd-Frank preserves the importance and benefits of our dual-banking system. In fact, a major theme that runs throughout the legislation is the importance of the dual-banking system, the vital perspective that state regulators bring to bear, and the cognizance that community banks are very different from larger institutions. In particular, the structure of the CFPB, FSOC, and the OCC preemption language all reflect the general tenor and thrust of the legislation which is respectful of the prominent role that states play. Given some of the initial proposals emanating from the prior administration and the Senate, this is a seminal achievement.

Other Legislative Updates

CSBS Washington Legislative and Regulatory Fly-In. In March of 2010, CSBS hosted its annual Washington Fly-In, bringing over 30 state banking commissioners to Washington for meetings with key members of the House and the Senate and with senior officials at the Federal Reserve and the FDIC. Among the highlights of the Fly-In were sessions with Treasury Assistant Secretary for Financial Institutions Michael Barr and FDIC Chairman Sheila Bair and a meeting with Federal Reserve Chairman Ben Bernanke and the entire Board of Governors of the Federal Reserve.

Testimony on Commercial Real Estate Stabilization Legislation. On July 29, 2010, Iowa Superintendent of Banking and CSBS Chairman Tom Gronstal testified before the House Financial Services Committee on Representative Walter Minnick's Commercial Real Estate Stabilization Act (CRESA), which seeks to create liquidity in the commercial real estate (CRE) market, support small businesses, and foster job growth. Gronstal praised the proposed legislation for its efforts to restore stability and certainty in the market, but recommended that state bank regulators be represented by the program's Oversight Board, given CRESA's stated focus on smaller institutions and state bank regulators' knowledge of local economies.

CSBS Legal Conference. In August 2010, CSBS hosted its annual Legal Conference in Sacramento, California. Coming shortly on the heels of passage and enactment of Dodd-Frank, the 2010 Legal Conference provided attorneys from the state banking departments with an opportunity to learn about Dodd-Frank and its effects on state regulation. Additionally, the Legal Conference included discussions on practice tools and strategies.

Small Business Lending Fund Act. In late September, the President signed the Small Business Lending Fund Act. The law creates a \$30 billion fund to provide capital for banks with assets under \$10 billion to increase their small-business lending. This program will be administered by the Treasury Department in consultation with the federal banking agencies. Additionally, the requirements of this program include consultation with state banking supervisors when an applicant is a state-chartered institution. Capital treatment for this program remains to be determined, though members of Congress have urged capital provided under this program to be treated as Tier I capital. The law also creates a State Small Business Credit Initiative that provides federal funding for state small business lending funds.

Outlook for 2011

In the wake of Dodd-Frank, the 112th Congress is unlikely to adopt major financial services legislation or legislation that makes significant changes to the structure and requirements established by Dodd Frank. Moreover, the fact that the House and Senate are controlled by different parties and the highly partisan atmosphere that pervades every policy debate make consensus on financial services issues even more difficult. As a result, this session of Congress likely will be dominated by active and rigorous oversight of Dodd-Frank implementation. All of this means that necessary but difficult work on issues such as the future of the housing system, including the housing Government Sponsored Enterprises, will be left to future Congresses.

For CSBS, this means continued work to ensure that Congress's work in overseeing and understanding implementation of Dodd-Frank recognizes the important state-federal balance reflected in Dodd-Frank. Additionally, CSBS will be focused on preserving this balance in the face of possible legislative efforts to undo portions of Dodd-Frank. Furthermore, CSBS's work with Congress will remain focused on preserving the dual-banking system and preserving and promoting the role of state banking and financial regulators.

CSBS DIVISION REPORTS

REGULATORY POLICY DIVISION REPORT

Overview

The CSBS regulatory division is divided into two groups: regulatory policy and supervisory processes. The regulatory policy group is a forceful advocate for the state banking system, providing the state perspective on federal regulatory policy proposals that directly affect state-chartered banks and state banking supervisors. Further, the regulatory policy group facilitates state representation on the FFIEC, the coordinating body of the federal banking agencies, and coordinates efforts among the state banking departments on supervisory related issues.

Regulatory Reform

During 2010, the regulatory policy team provided critical support to the CSBS legal and legislative staff during the passage of Dodd-Frank. Regulatory policy staff assisted in providing analysis of different proposals and assessing the potential impact on the industry and state supervisors. Importantly, staff advised on the Collins Amendment, which provides an avenue to significantly alter a bank's ability to augment capital through trust preferred securities. Staff also assisted with solutions to the drive to nationalize the legal lending limit. The limit is designed to curtail the amount of risk a bank can assume with any specific counter party and has been the exclusive prerogative of the chartering authority since the advent of lending limits. CSBS worked to preserve states' rights by including a provision that permits a state-chartered bank to engage in a derivatives transaction if the state's lending limit provides for consideration of derivatives.

Following the passage of Dodd-Frank, staff has provided regular briefings to the states on implementation. Dialogue with the states has been productive in identifying implementation challenges and developing an understanding of the full impact of this historic piece of legislation.

The legislation created two new instruments of the federal government: the CFPB and the FSOC. The CFPB is charged with enforcing federal consumer financial laws and developing rules and disclosures to protect consumers utilizing financial products. The Bureau has extensive and broad power over consumer financial services. As the Bureau is being formed, CSBS staff has facilitated dialogue with CFPB staff to ensure they understand the valuable and critical role the states play in consumer protection. As a first step in streamlining the supervisory process between the states and CFPB, the CFPB signed an MOU with CSBS and several states in January 2011. The agreement provides a framework for coordination and information sharing, which the states and the CFPB can build upon as they move forward. As the CFPB has direct supervisory authority over banks with \$10 billion or more in assets, staff has begun to facilitate communication between the CFPB and states which charter these institutions. The goal is to develop a coordinated supervisory approach similar to what the states have with the FDIC and

Federal Reserve for safety and soundness examinations. This approach benefits the states and the entities they supervise by effectively deploying resources and minimizing regulatory burden.

The FSOC is responsible for monitoring the risk within the financial system, identifying gaps in supervision, and designating non-bank companies to be subject to enhanced supervision. In addition to a host of federal regulators which serve on the Council, there are three state regulators that serve as non-voting members. The state members represent state banking, insurance, and securities departments. The state banking supervisors, through CSBS, appointed William (Bill) Haraf, California commissioner of the Department of Financial Institutions, to serve as their representative. Commissioner Haraf is supported in his FSOC duties by three CSBS staffers who operate under secondment and confidentiality agreements. While the work of the Council is focused on establishing its processes and meeting short-term statutory deadlines, the long-term work of this group will be critical to the financial system.

To provide commissioner Haraf with a broader perspective, the CSBS Board of Directors appointed a Financial Stability Task Force. While information from the FSOC may not be shared, the task force does provide a forum for discussion of issues that are important to state supervisors. This provides commissioner Haraf with valuable insights as he approaches the work of the FSOC. The task force is also providing valuable information to CSBS staff, assisting in shaping broader policy, and identifying critical issues for broader deliberation with the CSBS Board of Directors and the broader membership.

Policy Initiatives

The ongoing work of the regulatory policy team is to identify and analyze federal policy and its potential impact on state supervision, the banking and mortgage industries, and consumer protection. Policy positions are determined by the CSBS Regulatory Committee, which is chaired by Mark Kaufman, Commissioner of the Maryland Office of Financial Regulation. The regulatory response to the financial crisis and early implementation of the Dodd-Frank Act has required extended staff time and contact with the states to develop policy and respond to proposals. Key letters to the federal regulatory agencies include:

- FDIC on incentive compensation;
- Treasury on Troubled Asset Relief Program (TARP) and the Small Business Lending Fund;
- Interagency on recommendations for changes to the Community Reinvestment Act;
- Federal Reserve on revisions to the Home Mortgage Disclosure Act (HMDA) data;
- Federal Reserve calling for broader exemptions from Regulation Z for portfolio lenders; and
- FASB opposing fair value accounting.

A comprehensive list of CSBS comment letters filed in 2010 can be viewed at <http://admin.csbs.org/regulatory/policy/Pages/CSBS-Comment-Letters-2010.aspx>.

The policy process to evaluate these and other proposals serves to inform the states and advocate for regulatory policy that serves all communities.



Mark Kaufman, commissioner of the Maryland Office of Financial Regulation, is chair of the CSBS Regulatory Committee.

To influence the federal approach sooner, CSBS has initiated advance policy work on major issues. State supervisors have developed a policy position on core and brokered deposits in anticipation of the FDIC's required study. CSBS is also engaged in ongoing discussions regarding risk retention. This is a significant requirement of Dodd-Frank with the potential to fundamentally change the delivery channel of financial services. In addition, CSBS will be facilitating policy development in the area of capital requirements in anticipation of significant changes.

While community banks fared reasonably well in Dodd-Frank, significant changes in the economy and increasing regulatory burden have raised significant concerns about the future viability of the business model. Community banks play a critical role in providing access to credit and fueling local economic development. A regulatory structure that allows community banks to thrive and innovate is not only in the interest of state officials, but our broader financial stability. With most of the 7,700 banks in the country operating as community banks and 73% of the banks holding a state charter, state regulation is key to the existence of these banks. The loss of community banking would be a serious setback for a state's ability to provide a platform for economic development. This will be a critical area of focus for CSBS in 2011.

Federal and State Coordination

Working with the CSBS supervisory processes staff, the regulatory policy staff facilitates coordination between the states and the federal banking agencies. In this challenging environment, CSBS has been fully engaged in advising the states of various regulatory approaches, and when necessary, assisting in the escalation of cases to the Washington staff of the federal agency. CSBS is also a helpful conduit for the federal agencies when they need input on new initiatives or need to communicate with the states broadly.

CSBS staff continues to facilitate the states' membership in the FFIEC. The Council's mission is to facilitate a common approach to supervision, policy, and examiner education. CSBS staff in the regulatory and professional development divisions provide staff support for the state regulators serving on the Council, task forces, and numerous working groups. Active state involvement in the FFIEC is critical to ensuring a voice for the state system in the development of federal regulatory policy.

Multi-State Mortgage Committee (MMC)

To facilitate coordination between the states, CSBS provides staff support for the MMC, which conducts supervision of mortgage companies that operate in more than one state. The MMC has the ability to risk profile companies, conduct supervision under each state's authority, and implement enforcement actions. The MMC oversaw the implementation of examinations of some of the largest lenders in the country during 2010. State participation ranged from several states engaged in the effort to over 25 participants.

Significant to the effort was the refinement of the risk-scoping mechanism the MMC uses to identify entities that pose risk of compliance errors. The size and complexity of the business operation is weighed, and the overall scope of its branch presence in each state is taken into consideration. Consumer complaints are reviewed and factored into the risk profile, as well as the company's response to those complaints and their final resolution.

The refinement of an all encompassing, technologically superior electronic examination platform continued in 2010 through the CSBS contract with ComplianceEase® for its suite of mortgage compliance software. The significance and benefits of the technology are realized throughout the course of an examination, from the off-site work that occurs prior to the start, through the compilation of the report. This examination enables the regulators to attain a 100 percent penetration of a lender's loan portfolio, while flagging potential compliance violations for review. A surgical approach is then undertaken by examiners who focus on the loans identified through ComplianceAnalyzer® as having potential problems. A comprehensive review by the examiner determines whether or not the violation is in fact valid, whether consumer harm has occurred, and the degree of risk that violation poses to the operations of the company. The examination also addresses issues such as depth of management, adequacy of policies and procedures, processes to identify and prevent mortgage fraud, underwriting procedures (including a determination of ability to repay), and examiner interviews with

borrowers. Regulators' expectations that the industry operate with the ability to produce documentation in a format that is compatible with the platform the state regulators have chosen were widely promoted in 2010.

In addition, an examination manual was created with the purpose of providing examiners in every state with a comprehensive roadmap that considers every aspect of the mortgage lending business model. The MMC felt that a consistent approach for mortgage examinations was necessary. When used as a standard, companies across the country can expect the same level of depth and consistent application of examination techniques, regardless of which of their branches are being regulated.

Several multi-state coordinated examinations resulted in settlements that enabled companies to go forward in a manner that allowed them to satisfy many states' regulatory requirements at once. Previously, companies endured individual examinations and singular negotiations with many states at different times, ultimately resulting in a disparate set of remedies. The new single state point of contact approach allows for a company to reach agreement on remedies with 25 or more states at one time, addressing all concerns, and giving the company a sense of what is necessary to satisfy compliance concerns in a format they can use to improve their operations.

The MMC was approached by the states' Attorneys General in the fall of 2010 to form a partnership in order to effectively examine issues that came to light in the loan servicing industry. Recognition of the single state point of contact approach used by the MMC, as well as strong levels of coordination among the states and the mortgage regulators' ability to quickly mobilize examination teams across the country fit well with the state Attorneys General's desire to complete a timely assessment of the problem. The partnership is significant because it affords both parties the ability to combine resources and skill sets to assess the issues more globally. An information sharing agreement is presently being developed to allow for the sharing of information between the parties in a broad sense, enabling future efforts to proceed seamlessly.

Outlook for 2011

Many of the initiatives in 2010 will continue in 2011 as implementation of the Dodd-Frank Act is in full swing. The direct impact of Dodd-Frank on the largest institutions may lead to a significant restructuring of the industry, as institutions are faced with the cost of being systemic. As highlighted above, community banks will not escape this restructuring. There will be both opportunities and threats which must be addressed.

CSBS DIVISION REPORTS

REGULATORY SUPERVISORY PROCESSES DIVISION REPORT

Overview

The CSBS regulatory division is divided into two groups: supervisory processes and regulatory policy. The supervisory processes group is charged with developing best practices and examination tools to help state regulators achieve their day-to-day responsibilities. The efforts of the supervisory processes group are driven by bank supervision coordination and communication. While the primary focus of the division is safety and soundness examinations, CSBS also supports Bank Secrecy Act (BSA), information technology, and trust and holding company examinations. Additionally, in response to the changing consumer protection regulatory landscape, the supervisory processes group began researching a road map for states on compliance examination procedures for depository institutions. CSBS staff continues to research offsite surveillance options for state examiners to utilize. Staff strives to leverage information and resources gathered by the CSBS Accreditation Program to align best practices and recommendations across the state banking departments.

Facilitated by CSBS staff through the SLC, state regulators continue to participate on interagency or FFIEC examination tools, projects and upgrades. The State Examiner Review Team (SERT) is especially involved in this process and represents the states on interagency examination tool projects, as well as working groups within the FFIEC for the enhancement of commonly-used reporting tools. The MSB Task Force was formed early in 2010 to enhance coordination and communication and to oversee legislative and regulatory initiatives for MSBs.

Committee Work

The supervisory processes group has established a number of committees and working groups to achieve their objectives and develop examination tools for state regulators.

The CSBS State Supervisory Processes Committee (SSPC) is chaired by Iowa bank bureau chief Vaughn Noring. In 2010, the SSPC worked on supervisory initiatives and best practices, and worked to ensure these practices were coordinated with the CSBS Accreditation Program. This coordination ensures that state banking departments utilize the best practices developed by the SSPC. The committee also addressed supervisory issues and challenges that arose from state and federal coordinated supervision, evaluated offsite surveillance programs currently in place throughout the states, as well as products offered by third-party vendors. In 2011, the SSPC will establish minimum parameters and best practices for off-site monitoring. Finally, the committee developed a compliance supervision program. Put simply, the SSPC evaluated and drafted a road map that allows states to either implement a risk management approach or a full-scope compliance review.



Vaughn Noring, bank bureau chief of the Iowa Division of Banking, is chair of the CSBS State Supervisory Processes Committee.

The CSBS Technology Committee is chaired by Danny Ragan, Louisiana Information Technology director, and is charged with developing information technology (IT) best practices and information sharing between the states. The committee developed monthly IT surveys to collect timely information on a regular basis from all states, oversaw the development and upgrades to interagency examination tools (such as GENESYS, ALERT, iBEAT, and Examination Tools Suite), and assisted with the development of the program for the 2010 Technology Seminar, hosted by the Federal Reserve Bank of Chicago in November 2010.

SERT is chaired by Doug Hoselton (ND) and Perry Anne Hayward (MS) serves as vice chair. In 2010, SERT saw its membership increase from nine participants to 14, participated in GENESYS version 5.5 acceptance testing and FDIC extranet testing, worked with CSBS staff to enhance the CSBS website to increase examiner usage, finalized and distributed a Loan Participations Job Aid to assist examiners in understanding and analyzing loan participations, and developed a Troubled Debt Restructuring (TDR) Job Aid, which was released for a six-month pilot test by all state banking departments. The pilot launched in January 2011 and will conclude in June 2011. SERT hopes to enhance the Job Aid by collecting examination feedback at the conclusion of the test. In 2010, SERT began representing the states on the Examination Tools Suite (ETS) project, a multi-year IT development initiative underway at the FDIC. SERT's participation on this initiative ensures that the development of new examination platforms work for both state and federal examination processes.

Federal Financial Institutions Examination Council (FFIEC)

CSBS staff facilitates state participation in the FFIEC through the SLC. The supervisory processes group provides staff support for SLC representatives on the following task forces and working

groups: the Task Force on Information Sharing, which promotes the sharing of electronic information among FFIEC agencies in support of the supervision, regulation, and deposit insurance responsibilities of financial institution regulators; the Task Force on Surveillance Systems, which is responsible for the maintenance of the Uniform Bank Performance Report and other surveillance systems; the Task Force on Reports, which manages the various agency information collection forms, such as the Call Report and the Thrift Financial Report; and the Bank Secrecy Act/Anti-Money Laundering (BSA/AML) Working Group, which seeks to enhance coordination of BSA/AML training, guidance, and policy.

Examination Tools

One of the primary functions of the supervisory processes group is to research, evaluate and help develop and implement examination tools for use by state regulators. In 2010, through the committees listed above, CSBS helped facilitate development and improvement of a host of examination tools, including GENESYS, iBEAT, ETS, FDIC Extranet and ComplianceAnalyzer®.

CSBS Website Updates/Improvements

In 2010, the supervisory processes staff worked to enhance the Regulators Only portion of www.CSBS.org website for ease of access and use. Staff established an area on the CSBS website to house all examination resources and tools to include those developed by individual state banking departments. The website has been enhanced to facilitate the secure distribution of information from both state and federal agencies. The supervisory processes staff also developed collaborative sites for the Technology and SERT Committees to enhance member involvement and access to committee work and meeting notes. Staff plans to use the collaborative sites for additional groups and committees.

MSB Supervision

In addition to regulating banks and other insured depository institutions, state banking departments have oversight over a host of financial services providers, including MSBs. The CSBS MSB Task Force was established by the CSBS Board of Directors to enhance coordination of MSB regulatory oversight. Greg Gonzales, commissioner of the Tennessee Department of Financial Institutions, chairs the task force, which is comprised of 16 states. The task force is in the process of reviewing and implementing various priorities, including:

- Coordinating the examination process of MSBs by developing MSB Protocol and Cooperative Agreement for multi-state examination processes;
- Developing a common examination report template for states to utilize on MSB exams;
- Drafting a Model State Law to foster consistency and coordination among state regulators, while also providing protection to the public;
- Developing uniform applications processes to leverage state resources while reducing regulatory burden and cost for the industry;
- Expanding NMLS to allow states to license MSBs with NMLS; and

- Developing guidance documents that are timely and provide state MSB examiners with resources to conduct MSB examinations.



Greg Gonzales, commissioner of the Tennessee Department of Financial Institutions, is chair of the CSBS Money Services Businesses Task Force.

The task force has established two working groups to meet these priorities: the MSB Examination Process Working Group and the MSB Legislative Working Group.

The Examination Processes Working Group is also chaired by Greg Gonzales. In 2010 the working group worked to develop the MSB Protocol for performing multi-state MSB examinations. The purpose of the Protocol is to promote a nationwide framework for cooperation and coordination among state regulators that have concurrent jurisdiction over a multi-state MSB. Once the Protocol is complete, the working group will draft a Cooperative Agreement and examination processes to promote multi-state efficiencies and leverage state resources to conduct multi-state MSB examinations.

The Legislation Working Group is chaired by Joe Smith, commissioner of the North Carolina Office of Commissioner of Banks. This working group was established to review and provide input on legislative issues. The working group commented on two of FinCEN's proposed amendments to the BSA regulations: "Definitions and Other Regulations Relating to Prepaid Access" notice of proposed rulemaking; and the "Cross Border Electronic Transmittal of Funds" notice of proposed rulemaking. Additionally, the working group has identified areas of concern that should have established expectations and requirements found in the Model State Law. The working group is reviewing state laws and will develop a Model State Law to provide consistency among state financial codes.

CSBS staff also coordinated quarterly conference calls with the Internal Revenue Service (IRS) to enhance communication and information sharing between the state regulatory agencies and the IRS concerning MSBs. IRS is developing new methodology for sharing and receiving information from the states on a quarterly basis. Further, CSBS and the Money Transmitter Regulators Association (MTRA) continue to work with the IRS to develop concurrent examination procedures for MSBs.

CSBS Profile of State-Chartered Banking

Each year, CSBS updates the Profile of State-Chartered Banking (the Profile), a truly unique compilation of information regarding the operations and characteristics of the state banking departments. Included in the Profile are numerous state-by-state charts with detailed information on state-supervised financial services providers, assessments and fee structures, salary ranges, state bank statutes, regulations and requirements (including new charter application filing requirements, bank holding company requirements, and interstate branching activities), state-authorized activities (including real estate brokerage and development, securities brokerage, and wild card and parity statutes), trust statutes and chartering requirements, foreign banking information, and BSA examination procedures.

State and federal regulators, bankers, legislators, and others interested in the financial industry can use the information presented in the Profile to identify and understand emerging industry issues and to compare one state's policies and practices to another. This compilation of data does not exist from any other source.

The Profile is available to state banking departments free of charge.

Disaster Planning

The supervisory processes group spearheads CSBS's efforts to have a comprehensive internal policy for disaster preparation, and also to assist states in developing their disaster preparation.

New Commissioner Briefing and Welcome Packets

In 2010, there were nine new commissioners appointed across the nation. CSBS hosts annual meetings to brief new commissioners on the role of CSBS. In 2010, CSBS held a new commissioner briefing in June for the following new commissioners and deputy commissioners:

- Thomas B. Considine, commissioner of the New Jersey Department of Banking and Insurance;
- Garret Komjathy, director of the Division of Banking of the New Jersey Department of Banking and Insurance;
- Stephen S. Pleger, senior deputy commissioner of the Georgia Department of Banking and Finance; and
- Steven A. Strunk, commissioner of the Colorado Division of Banking.

Outlook for 2011

Many of the initiatives from 2010 will continue into 2011 as CSBS continues to support the state banking examination function and coordination with federal agencies. Work will continue to develop compliance examination processes for state banking departments to implement. CSBS staff will further work on the MSB front to enhance state and state-federal coordination and communication. The supervisory processes team will have an important role next year in the development of ETS.

CSBS DIVISION REPORTS

PROFESSIONAL DEVELOPMENT DIVISION REPORT

One of the core functions of CSBS is to enhance the professionalism and knowledge of state financial regulators through training and education programs, certification of examiners, and bank and mortgage supervision accreditation programs. The professional development division of CSBS works to ensure state financial regulators are well informed, highly trained, and held accountable to widely agreed-upon standards of performance.

To perform this core function successfully, state regulators created EFSBS, which is chaired by Jeffrey Vogel, state banking commissioner of the Wyoming Division of Banking. A subsidiary of CSBS, EFSBS was established in 1984 to fund and direct the education and training efforts of the CSBS professional development division. The EFSBS Board of Trustees is comprised of the following individuals: Tracy L. Bergmann of the Iowa Division of Banking; Charlotte N. Buchanan of the Mississippi Department of Banking and Consumer Finance; Scott D. Clarke of the Illinois Department of Financial and Professional Regulation; Carol A. Collison of the Delaware Office of the State Bank Commissioner; James M. Cooper of the Indiana Department of Financial Institutions; Luther Guinn of the Arkansas State Bank Department; Susannah Marshall of the Arkansas State Bank Department; Vaughn M. Noring of the Iowa Division of Banking; Victoria A. Reider of the Pennsylvania Department of Banking; Regina Stone of the New York State Banking Department; Judi M. Stork of the Kansas Office of the State Bank Commissioner; Mick Thompson of the Oklahoma State Banking Department; Robert Venchiarutti of the California Department of Financial Institutions; Charles A. Vice of the Kentucky Department of Financial Institutions; and Ambrose Wilson, IV of the Kentucky Department of Financial Institutions.

The mission of EFSBS is “Enhancing State Financial Supervision”, which is fulfilled by providing:

- Technical examiner training, continuing education and executive programs;
- Department accreditation for bank safety and soundness and mortgage supervision; and
- Examiner certification for multiple levels of expertise and specialty areas.



Jeff Vogel, state banking commissioner of the Wyoming Division of Banking, is chairman of the EFSBS Board of Trustees.

Training and Education

EFSBS provides technical training and education for staff of state regulatory agencies at all levels of experience and expertise, ranging from new examiners to commissioners. In 2010, EFSBS conducted 24 instructor-led online programs, 26 on-site programs, and worked with SRR to produce numerous webinars and the second annual NMLS User Conference & Training, held in San Diego, California, from February 9-11, 2010. The event drew 296 attendees. In 2010 alone, 1,954 state regulators, federal regulators, members of industry and other interested parties participated in the training and education programs developed and hosted by EFSBS.

Recognizing that tight travel restrictions and resource shortages resulting from state budget restrictions in 2010 may have hindered state regulators' ability to maintain high education and training standards, EFSBS took steps to provide a myriad of training programs to state regulators at minimal cost.

First, EFSBS licensed access to a vast library of over 250 online, self-paced training modules from FIS/ComplianceCoach® and made them available to state regulators on Regulatory University, a product of FIS/ComplianceCoach®. This well-vetted training is available at no cost to the states so they can continue to build knowledge and skills. Since the launch of Regulatory University, all states have been registered for access and many are using the system to track user activity and performance. Time spent in courses and test scores achieved can be recorded in training records and for continuing education credits for examiner certification.

EFSBS continues to offer high quality programs at the prices cost-conscious states and industry professional require to maximize the return on training. In fact, EFSBS secured National Association of State Boards of Accountancy (NASBA) and American Institute of Certified Professional Accountants (AICPA) continuing profession education credit for eight on-site programs and 11 online programs. This accreditation reinforces the value of EFSBS programs,

which are offered at decreased costs to maximize access for resource-limited states. EFSBS provided eight special in-state programs on request, which allowed states to provide training opportunities to a far greater number of their staff at significantly lower cost.

Bank and Mortgage Accreditation

In addition to providing training and education programs for individuals employed by state regulatory departments, CSBS also conducts accreditation programs for state bank and mortgage regulatory agencies. The CSBS Accreditation Program seeks to strengthen state regulatory agencies and to demonstrate the high quality of state regulators to the general public, the federal banking agencies, Congress and other state regulatory agencies. The CSBS Accreditation Program is often credited as the most effective tool for advancing state financial regulation.

Beginning in 1984, CSBS developed the Bank Accreditation Program, which was designed to recognize and enhance excellence in state regulation. In 2009, CSBS signed an agreement with AARMR to jointly accredit state mortgage regulators. The development of the CSBS-AARMR Mortgage Accreditation Program is indicative of state regulators ongoing commitment to enhancing supervision of all financial services industries, not just the banking industry. As state regulators work to provide comprehensive supervision of the financial services providers in their state, CSBS has expanded its focus beyond the realm of traditional banking supervision.

Today, the Bank and Mortgage Accreditation Programs involve a comprehensive review of the critical elements that assure the ability of a state banking department or mortgage agency to discharge its responsibilities through an investigation of its administration and finances, personnel policies and practices, training programs, examination policies and practices, supervisory procedures, and statutory powers. In setting high standards, CSBS is supporting public interest goals by identifying highly competent state regulatory agencies and strengthening the capabilities of all state regulators.

In the 26-year history of the CSBS Bank Accreditation Program, a total of 47 state banking departments have achieved and maintained the rigorous standards set forth by the program. As of year-end 2010, a total of eight state mortgage regulatory agencies have achieved and maintained the requirements of the CSBS-AARMR Mortgage Accreditation Program.

Examiner Certification

Yet another way CSBS achieves its goal of enhancing the professionalism of state regulatory departments and their personnel is through the Examiner Certification Program. Through EFSBS, CSBS offers 13 examiner certifications, including safety and soundness, mortgage, and specialty certifications to recognize examiners who have attained expertise in specific areas of supervision.

The certifications include: Certified Operations Examiner (COE), Certified Credit Examiner (CCE), Certified Examiner-In-Charge (CEIC), Certified Examinations Manager (CEM), Certified Information Systems Examiner (CISE), Associate Certified Information Systems Examiner (ACISE), Certified Trust Examiner (CTE), Certified Consumer Compliance Specialist (CCCS), Certified Anti-Money Laundering Specialist (CAMLs), Certified Mortgage Examiner (CME), Certified Senior Mortgage Examiner (CSME), Certified Mortgage Examinations Manager (CMEM), and Certified Mortgage Investigator (CMI).

The Examiner Certification Program continues to grow as states use it to document and recognize the professionalism of their staff with their legislatures and other state and federal regulators. In many cases, states have also secured salary and bonus increases to staff who maintain their certified status with continuing education and job performance. At the end of 2010, 863 examiners from 36 regulatory agencies in 35 states held one or more of the 13 examination or specialty certifications listed above.

Outlook for 2011

Although 2010 presented tremendous challenges, CSBS adapted to provide training and education programs for state personnel. In addition, state regulators maintained their commitment to providing the best possible oversight of their supervised entities and were able to achieve department accreditation and examiner certification.

Dodd-Frank contains new requirements for consumer compliance and an opportunity for states to take the lead in protecting their citizens. To adapt to the new regulatory environment:

- CSBS and AARMR will integrate the new compliance examination requirements into the Bank and Mortgage Accreditation Programs;
- EFSBS will promote the use of the Regulatory University online learning modules;
- CSBS will develop and deliver new examiner training programs on compliance with federal laws and regulations; and
- States will be called upon to share their expertise with their counterparts through education and training programs.

CSBS DIVISION REPORTS

MORTGAGE DIVISION REPORT

CSBS, in cooperation with AARMR, established SRR in September 2006. SRR was created to develop and operate nationwide licensing systems for state regulators in the financial services industry. Such licensing systems are intended to enhance a state's ability to protect consumers, improve supervision and enforcement of licensed entities, and streamline licensing and other processes through the use of modern technology and centralization of redundant state agency operations.

SRR currently operates NMLS. Developed by state mortgage regulators and launched on January 2, 2008, NMLS is a web-based system that allows state-licensed mortgage lenders, mortgage brokers, and loan officers to apply for, amend, update, or renew a license online for all participating state agencies using a single set of uniform applications.

CSBS staff in the mortgage division is responsible for maintaining NMLS and receives direction from the SRR Board of Managers, which is chaired by Gavin Gee of Idaho.²



Gavin Gee, director of the Idaho Department of Finance, is chairman of the State Regulatory Registry Board of Managers.

² SRR is governed by a seven-member Board of Managers comprised of state banking and thrift commissioners and a representative of AARMR. The SRR Board of Managers is responsible for all development, operations and policy matters concerning NMLS.

The SRR Board of Managers is comprised of the following individuals: John S. Allison of the Mississippi Department of Banking and Consumer Finance; David J. Cotney of the Massachusetts Division of Banks; Darin Domingue of the Louisiana Office of Financial Institutions; John P. Ducrest of the Louisiana Office of Financial Institutions; Douglas Foster of the Texas Department of Savings and Mortgage Lending; Garret Komjathy of the New Jersey Department of Banking and Insurance; and Charles A. Vice of the Kentucky Department of Financial Institutions.

2010 was an extraordinary year for SRR and NMLS in many ways. The 2010 accomplishments discussed are part of a multi-year coordinated state effort through CSBS and AARMR to increase consumer protection, enhance state supervision, and streamline the licensing process in the residential mortgage industry. For more information, see the 2010 State Regulatory Registry LLC Annual Report at <http://www.csbs.org/mortgage/Pages/AboutSRR.aspx>.

A total of 24 state agencies, including most of the populous states, transitioned their licensees onto NMLS for a total of 58 agencies from all states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands. All states have required licensees to meet state law requirements contained in the SAFE Act. NMLS functionality was enhanced to meet many of the SAFE Act requirements and preparations were made for NMLS to register individual mortgage loan originators (MLOs) who work for an insured depository, an owned or controlled subsidiary regulated by a federal banking agency, or for an institution regulated by the Farm Credit Administration. In July 2010, SRR entered into a contract with the federal banking and farm credit agencies to make those enhancements, and the federal agencies issued the final rules implementing SAFE Act requirements for MLO registration on July 28, 2010. This registration process began on January 31, 2011. In addition, the NMLS Consumer Access website was launched in January 2010 to provide state licensing information to the general public. By year-end 2010, 400,000 visitors viewed over 14 million pages on the NMLS Consumer Access website.

NMLS User Conference and Training

In February 2010, NMLS conducted its second annual NMLS User Conference & Training. The conference brought together state regulators, as well as industry professionals, compliance companies, top law firms, and education providers to learn about the latest developments in mortgage supervision and to discuss pressing issues confronting the industry. Nearly 300 individuals attended the event held in San Diego, California.

NMLS SAFE ACT Mandates

Throughout 2010, NMLS continued to add new functionality to implement the requirements of the SAFE Act, including:

- An automated, streamlined federal criminal background check process that includes a national network of over 577 sites for capturing fingerprints electronically;

- The launch of NMLS Consumer Access, a website that provides consumers with basic information concerning state-licensed MLOs, free of charge; and
- The ability for MLOs to request a credit report that is stored and viewable by state regulators in NMLS.

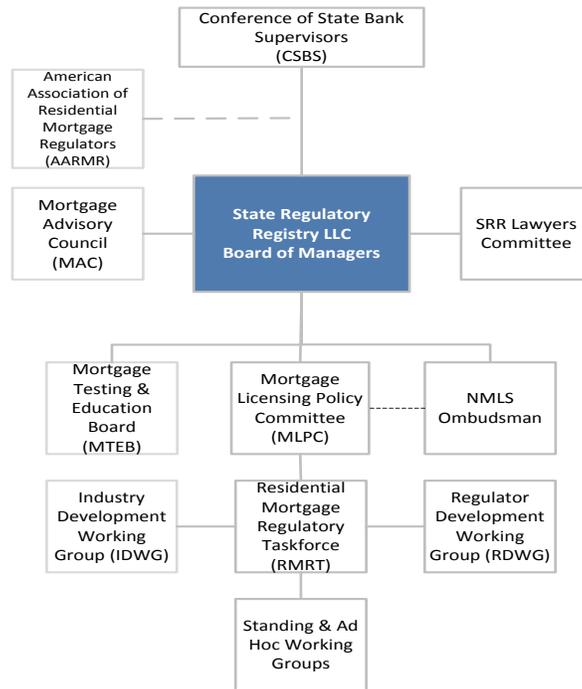
In 2011, those efforts are being continued, most specifically with the roll-out of the Mortgage Call Report functionality.

Testing and Education

In 2010, NMLS developed 27 additional unique state test components for MLOs, for a total of one national and 52 individual state test components. NMLS administered more than 368,000 test components during 2010, bringing the total number of tests administered since July 2009 to 395,849. Over 90 new course providers were approved by NMLS in 2010 and close to 2 million hours of education were delivered through NMLS-approved courses.

SRR Committees, Task Forces and Working Groups

The work of numerous committees, task forces, and working groups composed of state regulators contributed greatly to the achievement of these milestones.



NMLS – SRR Organization Chart

NMLS Ombudsman

The Ombudsman provides the mortgage industry and other interested parties with a neutral venue to discuss issues or concerns regarding NMLS and/or mortgage licensing. The objective of

the Ombudsman is to foster constructive dialogue between industry users of NMLS and state regulators to mutually work toward the goal of modern and efficient mortgage regulation.

Mortgage Licensing Policy Committee

In 2008, the SRR Board of Managers created the Mortgage Licensing Policy Committee (MLPC) to assist in decision-making and handling operational and policy matters related to NMLS operations and development. The MLPC is comprised of 11 state mortgage regulators representing each of the five CSBS Districts.

Mortgage Testing and Education Board

In 2009, the SRR Board of Managers created the Mortgage Testing and Education Board (MTEB). MTEB is comprised of nine state regulators representing each of the five CSBS Districts and at least one AARMR representative.

Mortgage Advisory Council

In 2008, the SRR Board of Managers created the Mortgage Advisory Council (MAC) to provide industry input on NMLS policies and operations. MAC members consist of mortgage lenders and brokers and industry trade associations and meets periodically with the SRR Board of Managers or the MLPC.

SRR Lawyers Committee

In 2010, the SRR Board of Managers created the SRR Lawyers Committee. Committee members are comprised of attorneys from state mortgage regulatory agencies. The committee typically meets bi-weekly to identify and analyze legal issues related to NMLS operations with the intent of helping SRR spot potential legal issues from a state agency perspective and help shape solutions before they are incorporated into the System. The committee also helps provide a multi-state perspective on issues of interpretation and offers recommendations in order to facilitate a more uniform application of law on a nationwide basis. The committee, however, does not provide SRR with legal advice.

Residential Mortgage Regulatory Taskforce

In 2005, the Residential Mortgage Regulatory Taskforce (RMRT) was created and includes representation from every state mortgage regulatory agency. The RMRT typically meets monthly to guide and discuss NMLS policy, process, and development.

Regulator Development Working Group

In 2006, the RMRT created the Regulator Development Working Group (RDWG), which is comprised of mortgage regulators representing a minimum of five states. RDWG typically meets weekly and serves as regulatory subject matter experts on NMLS detailed requirements and the development process.

Industry Development Working Group

In 2006, the Industry Development Working Group (IDWG) was created, which is comprised of

NMLS industry users. IDWG typically meets monthly to discuss NMLS operations, enhancements and development issues.

Outlook for 2011

In the next several years, SRR will continue its focus on continued implementation of and compliance with the SAFE Act and will work with the federal banking agencies, Farm Credit Administration, and the CFPB to register MLOs.

Improvement of existing NMLS functionality, operations, and services remains a top priority and plans also call for the expansion of NMLS into other non-depository industries.

CSBS DIVISION REPORTS

COMMUNICATIONS DIVISION REPORT

Overview

2010 was a prolific year for the CSBS press office, as staff continued to publicize the many initiatives and successes of state regulators by issuing 62 press releases in addition to the weekly *CSBS Examiner* newsletter. CSBS also continued to submit op-eds to media outlets and produced a number of statements on timely issues such as preemption, small business lending, financial assistance to those affected by the Deepwater Horizon Oil Spill, and the passage of the Dodd-Frank Act. Additionally, the states have also joined their federal counterparts in a number of regulatory statements and guidance documents, leading to more interagency press releases. The communications staff noted a marked increase in mentions of CSBS in articles and press pieces, and the number of reporter inquiries received has also risen dramatically, which is a result of staff efforts to increase and enhance media contacts to get CSBS's message more broadly publicized.

The ongoing implementation of the requirements of the Dodd-Frank Act have created an ever-changing regulatory landscape and pushed state regulators to the forefront of reform efforts. CSBS and state regulators have garnered more media attention than ever before, and CSBS has worked to craft public messages and utilize interaction with the media to spread CSBS's message.

Specific Initiatives

CSBS Public Information Officer (PIO) Work Group. The CSBS PIO Work Group was launched in January 2010, and serves as a forum to discuss critical issues at the state level and to formulate strategies for issues that receive national media attention. The group is chaired by Edward Novak, the director of communications of the Pennsylvania Department of Banking, and has representatives from 18 states. The PIO Work Group kicked off its first year by producing a model op-ed on preemption for use by commissioners, the "State of the State" presentation template for commissioners to provide presentations on the state of the local financial industry, and talking points and model press releases on additional issues, such as meeting licensing deadlines imposed by the SAFE Act.

CSBS Summer Communications Intern. The PIO Work Group created a *Media Dos and Don'ts* document which served as the starting point for a larger project taken on by CSBS's summer communications intern. The intern developed a *State Regulators' Basic Guide to Successful Media Interactions*, a useful collection of documents encompassing a wide range of public relations subjects. From media policy to newsletters, press kits to op-ed pieces, a *State Regulators' Basic Guide to Successful Media Interactions* serves as a "PR department in a box" for those without a public relations employee or department and as a refresher or contingency plan for those who do.

NMLS Consumer Access. In January 2010, NMLS Consumer Access—a fully searchable website that allows the general public to view information concerning state-licensed mortgage companies, branches, and individuals licensed through NMLS—was launched. Communications staff worked closely with the mortgage staff to organize a series of briefings and demonstrations of NMLS Consumer Access for interested parties. Briefings were provided to media, federal regulators, industry representatives, and consumer protection groups.

Multi-State Settlement Agreement. CSBS and AARMR announced and organized a media briefing on March 24 on the settlement agreement between CitiFinancial and 35 states. The briefing provided remarks by a number of state commissioners, including Steve Antonakes (MA), Deb Bortner (WA), Mark Kaufman (MD), and Mark Pearce (NC), in addition to CSBS's John Prendergast. An array of media outlets published pieces on the settlement agreement, including the American Banker, the Associated Press, Reuters, the Wall Street Journal, and the Washington Post.

Media Training Webinar. On July 20, 2010, CSBS organized a media training webinar, conducted by Aileen Pincus of the Pincus Group. The webinar was attended by staff from 16 states and offered to provide general guidance on dealing with the media, which would become critical in the wake of financial regulatory reform.

The Dodd-Frank Act. Upon final passage of the Dodd-Frank bill in the Senate, CSBS immediately issued a statement commenting on the landmark legislation as a re-affirmation of the unique dual-banking system. In addition, CSBS staff hosted a series of briefings for state regulators on the most vital aspects of the legislation, which was signed into law by President Obama on July 21, 2010.

CSBS-NAIC-NASAA Joint Press Release on FSOC Representatives. On September 23, 2010, CSBS, the National Association of Insurance Commissioners (NAIC) and the North American Securities Administrators Association (NASAA) issued a joint press release announcing their representatives to serve on the FSOC. Created by Dodd-Frank, the FSOC has been tasked with coordinating financial regulators in order to identify systemic risks to the nation's financial stability. As previously mentioned, William (Bill) Haraf, commissioner of the California Department of Financial Institutions has been named the representative for state bank regulators.

State Investigation of Foreclosure Practices. On October 13, 2010, state bank regulators, state mortgage regulators and state Attorneys General announced the creation of a working group to address foreclosure practices conducted by some mortgage servicers. State bank and mortgage regulators are participating in the multi-state working group both individually and through the CSBS-AARMR MMC, which the administration and federal regulators have both publicly supported. The foreclosure issue continues to garner a tremendous amount of media attention.

Information Sharing MOU with CFPB. On January 4, 2011, CSBS, several states and the CFPB implementation team housed within the U.S. Department of the Treasury announced the signing of an information sharing MOU to establish a foundation of state and federal coordination and cooperation for supervision of providers of consumer financial products and services. State regulators and the CFPB will endeavor to promote consistent examination procedures and effective enforcement of consumer laws and to minimize regulatory burden and efficiently deploy supervisory resources. In the press release issued by CSBS and the Treasury Department, then-Chairman of CSBS Tom Gronstal said “the formalized coordination between the states and the federal government established by the MOU will do much to create a comprehensive and seamless systemic of financial supervision and is a step toward a more cooperative system of supervision, which will benefit consumers and financial services providers alike.”



Louisiana commissioner John Ducrest, left, Assistant to the President and Special Advisor to the Secretary of the Treasury on the CFPB Elizabeth Warren, center, and former Iowa superintendent Tom Gronstal, right, sign the information sharing MOU between CSBS and the CFPB.

Credit: Joshua Roberts / Bloomberg via Getty Images.

Outlook for 2011

Looking forward to 2011, the communications division intends to complete a number of projects to best coordinate our public message to highlight the tremendous work achieved by state regulators and CSBS. The internal communications with Commissioners and their staff will continue to be a priority for CSBS staff, though a new emphasis on external communications will hopefully enhance our profile with media outlets and policymakers, both in Washington, DC and at the state level.

Staff will continue to work with all divisions of CSBS to publicize the tremendous work which is being performed by state regulators and CSBS staff to enhance the system of state financial supervision.

CSBS DIVISION REPORTS

MEMBERSHIP DIVISION REPORT

CSBS stands firm in its commitment to advancing professionalism in all state regulatory departments. The regulator membership sets CSBS apart from other Washington organizations. One of the greatest strengths of CSBS lies in bringing all state regulators together to present a unified voice in Washington. Through CSBS, state regulatory agencies continue to champion a system that offers competitive chartering options and efficient, effective, and local supervision.

In addition to regulator membership, CSBS also offers bank membership and associate membership for agency and industry vendors.

Regulator Membership

Regulator members of CSBS include all 50 state banking departments, plus those of the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands. The CSBS Board of Directors and its voting members are all regulator members.

Bank Membership

Bank members of CSBS benefit from our work to keep the state banking system strong. Through the Bankers Advisory Board (BAB), bank members bring the industry perspective to CSBS and our regulator members with an eye towards improving the quality of bank supervision. The BAB is co-chaired by Jim Schipper, the superintendent of the Iowa Division of Banking, and Joseph G. Pierce, President and CEO of Farmers State Bank of Lagrange, Indiana. Bank members also have access to our first-class compliance and management training, developed by the professional development division under the direction of EFSBS, CSBS publications and www.CSBS.org to keep bank members fully up-to-date on news impacting the state banking system.

Associate Membership

Associate members receive discounted access to the CSBS Profile of State Chartered Banking, a detailed descriptor of the functions of each state's banking department. Associate membership does not constitute an endorsement by CSBS.

CSBS AND AFFILIATES FINANCIAL AUDITS

The independent accounting firm of Tate & Tryon conducted the annual audit of the CSBS financial statements for the year ending December 31, 2010. The audit report is available on CSBS's website at

<http://www.csbs.org/about/governance/Documents/CSBS2010ConsolidatedFinancialStatements.pdf>.

The results of operations for 2010 were positive with \$16.9 million of net income for the year. Management believes that 2010 was a unique year from an operational and financial standpoint because of SAFE Act deadlines that resulted in significant one-time revenue and expense. Specifically, NMLS processing fee revenues from state-licensed entities, and criminal, testing and education program income are expected to be less in future years. The 2010 financial results provided funding for operations that allowed CSBS to pay off early stage borrowings as well as funding for NMLS enhancements.

The highlights of the audited financial statements are presented below. For 2010, CSBS had total revenue of \$74.2 million, the majority of which came from the following programs: NMLS and other SAFE Act related revenue of \$67.3 million; membership dues of \$5.1 million; and examiner education programs of \$1.2 million. Total operating expenses were \$57.6 million for the year with NMLS operations, testing and education, and regulatory and legislative programs incurring the majority of the cost.

Operating activities generated \$24.3 million of cash in 2010. The major uses of cash in 2010 were reinvestment in NMLS and testing and education development of \$9.1 million, while another \$5.0 million was used to pay off outstanding lines of credit. The net increase in cash for the year was \$10.2 million. This excess cash flow is an integral part of financing future technology developments. This is critical as cash flow from operations will most likely not be as significant in future years, while the investment in NMLS development is expected to continue for the foreseeable future.

CSBS 2009 & 2010 Financial Highlights (Audited)

CSBS 2010 and 2009

Financial Highlights

	2010	2009
Cash	13,672,900	3,506,300
Total Assets	39,168,600	21,393,900
Liabilities	16,025,200	15,142,000
Owners Equity	23,143,400	6,251,800
Total Unrestricted Revenue	74,238,900	22,744,500
Total Expenses	(57,560,600)	(21,548,600)
Other Revenue and Expenses	213,300	(25,100)
Net Income	16,891,600	1,170,800

CSBS STAFF

As of August 18, 2011

President and CEO
Mr. Neil Milner, CAE

Executive Vice President
Mr. John Ryan

Administration

Chief Financial Officer
Mr. Tom Harlow, CPA, CAE

Senior Manager, IT/Database
Mr. David Rodgers

Vice President, Information Technology
Mr. Anthony Donfor

Senior Manager, Payroll/Accounting
Ms. Tammy Phan

Director, Accounting
Ms. Rhonda Jackson

Office Assistant
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Manager
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Senior Director and Associate General Counsel
Mr. Sanford (Sandy) Sussman

Senior Vice President and Deputy General Counsel
Ms. Margaret Liu

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Mortgage Administration

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*Vice President, Accreditation and
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