

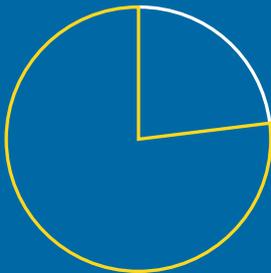


2017

ANNUAL REPORT

CORE MISSION

CSBS supports state regulators in advancing the system of state financial supervision by ensuring safety and soundness; protecting consumers; promoting economic growth; and fostering innovative, responsive supervision.



79%

OF ALL U.S. BANKS
ARE CHARTERED
AND SUPERVISED
BY STATE
REGULATORS

State-chartered banks provide:

1/2



OF ALL U.S. SMALL
BUSINESS LENDING

3/4



OF LENDING IN
RURAL AMERICA



STATES REGULATORS ARE THE SOLE LICENSING
AUTHORITY FOR NONBANK FINANCIAL SERVICES
COMPANIES (*mortgage providers, money services
businesses and consumer finance companies*).



LETTER

FROM OUR PRESIDENT & CEO, JOHN RYAN

The Conference of State Bank Supervisors (CSBS) is the nationwide organization of banking and financial regulators from all 50 states, the District of Columbia and the U.S. territories.

State regulators supervise state-chartered banks, which comprise 79 percent of all U.S. banks, and a variety of nonbank financial services, which includes mortgage providers, money services businesses (MSBs), consumer finance companies, payday lenders, check cashers and debt collection firms.

CSBS supports state regulators by serving as a forum for policy and supervisory process development. CSBS also facilitates effective and efficient state regulation through training, educational programs, examiner tools and job aids. CSBS, on behalf of state regulators, also operates the Nationwide Multistate Licensing System to license and register nonbank financial service providers in the MSB, mortgage, consumer finance and debt industries.

I am very pleased with and proud of the accomplishments CSBS achieved in 2017. We built on the programs and services that make CSBS a unique instrument of the states to support and advance state-based financial supervision.

While this report is intended to highlight the major accomplishments CSBS and its members achieved throughout the year, each and every effort we undertake is to ensure safety and soundness, protect consumers, promote economic growth, and foster innovative and responsive supervision.

Sincerely,

John Ryan

THE FOLLOWING IS A LIST OF CSBS 2017

ACCOMPLISHMENTS

VISION 2020

CSBS launched Vision 2020 to advance a more streamlined state regulatory system and create a more consistent approach to licensing and supervision through technology. Vision 2020 initiatives include:

Fintech Industry Advisory Panel:

States and leaders from 33 fintech companies joined together to develop solutions for a multi-state experience, focusing particularly on lending and money transmission.

Next Generation Technology Platform:

CSBS is transforming the licensing process through data and analytics, enabling states to focus on higher-risk cases while streamlining state regulation on a multi-state basis.

Harmonized Multi-State Supervision:

CSBS is developing a new state exam technology platform to standardize the exam process and allow more collaboration and sharing.

State Banking Department Assistance:

CSBS is providing education programs, analytics, stronger accreditation standards and updated supervisory processes to state regulators.

Helping Banks Service Nonbanks:

CSBS is increasing industry awareness of strong regulatory regimes for compliance with anti-money laundering, the Bank Secrecy Act and cybersecurity laws.

Improved Third Party Supervision:

CSBS supports amending the Bank Services Company Act to improve the coordination of state and federal supervision of technology service providers.



OCC LAWSUIT

When the Office of the Comptroller of the Currency (OCC) initially proposed a national charter for fintech firms, CSBS provided formal comments that eventually formed the basis of our legal challenge filed. CSBS stated the proposed fintech charter exceeds its legal authority, distorts the marketplace, and harms consumers and taxpayers by exposing them to the risk of fintech failures. The suit was later dismissed by a federal court as not being ripe for consideration. However, the decision to sue the OCC reflects the gravity and importance this issue holds with our members. It will continue to be a priority as the OCC makes its final decision.

BANK REGULATION

CSBS made recommendations to the U.S. Department of Treasury's staff to discuss ways to improve and streamline bank regulation based on President Trump's Executive Order on Core Principles for Financial Regulation. Several of these recommendations were incorporated in the Treasury's report on depository institutions. The report provided a roadmap for Congress and the federal banking agencies on policy changes, which will allow banks to more easily serve the economic needs of their communities.

CSBS also provided comments on several federal regulatory proposals that impact the U.S. banking system, including:

Capital Simplification:

CSBS recommended the agencies propose more significant changes that would result in a simpler method for calculating risk-weighted assets for non-complex banking organizations.

Appraisals:

CSBS recommended improving interagency appraisal regulation efficiency and reducing regulatory burden. Additionally, state regulators facilitated the Federal Deposit Insurance

Corp., holding roundtables with bankers in six states to better understand the challenges of obtaining timely appraisals in rural areas.

Small Business Lending Data Collection:

CSBS explained the Consumer Financial Protection Bureau's (CFPB) small business lending data collection would likely impede small business lending due to the lack of transparency around the use of the data in the exam process and the cost of compliance.

These comment letters have proven to have an impact on policy. In 2016, CSBS commented on the CFPB's Small Dollar Lending Rule, clearly stating the proposal would pose challenges for community banks to serve their communities. When the CFPB issued the final rule in 2017, it contained much of what we asked for — including a carve out from the rule's requirements for community banks that make fewer than 2,500 covered loans and derive no more than 10 percent of their revenue from such loans.

While traditionally focused on federal proposals, CSBS began tracking state regulatory relief initiatives to provide a ready list of ideas for other states to consider. We also developed numerous data analytics products and tools to help state regulators, including:

- Consolidated Industry Dashboard
- Bank Outlier Dashboard
- Bank At-A-Glance Dashboard
- Accreditation Dashboard
- Examiner's One-Pager
- State Interactive Dashboard
- Money Service Business Call Report Analytics
- Servicing Examiner's Workbook
- Non-Depository Mortgage Company Business Model Analysis
- Risk Monitoring Model Research Project

CSBS also maintains other data products and tools, including a comparative analysis of salaries of state banking department employees and their federal counterparts. This is a very valuable report as states work to ensure examiner compensation is competitive.

LEGISLATION

States continued to be an important voice in Washington, as evidenced by Texas Department of Banking Commissioner Charles Cooper's congressional testimony in June.

Tailored community bank regulation and supervision continued to be a major public policy priority for CSBS and its members. Staff worked closely with congressional committees on the Economic Growth, Regulatory Relief and Consumer Protection Act (S.2155), which eventually became law and contains many provisions for which we have long advocated. It includes a provision developed by CSBS that confers Qualified Mortgage status on certain mortgages originated and held in portfolio by banks with \$10 billion or less in assets.

STATES CONTINUE TO BE AN IMPORTANT
VOICE FOR TAILORED REGULATIONS



Senators Orrin Hatch (R-Utah) and Mazie Hirono (D-Hawaii) and Representatives Frank Lucas (R-Okla.) and Denny Heck (D-Wash.) introduced bipartisan legislation advanced by CSBS, the State Regulatory Representation Clarification Act (S. 1910/H.R. 3915), which ensures the FDIC Board would have at least one person who has served as a state bank supervisor.

And Rep. Roger Williams (R-Texas) introduced legislation advocated by CSBS, the Bank Service Company Examination Coordination Act (H.R. 3626), to improve federal-state coordination on third-party service provider exams.

BANK SUPERVISION

Cybersecurity continued to be a priority for state regulators, who worked together and with federal banking agencies in the face of several large data breaches. During the year's grueling hurricane season, states provided valuable local information to the federal government through coordinated calls and meetings — a reminder of the significant role that states play in the Financial and Banking Information Infrastructure Committee.

State regulators made recommendations to Congress on ways to further reduce the regulatory burden related to certain issues raised as part of the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA) review process. The EGRPRA review is required of the Federal Financial Institutions Examination Council (FFIEC) and its member agencies every 10 years. State regulators participated in the review as a representative body through the State Liaison Committee, a member of the FFIEC.

State regulators, with CSBS staff, participated in efforts to produce the community bank call report through the FFIEC Task Force on Reports. CSBS supports the view that eligibility for the call report should not be tied to an asset threshold and should instead use the FDIC research definition of a community bank.

CSBS distributed the Examinations Tools Suite, which provides an updated technology platform to field examiners, and delivered both regulatory and industry tools on:

- Bank Secrecy Act/Anti-Money Laundering
- Current expected credit losses (CECL)
- Marijuana banking legislative tracking map
- Cybersecurity best practices



NONBANK SUPERVISION

In 2014, CSBS began providing data analytics tools using data from NMLS and the Mortgage Call Report to examiners for risk profiling as well as scheduling and scoping examinations. Since then, CSBS also has provided a standardized Mortgage Examiners Report, an MSB Call Report analytics tool and several reports for tracking agency activity in NMLS. In 2017, nearly 500 unique regulator users logged into the NMLS Data Analytics environment a total of 36,073 times.

CSBS also made improvements to information sharing between the states and between the states and the CFPB.

REGULATORY TECHNOLOGY

In 2017, the NMLS was the system of record for more than:

- 16,000 mortgage companies
- 145,000 individual mortgage loan originators
- 100,000 nonbank financial service providers

State agencies licensed new entities in three expansion industries: MSBs, consumer lending and debt. In 2017:

- 44 state agencies managed one or more license authorities in the expansion industries on NMLS
- 40 state agencies managed one or more money services businesses license authorities on NMLS
- 30 state agencies managed one or more consumer finance license authorities on NMLS
- 17 state agencies managed one or more debt-related license authorities on NMLS

The NMLS MSB Call Report launched in April and was adopted by 25 state agencies. This report is the only uniform collection of the \$1.1 trillion dollar money services industry in the United States, including foreign transmittal information. It has helped streamline MSB reporting and improve industry compliance.

CSBS CONTINUED TO ENHANCE ACCREDITATION AND TRAINING FOR STATE REGULATORS

CSBS continued to improve data exchange under existing and new information-sharing agreements by entering into Memos of Understanding with the Federal Trade Commission and Office of Financial Research to allow information sharing and give the Financial Crimes Enforcement Network (FinCEN) access to NMLS data.

CSBS also:

Developed:

Enhanced functionality for NMLS 1.0, including for Electronic Surety Bonds, and began work on the next generation of the system

Created:

Seven training videos

Delivered:

33 webinars for regulators and industry

Designed:

A process to proactively look for training opportunities when states have significant staff changes

STATE AGENCY ACCREDITATION

CSBS revised the Self Evaluation Questionnaire (SEQ) to be more focused and data-driven. An Accreditation Online System went live mid-year, allowing state agencies to complete and submit the SEQ when applying for accreditation or reaccreditation. The review team also can view information provided by state agencies for the five-year accreditation and generate a final report summarizing the findings of the onsite visit.

TRAINING

Working together, CSBS and the states of North Carolina and Alabama created a successful pilot program for Certified Capital Markets Examiner designation in September.

In addition, the Education Foundation:

Conducted:

More than 30 technical, continuing and executive education programs

Launched:

The new Certification Online Application and Renewal Platform

Provided:

The Training Records Management platform to more than 40 states to track and store their examiners' training records

COMMUNITY BANK RESEARCH CONFERENCE

CSBS and the Federal Reserve System co-sponsored the fifth annual Community Banking in the 21st Century Research and Policy Conference. Held at the Federal Reserve Bank of St. Louis, the conference is a key event for engagement among state and federal policy makers, researchers and community bankers.

Federal Reserve Chair Janet Yellen gave the opening remarks, addressing the vital role community banks play in the U.S. financial system. CSBS and the Fed released findings from the 2017 National Survey of Community Banks, which canvassed more than 600 community banks, providing insights into their small business lending as well as challenges and opportunities posed by financial technology firms.

CSBS also released the 2017 Journal of Community Bank Case Studies, which showcased the work of the top participating undergraduate student teams in the annual CSBS Community Bank Case Study Competition focused on succession planning.



THE CONFERENCE IS A KEY EVENT FOR
ENGAGEMENT AMONG STATE AND
FEDERAL POLICY MAKERS

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