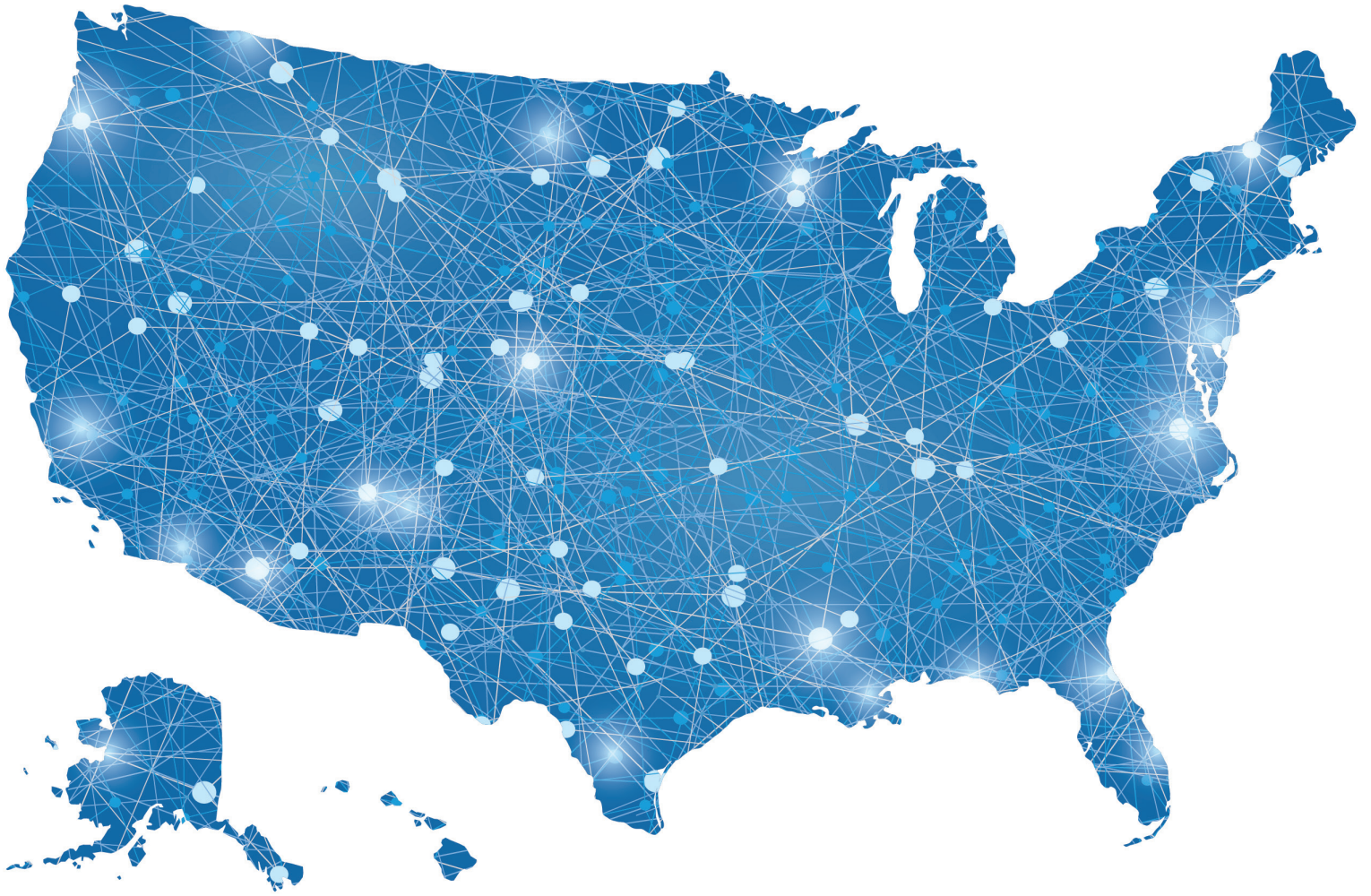




CONFERENCE OF STATE BANK SUPERVISORS  
[www.csbs.org](http://www.csbs.org) / [@csbsnews](https://twitter.com/csbsnews)



## 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.

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79%

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

*State-chartered banks provide:*

1/2



OF ALL SMALL LOANS  
TO U.S. BUSINESSES

2/3



OF AGRICULTURE  
LENDING IN AMERICA



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

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## A Letter From the President and CEO

When I look back at 2019, I see a strong year for state regulators. The Conference of State Bank Supervisors (CSBS) took great strides in advancing public policy solutions that strengthen the state supervisory system foundation for both bank and nonbank oversight.

CSBS supports state regulators by serving as a forum for policy and supervisory process development. We facilitate effective and efficient state regulation through training, educational programs and examiner tools. CSBS, on behalf of state regulators, also operates the Nationwide Multistate Licensing System to license and register nonbank financial service providers.

In 2019, we expanded the scope and depth of our technology and data offerings for the state system. Throughout the year, we collaborated with federal financial regulators and connected with members of Congress. This network of supervision is better for the financial entities we oversee and the communities they serve.

The following report highlights the major accomplishments CSBS and state regulators achieved throughout the year. However, every single effort we undertake is to ensure the safety and soundness of our financial system, protect consumers, and encourage economic growth—all while fostering innovative and responsive supervision.

I am very pleased to share that CSBS was certified as a Great Place to Work<sup>®</sup>. This is a tremendous achievement for the staff and members of CSBS, as a stronger culture inside the organization leads to better work and success for the state financial regulatory system as a whole. I am so pleased by the commitment our staff gives to our work, to members of the state supervisory system and to each other.

Sincerely,

A handwritten signature in blue ink that reads "John W. Ryan". The signature is fluid and cursive, written in a professional style.

**John W. Ryan**

# 2019 Accomplishments

## ADVANCING VISION 2020

State regulators and CSBS made tremendous progress with Vision 2020, a series of initiatives designed to bring greater harmonization to the multistate licensing and supervision of nonbank financial services. Early in the year, CSBS announced an agreement to implement 14 recommendations made by our Fintech Industry Advisory Panel. Progress in 2019 included:



### Harmonized money services business (MSBs) state requirements:

- Facilitated the expansion of a multistate MSB licensing initiative that has reduced approval cycle times by two-thirds
- Added an online portal of state guidance and an interactive map of money transmitter license exemptions
- Launched a new accreditation program for state agencies to measure their effectiveness and learn from other states in supervising MSBs
- Solicited industry and regulator input and began development of an MSB model law

### Coordinated multistate examinations:

- Deployed the State Examination System, the first of its kind nationwide platform for online examinations and information sharing
- Executed a “one-company, one-exam” pilot program: five states conducted an examination accepted by a dozen states, providing more efficiency for state regulators and less burden for compliant companies while ensuring a system of networked supervision

### Improved external understanding of nonbank supervision:

- Launched a white paper series on the supervision of nonbank market segments—mortgage, MSBs, consumer finance and debt collection—and how the state supervisory system can be reengineered for greater effectiveness
- Hosted a national mortgage policy summit in partnership with the American Association of Residential Mortgage Regulators that underscored the equal share and responsibility of federal and state regulators to ensure appropriate supervision of nonbanks
- Began an initiative to improve integration with the data standard used by state regulators for off-site electronic mortgage origination examinations

### Protected the state regulatory system:

- Continued our litigation to prevent the OCC from awarding national bank charters to nonbanks, such as fintechs. In September, the U.S. District Court for the District of Columbia dismissed our second challenge to the OCC, again based on a lack of ripeness. Meanwhile, another federal district judge sided with the New York Department of Financial Services in its similar claim



## PROMOTING PUBLIC POLICY

### CSBS supports tailored federal regulation of state-supervised financial institutions.

In 2019, CSBS focused on ensuring that the federal financial agencies' implementation of the Community Bank Leverage Ratio provides the regulatory relief intended by Congress. We raised awareness of our concerns and offered changes to the proposal. In the final rule, the agencies adopted all our recommendations.

The keys to this success were repeated engagements with a variety of stakeholders and a solutions-oriented approach to policy development, including engagement with key

Capitol Hill offices that produced a multi-senator letter to federal agencies flagging our concerns.

On Capitol Hill, we stalled a congressional effort that would counter the statutory requirement for someone with state supervisory experience on the FDIC Board. We achieved unanimous House passage of a bill that adds state regulators to the Bank Service Company Act and secured the role of state regulators in legislation intended to reform the Bank Secrecy Act.

## PROVIDING TECHNOLOGY AND DATA

Our technology efforts are driven by a powerful vision: tools that empower state agencies to make better supervisory decisions, reduce burden on industry participants and better protect consumers.

In October, we successfully launched a multistate pilot program of the State Examination System (SES), which moves the nonbank examination process online. SES allows states to better identify exams that need attention using risk-based data analytics and to share information with each other. The next step is to implement SES nationwide, providing a transformative platform for companies in the mortgage, money transmission, consumer finance and other nonbank sectors in all states.

Our first in-person meeting of data analytics stakeholders—hosted in April and designed to guide future development of products on in the CSBS Analytics suite—yielded two key products:

- 1) A risk-scoping workbook that allows examiners to see important risk metrics for the banks in their state, better understand risk concentrations within each bank and appropriately scope their exams
- 2) A standard collection of frequently used charts and graphs analyzing local banking conditions for states to insert into presentations quickly and easily

CSBS staff also:

- Worked with the states to create enhanced analytics on liquidity and funding
- Enriched our ability to create state maps with information such as bank locations subject to drought, flooding and hurricanes
- Issued a LIBOR checklist to assist industry in managing the impact that transitioning from LIBOR will have on institutions
- Launched a series of risk profiling tools focused on MSBs
- Created a predictive model for nonbank mortgage ratings



## STRENGTHENING CYBERSECURITY

Cybersecurity continues to be a top priority for state regulators. CSBS addressed this in 2019 by:

- Updating our CSBS Cybersecurity 101 resource guide for bank and nonbank financial sector executives
- Developing and piloting a new nonbank cybersecurity examination program
- Gaining CSBS Board of Directors approval for a model Nonbank Cybersecurity Law
- Holding the first virtual cybersecurity tabletop exercise with state bank and credit union regulators and Treasury Department officials

To help industry better navigate the state regulatory system and protect against cyber risks, CSBS launched three online tools:



**A PORTAL OF STATE  
AGENCY GUIDANCE**  
*for nonbank financial  
services companies*



**AN INTERACTIVE MAP**  
*of agent-of-the-payee  
exemptions from money  
transmission laws*



**A CYBERSECURITY 101  
RESOURCE CENTER**  
*for banks and  
nonbanks alike*

## ENGAGING WITH FEDERAL REGULATORS

CSBS and state regulators frequently work with Congress and federal agencies. Here are some key events from 2019:

- Federal Reserve Board Governor Michelle Bowman and FDIC Chairman Jelena McWilliams addressed the CSBS Government Relations Fly-In meeting
- CFPB Director Kathy Kraninger addressed the CSBS State-Federal Supervisory Forum
- State and federal financial regulators shared perspectives on emerging risks and supervision strategies at the CSBS State-Federal Supervisory Forum
- Through Memorandums of Understanding (MOU), the Nationwide Multistate Licensing System (NMLS) continued its information-sharing agreements with the Federal Trade Commission, CFPB, Office of Financial Research, FinCen, Federal Reserve Board, Social Security Administration, Federal Financial Institution Examination Council and Federal Housing Administration
- State regulators were represented through the State Liaison Committee on the Federal Financial Institutions Examination Council, which took the following actions:
  - » Finalized revisions to the streamlined Call Report
  - » Issued new customer due diligence and beneficial ownership examination procedures
  - » Identified areas of the supervisory process that could be modernized to reduce burden and improve efficiency
- CSBS held discussions with federal regulators on the state of the nonbank mortgage industry and possibilities for supervisory enhancements, including identifying integrity issues with industry data vital to effective supervision

STATE AND FEDERAL FINANCIAL REGULATORS  
SHARED PERSPECTIVES ON EMERGING RISKS  
AND SUPERVISION STRATEGIES AT THE CSBS  
STATE-FEDERAL SUPERVISORY FORUM





## SUPPORTING STATE AGENCY TRAINING AND EDUCATION

CSBS supports the professional excellence of state financial supervision through training, professional development, certification and accreditation. In 2019, the CSBS Education Foundation conducted 45 in-person training events, including technical, continuing and executive education programs, with more than 2,100 attendees.

### In 2019, CSBS oversaw:

#### Examiner Training

- Launched our online “Day One: Credit Examiner Training,” designed for state examiners to learn the fundamentals of loan scoping, review and analysis in a virtual, on-demand format
- Completed our 2018-2019 IT/cyber training initiative in partnership with the MIS Training Institute. Approximately 800 state bank and nonbank examiners from 49 states and three territories attended and successfully completed the training program

#### Examiner Certification

- Launched the certification application and renewal in an upgraded online experience
- Developed and rolled out a new three-tiered certification for trainers and instructors

- Conducted a comprehensive audit and update of all mortgage certifications
- Recognized strong engagement from state examiners, with more than 1,200 certified examiners from 46 agencies in 42 states

#### Agency Accreditation

- Developed and launched an MSB accreditation program in partnership with the Money Transmitter Regulators Association
- Ended the year with 46 state agencies in the bank accreditation program and 26 in the mortgage accreditation program

## ADVANCING REGULATORY TECHNOLOGY

NMLS streamlines the licensing process for nonbanks, such as mortgage originators and money services businesses, and is looking to the next generation of this technology platform.

Our second annual Money Services Businesses Industry Report used 2018 NMLS transaction data of licensed money transmission, payments, virtual currency and other businesses. The report is the only one of its kind and showed that in 2018:

- The industry moved \$1.4 trillion
- The 10 largest money transmitters accounted for 71% of transmissions
- Foreign transmissions made up 22% of all money transmissions
- Nine more state agencies adopted the MSB Call Report, with a total of 26 states and Puerto Rico now requiring it of their MSB licensees

Through NMLS, 64 participating state agencies saw:



31

NEW LICENSE  
TYPES ADDED



6%

RISE IN MSB CALL  
REPORT ADOPTION



14%

BOOST IN USE  
OF CRIMINAL  
BACKGROUND  
CHECKS FOR  
CONTROL PERSONS



15%

INCREASE IN  
ADOPTION OF  
ELECTRONIC  
SURETY BONDS

Key facts from the Mortgage Industry Report\*:

- 17,572 nonbank mortgage companies and 9,196 depositories originated residential mortgages in the United States
- Employment of mortgage loan originators (MLOs) was flat compared to the prior year
- Number of nonbank MLOs and companies increased by 4.5% and 4.1%, respectively, from 2017
- Number of depository MLOs and companies decreased by 1.5% and 3.1%, respectively, from 2017
- Total originations declined by 6.9% to \$893 billion, compared to 2017
- Nonbank mortgage firms operating nationwide originated 56% of nonbank mortgage loans by dollar volume, including nearly 90% of all FHA/VA loans
- Nonbank mortgage firms exceeded the 50% mark of all servicing of GSE (Fannie Mae/Freddie Mac) and Ginnie Mae (FHA/VA) loans

\* This report is based on 2018 data collected from the mortgage call report function of NMLS



## COMMUNITY BANKERS HELD AN OPTIMISTIC VIEW OF THE FUTURE,

according to our new CSBS Community Bank Sentiment Index launched this year. Each quarter, we survey community bankers on their outlook for business conditions, monetary policy, regulatory burden, expansion and profitability. Results are posted on our website at [csbs.org/cbindex](https://csbs.org/cbindex). The Index promises to be an important indicator of economic activity for policymakers, bankers and the marketplace.

## CHAMPIONING COMMUNITY BANK RESEARCH

CSBS, the Federal Reserve System and the FDIC co-sponsored the seventh annual Community Banking in the 21st Century Research and Policy Conference, a key event for engagement among state and federal policy makers, researchers and community bankers.

Federal Reserve Governor Michelle Bowman addressed the forces influencing the future of community banking. FDIC Chairman Jelena McWilliams and Philadelphia Federal Reserve Board President Patrick Harker encouraged innovation and adoption of technology. CSBS Chairman Bret Afdahl outlined that how regulations are carried out is just as important as what is regulated.

CSBS released the 2019 National Survey of Community Banks at the conference.

Key findings include:

- 40% said the cost of funds will have the biggest impact on profitability
- 30% said de-population is affecting their ability to raise core deposits
- 70% identified cybersecurity as the largest risk to business
- Compliance costs increased 4%

In May, CSBS released the 2019 Journal of Community Bank Case Studies, which showcased the top three undergraduate student teams of the annual CSBS Community Bank Case Study Competition: Juniata College (winner), Eastern Kentucky University (second), the University of Tennessee at Martin and Utah Valley University (tie for third).





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