



2020 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

2/3



OF AGRICULTURE
LENDING IN AMERICA



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



A LETTER FROM JOHN RYAN

CSBS began 2020 with forward momentum. We were eager to implement a bold new strategic plan with a future-based approach that looks at how technologies impact financial services and how we will respond to ensure state leadership in protecting consumers and promoting vibrant state and local economies.

Eleven weeks into the new year, the global pandemic overtook every part of our lives. Our office building shut down. Our work and meetings became remote. Our members' most pressing needs changed.

Despite the challenges, CSBS staff quickly adjusted to these new demands. That meant meeting and sometimes anticipating our members' needs amidst the pandemic and its economic fallout, including:

- Coordinating state and federal regulatory response
- Shaping the national response through policy and local data
- Elevating policy issues that strengthen the state system
- Reimagining our meetings and member forums for the new virtual environment

But we also kept moving forward on our strategic priorities that advanced us toward a stronger, more streamlined and more networked system of state supervision, among them:

- Opposing attempts to preempt state authority
- Improving supervision technology
- Furthering uniform regulation of nonbanks
- Creating nonbank cybersecurity examination procedures
- Developing new data tools and analytics platforms for state regulators

These high-profile initiatives demonstrate state leadership in enhancing financial sector resiliency. I am delighted to have the opportunity to share our 2020 achievements as we implemented our strategic plan and met the challenges the year brought.

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

CSBS President and CEO



2020 HIGHLIGHTS

Our support for state financial regulators included executing on our state-led strategic plan while assisting our members with their operations and with their efforts to stabilize the financial services industry during the global pandemic.

Specific highlights include:

- Supporting states as they navigated stay-at-home orders and essential worker rules to enable the industry to continue its work and serve consumers.
- Launching the State Examination System (SES), a nationwide technology platform that allows state examiners to collect information from supervised institutions securely and perform key aspects of formal examinations without onsite visits.
- Deploying an updated version of the 50-state consumer finance survey that includes a comprehensive catalog of state usury laws.
- Announcing the MSB Networked Supervision program, which streamlines exams for nationwide payments companies.
- Issuing, with the U.S. Secret Service and Bankers Electronic Crimes Taskforce, a ransomware self-assessment tool for state regulators to share with their regulated institutions as ransomware attacks became the leading threat to the financial sector.
- Presenting our first MSB Accreditation in partnership with the Money Transmitter Regulators Association to the Ohio Division of Financial Institutions, setting benchmark standards for a modernized and coordinated system of supervision.
- Creating nonbank cybersecurity examination procedures and new tools and analytics platforms to aid state regulators, like the new Risk Identification for State Chartered Institutions tool.

2020 CSBS Strategic Plan

In 2020, state regulators committed to a new strategic plan that redefines how state regulators look to the future by determining what market forces — technology, big data, artificial intelligence and automation — would most likely impact the industries we regulate and the state regulatory system in the next 10 years.

The pandemic created systemic shocks that generated confusion and uncertainty about local economic prospects across the nation and upset the usual daily operations for state agencies, their regulated institutions and CSBS staff.

We could never have anticipated the pandemic. However, our new approach to strategic planning,

which had us looking 10 years forward, prepared us to respond in a manner that supported our members. In fact, we realized that the challenges in the financial sector made the strategic plan more relevant than ever. And adapting to our new reality advanced how state regulators conduct business by years.

The new strategic plan has four major objectives:



1

Empowering a strong, efficient and assertive state system of financial regulation that results in fewer calls for federal preemption



2

Developing a system of networked supervision empowered by real-time data



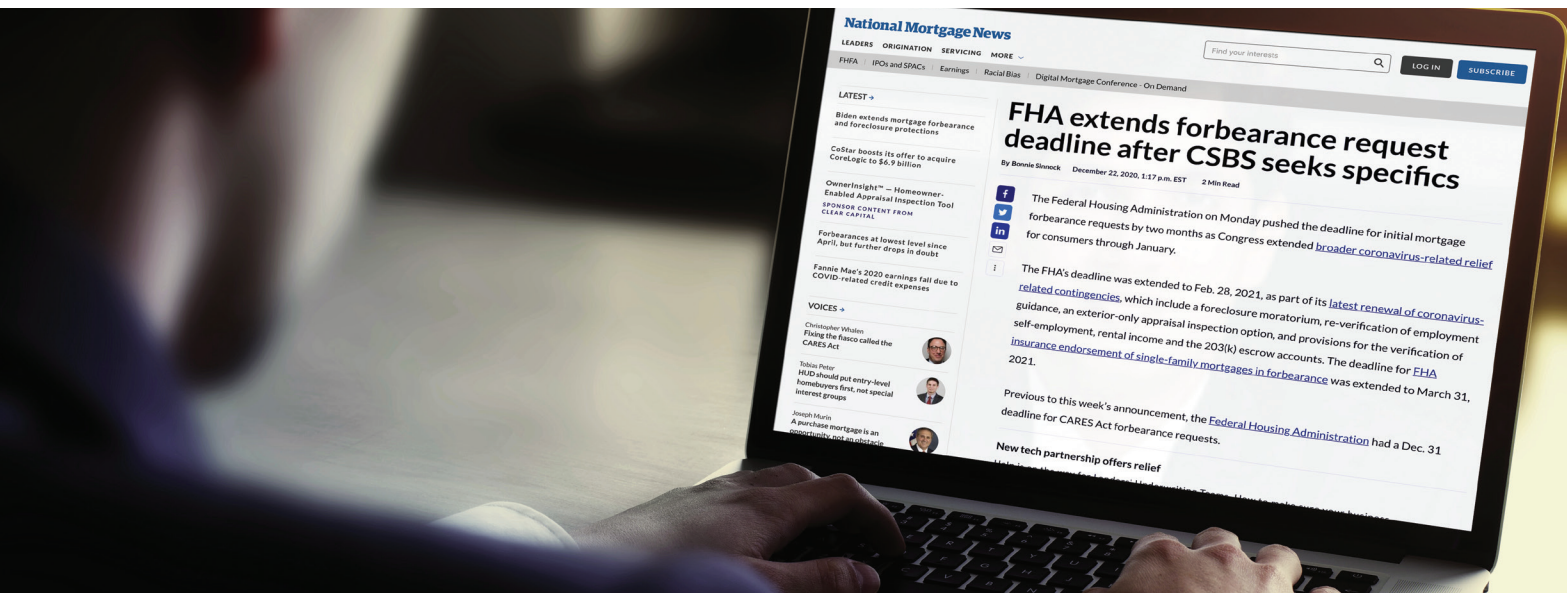
3

Leveraging state-to-state and state-to-federal partnerships; collaborating with innovators



4

Developing and supporting the workforce of tomorrow



HOW OUR STRATEGIC PLAN PREPARED US FOR THE PANDEMIC

Amid a pandemic economy and preemption threats, CSBS increased its profile by positioning state regulators as future-oriented problem-solvers with a broader array of external stakeholders, setting the stage for even greater awareness going forward. We were able to do this because of the strategic plan, which captures the possibilities that technology and data can bring to both enable and ensure the future of the state system.

CSBS QUICKLY ADJUSTED TO THE NEW DEMANDS, INCLUDING:

- Coordinating state and federal regulatory response to the pandemic
- Coordinating and partnering with federal and state agencies to issue guidance
- Participating in financial sector calls on issues like troubled debt restructuring, loan accommodations, essential workers, the Paycheck Protection Program and fraud
- Partnering with federal agencies to issue guidance documents including the primary document providing examiner guidance
- Engaging with Capitol Hill on issues like Current Expected Credit Losses, troubled debt restructuring relief and state-licensed mortgage servicers' liquidity challenges
- Providing both state and federal analysis of the mortgage market
- Distributing off site performance tools and sharing best practices to help regulators navigate off-site examinations and supervision



REIMAGINING OUR MEETINGS AND MEMBER FORUMS FOR THE NEW VIRTUAL ENVIRONMENT

We began the year with exciting new education offerings, like the new Advanced Data Analytics Training Workshop in Indianapolis and held our largest-ever NMLS Annual Conference & Training in San Francisco.

As both government and the financial industry transitioned to remote work, we quickly switched to virtual meetings and conferences and found the best ways to engage participants. That included:

- Offering over 20 weekly, one-hour, live virtual discussions with members on a wide range of timely and relevant topics of common interest.
- Developing on-demand training content available in our Learning Management System.
- Launching our on-demand Day One: Bank Secrecy Act and Anti-Money Laundering (BSA/AML) Examiner training, a comprehensive series of online modules that address foundational elements of BSA/AML examinations.
- Piloting video content production software that we rapidly developed into instructional videos and tutorials on a wide range of topics.

Our work on forbearance and foreclosure matters transpiring under the CARES Act resulted in significant public notices. We not only identified both consumer and industry need and gaps, but we also rallied the Consumer Financial Protection Bureau to join us in providing guidance through these notices. This action was followed by the delivery of state examination procedures to test industry compliance under the CARES Act. As the pandemic lingered and CARES Act deadlines approached, we raised concerns about confusion around the expiration date for mortgage relief and successfully advocated for a federal agency clarification that resulted in an extended deadline for struggling consumers.

The NMLS Annual Conference, held in San Francisco in February, attracted nearly 800 attendees.





NMLS DURING THE PANDEMIC

- Consolidated state agency guidance on the NMLS Resource Center, working with our vendors to ensure mortgage loan originator (MLO) testing, education and criminal background-check processing continued in a safe and responsible manner and facilitated governance committees to adjust system deadlines to ease the impact on licensees.
- Accommodated a surge of MLO applications, administering more than 47,000 national MLO tests and 168,000 applications, a 63% increase over 2019.
- Launched an online proctored MLO testing option, giving candidates an alternative to taking tests in physical test centers.

As low rates drove home refinances and purchasing, we positioned NMLS Consumer Access as a vital tool in the homebuying process, resulting in several mentions in consumer media.

NMLS by the numbers

At the end of 2020 ...

64 State agencies used NMLS to manage at least one license authority.

508 Total different license authorities¹ managed covering a broad range of nonbank financial services.

As of December 31, NMLS manages:



432

Company



280

Branch



76

Individual

License or registration types

¹ "Authorities" refers to the license programs managed on NMLS. Branch license types are not included in this count.

HOW WE IMPLEMENTED OUR STRATEGIC PLAN

PREVENTING FEDERAL PREEMPTION

The Office of the Comptroller of the Currency (OCC) and other federal agencies proposed several rules that would preempt state laws or authority, including the OCC/FDIC valid-when-made rule, the OCC's true-lender proposed rule and other OCC proposals pertaining to bank operations, activities and licensing. CSBS submitted comment letters and provided insight into the state system.

Meanwhile, as Congress' interest in fintech issues continued to grow, CSBS maintained a consistent presence with the Hill to communicate states' work in improving nonbank financial licensing and supervision.

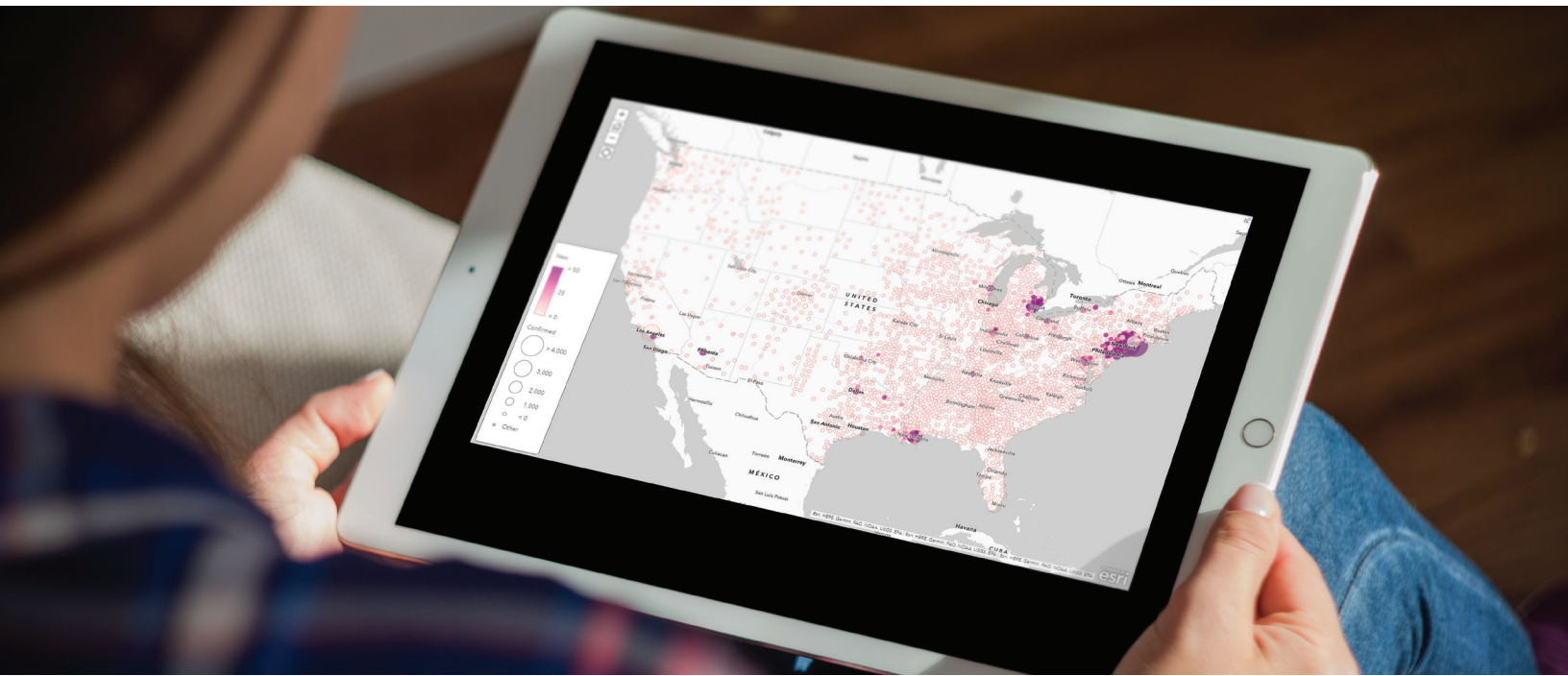
CSBS also successfully advocated for the set of BSA/AML reform bills to include and integrate state regulators into proposed regulatory processes and structures.



OCC Litigation

In December, CSBS filed a complaint in the U.S. District Court for the District of Columbia opposing the OCC's creation of a new national bank charter for nonbank companies and its acceptance and impending approval of a charter application from Figure Technologies Inc. By taking such action, the OCC has exceeded the limited authority granted to it by Congress under the National Bank Act and other federal banking laws that authorize the OCC to only charter institutions that receive deposits and obtain FDIC deposit insurance. The CSBS complaint is a continuation of legal action initiated in 2017.

CSBS also submitted an amicus brief supporting the New York Department of Financial Services in the U.S. District Court for the Southern District of New York. The OCC is appealing the court's decision in favor of NYDFS's challenge to OCC's fintech charter. The court ruled the OCC lacks the authority to grant a charter to an entity that does not take deposits and does not obtain deposit insurance in a decision.



CSBS county-level Covid case map

NETWORKED SUPERVISION & REAL-TIME DATA

We made significant progress on key Vision 2020 initiatives that empower states to operate as a single network by creating multistate agreements and expanding the use of technology platforms. As we moved into 2021, we transitioned our public commentary around regulatory modernization from Vision 2020 to Networked Supervision, which captures the promise of a modernized and coordinated state system.

We published a white-paper series that explains how nonbanks are licensed and supervised by state financial regulators and discusses issues affecting regulatory changes going forward.

With nonbank mortgage servicing now comprising more than 50% of the market, it is critical that states have a common standard for assessing these entities' safety, soundness and corporate governance. To meet that need, CSBS

advanced an initiative to establish prudential standards for nonbank mortgage servicers by seeking public comment. Prudential standards will not only provide better protection for borrowers, investors and other stakeholders, but they also will enhance effective regulatory oversight and market discipline and improve transparency, accountability, risk management and corporate governance standards.



CSBS created **new tools and analytics** platforms to aid state regulators, including:

- Risk Identification for State Chartered Institutions: Examiners can dive deeply into individual bank call report data to see fundamentals driving risk and conduct peer analysis.
- The first real-time, county-level Covid confirmed cases tracking map: The map was relied upon by media outlets, federal financial regulators and the White House.
- A suite of economic reports and dashboards: States get a head start on making sense of how Covid impacts would play out in local economies.



We made significant progress on Vision 2020 initiatives, including:

- Launching the State Examination System (SES) and Consumer Complaints tool.
- Awarding contracts to complete NMLS Modernization.
- Began developing a networked licensing framework with the 64 agencies that use NMLS.
- Expanding the use of NMLS, as more state agencies began using optional functionality and as states continue to bring new license types onto NMLS.
- Launching the MSB Networked Supervision program, which streamlines exams for nationwide payments companies.
- Improving the licensing process through the Multistate MSB Licensing Agreement, which now has 28 state signatories.
- Announcing the MSB Networked Supervision One Company/One Exam program, which beginning in 2021 will apply to 78 of the nation's largest payments and cryptocurrency companies that move more than \$1 trillion a year in customer funds.

DEVELOPING THE WORKFORCE OF TOMORROW

We are committed to developing the workforce of tomorrow, collaborating with state regulators to identify the knowledge, skills and abilities that examiners need to possess and build upon at key stages of their careers,

developing learning content and experiences that will increase the examiners' speed to competency and delivering these learning experiences in the most effective and efficient manner — no matter what the format.

In 2020, in partnership with the Money Transmitter Regulators Association, CSBS presented the first MSB Accreditation to the Ohio Division of Financial Institutions, marking another significant milestone in the state regulatory system's evolution toward a more networked system of supervision.

The Examiner Certification and Accreditation programs remain among the most valued and sought-after member services we offer.

In 2020, there were:



26

Designations for bank and non bank examiners



44

Agencies



1,200

Certified examiners

Our Accreditation Program grew to offer a third accreditation for MSB regulatory agencies, in addition to the existing bank and mortgage program. The number of agencies accredited for each are:



47

Bank



29

Mortgage



2

MSB (Ohio and Texas)



FDIC Chairman Jelena McWilliams and CSBS President and CEO John Ryan record a podcast together at the CSBS studio in January.

PARTNERSHIPS AND COLLABORATION

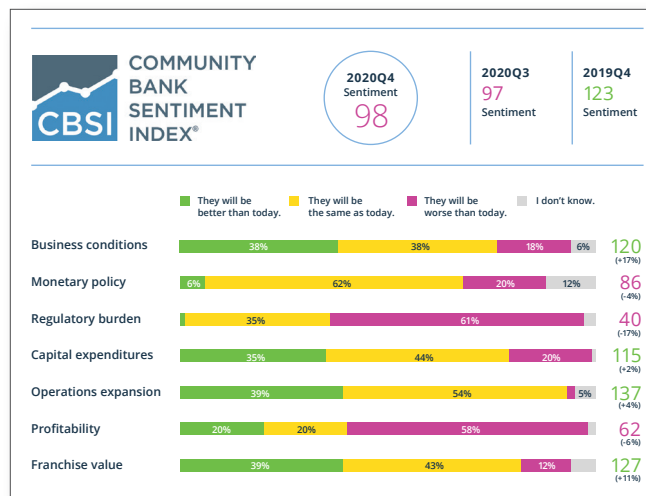
We made several strides leveraging partnerships with our state and federal counterparts, working in collaboration with those we regulate and their vendors:

- Following unanimous passage of the House bill to amend the Bank Service Company Act to improve state-federal coordination and information sharing on bank vendor oversight, CSBS secured the introduction of a companion bipartisan Senate bill.
- Recognizing the remarkable rise of ransomware attacks, which have become the number one threat to the financial sector, CSBS joined the U.S. Secret Service and Bankers Electronic Crimes Taskforce to issue a ransomware self-assessment tool for state regulators to send to the banks they supervise.
- CSBS deployed an updated version of the 50-state consumer finance survey that includes a comprehensive catalog of state usury laws.
- The growing awareness of the states' fintech initiatives lead to the United Kingdom government hosting a delegation of state regulators and CSBS staff in London for meetings with HM Treasury and several U.K. financial regulatory agencies, including the Bank of England and the U.K.'s Financial Conduct Authority, the U.K.'s fintech regulator. The delegation also met with a range of financial industry representatives.

RESEARCH

CBSI:

The Community Bank Sentiment Index was not even a year old when the pandemic hit in March, but its relevance was on clear display. As the first quarter results came in, we literally watched the economy crater in real time as banker sentiment dropped. We later saw the economy stabilize. The quarterly index told us the story of what community banks could see throughout the year — information later supported by bank performance data.



Federal Reserve Board of Governors Miki Bowman addresses the Community Bank Research Conference

COMMUNITY BANK RESEARCH CONFERENCE:

The eighth annual Community Banking in the 21st Century Research and Policy Conference, co-sponsored by CSBS, the Federal Reserve System and the FDIC, redefined itself as a virtual platform in 2020. State and federal policy makers, academics and community bankers gathered online to hear the latest research on community banking. Federal Reserve Governor Michelle Bowman opened the conference with how community bankers were managing the pandemic and its economic fall-out, and FDIC Chairman Jelena McWilliams shared her views in a fireside chat.

CASE STUDIES:

CSBS sponsors the annual Community Bank Case Study Competition for students in all fields of study as an opportunity to gain valuable first-hand knowledge of the banking industry. The 2020 case studies focused on the impact of the BSA-AML requirements on community banks. Each student team partnered with a local bank to examine compliance challenges and identify potential regulatory reforms. The winning teams were from Mississippi State University (first), James Madison University (second) and Mansfield University of Pennsylvania (third).



2020 Case Study winning team from Mississippi State University

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