

# 2016 CSBS Annual Report



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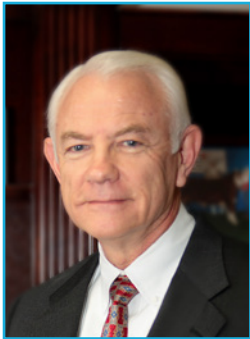
CONFERENCE OF STATE BANK SUPERVISORS



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# FOREWORD FROM THE CHAIRMAN



On behalf of the Conference of State Bank Supervisors (CSBS) Board of Directors, I present to you the 2016 CSBS Annual Report.

For first time readers, CSBS is the nationwide organization of banking regulators from all 50 states, the District of Columbia, and the U.S. territories of American Samoa, Guam, Northern Mariana Islands,

Puerto Rico and U.S. Virgin Islands. State regulators oversee 4,500 state-chartered banks, along with a variety of non-bank financial services providers. For more than a century, CSBS has supported state regulators in advancing the system of state financial supervision to ensure safety, soundness and consumer protection, promote economic growth, and foster innovative, responsive supervision. Our Board of Directors is comprised of senior regulators from the various states. The CSBS office is in Washington, D. C. where we have an extremely professional management team and a highly capable staff.

This report summarizes our accomplishments in 2016 as we set the stage for moving forward.

State regulators collectively supervise 78 percent of our nation's banks. Because of this coverage, our voice is important when Congress considers bank legislation. CSBS serves as an important conduit as it represents state regulator views with federal regulators and policymakers as we seek common sense, right-sized bank regulation. The various Board committees evaluate important issues and recommend direction and policy for Board action. An example is the Legislative Committee, which has been dealing with issues such as prudent regulatory relief for community banks. Our views are presented at the annual Government Relations Fly-in, where state regulators meet with their congressional delegation in Washington, D.C. CSBS staff meet routinely with Members of Congress and their staffs on important issues. States are also provided the opportunity to testify at Congressional hearings.

CSBS also helps state regulators do our job better. The CSBS education programs serve to improve the expertise within our banking departments – expertise critical to regulating non-depository institutions as well as banks. Indeed, more than 1,100 examiners nationwide have participated in CSBS training and earned their certifications.

More broadly, the National Multistate Licensing System— which CSBS operates and continues to enhance – is enabling a more streamlined and efficient process for the states as well as our licensees. We have work underway to do even more, with the goal to transform the licensing process and harmonize multi-state supervision. To underscore our intentions, in early 2017, state regulators issued a policy through CSBS stating that we are committed to adopting an integrated, 50-state licensing and supervisory system -- branded as Vision 2020 so external stakeholders can better understand our intentions.

Of course, we have to manage the downside risks of technology to the banking system. Because cyber security threats remain one of the top concerns for state regulators, we continued our efforts, along with our federal counterparts, to provide tools for our examiners and industry in addressing these issues.

Lastly, research is a valuable tool to regulators, industry and policymakers alike. For the fourth consecutive year, we partnered with the Federal Reserve to host a conference on community banking issues and research to assist us in analyzing community bank business lines, compliance costs, and how they are currently operating and evolving. Through this conference, the importance of community banks to our economy has become more apparent. Research from this conference and other CSBS sources has been vital in educating federal policymakers considering community banking legislation.

A review of this Report will indicate that we strive to advance the regulatory process as the financial industries that we regulate change. Whether it is making sure that state views are reflected in federal policy making, providing vital research and data to shape the future of community banks, or developing technology to modernize multi-state regulation, CSBS is moving forward.

I am proud to have served as the Chairman of the Board during the 2016-17 period. Because of all our efforts, state regulators are in a better position today to ensure the safety and soundness of the entities we supervise, encourage economic growth, and protect our consumers.

## **CHARLES G. COOPER**

*Commissioner, Texas Department of Banking  
Chairman, CSBS Board of Directors*

# LETTER FROM THE PRESIDENT AND CEO



The state system of banking and financial regulation has long been a strength of the U.S. economy. It has encouraged business innovations and start-ups, withstood financial crises that felled global institutions, and ensured local accountability to consumers.

This is the heritage state financial regulators have inherited. But markets are dynamic and ever-changing. And so, too, must be state regulators.

At CSBS, our mission is to help state financial regulators continuously enhance the system of state regulation. Our commissioners believe it is essential that citizens have confidence in the state financial system – one that can provide ready access to credit and banking services, protect consumers against bad actors, and encourage the economies of local communities.

I am proud to report that state system is getting stronger. We are seeing state financial regulators making their departments role models for financial regulation. Due in part to CSBS programs or initiatives, these departments are enhancing their professional expertise, handling caseloads more efficiently, standardizing how more industries report information, and collaborating more with regulators in other states.

Community banks, the lifeblood of the state system, are operating in more favorable conditions. More community banks are seeing opportunities to compete in a dynamic marketplace, according to CSBS-Federal Reserve research. Additional CSBS research provides insights for community banks that want to strengthen their market position through a shared-services business model.

In Washington, community banks are winning more appreciation. Through state-federal interactions that CSBS facilitates, more federal officials are recognizing what state regulators have long known: in many areas, community banks are the only local source of banking services; and more broadly, a vibrant community banking sector enables the banking system from being more dependent on institutions that are too big to fail. With these views now more widely shared, the hard work begins to reform laws and regulations so that community banks can safely do more, not less.

In non-bank regulation, state regulators are upping their game. States are accelerating their adoption of technologies, such as the Nationwide Multistate Licensing System (NMLS), operated by CSBS, which state regulators are transforming into a common platform for non-bank regulation. And state regulators are demonstrating unprecedented levels of collaboration, best exemplified by their collective public commitment to move towards an integrated, 50-state system of licensing and supervision for non-bank and financial technology regulation.

CSBS has given this initiative a name, Vision 2020, and the states have hit the ground running: launching the development of the next generation NMLS; holding Open Hours discussions with fintech industry leaders; exploring regional compacts; and preparing their departments to meet new accreditation standards. Our commissioners' goal is for their states to excel in all forms of financial regulation, banking and non-banking alike.

For these and other reasons, I am optimistic about the future. Actions being taken by state financial regulators should only enhance public confidence in the system of state regulation. Emerging is an even more effective system, with enhanced capabilities, more collaboration and dynamic leadership. Moreover, the federal policymaking apparatus is slowly grinding its way towards common-sense regulation, where regulatory regimes can be tailored to the size, complexity and risk of the institution.

We at CSBS take great pride in our ability to help commissioners modernize state financial regulation and strengthen the dual banking system. And we look forward to working with all stakeholders on the many initiatives necessary to achieve these goals.

**JOHN W. RYAN**

*President and Chief Executive Officer*

## ABOUT CSBS

The Conference of State Bank Supervisors (CSBS) is the nationwide organization of banking and financial regulators from all 50 states, American Samoa, District of Columbia, Guam, Northern Mariana Islands, Puerto Rico, and U.S. Virgin Islands. Established in 1902 as the National Association of Supervisors of State Banks, CSBS is the only national organization dedicated to protecting and advancing the nation's dual-banking system.

For more than a century, CSBS has given state regulators a national forum to coordinate supervision and develop policy related to regulated entities. CSBS also provides training to state banking and financial regulators, and represents its members before Congress and federal financial regulatory agencies.

State regulators supervise 4,622 state-chartered banks – representing 78 percent of all U.S. banks -- with more than \$5.4 trillion in combined assets. State-chartered banks are responsible for roughly 45 percent of small loans to U.S. businesses and three-quarters of all agricultural lending.

Most state banking departments oversee non-banks, such as mortgage providers, money services businesses, consumer finance companies, payday lenders, check cashers, and debt collection firms. As of December 2016, state regulators licensed 16,355 mortgage companies, 145,253 individual mortgage loan originators, and more than 100,000 (fact check) additional non-depository financial services providers across the nation.

### CORPORATE GOVERNANCE

CSBS is a professional regulatory association, and its Board of Directors and voting members are comprised of state regulators. CSBS is governed by bylaws and its Board, which is comprised of 22 voting members. Officers include chair, chair-elect, vice chair, treasurer, secretary and immediate past chair. During 2016-17, Charles G. Cooper, commissioner of the Texas Banking Department, served as CSBS chairman. The chief executive officer of CSBS is the organization's president, who is recruited and employed by the CSBS Board.

### AFFILIATED ENTITIES

#### CSBS Education Foundation



In 1984, CSBS created the Education Foundation of State Bank Supervisors (EFSBS). The Foundation's purpose is to fund and direct CSBS's education and training efforts.

The membership of the CSBS Education Foundation Board of Trustees is comprised of state regulators and interacts extensively with the CSBS Board of Directors. Officers of the Foundation Board of Trustees include the chair, vice chair, treasurer and immediate past chair. During 2016-17, Melanie G. Hall (pictured above), commissioner of the Montana Division of Banking and Financial Institutions, served as Foundation chair and, in this role, a voting member of the CSBS Board of Directors. There are a total of 15 voting members of the Foundation Board of Trustees.

#### State Regulatory Registry LLC



In 2006, CSBS, on behalf of state regulators and in cooperation with the American Association of Residential Mortgage Regulators (AARMR), formed the State Regulatory Registry LLC (SRR) to oversee the development and operations of the Nationwide Multistate Licensing System and Registry (NMLS) as a licensing and registration system for non-depository financial services industries. In 2008, Congress approved the SAFE Act, which authorized NMLS to function as the nationwide tool for licensure of mortgage loan originators.

During 2016-17, Robert J. Entringer (pictured above), commissioner of the North Dakota Department of Financial Institutions, chaired the SRR Board of Managers and, in this role, also was a voting member of the CSBS Board. The SRR Board of Managers is comprised of eight state regulators, including the CSBS Board chair, who serves as an ex officio, non-voting member on the SRR Board. In addition to the chair, SRR Board officers include the vice chair, CSBS treasurer, and a designate from AARMR.

# CSBS STRATEGIC PLAN 2015-2018

The following strategic plan was approved and adopted by the CSBS Board of Directors in December 2014. This long-term plan guides CSBS staff efforts, and is intended to be implemented over a three-year period.

## VISION

The Conference of State Bank Supervisors will be the recognized leader advancing the quality and effectiveness of regulation and supervision of state banking and financial services.

## MISSION

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

## GUIDING VALUES

**Collaboration** – To effectively meet the needs of our diverse economy, the banking and financial services sector demands collaboration and effective dialogue and planning. CSBS will work actively to convene state and federal regulators, other state associations, and industry to identify regulatory challenges and facilitate consensus.

**Education** – A hallmark of CSBS’s work has been the education of a broad base of banking, financial services, and regulatory stakeholders to empower state decision making, to serve its members and communicate the value and benefits of a strong dual-banking system and state regulation.

**Innovation and responsiveness** – CSBS is dedicated to addressing the evolving needs of banking and financial services consumers by facilitating a competitive and diverse market.

**Integrity** – Honesty and fairness are foundational to public and industry confidence in our regulatory system.

**Professional excellence** – CSBS will continue to provide training, engage thought leaders, and maintain the highest of standards in all that we do.

**Relationship building** – CSBS’s work depends on our ability to effectively communicate and understand many points of view. Through strong relationships, CSBS will continue to work with, and learn from, others.

**Communication** – CSBS understands that to be effective and support our vision and mission, we must listen and learn before we formulate positions, and then share our work in a manner that is understandable and adaptable to CSBS’s audiences and stakeholders.



## STRATEGIC PLAN OBJECTIVES

**Objective 1. Bank Regulation and Supervision: Promote right-sized regulation and supervision of banks consistent with their size, complexity, overall risk profile, and risk to the financial system**

Develop appropriate legislative, regulatory and supervisory solutions. Equip state regulators to challenge the inappropriate or disproportionate application of federal regulation. Promote the role of state agencies to differentiate them from federal regulators. Support the role and value of banks in the community and economy.

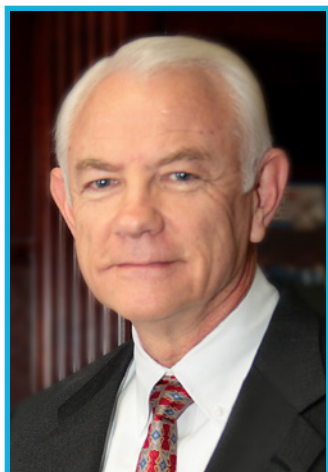
**Objective 2. Non-Bank Regulation and Supervision: Facilitate an effective system of non-bank regulation and supervision, ensuring consumer protection and access to necessary financial services and credit**

Coordinate the role of states and appropriate federal agencies. Advocate, communicate and highlight the roles of state agencies. Provide support for the activities of the state system.

**Objective 3. Education and Professional Standards: Educate and inform examiners, the public, government officials, and CSBS stakeholders**

Instill confidence among stakeholders and the public in the state system of financial regulation by enabling high-quality state agency licensing, exam and management staff through training, certification and accreditation.

## CSBS BOARD OF DIRECTORS (May 2016 - May 2017)



### CHAIRMAN

**Charles G. Cooper**  
Commissioner, Texas  
Department of Banking



### CHAIRMAN ELECT

**Albert L. Forkner**  
State Banking  
Commissioner, Wyoming  
Division of Banking



### VICE CHAIRMAN

**Charlotte N. Corley, CEM**  
Commissioner, Mississippi  
Department of Banking  
and Consumer Finance



### TREASURER

**Bret Afdahl**  
Director of Banking,  
South Dakota Division  
of Banking

### Secretary

Vacant

### Immediate Past Chair

Candace A. Franks  
*Commissioner, Arkansas State Bank Department*

### Member-at-Large

Chris Myklebust  
*Commissioner, Colorado Division of Banking*

### Member-at-Large

Gavin Gee  
*Director of Finance, Idaho Department of Finance*

### Chairman, Non-Depository Supervision Committee

Jan Lynn Owen  
*Commissioner, California Department of  
Business Oversight*

### Chairman, Legislative Committee

Trabo Reed  
*Deputy Superintendent of Banks, Alabama State  
Banking Department*

### Chairman, Regulatory Committee

Kevin B. Hagler, CEM  
*Commissioner, Georgia Department of Banking  
and Finance*

### Chairman, State Supervisory Processes Committee

Judi M. Stork  
*Deputy Commissioner, Kansas Office of the State  
Bank Commissioner*

### Chairman, CSBS Education Foundation Board of Trustees

Melanie G. Hall  
*Commissioner, Montana Division of Banking and  
Financial Institutions*

### Chairman, State Regulatory Registry LLC Board of Managers

Gordon Cooley  
*Commissioner, Maryland Office of Financial Regulation*

### Industry Co-Chairman, Bankers Advisory Board

K. Brent Vidrine \*  
*Bank of Sunset & Trust Company, Sunset, Louisiana*



### **Chairman, District I**

Cynthia Stuart  
*Deputy Commissioner, Vermont Department of  
Financial Regulation*

### **Chairman, District II**

Karen K. Lawson  
*Director, Office of Banking, Michigan Department of  
Insurance & Financial Services*

### **Chairman, District III**

Ray Grace  
*Commissioner, North Carolina Office of Commissioner  
of Banks*

### **Chairman, District IV**

Mark Quandahl  
*Director, Nebraska Department of Banking and Finance*

### **Chairman, District V**

Iris Ikeda  
*Commissioner, Hawaii Division of Financial Institutions*



## **CHAIRS EMERITUS**

### **Chairman Emeritus (2013 – 2014)**

Charles A. Vice \*  
*Commissioner, Kentucky Department of  
Financial Institutions*

### **Chairman Emeritus (2012 – 2013)**

Greg Gonzales \*  
*Commissioner, Tennessee Department of  
Financial Institutions*

### **Chairman Emeritus (2011-2012)**

John P. Ducrest \*  
*Commissioner, Louisiana Office of Financial Institutions*

### **Chairman Emeritus (2007-2008)**

Jeffrey C. Vogel \*  
*Director, Wyoming Department of Audit*

### **Chairman Emeritus (2006-2007)**

E. Joseph Face, Jr. \*  
*Commissioner, Virginia Bureau of Financial Institutions*

### **Chairman Emeritus (2003-2004)**

Mick Thompson \*  
*Commissioner, Oklahoma State Banking Department*

### **Chairman Emeritus (2002-2003)**

Gavin M. Gee \*  
*Director, Idaho Department of Finance*

### **Chairman Emeritus (1997-1998)**

G. Edward Leary \*  
*Commissioner, Utah Department of Financial Institutions*

### **CSBS Staff Director**

John W. Ryan \*  
*President & CEO*

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\* = Non-Voting Members of the Board

# 2016 HIGHLIGHTS

## COORDINATION, COLLABORATION, COMMUNICATION



39

State agencies represented at the 2016 CSBS Government Relations Fly-In

162

Regulators from 42 states attended the 2016 CSBS State-Federal Supervisory Forum

8

Comment letters submitted to federal regulatory agencies by CSBS

## TRAINING & ACCREDITATION



47

State banking agencies were re-accredited through CSBS's Bank Accreditation Program

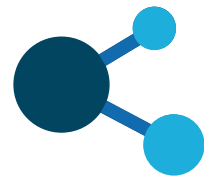
24

State Mortgage Agencies earned accreditation or reaccreditation through the CSBS-AARMR Mortgage Accreditation Program

OVER 1,100

Examiners from 46 agencies representing 44 states certified through the CSBS Certification Program

## RESEARCH



10

Research Papers Presented at the fourth annual Community Banking in the 21st Century Research Conference

33

Undergraduate Research Case Studies Submitted in the 2016 CSBS Community Bank Case Study Competition

557

Community bankers participated in the Community Banking in the 21st Century Research Conference Survey

29

States participated in the Community Banking in the 21st Century One-on-One Interviews with state commissioners

## NMLS



54

Agencies using the Uniform State Test on NMLS

62

State agencies using NMLS as their licensing system of record

601

License types

3.7 MILLION

Number of views of the NMLS Consumer Access Portal

With the Presidential Election and shortened legislative calendar, the opportunities for legislative change in 2016 were few and far between.

Like any national election year, congressional activity in 2016 was largely restricted to “must pass” provisions, such as keeping the government open. Congress had a compressed legislative schedule and a limited window to pass legislation.

In response to this, CSBS focused its efforts in two areas: laying the groundwork for 2017 educating policymakers on the value of the state system of financial regulation and cultivating relationships with members of Congress.

Before the election was in full swing, however, CSBS and state regulators successfully advocated Congress to introduce several pieces of legislation enhancing state-federal coordination and streamlining supervision of community banks.

## LEGISLATIVE SUCCESSES IN THE 114TH CONGRESS

After several months of advocacy, CSBS's efforts to modernize the Nationwide Multistate Licensing System and Registry (NMLS) culminated in December 2015 with two bipartisan bills supported by CSBS being signed into law.

The first provision, a bill to amend the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (the SAFE Act), enhanced existing privilege and confidentiality protections for information shared among regulators through the NMLS.

The second provision authorized NMLS to process background checks for non-mortgage license applicants. Thanks to this new law, non-bank entities licensed through NMLS will be able to utilize a faster, more streamlined process for license approval.

The passage of these two measures represents Congress's increasing recognition of the value of the state supervisory system and the NMLS as a necessary tool to efficiently license and supervise non-depository financial services providers. Moreover, these measures will help state

regulators achieve their goal of ensuring state regulation is robust, efficient, and technologically current as the NMLS continues to improve through such initiatives as 2.0 and Vision 2020. Ensuring the NMLS has the tools to help states achieve their supervisory goals, will aid advocacy efforts as federal policymakers continue to grapple with how best to regulate fintech.

Other financial services measures supported by CSBS support and passed into law included:

- Granting relief from Gramm-Leach-Bliley privacy notice requirements
- Increasing from \$500 million to \$1 billion the threshold for well-capitalized banks eligible for an 18-month exam cycle
- Establishing a process for banks and other stakeholders to petition the Consumer Financial Protection Bureau (CFPB) to designate an area as ‘rural’ or ‘underserved’ for the purposes of the CFPB's ability-to-repay rule
- Expanding the CFPB's ability to exempt creditors serving rural or underserved areas from escrow requirements
- Providing the CFPB with greater flexibility to treat a balloon loan as a ‘qualified mortgage’ if such a loan was extended by a community bank or creditor operating in rural or underserved areas
- Authorizing the Nationwide Multistate Licensing System and Registry (NMLS) to process background checks for non-mortgage license applicants

## STATE REGULATORS' FINANCIAL REFORM PRIORITIES

Building on the successes of the previous year, CSBS continued throughout 2016 to advocate Congress on behalf of state regulators sharing the state perspective on bank regulatory reform.

### The 2016 Financial CHOICE Act

In September 2016, after previously releasing a discussion draft, House Financial Services Committee Chairman Jeb Hensarling (R-Texas) introduced the 2016 Financial CHOICE Act, a package of financial services measures meant to overhaul the 2010 Dodd-Frank law. State

regulators saw the introduction of the Financial CHOICE Act as a welcome opportunity to advance the debate on right-sizing financial regulations for community banks.

At the direction of the CSBS Legislative Committee, CSBS worked to have included in the 2016 Financial CHOICE Act several provisions that were aimed at right-sizing the regulation and supervision of community banks, as well as improving the efficiency of state licensing and supervision. Following weeks of engagement with members of Congress, CSBS saw the inclusion of two of its recommended provisions in the 2016 Financial CHOICE Act.

CSBS recommendations adopted in the 2016 Financial CHOICE Act included a provision stating that state regulators be included in the regulatory processes related to capital election, and a recommended approach to tailoring the capital election process for less complex institutions through the use of a simpler leverage ratio.

The 2016 Financial CHOICE Act was marked up and passed out of the House Financial Services Committee in the second half of 2016. [An updated version of the bill passed the House in June 2017]

### Common Community Bank Definition

Throughout the year, CSBS strongly urged Congress to consider a common community bank definition. State regulators firmly believe that financial institutions should be supervised in accordance to their size, complexity, and overall risk to the financial system. Additionally, CSBS supports any effort by Congress to ensure current and future laws, regulations, and supervisory processes impact only the institutions for which they were intended.

To achieve this, CSBS has championed the implementation of a common definition for community banks. Such a definition would enable bank supervisors to appropriately develop regulations based on an institution's business activities, funding model, asset size, and geographic footprint.

### Bank Service Company Examination Coordination Act

In 2016, CSBS also championed and saw the introduction of bipartisan legislation that would enhance regulators' ability to oversee banks and their vendors in a more effective, efficient and coordinated matter.

The proposed Bank Service Company Examination Coordination Act of 2016 would amend the Bank Service Company Act to allow state and federal banking regulators to better coordinate supervision of bank service companies, help streamline the supervisory process for technology service providers, and improve effectiveness of state and federal supervision. The legislation was sponsored by Representatives Sean Duffy (R-WI), Roger Williams (R-TX) and Gregory Meeks (D-NY).

## BUILDING STRONG CONGRESSIONAL RELATIONSHIPS

Continuous engagement is vital to maintaining and building strong relationships with members of Congress. These relationships are often the difference between ensuring the state regulatory perspective is heard. Even more impactful is the direct relationships between state financial regulators and their representative members of Congress. To that end, every year CSBS hosts a Government Relations Fly-In, a national policy forum on state financial supervision in Washington, D.C., where state regulators from around the country engage in two days of regulatory briefings and legislative advocacy.

In addition to the Government Relations Fly-In, CSBS staff and state financial regulators often meet with members of Congress throughout the year, whether in Washington, D.C. or in the lawmakers' home districts,

### CSBS LEGISLATIVE COMMITTEE

The CSBS Legislative Committee is the forum through which state regulators review and consider legislative proposals that could impact state financial regulation. The Committee sets the legislative priorities of CSBS and guides the legislative efforts of the CSBS legislative staff. The Committee was chaired in 2016 by Deputy Superintendent of Banks Trabo Reed of the Alabama State Banking Department.



*Trabo Reed, Deputy Superintendent of Bank, Alabama State Banking Department*

to educate lawmakers on issues of particular interest to state regulators. These relationships have positioned state regulators as thought leaders on community bank regulatory reform. As a result, CSBS is often called upon to

brief lawmakers on regulatory issues, and state regulators are routinely asked to give congressional testimony on a number of financial regulatory topics.

## CSBS GOVERNMENT RELATIONS FLY-IN

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Maintaining a strong relationship with Congress is critical to ensuring the state perspective is heard in the policymaking process. When Congressional proposals affect state and local financial markets and the consumers and businesses those markets serve, state financial regulators communicate that impact to their elected representatives.

Every year, CSBS hosts its Government Relations Fly-In, inviting state financial regulators to Washington, D.C., for two days of regulatory briefings and legislative advocacy. CSBS members use the Fly-In as an opportunity to inform policymakers on the legislative priorities of state financial regulators. During the Fly-In, CSBS distinguishes itself as a non-partisan advocate for flexible, common-sense regulatory policies and for a diverse financial services industry.

In 2016, more than 63 state financial regulators representing 39 state agencies attended the Government Relations Fly-In. During the event, state regulators met with Chairman of the Federal Reserve Board Janet Yellen, other members of the Federal Reserve Board, and senior staff from various federal banking agencies. State regulators also held several individual meetings with their home state congressional delegations and attended closed session meetings with House leadership staff.



# WORKING TO ENHANCE BANK SUPERVISION

CSBS serves as a national forum for state financial regulators to coordinate bank supervision and policy development. It is the first source state regulators turn to when seeking to collaborate with their peers, and it is the first place federal regulators go when seeking partner with the states. CSBS provides a forum for regular state-to-state, and state-to-federal coordination and collaboration on a range of banking supervisory matters.

In 2016, CSBS actively worked with state regulators to improve bank supervisory processes, enhance the understanding of key supervisory issues, right-size the regulation and supervision of community banks, and strengthen risk management across the industry.

The State Supervisory Processes Committee (SSPC) is the primary mechanism at CSBS for coordinating state-to-state and state-to-federal bank supervision. In addition to promoting consistent supervisory processes across state and federal regulators, the SSPC plays a vital role in the development of best practices in bank supervision. To efficiently manage the various bank supervisory matters before state regulators, the SSPC utilizes small working groups of regulators with specialties in certain aspects of bank supervision. These working groups include the Technology Committee, the State Examiner Review Team, the Risk Identification Team and Advisory Group, and the Information Technology (IT) Advisory Group.

## CSBS STATE SUPERVISORY PROCESSES COMMITTEE

The primary mechanism for coordinating state bank supervision is the CSBS State Supervisory Processes Committee (SSPC). Chaired by Deputy Commissioner of the Kansas Office of the State Bank Commissioner Judi Stork, the SSPC plays a substantial role in promoting consistent supervisory processes across state and federal regulators, as well as in the development of best practices in bank supervision and with the CSBS state bank and mortgage regulatory accreditation program. To more effectively manage bank supervisory issues, the SSPC leverages longstanding working groups specializing in certain aspects of bank supervision. These working groups include the Technology Committee, State Examiner Review Team, the Risk Identification Team, and the Information Technology Advisory Group.



*Judi M. Stork, Deputy Commissioner of the Kansas Office of the State Bank Commissioner and Chairman of the CSBS State Supervisory Processes Committee (SSPC).*

## IMPROVING BANK SUPERVISORY PROCESSES

In 2016, CSBS helped state regulators complete a nationwide, multi-year initiative to implement the next generation of bank examination tools, known as the Examination Tools Suite (ETS).

Beginning in 2008, this initiative is a collaborative effort between the Federal Deposit Insurance Corporation, the Federal Reserve System, and state banking departments. For state financial regulators, the new ETS is a major regulatory technology modernization project. The ETS replaced four outdated examination-related software applications, modernized workflows, and improved security. The ETS is a prime example of the benefits that come from close state and federal coordination.

CSBS began facilitating the final phase of the ETS deployment for state regulators in January 2016. The deployment was done on a region-by-region basis in coordination with the FDIC and the Federal Reserve.

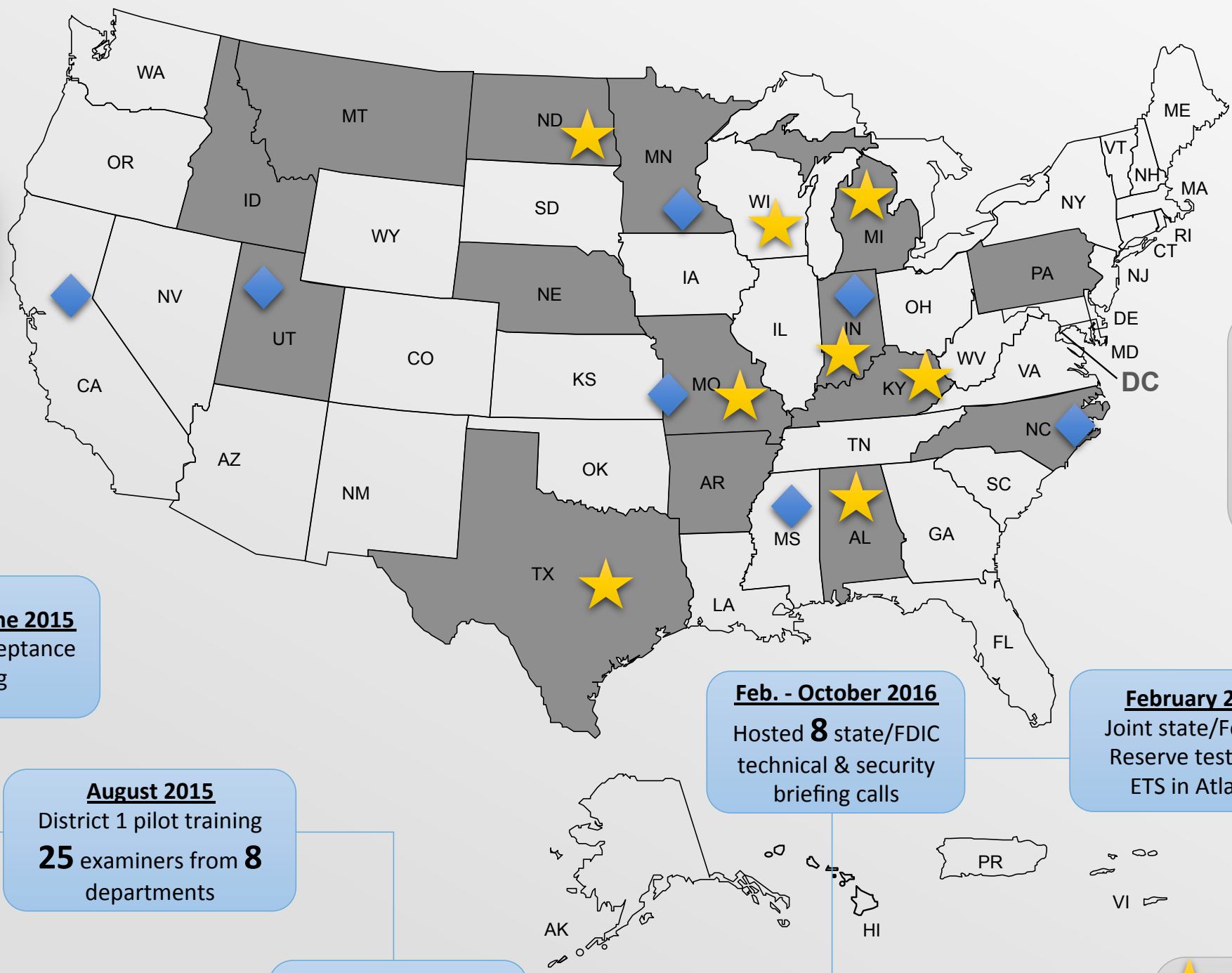
Under the guidance of the **CSBS State Examiner Review Team (SERT)**, CSBS conducted 7 regional training sessions in 2016, with implementation completed in December. SERT played an important role in the development of the ETS interagency tool. Moving forward, SERT will continue to monitor usage of the tool by state examiners, identify best practices as well as more efficient ways to use its applications in order to continually improve the bank supervisory process. *(See visual on the following page)*

# EXAMINATION TOOLS SUITE (ETS) DEPLOYMENT MILESTONES

**Fall 2012**  
Work at stakeholder level resumed on ETS 1.0



- Oversaw the development process
- Served as the original stakeholder group
- Developed training plan
- 24 members



**August 2016**  
Final regional TTT session

**July – August 2016**  
User Acceptance Testing for ETS 1.3

Held **7** Train-the-Trainer sessions nationwide. **138** examiners from **40** departments trained.

**March – August 2016**  
Regional train-the-trainer sessions

**January – June 2015**  
ETS User Acceptance Testing

**August 2015**  
District 1 pilot training **25** examiners from **8** departments

**Feb. - October 2016**  
Hosted **8** state/FDIC technical & security briefing calls

**February 2016**  
Joint state/Federal Reserve testing of ETS in Atlanta

**March 2016**  
Released ETS Reviewer Training eLearning course

**Fall / Winter 2015**  
NY Region & CSBS District 1 Pilot of ETS 1.0

**January 2016**  
Launched ETS User Support Forum; **350** members and growing

**11** examiners from **8** departments volunteered and served as a train-the-trainer session instructor

**3** UAT sessions were held in 2015. **16** departments sent **25** examiners for one or more of the three-week sessions.



## ADDRESSING NEW & EMERGING SUPERVISORY CHALLENGES

State financial regulators serve as the primary regulator for 78 percent of the nation's banks. In this role, state regulators have an important mandate to ensure safety and soundness among their chartered financial institutions. This is done through the routine monitoring of potential risks at all state-chartered banks.

To help state regulators detect and address regional and national trends related to new and emerging risks, the **CSBS Risk ID Team** and Advisory Group regularly meets and employ proactive and innovative approaches to these supervisory challenges.

The CSBS Risk ID Team and Advisory Group is made up of approximately 100 field examiners from 45 states. Under the guidance of the SSPC, the Risk ID Team and Advisory Group is specifically charged with monitoring the supervisory risk landscape across the country, conducting an in-depth analysis of any risk trends, and elevating these risks to the SSPC should they pose a potential threat to safety and soundness in the financial market.

Risk ID Team members effectively monitor risks in the banking system because the team is comprised of those who see risk first—the examiners. Once a risk is identified, the team, in consultation with the SSPC, may raise the issue with federal counterparts, conduct an in depth analysis, and ultimately publish its findings in quarterly reports for state regulators, summarizing the risk landscape.

Topics from the quarterly reports that warrant further understanding or an in-depth analysis are often highlighted in the form of a Risk Advisory Bulletin, a regulator-only document intended to raise awareness of certain regional risks and supervisory concerns reported by members of the CSBS Risk ID Team.

In 2016, the Risk ID Team began piloting a new publication called [CSBS Spotlights](#) that provides analysis of nationwide emerging trends in the financial market. The CSBS Spotlight series is available to regulator and banks members of CSBS. Featured topics in 2016 include: apartment vacancy rates, liquidity trends in banking, and recent trends in commercial and industrial lending.



Both the Risk Advisory Bulletins and the CSBS Spotlights are valuable tools to help state regulators assess emerging issues in their own states. These publications have fostered increased dialogue between state regulators and with federal regulators on emerging risks and supervisory challenges and help raise awareness of these issues within the regulator community.

On a quarterly basis, a group of state regulators convene in Washington D.C. to meet with supervisory policy staffs of the Federal Reserve Board and FDIC. These meetings, known as the Supervisory Processes Committee, focus on improving the coordinated work of state and federal regulators. Because the three agencies share supervisory authority for a majority of the banks nationwide, consistency in how regulations are interpreted and applied is a critical means of reducing regulatory burden. State regulators bring a local perspective to this venue, which compliments the nationwide view of the federal agency representatives, as the committee looks to ways to improve consistency and cooperative supervision.

## STATE & FEDERAL REGULATORS ADDRESS SYSTEMIC RISKS & REGULATORY BURDEN

Collaboration between state and federal regulators is as equally important as state-to-state collaboration. In fact, today's dynamic financial services industry demands increased state-federal regulatory coordination.

State-federal coordination top priority for CSBS, including ensuring that the perspective of state supervisors is represented at the highest levels of the federal government.



CSBS plays an integral role in facilitating state regulators' representation on several federal bank supervisory councils and boards. These boards include the Financial Stability Oversight Council (FSOC) and the Federal Financial Institutions Examinations Council (FFIEC), among several others. Having a seat at the table with federal regulators ensures the state perspective on financial policy is considered and fosters a more informed financial regulatory regime in the U.S.

### **Financial Stability Oversight Council (FSOC)**

The Financial Stability Oversight Council is a body of U.S. financial regulators that collectively identifies risks to the financial stability of the United States, promotes market discipline, and responds to emerging threats. FSOC was established in by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The Dodd-Frank Act requires one of the five non-voting members of the FSOC be a state banking supervisor and to be selected by the state banking supervisors.

In 2016, state banking supervisors appointed North Carolina Commissioner of Banks Ray Grace to serve a two-year term as the state banking representative on the FSOC.



*Ray Grace, North Carolina Commissioner of Banks*

### **Federal Financial Institutions Examinations Council (FFIEC)**

The Federal Financial Institutions Examinations Council (FFIEC) was established to promote uniformity in the supervision of financial institutions. The group consists of six voting members representing the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the National Credit Union Administration, the Consumer Financial Protection Bureau, and the State Liaison Committee.

The State Liaison Committee (SLC) was established as part of the FFIEC in order to incorporate the state perspective and to make supervisory recommendations that promote uniformity at the state and federal level. The SLC is comprised of five representatives of state banking departments designated by CSBS, the American Council of State Savings Supervisors, the National Association of State Credit Union Supervisors (NASCUS), and the FFIEC. In 2016, the SLC was chaired by Office of Banking Director Karen Lawson, with the Michigan Department of Insurance and Financial Services.



*Karen Lawson, Office of Banking Director*

Top initiatives undertaken by the FFIEC in 2016 include efforts to identify outdated, unnecessary, or unduly burdensome regulations as they apply to all insured depository institutions; especially small banks. These initiatives include the adoption of a new, streamlined Community Bank Call Report and reducing the examination frequency for certain qualifying financial institutions, among others.

### **New Small Bank Call Report**

In an effort to reduce data reporting and other burdens for small financial institutions, the federal banking agencies finalized and adopted in 2016 a new, streamlined call report for small financial institutions that do not have foreign offices and hold total assets of less than \$1 billion. The new call report will significantly reduce the length of the call report for eligible small institutions. The call report took effect on March 31, 2017. The FFIEC is expected to propose additional simplifications of call report requirements for small financial institutions in 2017.

### Reduced Examination Frequency

The FFIEC adopted a rule to raise the asset threshold that, in general, makes qualifying insured depository institutions with less than \$1 billion in total assets eligible for an 18-month examination cycle, rather than a 12-month cycle. As a result, more than 600 more institutions qualify for an extended 18-month exam cycle, increasing the total number of qualifying institutions to over 4,900, or about 83 percent of insured depository institutions.

### Uniform Interagency Consumer Compliance Ratings

The FFIEC issued the revised Uniform Interagency Consumer Compliance Rating System to reflect regulatory, supervisory, technological and market changes since the original rating systems was established in 1980.

### Cybersecurity

In 2016 the FFIEC continued to work on cybersecurity priorities included in the seven work streams that were identified during the 2014 pilot assessment of cybersecurity readiness at more than 500 institutions.

## PARTNERING TOGETHER ON CYBERSECURITY



Cybersecurity is among the top supervisory concerns for state banking regulators because of the banking industry's increased interconnectedness and reliance on technology.

Over the past decade, cybersecurity has become one of the most critical challenges facing the financial services sector. In response, financial institutions and their service providers must continually assess and strengthen information security programs and focus resources on cybersecurity risks.

In 2016, state regulators continued their ongoing efforts, working with federal regulators through the FFIEC, to better inform financial institutions about cyber risks through the release of various tools. These tools include:

### Third-Party Management Examination Handbook Update

In recognition of the growing risks associated with mobile financial services products and services, state and federal regulator members of the FFIEC worked together to update examiner guidance in the Information Technology Examination Handbook (IT Handbook) surrounding third-party management and the risks associated with retail payment systems. The update assists bank examiners in determining the state of risk and controls at an institution or third party providing mobile financial services.

### Information Technology Booklet Update

State and federal regulators issued a revised Information Security booklet, part of the larger FFIEC IT Handbook, in order for examiners to more appropriately address factors necessary in assessing the level of security risks to a financial institution's information systems. The booklet also helps examiners evaluate the adequacy of the information security program's integration into overall risk management.

### Cybersecurity Assessment Tool FAQ Guide

Members of the FFIEC released in 2016 a "frequently asked questions" guide related to the Cybersecurity Assessment Tool (Assessment Tool) the group issued in 2015. The FAQ was in response to industry questions regarding the Assessment Tool. The Assessment Tool was developed by the FFIEC to help financial institutions' management determine their risk profile and determine the institutions' inherent risks and cybersecurity preparedness. The Assessment Tool provides a repeatable and measurable process that financial institutions' management may use voluntarily to measure their cybersecurity preparedness over time.

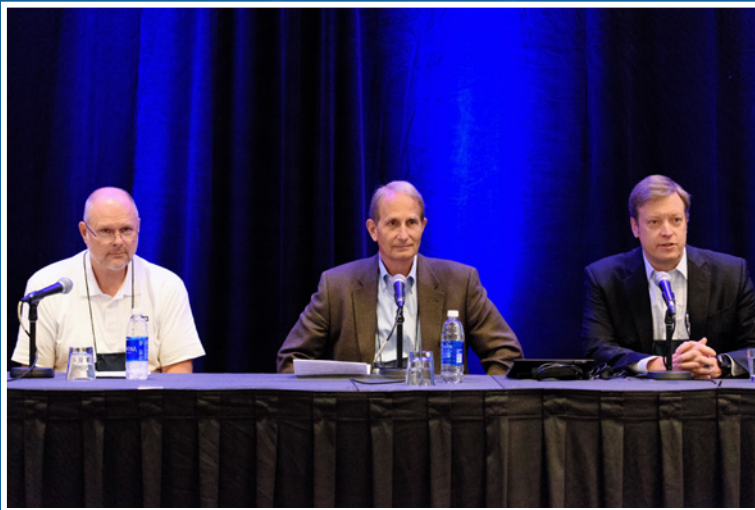
### Cybersecurity Webinars

In observance of National Cybersecurity Month, state regulators, along with members of the FFIEC, hosted two cyber related webinars that was made available to the banking industry. The webinars addressed the IT Handbook update regarding risks related to mobile financial services, and resources available to financial institutions to better prepare against cyber threats.

## 2016 STATE-FEDERAL SUPERVISORY FORUM

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In the spirit of state-federal regulatory collaboration, CSBS hosts each year its annual State-Federal Supervisory Forum, an annual meeting of state and federal regulators from around the country focused on current and emerging trends in the financial market, addressing supervisory issues, and sharing information. In 2016 the State-Federal Supervisory Forum was held May 25-27 in Denver, Colorado. Attending the meeting were 95 state regulators and 64 federal regulators, representing 42 states as well as the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Consumer Financial Protection Bureau, the Office of the Comptroller of the Currency and the Financial Crimes Enforcement Network.



## PROMOTING BALANCED REGULATORY & SUPERVISORY POLICIES

State financial regulators are the chartering authority and primary regulator for 78 percent of all U.S. banks. State regulators are charged with promoting safety and soundness, consumer protection and fostering local economic growth. State regulators' proximity to their supervised entities informs their distinct approach to regulating and supervising financial institutions.

The state regulatory approach is one that is based on local knowledge, authority and focus. This approach guides the development of financial policy at CSBS in a way that benefits consumers, institutions and the state economy.

### CSBS REGULATORY COMMITTEE

The CSBS Regulatory Committee serves as the primary committee for developing positions on state and federal regulatory and supervisory matters, and making recommendations to the CSBS Board of Directors. Kevin Hagler, Commissioner of the Georgia Department of Banking & Finance, served as chair of the CSBS Regulatory Committee in 2016.



*Kevin Hagler, Commissioner of the Georgia Department of Banking & Finance*

CSBS continued and launched several new efforts in 2016 aimed at right-sizing the regulation and supervision of banks according to their size, complexity, overall risk profile, and risk to the financial system.

### Community Bank Steering Group

CSBS's Community Bank Steering Group holds the important task of analyzing the community banking business model, evaluating public policies and market pressures that may impact the community banking model, and recommending to the CSBS Regulatory Committee policy positions and work streams. In working to identify areas of regulatory relief for community banks, the Community Bank Steering Group commissioned research around shared services arrangements and published a [white paper](#) on the subject in September 2016.

Recognizing that some bankers have turned to mergers as a means to achieve economies of scale, the white paper, "Shared Resource Arrangements: An Alternative to Consolidation," highlights shared services arrangements as a possible tool to streamline costs for smaller institutions. The white paper identifies a number of ways two or more financial institutions have successfully shared resources to either improve compliance, increase efficiency, or both.

### Large Bank Peer Group

In addition to community banks, state financial regulators also oversee some of the nation's largest financial institutions. As of Q1 2017, there were 60 state chartered banks with more than \$10B in assets. 25 states and Puerto Rico supervise these banks. There are another 29 state chartered banks that are quickly approaching the \$10B threshold.

In an effort to better support state regulatory supervision of large banks, CSBS launch in 2014 a large bank supervisory initiative. This initiative lead to the creation of a Large Bank Peer Group for bank examiners that oversee institutions approaching or over \$10 billion in assets. The goal of the group is to provide large bank examiners a forum to discuss emerging risks, examination strategies, and other issues pertaining to the supervision of large financial institutions chartered at the state level.

Over the past 2 years, CSBS has facilitated the participation of more than 100 state examiners in Large Bank Supervision training offered by the FDIC. In the fall of 2016, CSBS its first large bank supervision training course that aimed to build on the joint CSBS-FDIC course, covering topics such as model risk management, stress testing, and shared national credits. The training was well-received by state examiners. CSBS will be holding the second annual training session in November 2017.

### **CSBS Bankers Advisory Board (BAB)**

State regulators regularly engage with the banking industry and other stakeholders in financial regulation throughout the year. In order to maintain strong relationships and gather feedback on important issues, industry engagement has been and continues to be a priority of state regulators.

The CSBS Bankers Advisory Board is one such way state regulators maintain relationships with state-chartered institutions. The duties of the BAB are to advise and assist the CSBS Board of Directors in pursuit of the organization's goals and to provide industry input on current issues. In 2016, the BAB provided feedback on several pressing regulatory issues, including: capital simplification for community banks; the CFPB small dollar lending proposal; the Bank Secrecy Act/Anti-Money Laundering work program; the Office of the Comptroller of the Currency's proposed special purpose charter for fintech firms; flood insurance; and bank consolidation in rural areas, among other issues.

## **ON THE ISSUES: CSBS COMMENT LETTERS**

In 2016, CSBS commented on a number of federal regulatory proposals impacting the U.S. banking system.

### **OCC Financial Technology "Fintech" Charter**

Throughout 2016, the CSBS Regulatory Committee engaged with emerging issues surrounding the regulation and supervision of nonbank financial firms, fintech firms in particular.

In December of 2016, following the release of the Office of the Comptroller of the Currency's paper on special purpose national bank charters for fintech companies, CSBS submitted a comment letter to the agency asserting that the [OCC lacks the statutory authority](#) to grant national bank charters to firms that do not accept deposits, and that through this chartering process, the OCC will choose winners and losers, thus, tamping down competition

and innovation. CSBS's work on this front continued into 2017, responding to the OCC's release of the April 2017 draft licensing manual supplement for evaluating charter applications from nonbank financial firms.

### **Small Dollar Lending Working Group and Letter**

CSBS formed a Small Dollar Lending Working Group in 2016 to evaluate the Consumer Financial Protection Bureau's (CFPB) proposed rule for small dollar lending. The working group was made up of depository and non-depository state regulators. The recommendations of the group were shared with the CSBS Regulatory Committee and ultimately informed the CSBS comment letter to the CFPB on the proposed rule.

The CSBS comment letter on the CFPB's small dollar lending proposal focused on the ability (or inability) of depository institutions to offer small dollar loans within the framework of the rule. State regulators expressed concern that the CFPB's proposed rule will discourage depository institutions from developing small dollar lending programs and make it less likely that banks will continue to provide small dollar loans as an accommodation to existing customers. CSBS submitted its comment letter on the proposed rulemaking in October of 2016. A final rule on the proposal is expected in 2017.

### **Economic Growth and Regulatory Paperwork Reduction Act Recommendations**

Under the [Economic Growth and Regulatory Paperwork Reduction Act](#) (EGRPRA), the Federal Financial Institutions Examinations Council (FFIEC) and its member agencies are directed to conduct a joint review of financial regulations every 10 years and consider whether any of those regulations are outdated, unnecessary, or unduly burdensome. The most recent cycle of the EGRPRA review started in 2014 and ended in 2016. The State Liaison Committee (SLC), as part of the FFIEC, participated in this review.

During the EGRPRA review process, state and federal regulators solicited written feedback from the banking industry on current regulations and hosted six outreach sessions around the country where community bankers, consumer groups and other stakeholders participated.

To help guide the state regulators' priorities in the EGRPRA review process, the CSBS Regulatory Committee, working with the SLC and other CSBS committees, conducted a separate analysis of regulatory burden reduction

opportunities specific to small community banks. This analysis was incorporated into the FFIEC EGRPRA Joint Report to Congress as a supplementary letter. The letter highlighted opportunities for reducing regulatory burden in four areas:

- The simplification of the capital rules for smaller and less-complex institutions
- The continuation of the Call Report burden reduction process
- Updating the dollar thresholds for federally related transactions secured by real estate
- A reevaluation of how the Herfindahl-Hirschman Index is used in competitive analyses.

This comment letter from state regulators provides Congress with specific, concrete solutions they can adopt to resolve problems surfaced by regulated institutions throughout the EGRPRA process. The SLC letter is included in Appendix 1 of the EGRPRA Report released in 2017.

### **Coordination to Implement CECL**

In 2016, the Financial Accounting Standards Board (FASB) issued a long-anticipated accounting standards update requiring timelier recording of credit losses, known as the Current Expected Credit Losses (CECL) model.

Under the CECL model, institutions will be required to change the way they estimate expected losses by using historical information, current conditions, and reasonable forecasts. The new standard applies not only to loans, but other assets measured as amortized cost, including held-to-maturity debt securities. The new standard addresses concerns raised by financial statement preparers and users, but it also introduces new concerns from community banks due to its potential complexity.

CSBS wrote a comment letter on the CECL model in 2013 when it was first proposed, supporting the need for a more forward looking process, but cautioning against a model-driven approach that could become costly and too complex for community banks. CSBS urged the FASB take a practical approach to implementing the CECL model. This perspective was also communicated by CSBS during several meetings and roundtables over the years, leading up to the final issuance of the CECL model in 2016.

While the new standard will eventually affect all financial institutions, the staggered implementation of the model, which was supported by CSBS, offers certain institutions more time to prepare for and adopt the standard.

### **Home Mortgage Disclosure Act Resubmission Guidelines (HMDA)**

In 2016 CSBS continued its ongoing dialogue with the CFPB on its Home Mortgage Disclosure Act Resubmission Guidelines (HMDA) proposal. In March 2016, CSBS submitted a comment letter calling attention to inconsistencies that exist across federal regulators with regard to the methods for HMDA data validation and resubmission requirements. With the implementation of the final HMDA rule approaching, CSBS urged the CFPB take the opportunity to promote the consistent application of HMDA's reporting requirements for all covered entities. CSBS strongly encouraged the CFPB to utilize the FFIEC as a mechanism for collaboration on consistent HMDA resubmission standards. The recommendations of CSBS regarding the need for consistent HMDA guidance have resonated, and the FFIEC has spent the past year working on interagency resubmission guidelines and exam procedures.

### **Federal Reserve Board Proposal on Total Loss Absorbing Capital**

In February of 2016, CSBS submitted a comment letter to the Federal Reserve Board regarding their Total Loss Absorbing Capital (TLAC) proposal, which would require the top eight domestic firms and (the U.S. operations of) another eight foreign firms identified by the Board as global systemically important banks, to maintain a new, minimum amount of unsecured long-term debt that could be converted into equity during a resolution. The CSBS letter is generally supportive of the Board's efforts to craft rules that will improve the resiliency of systemically important banking organizations while ensuring that these institutions can be resolved without extraordinary government support, taxpayer assistance, or financial instability. The comment letter also raised several aspects of the proposed rule that require further clarification or modification and encouraged the Board to coordinate with state regulators in the finalization and enforcement of the proposed rule.



### **CFPB Final Rule on Operations in Rural Areas**

In April 2016, CSBS filed a comment letter with the CFPB in response to the Bureau’s interim final rule on operations in rural areas under the Truth in Lending Act (TILA). CSBS was strongly supportive of the CFPB’s efforts to expand the class of creditors that are eligible to originate balloon payment qualified mortgage loans. Dodd-Frank gave the Bureau discretion to create a special provision within the TILA that would allow for the origination of balloon-payment qualified mortgage (QM) loans for certain creditors that operated predominantly in rural or underserved areas.

The passage of the Helping Expand Lending Practices in Rural Communities Act of 2015 (HELP Rural Communities Act) struck the word “predominantly” from the relevant TILA sections and gave the CFPB authority to extend the special provisions to small creditors who operate in rural or underserved areas, even if they do not operate predominantly in such areas. In light of the legislative revision, the new requirement allows a creditor to extend balloon-payment QM loans if it extended at least one first-lien covered transaction on a property that is located in a rural or underserved area within the preceding calendar

year. CSBS supports expanding the class of creditors that may be eligible to offer balloon-payment QM loans under TILA because it will support and promote the portfolio lending activities of community banks. The CFPB’s amendments also included the establishment of a petition process under which a person may apply to have an area designated as a rural area for purposes of federal consumer financial law.

### **Arbitration Agreements**

In August 2016, CSBS filed a comment letter on the CFPB’s proposed arbitration rule restricting the use of pre-dispute arbitration agreements by providers of certain consumer financial products and services. While CSBS supports any effort to encourage compliance with state and federal consumer protection laws, the CSBS letter highlighted supervisory concerns regarding the heightened compliance risks and legal uncertainty resulting from the proposed rules, as well as difficulties the rules will pose to examiners in evaluating litigation exposures. The comment letter made several recommendations on how the CFPB can provide further guidance and mitigate the legal uncertainty introduced by the proposed rule.

## COMMUNITY BANKING IN THE 21ST CENTURY RESEARCH AND POLICY CONFERENCE

*Fourth Annual Community Banking Research & Policy Conference co-sponsored by CSBS and the Federal Reserve System September 28-29, 2016 at the Federal Reserve Bank of St. Louis*



CSBS values its partnership with the Federal Reserve System as it continues the work of fostering more research in the area of community banking. State regulators are committed to better understanding the challenges and opportunities facing community banks in this 21st century environment, especially in the aftermath of the financial crisis. State regulators have made it a priority to fully understand the impact of current financial policies and regulations on the community bank relationship lending model, and have equally committed to promoting balanced financial policies informed by sound research. The Community Banking in the 21st Century Research and Policy Conference plays a vital role in this process.

Since the start of this conference in 2013, the significance of community banking to the economic fabric of local communities has become more and more recognized by academics, regulators, and policymakers alike. This is one of the only conferences that brings together academics, community bankers, and federal and state policymakers from around the country, to discuss independent research addressing the relevant issues surrounding community banking. Research topics addressed during the 2016 research conference include: the community banking business model, the relationship between bank size and profitability, bank compliance costs, commercial lending concentrations, and the economic impact of community banks, among other topics.

During the 2016 research conference, CSBS and the Federal Reserve released the results of the third annual national survey on community banks. The survey was taken by 557 banks representing 26 states, almost all with assets less than \$10 billion. The goal of the survey is to describe the current condition in the community banking industry and, perhaps equally important, to use those descriptions as a lens through which the opinions of bankers can be filtered.

Overall the survey found a continuing emphasis on small business lending, the lifeblood of community banks, which increased modestly in 2015 after several years of lackluster activity; an active merger and acquisition market; continuing concern with regulatory burden, which was cited as the number one reason for planned exits of banks from currently offered activities; frustration with Real Estate Settlement Procedures Act (RESPA), the Truth in Lending Act (TILA) and the TILA-RESPA Integrated Disclosure rule, which, collectively, accounted for 23 percent of all compliance expenses; and more anticipated competition in the future from non-depository entities for many products and services traditionally provided by community banks.



## 2016 CASE STUDY COMPETITION

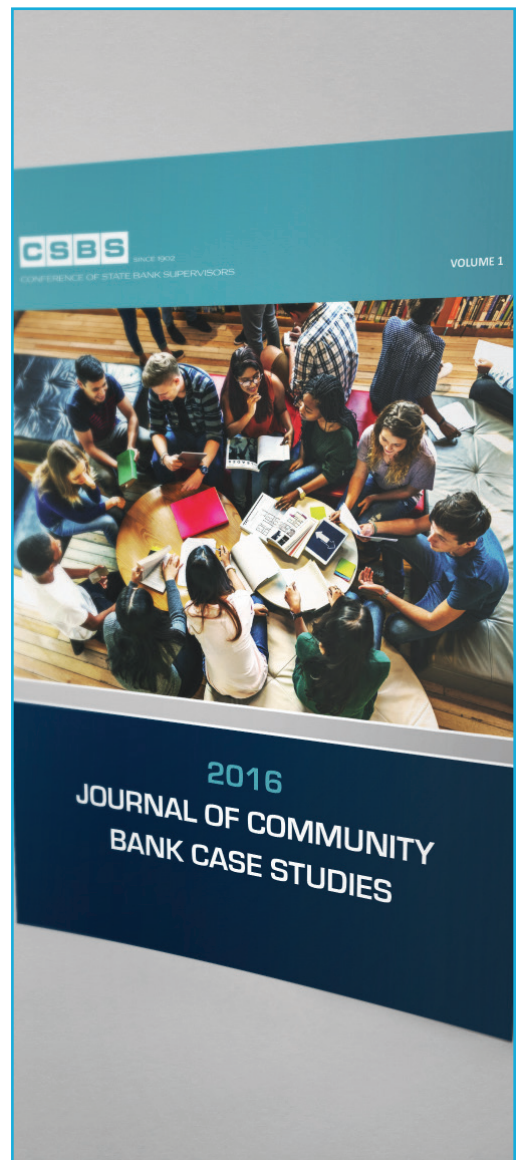
In 2016, CSBS facilitated its annual Community Bank Case Study Competition in partnership with the Federal Reserve. This nationwide, college competition pairs undergraduate students with local community banks to conduct original case studies evaluating the impact of community banks on local communities. By focusing on local the level, the competition emphasizes the individual and unique stories of community banks. The goal of the competition is to help build a further understanding of the community banking business model and the role community banks play in local communities, to connect students with community banking, and to serve as a tool for uncovering new and innovative perspectives regarding the role of community banks in the banking industry.

Participants of the 2016 competition included more than 20 college and university teams from across the U.S. who were tasked to write case studies on the impact of small business lending efforts by local community banks. The winner of the 2016 competition was the student team from Southeastern Louisiana University. The second and third place teams were the University of Missouri – Kansas City, and the University of Arkansas - Fayetteville, respectively.

### COMPETITION WINNER - SOUTHEASTERN LOUISIANA UNIVERSITY



(Above) Left to Right: SELU students Tarez Cower, Andrea Villarreal, Nicholas Byrd and Joseph Edwards; Federal Reserve Bank of St. Louis President & CEO James Bullard; Federal Reserve Board Governor Jerome H. Powell and SELU Professor Danielle Lewis



# LEADING THE WAY ON NON-DEPOSITORY SUPERVISION

State financial regulators promote local economic development due to their unique position within state government, knowledge of local economies and market conditions, and their distinct approach to the regulation and supervision of not only banks, but non-bank financial services providers as well.

State regulators lead the way when it comes to the supervision of non-depository entities such as fintech firms and marketplace lenders, ensuring access to necessary financial services and credit around the country. State regulators' local licensing authority and regulatory agility allows them to effectively monitor and protect consumers in the constantly evolving non-bank financial services industry.

## COORDINATION ON NON-DEPOSITORY FINANCIAL SERVICES



State regulators license and regulate a diverse non-bank marketplace of consumer finance companies, payday lenders, check cashers, debt collectors, money service businesses, mortgage companies, mortgage loan originators, and a host of other financial services providers. As the sole licensing authorities of non-depositories, state regulators are integral to ensuring consumer protection, safety and soundness, and Bank Secrecy Act and Anti-Money Laundering (BSA/AML) compliance in the non-bank area.

As the non-depository financial services marketplace continues to expand, and the number of multi-state

licensed entities continue to grow, state regulators have made it a priority to coordinate on the research, development and implementation of modernized examination tools in order to better monitor and address emerging non-depository supervisory risks. This is done through various committees, taskforces, and working groups comprised of state regulators and in some cases industry stakeholders.

## STATE COORDINATING COMMITTEE

The State Coordinating Committee (SCC) is the multi-state regulatory oversight group responsible for the coordination of multi-state, non-bank financial services exams with the Consumer Financial Protection Bureau



(CFPB). The SCC is comprised of members of representatives from six state financial regulatory associations, including: The American Association of Residential Mortgage Regulators, the Conference of State Bank Supervisors, the Money Transmitter Regulators Association, the National Association of Consumer Credit Administrators, the North American Collection Agency Regulatory Association, and the National Association of State Credit Union Supervisors. The SCC was formed in 2013 with the goal of promoting consistent standards for examinations among state regulators, and between state regulators and the CFPB. The SCC aims to promote efficient information sharing between the CFPB and state regulators, and to minimize the regulatory burden on providers of consumer financial products and services operating in multiple states. The SCC was chaired in 2016 by Commissioner Albert L. Forkner of the Wyoming Division of Banking.

The establishment of the State Coordinating Committee has helped to improve state-to-state and state-to-federal coordination in non-depository supervision in ways unprecedented. From routine meetings, establishing information sharing processes; from scheduling and monitoring coordinated examinations, to exchanging confidential supervisory information; these efforts make the supervision of non-bank financial services providers more efficient while eliminating regulatory redundancies.

The SCC is responsible for the overall multi-state coordination with the CFPB, but the examinations and corrective actions specific to non-depository industries are delegated by the SCC to functional committees, including the Multi-State Mortgage Committee (MMC) and the Multi-State Money Service Business Examination Taskforce (MMET).

### Multi-State Mortgage Committee

The Multi-State Mortgage Committee (MMC) is the main multi-state coordinating body for the state system of mortgage supervision. The MMC works to build and maintain a coalition of multiple state regulators that strengthens the entire system of state mortgage supervision through a fair and reasonable approach to state regulation.

As multi-state mortgage servicers have grown dramatically in size, complexity and market importance since the financial crisis, state regulators have continued to increase their focus on non-bank mortgage servicing examinations. In 2016 the MMC worked to develop and implement various examiner tools meant to provide greater efficiency and consistency to the multi-state mortgage supervision process. These tools included a Guide to Coordinated Supervisory Action: Mortgage Servicers, which is intended to provide process and legal options for supervisory actions that contemplate or result in the restructuring or resolution of a multi-state mortgage servicer; and the Risk Profiling Group Analytics examiner tool, used to guide state regulators' risk-based approach to mortgage supervision.

### Multi-State Money Services Businesses Examination Task Force

The Multi-State Money Services Businesses Examination Task Force (MMET) is the state representative body charged with coordinating and facilitating multi-state supervision of MSBs. For the MMET, 2016 was a year of operational streamlining focusing primarily on multi-state MSB identification, scheduling, and examinations.

In 2016, the MMET identified that there were 456 financial services providers in the U.S. operating as licensed money transmitters, 243 of which operate in multiple states. Among money transmitters operating in multiple states, the MMET found 50 percent are licensed in two to nine states, 30 percent are licensed in 10 to 40 states, and about 20 percent are licensed in 40 or more states.

## CSBS NON-DEPOSITORY SUPERVISORY COMMITTEE

The CSBS Non-Depository Supervisory Committee provides a forum for state financial supervisors to discuss interstate non-depository policy supervisory matters. The Committee advises CSBS's policy development on non-depository supervision and provides oversight and support for the SCC, MMC and the MMET.



Jan Owen, Commissioner of the California Department of Business Oversight chaired the Non-Depository Supervisory Committee in 2016.

### VISION 2020

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In 2017, CSBS announced Vision 2020, a series of initiatives to modernize state regulation of non-banks, including financial technology firms. Achieving this vision should result in a regulatory system that makes supervision more efficient and recognizes standards across state lines – actions that will better support start-ups and enable national scale while protecting consumers and the financial system.

More information about vision 2020 is available on the [CSBS Policy Site](#).

## CSBS EMERGING PAYMENTS TASK FORCE

The CSBS Emerging Payments Task Force was formed in 2014 with the task of better understanding new and emerging innovations in the financial system. The Task Force is charged with evaluating payments developments and innovations, examining the intersection between emerging payments and state supervision, identifying areas for consistent regulatory approaches among states, and discovering how payments and other innovations may fit within the established regulatory framework. Georgia Commissioner of the Department of Banking and Finance Kevin Hagler served as the 2016 chairman of the Emerging Payments Task Force.

In 2016, after finalizing and issuing a model regulatory framework for virtual currencies, the Emerging Payments Task Force focused its resources largely on developments in the “fintech” space and guiding CSBS’s efforts to challenge the Office of the Comptroller of the Currency’s (OCC) proposed federal bank charter for non-bank fintech firms.

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## STATE REGULATORS CHALLENGE OCC FINTECH CHARTER PROPOSAL

In November 2016 CSBS, on behalf of state regulators, submitted a comment letter to the OCC on its notice of proposed rulemaking addressing how the OCC would conduct the receivership of an uninsured national bank and placing the receivership proposal within the OCC’s responsible innovation initiative.

While state regulators appreciate the efforts of the OCC and other financial regulatory agencies to focus on the benefits and risks that technological innovation has and will continue to bring to financial services, state regulators are opposed to a potential national charter for certain financial technology companies.

The CSBS letter to the OCC characterizes its special purpose charter for fintech firms as fatally flawed and representing a direction that threatens to damage the U.S. financial system. The special purpose fintech charter would distort the marketplace for financial services and undermine state laws and regulations governing financial services.

Additionally, state regulators challenged the OCC’s authority to even issue such a charter. Through its comment letter, CSBS wrote:

The National Bank Act does not give the OCC authority to issue full-service bank charters to institutions that do not engage in deposit taking. To get around this, the OCC is relying on its own regulations – not the National Bank Act – to create a non-depository special purpose charter for fintech firms. However, there is no historical precedent for such a charter in the national banking system. In fact, Congress for more than a century and a half has purposely limited the OCC’s chartering authority.

In December 2016, following the OCC’s announcement it will begin considering fintech charter applications, John W. Ryan, president and chief executive officer at CSBS issued a statement that read in part:

“[The OCC] announcement represents an historic expansion of the role of the federal government, one that will permeate into the economies in all 50 states and distort the financial system with unwelcome consequences ...Rather than adapting our financial system to the possibilities enabled by technology, the OCC would put a stop sign on innovation through a regulatory regime that favors the entrenched over the emerging, circumvents consumer protection, and weakens the dual banking system. Also, since Congress clearly limited the OCC’s chartering authority, only Congress can expand it.”

As the debate over the OCC’s authority to issue a special purpose fintech charter continues in 2017, state regulators have continued their work of advancing the state system of non-depository supervision, modernizing and streamlining supervision in order to reflect the changing landscape in the financial services industry driven by technological innovation.

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## THE STATE REGULATORY REGISTRY - NMLS OVERSIGHT

The State Regulatory Registry LLC (SRR) is a non-profit entity and a wholly owned subsidiary of CSBS. SRR operates the Nationwide Multistate Licensing System and Registry (NMLS, or the System) on behalf of state financial regulators. Through coordination with the SRR Board of Managers, state agencies, and various working groups and committee, the System provides a platform to aid the states in their oversight of non-bank financial services. The SRR Board of Managers was chaired in 2016 by Robert Entringer, Commissioner of the North Dakota Department of Financial Institutions.

# THE NMLS AND ITS ROLE IN ADVANCING THE STATE SYSTEM OF NON-BANK FINANCIAL SERVICES



State regulators developed and launched the Nationwide Multistate Licensing System and Registry (NMLS) in January 2008 as a way to better manage and monitor licensed mortgage lenders, mortgage brokers and individual mortgage loan originators (MLOs) doing business in multiple states. In the wake of the financial crisis, Congress recognized the value of having a uniform system for accountability and embraced the NMLS as the national platform for mortgage supervision.

NMLS allows regulators to more efficiently coordinate and share information. It provides a more streamlined process for licensing, and, through a searchable consumer portal, allows consumers to obtain the licensing status and employment history of their financial services providers.

Building on the success of NMLS as a regulatory technology tool for managing and overseeing the mortgage industry, state regulators began expanding the use of NMLS in 2012 to include other industries, such as consumer finance lending, check cashing, debt collection, and money services businesses.

At year-end 2016, NMLS was the licensing system of record for 62 state agencies, managing a total of 601 different license authorities covering a broad range of non-depository financial services. This is an increase from 585 at the end of 2015. NMLS manages 327 company license types, 193 branch licenses types, and 81 individual license types. In 2016 alone, 13 agencies added an

additional 28 license types to the System. These statistics serve as evidence that the NMLS is a successful, state-created model of coordinated, efficient state and federal supervision.

The combination of the state licenses managed on NMLS makes it the most complete repository of companies, both depository and non-depository, and individuals authorized in the United States to originate mortgages. Since state agencies began expanding their use of NMLS to additional financial services industries, NMLS has made significant progress toward providing a national perspective on these other industries.

## NMLS Modernization

As state regulators expand their use of the NMLS they have also committed to modernizing the NMLS' framework. In 2016 SRR continued its multi-year effort to [redesign and expand NMLS](#). The redesign will use data and analytics to provide a more automated licensing process for new applicants, streamline multi-state regulation, and shift state resources to higher-risk cases. State regulators also will ensure transparency through NMLS Consumer Access, which was viewed 3.7 million times in 2016. For a more complete look at NMLS, please refer to the [2016 SRR Annual Report](#).



## AN EMPHASIS ON RESEARCH & ANALYSIS



Sound research and robust data tools are to the success of the state supervisory system. Research and data inform nearly every aspect of a state regulator's work. These tools benefit the banking and non-depository industries as well, as state regulators become more informed of industry trends, financial innovations and their own supervisory needs.

### CSBS Data Working Group Benchmarking Tool

In December 2014 state regulators formed the CSBS Data Working Group and tasked it with developing and enhancing CSBS analytics and reporting capabilities on behalf of state regulators. The working group is charged with providing feedback on various efforts to assist state banking departments with data analysis and visualization. In the past, the Data Working Group has developed a reporting tool called the **Outliers Report** that provides state regulators with dynamic and the most recent data on the state of their supervised institutions. The report has proven to be a valued resource among state regulators, saving them time and money previously spent on costly subscription and data analytics services.

In 2016 the Data Working Group made great progress on another project that will prove valuable to state regulators. The Data Working Group worked on a prototype bank safety and soundness examiner resource model, which aims to provide a method for evaluating the number of examiners available to conduct bank examinations in a particular state, benchmarking state resources against FDIC resource estimates, and benchmarking individual state resources with other states. The prototype model is based on information from the most recent CSBS Profile of State Chartered Banking, Call Report data, and the FDIC bank examination time benchmarks.

## CSBS White Paper on Money Services Businesses (MSBs)

In a continued effort to enhance and provide transparency to the state system of non-depository supervision, CSBS released a white paper in 2016 on state supervision of MSBs.

The white paper outlines the structure and degree of an established state regulatory system for overseeing MSBs that is focused on consumer protection, safety and soundness and Bank Secrecy Act and Anti-Money Laundering (BSA/AML) compliance.

MSBs, and especially money transmitters, play an important role in providing financial services to more than one-quarter of U.S. households around the country. At the same time, state financial regulators are finding that banks may be indiscriminately terminating or denying MSB accounts due to concerns of BSA/AML risks. By releasing the white paper, state regulators aimed to raise the level of understanding to which state regulators authorize and regulate MSBs and encourage financial institutions to make decisions based on specific risks and mitigation practices.

The white paper, titled "[The State of State Money Services Businesses Regulation & Supervision](#)," highlights state financial regulators' history of supervising licensed MSBs, the credentialing that occurs through the licensing process, and the coordinated supervision of MSBs among state financial regulators and between state and federal agencies. Also discussed in the white paper is the use of the Nationwide Multistate Licensing System (NMLS) as an effective and adaptive tool for streamlining licensure of MSBs, especially those operating in multiple states.

## CSBS BSA/AML Compliance Tool for Industry

Following the release of the MSB white paper, CSBS and state regulators worked in 2016 to develop a [BSA/AML compliance tool](#) to help banks and non-depository financial institutions better manage Bank Secrecy Act/Anti-Money Laundering (BSA/AML) risk. The voluntary BSA/AML Compliance Tool aims to help institutions better identify, monitor and communicate BSA/AML risk. It is intended to reduce uncertainty surrounding BSA/AML compliance and support more transparency within the financial sector. BSA/AML Compliance Tool was released in the first quarter of 2017.

## NMLS Mortgage Call Report (MCR)

SRR regularly publishes reports analyzing the entities and activity trends found in the NMLS. These reports provide a better understanding of the state of non-depository financial services licensees. The NMLS published reports include the following:

### NMLS Mortgage Industry Report

The [NMLS Mortgage Industry Report](#) is published quarterly and annually. It compiles NMLS data on all entities and individuals licensed or registered in NMLS to conduct mortgage activities. The report includes charts and graphs detailing information about the business activities of licensed companies, locations, and numbers of licenses obtained, as well as a state-by-state breakdown of license and registration application activity, including the number of new license applications, approval, denials, revocations, and suspensions.

### NMLS Mortgage Call Report

The [NMLS Mortgage Call Report](#) is a quarterly report of loan activity and financial conditions of licensed entities in NMLS. Non-depository mortgage providers licensed in NMLS are required to complete the NMLS Mortgage Call Report. The report allows state regulators to collect data on safety and soundness and compliance of their licensed entities.

### NMLS Money Services Businesses Call Report

In 2016 CSBS finalized a multi-year effort to develop an NMLS MSB Call Report. The NMLS MSB Call Report is expected to provide state regulators with timely, comprehensive, and uniform information and reporting of an MSB's financial condition, activities, and compliance with state requirements. The [NMLS MSB Call Report](#), which deployed in the first quarter of 2017, is expected to apply to licensees in states that adopt the report and engage in the following activities: money transmission, check cashing, issuing or selling travelers checks, issuing or selling drafts, foreign currency dealing and exchange, issuing or selling money orders, bill paying, issuing or selling prepaid access/stored value products, and virtual currency.

# EDUCATION & TRAINING ENHANCES STATE SUPERVISION

CSBS leads the way in enhancing the professional excellence of state financial supervision. It is a strategic objective of the CSBS Board of Directors and a top priority for all state regulators to ensure state financial regulatory staff are highly trained, well-educated, and held accountable to widely agreed-upon standards of performance.

To carry out the goals of the CSBS Board of Directors, and to instill confidence among stakeholders and the public in the state system of financial regulation, the CSBS Education Foundation ensures quality state supervision through examiner training and development, certification, and agency accreditation.

## CSBS EDUCATION FOUNDATION



The CSBS Education Foundation (CSBSEF), first established in 1984, directly funds and develops educational programs for state examiners and staff.

The membership of the CSBS Education Foundation is comprised solely of state bank regulators that interacts extensively with the CSBS Board of Directors. The CSBS Education Foundation Board of Trustees was chaired in 2016 by Melanie Hall, Commissioner of the Montana Division of Banking and Financial Institutions. As chairman, Commissioner Hall is also a voting member of the CSBS Board of Directors. Other officers of the CSBS Education Foundation Board of Trustees are the vice chairman, treasurer, and immediate past chairman. There are a total of 15 voting members of the CSBS Education Foundation Board of Trustees.

## ACCREDITATION: ELEVATING PROFESSIONAL EXCELLENCE IN STATE REGULATION

The CSBS Accreditation Program, which began in 1984, has been a primary tool used by state regulators to strengthen their banking and mortgage regulatory oversight. Participation in this voluntary program has allowed states to elevate their level of professional excellence by measuring the agency's policies, procedures, and

operations against standards set forth by the Performance Standards Committee (PSC). CSBS has more recently partnered with the American Association of Residential Mortgage Regulators (AARMR) and the National Association of State Credit Union Supervisors (NASCUS) to offer joint and concurrent accreditation programs. The standards established through these accreditation programs ensure accredited agencies have the ability and resources necessary to effectively supervise state-regulated banks, mortgage companies, and credit unions.

## CSBS Bank Accreditation Program

The CSBS Bank Accreditation Program is often cited as the most effective tool for advancing state financial regulation. In the 33-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.

In 2016, seven state agencies were re-accredited through the CSBS Bank Accreditation Program.

These agencies were:

- The California Department of Business Oversight,
- The Colorado Division of Banking,
- The Kentucky Department of Financial Institutions,
- The Mississippi Department of Banking & Consumer Finance,
- The Vermont Department of Financial Regulation,
- The Washington Department of Financial Institutions, and
- The West Virginia Division of Financial Institutions.

## CSBS-AARMR Mortgage Accreditation Program

Beginning in 2009, CSBS and AARMR established the Mortgage Accreditation Program to jointly accredit state mortgage regulators. This partnership affirms state regulators' ongoing commitment to enhancing supervision of all financial services industries.

In 2016, three states received their initial certificates of mortgage accreditation and five agencies were re-accredited after demonstrating they met the high



standards for state mortgage supervision as set forth by the Mortgage Accreditation Program.

The agencies receiving their initial mortgage accreditation in 2016 included:

- California Department of Business Oversight,
- Maryland Office of Financial Regulation, and
- Montana Division of Banking & Financial Institutions

Re-accredited mortgage agencies included:

- Kentucky Department of Financial Institutions,
- Mississippi Department of Banking & Consumer Finance,
- Texas Department of Savings & Mortgage Lending,
- Vermont Department of Financial Regulation, and
- Washington Department of Banking & Consumer Finance

As of year-end 2016, 24 state mortgage regulatory agencies had achieved the requirements of the CSBS/AARMR Mortgage Accreditation Program.

### **The CSBS Accreditation Program Transition to Online Platform**

Modernized regulation depends on the expertise of staff working in state banking departments. To assist states, CSBS continues with its efforts to modernize its nationwide accreditation program. In 2017, the CSBS accreditation program will move to an online system with updated principles, standards, and a new scoring method to ensure accredited agencies continue to meet the highest standards of regulatory excellence.

In preparation for the launch of new, online accreditation program, significant resources were dedicated to re-visioning and developing the program in 2016 by the CSBS Performance Standards Committee.

The new program will aid agencies going through the accreditation process to better determine where new expertise is most needed, more easily identify and address weaknesses, and to ensure proper regulatory policies and practices are integrated into their supervisory processes. In addition, the modernization initiative will allow for improved data analytics, enabling accredited agencies to compare themselves with other agencies on both macro and micro-levels.

## **CERTIFICATION: RAISING PROFESSIONAL EXCELLENCE**

CSBS also achieves its goal of enhancing the professional excellence of state regulatory departments and their personnel through the Examiner Certification Program. By year-end 2016, more than 1,100 examiners from 46 agencies representing 44 states had been certified through the CSBS Certification Program.

The Examiner Certification Program has become the sought-after program states use to document and recognize the professionalism of their staff with their legislatures and other state and federal regulators.

### **New Cyber Certification Program**

CSBS announced in 2016 the creation of a new cybersecurity certification for bank examiners. The new Certified Cyber Security Examiner (CCSE) designation was designed to promote higher standards in bank examination of cybersecurity management and reflect the evolving needs of state regulatory agencies in a 21st century financial services landscape that is technology driven and more interconnected than ever.

The CCSE designation specifically is a part of a larger effort among state financial regulators to address the on-going importance of cybersecurity within the financial services industry.

The CCSE was developed by a team of state bank examiners with advanced knowledge of IT information systems and cyber risk management. The cyber certification acknowledges demonstrated experience and proficiency in the field, and it was built on nationally recognized standards of practice, knowledge and ethics.

To become CCSE certified, examiners must generally meet the following requirements:

- Have at least five years of examination experience
- Participate in a minimum of five examinations
- Complete at least 96 hours of advanced relevant education courses
- Show proof of successful job performance

## CSBS Certifications Offered

CSBS offers 22 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:

### Safety and Soundness:

- Certified Operations Examiner (COE);
- Certified Credit Examiner (CCE);
- Certified Examiner-In-Charge (CEIC);
- Certified Large Institution Examiner (CLIE)
- Certified Senior Bank Examiner (CSBE)
- Certified Examinations Manager (CEM);

### Mortgage Supervision:

- Certified Mortgage Examiner (CME);
- Certified Senior Mortgage Examiner (CSME);
- Certified Mortgage Examinations Manager (CMEM);
- Certified Mortgage Investigator (CMI);
- Certified Multi-State Mortgage Examiner-In-Charge (CMME);

### Specialty Areas:

- Certified Money Services Business Examiner (CMBE)
- Certified Senior Money Services Business Examiner (CSMBE).
- Associate Certified Information Systems Examiner (ACISE);
- Certified Information Systems Examiner (CISE);
- Certified Trust Examiner (CTE);
- Certified Senior Trust Examiner (CSTE)
- Certified Consumer Compliance Specialist (CCCS);
- Certified Anti-Money Laundering Specialist (CAML);

## New Certifications in 2016

In 2016, CSBS began offering additional certifications, including:

- Certified Capital Markets Examiner (CCME);
- Certified Cyber Security Examiner (CCSE)
- 3 levels of Certified Application Specialists (CAS)

## Certification Process Improvements

In the first quarter of 2016, an independent audit of the Examiner Certification Program was performed by

Assessment, Education, and Research Experts LLC (AERE). Implementation of AERE's suggested opportunities for improvement (OFIs) began immediately. While the application and review process remains the same, the goal of the OFIs is to make the process more transparent to applicants, supervisors, and state agency leadership. The OFIs focus in large part on development of a participant handbook, applicant and supervisor agreements, and an internal audit function. The internal audit function will deliver a systematic and disciplined evaluation of the program's governance, risk management, and internal controls. Ultimately, these changes ensure that the certification program complies with the industry standard for credentialing agencies.

## Training Records Management (TRM) Module

Enhancements to the Training Records Management (TRM) Module, launched in 2015, continue as state agencies provide ongoing feedback. TRM provides training directors with an efficient and effective platform for managing their agencies' certification and training programs.

## TRAINING & PROFESSIONAL DEVELOPMENT OPPORTUNITIES FOR REGULATORS

CSBS continues to offer cutting-edge training and professional development opportunities for state financial agencies that meet the evolving needs of staff at all levels of experience and expertise, ranging from new examiners to commissioners. These include technical bank and non-bank examination schools, continuing education programs for senior examiners and executive seminars for department leaders.

### Online and On-site Learning and Professional Development Courses

CSBS offers a wide range of online and on-site learning and professional development programs to meet the needs of state financial agencies. These include online modules and courses, technical schools, continuing education programs, and executive seminars.

These programs are designed to be timely and relevant while incorporating the most recent best-practices as learned by state and federal regulators nationwide. The training provides an opportunity for state examiners to gain new skills, increase their effectiveness during examinations, and improve the quality of the examination process for supervised institutions.

CSBS's online training programs include:

- Day One: Bank Safety & Soundness Examiner Training
- Day One: Mortgage Examiner Training
- Day One: MSB Examiner Training
- Fraud Identification Training
- Real Estate Appraisal Review

CSBS's on-site learning and professional development programs include:

Technical education:

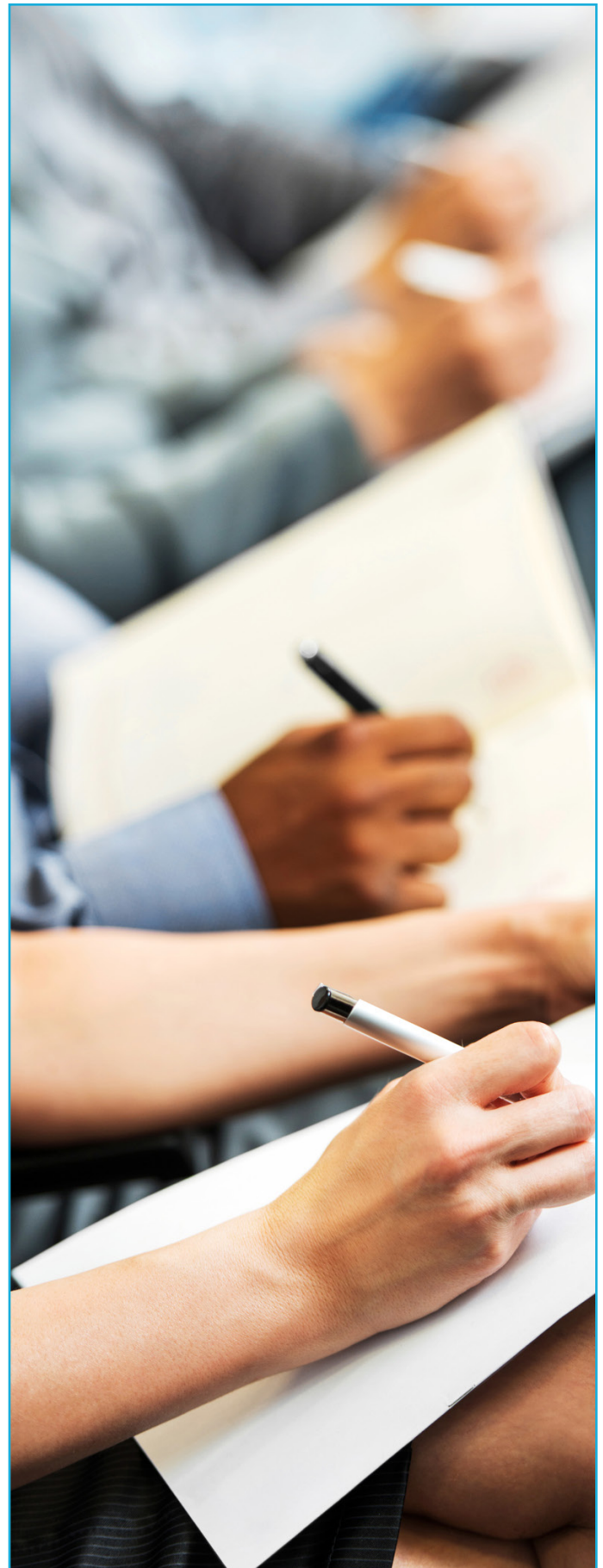
- Bank Analysis School
- Credit Evaluation School
- Examiner-in-Charge School
- Effective Meetings with Management School
- Bank Secrecy Act/Anti-Money Laundering
- Trust Examiner School
- I.T. Examiner School

Continuing education:

- Advanced Commercial Credit Analysis
- Cyber & Tech Risk Management Forum
- District Mid-Level Managers Conference
- Examiner Education Forum
- Large Bank Supervision Training
- Real Estate Appraisal Review School
- Senior School
- Trust Forum

Executive education:

- Deputy Seminar
- Legal Seminar
- Supervisors Symposium
- State-Federal Supervisory Forum
- Bank Directors Seminar





### OVERVIEW

This Annual Report presents the activities of three separate legal entities: The Conference of State Bank Supervisors (CSBS), the State Regulatory Registry LLC (SRR), and the CSBS Education Foundation. CSBS is a non-profit, membership organization exempt from federal income tax under section 501(c)(3) of the internal revenue code. SRR is a subsidiary of CSBS and for tax reporting purposes is consolidated with CSBS. The CSBS Education Foundation is also a non-profit organization, also exempt from federal income tax under 501(c)(3) of the internal revenue code.

Annually, an audit of the combined organization is performed by the independent accounting firm of Tate & Tryon, a D.C.-based firm specializing in non-profit organizations. At the time of this printing, the annual audit for the year ended Dec. 31, 2016 was underway, but the final report had not been presented. When available, a copy of the final 2016 audit report will be posted on the CSBS website.

### MOST RECENT AUDITED RESULTS

The information below is summarized from the Dec. 31, 2015 audited financial statements.

The financial results for 2016 include \$19.79 million in net income (loss) from operations. Contributions to net assets have continued to strengthen CSBS's financial positions, which is important given the role of CSBS in both depository and non-depository regulation. To date, CSBS has invested over \$50 million in developing the Nationwide Multistate Licensing System (NMLS) and related systems for professional standards.

In a short period of time, NMLS has become a cornerstone of mortgage regulation for our members and the industry as a whole. The CSBS Board of Directors has determined that prudent oversight of the System requires a reserve balance sufficient to ensure the System is not adversely affected by cyclical changes in the industry. It is imperative that the high cost of maintenance, enhancements, and ongoing system security are not subject to potential revenue swings based on changes in the non-depository industry. Therefore, CSBS has continued to designate a large portion of annual net revenue for development reserves.

# APPENDIX B: BOARDS

## STATE REGULATORY REGISTRY LLC - BOARD OF MANAGERS

AS OF MAY 1, 2017

State Regulatory Registry LLC (SRR) is a non-profit entity and a wholly owned subsidiary of the Conference of State Bank Supervisors. SRR operates the Nationwide Multistate Licensing System and Registry (NMLS) on behalf of state financial regulators. SRR is governed by an eight regulatory-member Board of Managers comprised of state banking and financial regulators and a representative of the American Association of Residential Mortgage Regulators. The SRR Board of Managers is responsible for all development, operations, and policy matters concerning NMLS.

The SRR Board of Managers directs staff and works to develop, enhance, and operate NMLS, oversee compliance with the Secure and Fair Enforcement for Mortgage Licensing (SAFE) Act, administer testing and education programs, and facilitate working groups of state and federal regulators and industry related to state licensing, federal registration, supervision, and NMLS policy.

### CHAIRMAN

Mr. Gordon Cooley  
Commissioner  
Maryland Office of Financial Regulation

### VICE CHAIRMAN

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

### TREASURER

Mr. Bret Afdahl  
Director of Banking  
South Dakota Division of Banking

### IMMEDIATE PAST CHAIR

Mr. Robert Entringer  
Commissioner  
North Dakota Department of Financial Institutions

### MEMBERS

Mr. Rod Carnes  
Deputy Commissioner  
Georgia Department of Banking & Finance

Mr. Bryan Schneider  
Secretary  
Illinois Department of Financial & Professional Regulation

Mr. Gavin Gee  
Director of Finance  
Idaho Department of Finance

Mr. David C. Tatman  
Chief of Enforcement  
Oregon Division of Financial Regulation

### EX OFFICIO BOARD MEMBERS\*

Mr. Charles G. Cooper  
Banking Commissioner  
Texas Department of Banking  
Chairman, Conference of State Bank Supervisors

Mr. William (Bill) Matthews  
President and CEO  
State Regulatory Registry LLC

### SECRETARY\*

Mr. John W. Ryan  
President and CEO  
Conference of State Bank Supervisors

\*Denotes Non-Voting Members of the Board

## CSBS EDUCATION FOUNDATION - BOARD OF TRUSTEES

AS OF MAY 1, 2017

The CSBS Education Foundation funds and directs CSBS's education and training efforts. The Education Foundation sponsors professional training programs specifically designed by and for state banking department examiners and senior staff. The membership of the CSBS Education Foundation is comprised solely of state bank regulators and interacts extensively with the CSBS Board of Directors.

### CHAIRMAN

Ms. Melanie G. Hall  
Commissioner

Montana Division of Banking and Financial Institutions

### VICE CHAIRMAN

Mr. Thomas C. Fite  
Director

Indiana Department of Financial Institutions

### TREASURER

Mr. Bret Afdahl  
Director of Banking  
South Dakota Division of Banking

### IMMEDIATE PAST CHAIR

Mr. Jeffrey C. Vogel  
Director  
Wyoming Department of Audit

### MEMBERS

Mr. Luther Guinn  
Deputy Bank Commissioner  
Arkansas State Bank Department

Mr. Patrick Mullen  
Director, Division of Banking  
New Jersey Department of Banking and Insurance

Ms. Debie Abella  
Deputy Commissioner  
California Department of Business Oversight

Mr. Robert Donovan  
Deputy Superintendent of Banks  
New York State Department of Financial Services

Ms. Tracy L. Bergmann  
Regional Manager  
Iowa Division of Banking

Mr. Charles G. Cooper  
Commissioner  
Texas Department of Banking

Ms. Kerri Doll  
Director, Division of Banking  
Illinois Department of Financial & Professional Regulation

Mr. W. Kurt Purdom  
Director, Bank & Trust Supervision  
Texas Department of Banking

Ms. Judi M. Stork  
Deputy Commissioner  
Kansas Office of the State Bank Commissioner

Ms. Cheryl Olson-Collins  
Administrator, Division of Banking  
Wisconsin Department of Financial Institutions

Ms. Rhoshunda G. Kelly  
Deputy Commissioner  
Mississippi Department of Banking and Consumer Finance

Mr. Fred M. Rife, Jr.  
Deputy Commissioner, Banking  
Wyoming Division of Banking

Ms. Melanie Y. Ford  
Director of Regulatory Training  
North Carolina Office of Commissioner of Banks

### EXECUTIVE SECRETARY

Mr. John W. Ryan  
President and CEO  
Conference of State Bank Supervisors

### CSBS STAFF DIRECTOR\*

Mr. Sebastien Monnet  
Vice President, Learning and Development  
Conference of State Bank Supervisors

\*Denotes Non-Voting Members of the Board

## CSBS BANKERS ADVISORY BOARD

AS OF MAY 1, 2017

CSBS has a long-standing Bankers Advisory Board (BAB) to benefit from the perspective and experience of state-chartered banking institutions. The duties of the BAB are to advise and assist the CSBS Board of Directors in pursuit of the organization's goals and to provide industry input on appropriate areas of CSBS activities. This is an advisory role, and BAB members do not participate in CSBS policy making committees, deliberations, or decisions.

The bankers who serve on the BAB bring their views of and concerns about current issues to the policymaking Board of Directors, giving the commissioners their sense of priorities from the banker's view.

REGULATOR CO-CHAIRMAN	BANKER CO-CHAIRMAN	IMMEDIATE PAST CHAIRMAN
Vacant	Mr. K. Brent Vidrine President & CEO Bank of Sunset & Trust Company	Mr. Joseph G. Pierce President and CEO Farmers State Bank, LaGrange, IN
MEMBER		
Ms. Kim DeVore Senior Vice President & CFO Jonah Bank of Wyoming, Casper, WY		Mr. Benedict Weissenrieder Chairman & CEO The Hocking Valley Bank, Athens, OH
Mr. Thomas J. Romrell President & CEO The Bank of Commerce, Idaho Fall, ID		Mr. Bradley W. Krieger Exec. Vice President Arvest Bank, Oklahoma City, OK
Mr. Leon Holschbach President & CEO Midland States Bank, Effingham, IL		Mr. Trey Maust Co-President & CEO Lewis & Clark Bank, Oregon City, OR
Mr. Patrick Glotzbach President & CEO The New Washington State Bank, Charlestown, IN		Mr. Stephen K. Hayes President & CEO Dakota Prairie Bank, Fort Pierre, SD
Mr. Henry A. (Bubba) Logue President and COO Merchants and Planters Bank, Raymond, MS		Mr. Rogers Pope, Jr. Vice Chairman and CEO Texas Bank and Trust Company, Longview, TX
Ms. Lisa B. McDougald Branch Banking and Trust Company, Winston Salem, NC		Ms. Kim DeVore Senior Vice President & CFO Jonah Bank of Wyoming, Casper, WY
Mr. Raymond Specht Vice Chairman Toyota Financial Savings Bank, Henderson, NV		
CHAIRMAN EMERITUS	MEMBER EMERITUS	CSBS STAFF DIRECTOR
Mr. Donald A. Pape Chairman Republic Bank and Trust, Norman, OK	Mr. Michael Poland President & CEO Farmers State Bank, Cameron, MO	James Cooper Senior Vice President, Policy CSBS

# APPENDIX C: CSBS STAFF MEMBERS

## CSBS STAFF

AS OF MAY 1, 2017

### ***President and CEO***

Mr. John W. Ryan

### ***Assistant to the President***

Ms. Andrea Ramirez

### **ADMINISTRATION**

#### ***General Counsel***

Mr. John (Buz) Gorman

#### ***Executive Vice President, Finance and Administration***

Mr. Thomas E. Harlow

#### ***Vice President, Human Resources***

Ms. Kelly Haire

#### ***Controller***

Mr. Franklin Whetsell, Jr.

#### ***Director, Human Resources***

Ms. Tammy Phan

#### ***Director, Meeting Services***

Ms. Tonita Allers

#### ***Director, Board Governance and Strategy***

Ms. Mary Miano

#### ***Staff Attorney & Chief Privacy Officer***

Ms. Tarcy Thompson

#### ***Manager, Human Resources***

Ms. Kerrie Philipson

#### ***Accounting Manager***

Ms. Nhu Duong

#### ***Staff Accountant***

Mr. Bikram Chakraborty

#### ***Staff Accountant***

Mr. Serigne Dieng

#### ***Manager, Administrative Services***

#### ***Executive Assistant & Office Manager***

Ms. Erica Caron

#### ***Senior Accounting Analyst***

Ms. Sauma Hoza

### **TECHNOLOGY**

#### ***Chief Information Officer***

Mr. Tom Bayer

#### ***Chief Information Security Officer***

Mr. Todd Scharf

#### ***Senior Vice President, Digital Services***

Ms. Ngoc Vu

#### ***Vice President, Enterprise Infrastructure***

Mr. Alex Kukin

#### ***Vice President, NMLS Applications***

Mr. Gervais Neno

#### ***Vice President, Solutions Architect***

Mr. Peter Wallace

#### ***Senior Director, Business Systems Management***

Ms. Leslie Deniken

#### ***Senior Director, Software Quality Assurance***

Mr. Siddarth Dhir

#### ***Senior Director, Systems Analysis***

Mr. Devesh Gupta

#### ***Senior Director, IT Security Engineering & Operations***

Mr. Charles Hill

#### ***Senior Director, Infrastructure***

Mr. Pavel Orlovski

#### ***Senior Quality Assurance Engineer***

Mr. Dayasagar Lakka

#### ***Technical Project Manager***

Mr. Venkata Paritala

#### ***Senior Manager of Database and IT***

Mr. David Rodgers

#### ***Senior Infrastructure Engineer***

Mr. Jeremy Dove

#### ***Senior Systems Engineer***

Mr. Mike Helton

#### ***Senior Analyst, Information Security Policy & Compliance***

Ms. Jessica Ruzic

#### ***Business Analyst***

Ms. Lindsay Schmidt

#### ***Quality Assurance Engineer***

Ms. Mahlet Gitim

#### ***Project Manager***

Ms. Erica English

#### ***Business Analyst***

Ms. Balkees Parveen

#### ***Business Analyst***

Ms. Elizabeth Rychlinski

#### ***Database Architect***

Ms. Rebecca Chen



**Senior Administrative Assistant**  
Ms. Jade Silver

**POLICY, SUPERVISION AND DEVELOPMENT**

**Senior Executive Vice President**  
Mr. Michael L. Stevens

**Executive Assistant**  
Ms. Tiyenne Greene

Regulatory Policy

**Senior Vice President, Policy**  
Mr. Jim Cooper

**Senior Director, Policy**  
Mr. Oscar Casas

**Manager, Policy Development**  
Mr. Daniel Schwartz

**Senior Analyst and Policy Counsel**  
Mr. Michael Townsley

**Analyst, Policy & Supervision**  
Ms. Amanda Holcombe

Legislative and Legal

**Senior Vice President and Deputy General Counsel**  
Ms. Margaret Liu

**Senior Director, Legislative Policy**  
Ms. Natalie McGarry

**Senior Director and Associate General Counsel**  
Mr. Sandy Sussman

**Director, Legislative Policy**  
Mr. Nathan Ross

Bank Supervision

**Senior Vice President, Bank Supervision**  
Ms. Mary Beth Quist

**Senior Director, Bank Supervisory Processes**  
Mr. Kyle J. Thomas

**Director, Supervisory Processes**  
Ms. Jami Flynn

**Director, Analytics & Research**  
Mr. Shahab Toobaie

**Data Analyst, Analytics & Research**  
Ms. Cathy Chen

**Senior Data Analytics Specialist**  
Mr. Kyle Zhong

Consumer Protection and Non-Depository Supervision

**Senior Vice President – Consumer Protection and Non-Depository Supervision**  
Mr. Chuck Cross

**Vice President, Supervision**  
Mr. John M. Prendergast

**Senior Director, Non-Depository Supervision**  
Mr. Tony Vasile

**Senior Director and Non-Depository Counsel**  
Mr. Matthew Lambert

**Analyst, Non-Depository Supervision**  
Mr. Mike Bray

Professional Development

**Vice President of Learning and Development**  
Mr. Sebastien Monnet

**Senior Advisor, Accreditation & Supervisory Processes**  
Mr. Vaughn Noring

**Director of Learning Services**  
Mr. C. Thomas McVey

**Director, Accreditation**  
Mr. Matthew Comber

**Senior Program Manager, Learning and Development**  
Ms. Rosemarie Shaheen

**Program Manager, Learning Services**  
Ms. Kimberly Chancy

**Senior Program Administrator**  
Ms. Katie Hoyle

**Administrative Assistant**  
Ms. Renate Moyer

Communications

**Vice President, Communications**  
Mr. James Kurtzke

**Senior Manager, Communications**  
Ms. Rockhelle A. Johnson

**Manager, Communications**  
Mr. Matthew Longacre

**STATE REGULATORY REGISTRY (SRR)**

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Mr. William (Bill) Matthews

**Executive Assistant**  
Mr. Joey Samowitz

SRR Policy and Development

**Senior Vice President**  
Mr. Tim Doyle

**Senior Director, Policy**  
Mr. Tim Lange

**Senior Director, Policy**  
Ms. Mary Pfaff

**Senior Director, Data and Business Analysis**  
Mr. Chris Moore

**Director, Business Analyst**  
Ms. Margo Frampton

**Director, Policy**

Mr. Derek Schultz

**Director, NMLS Policy**

Mr. Kobie Pruitt

**Data Analytics Product Director**

Mr. Paul Ferree

**Manager, NMLS Communications**

Ms. Melissa Washington

**Manager, Data Analysis**

Ms. Jingying Zhang

**Senior Administrative Assistant**

Ms. Shannon Lucernoni

SRR Operations

**Senior Vice President**

Ms. Vickie Peck

**Vice President, Operations & Vendor Management**

Mr. Dave Dwyer

**Senior Director, State Relations**

Ms. Sharon Hughes

**Director, Operations**

Ms. Kathy Hunter

**Senior Operations & Financial Analyst**

Ms. Mindy Chang

**Senior eLearning & Technical Writing Specialist**

Mr. Reece Chekan

**Technical Trainer**

Ms. Paola Alvarado-Lapp

**Senior Operations Analyst**

Ms. Stephanie Buonomo

**Senior Operations Analyst**

Mr. Michael Casagrande

**Manager, eLearning**

Mr. Erik Körner-White

**Operations Analyst**

Mr. Stephen Lantzas

**Senior Operations Analyst**

Mr. Philip Whims

**Senior Trainer**

Ms. Amber Ramirez

**Training Specialist**

Ms. Jessica Townsend

**Technical Writing Specialist**

Mr. Ian Winston

**Administrative Assistant**

Ms. Kellie Donnelly

SRR Testing & Education Programs

**Vice President, Mortgage Testing & Education**

Mr. Pete Marks

**Senior Director, Mortgage Education Programs**

Mr. Rich Madison

**Senior Manager, Mortgage Education Operations**

Ms. Jessica Esquina

**Senior Manager, Test Development & Maintenance**

Ms. Jessica O'Keefe

**Senior Manager, Education Compliance**

Ms. Michelle Vandernaalt

**Senior Manager, Security and Test Administration**

Ms. Alana Chamoun

**Analyst, Education management Systems**

Mr. Britton Anderson

**Support Analyst**

Ms. Michelle Gallagher

**Administrative Assistant**

Ms. Emily Grant



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