



CONFERENCE OF STATE BANK SUPERVISORS

Annual Report

2011

May 1, 2012

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ABOUT THE CONFERENCE OF STATE BANK SUPERVISORS

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

State regulators supervise approximately 5,400 state-chartered financial institutions with more than \$4.2 trillion in combined assets.¹ Further, most state banking departments oversee mortgage providers and many other financial services providers, such as money services businesses (MSBs), payday lenders, check cashers, and finance companies. State regulators oversee 17,121 mortgage companies, 116,991 individual mortgage loan originators (MLOs),² and more than 105,000 additional non-depository financial services providers across the nation.³

The vision of CSBS is to be the recognized leader in advancing the quality and effectiveness of regulation and supervision of state banking and financial services. The mission of CSBS is to support the leadership role of state banking supervisors in advancing the state banking system and state financial regulation, benefiting the public by ensuring safety and soundness, promoting economic growth and consumer protection, and fostering innovative state regulation and supervision of the financial services industry.

CSBS works to:

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

1 Source: Federal Deposit Insurance Corporation as of December 31, 2011.

2 Source: CSBS-AARMR Nationwide Mortgage Licensing System and Registry as of December 31, 2011.

3 Source: CSBS 2010 non-depository survey. All states did not respond to the survey. This number includes money transmitters, money orders, traveler checks, prepaid access cards, check cashers, payday lenders, pawn brokers, debt collectors, debt management companies, student lenders, credit report companies, currency exchangers, consumer lenders and finance companies, bond to deed/escrow agents, and credit report repair agents.

Background and History

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

Corporate Governance

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

Similar to federal financial agencies, CSBS invites bankers and other financial service industry professionals to participate in the organization in an advisory capacity. These advisory groups share information, promote communication between state regulators and their supervised industries, and identify best practices within the state banking system.

Affiliated Entities

In 1984, CSBS created the Education Foundation of State Bank Supervisors (EFSBS). In 2011, the EFSBS Board of Trustees voted to change the name of the foundation to the CSBS Education Foundation. The purposes of the CSBS Education Foundation are to fund and direct the education and training efforts of CSBS's Professional Development Division. The membership of the CSBS Education Foundation is comprised solely of state bank regulators and interacts extensively with the CSBS Board of Directors. The CSBS Education Foundation Board of Trustees is chaired by Jeffrey C. Vogel, Director of the Wyoming Department of Audit. As Chairman of the CSBS Education Foundation Board of Trustees, Director Vogel is also a voting member of the CSBS Board of Directors. Other officers of the CSBS Education Foundation

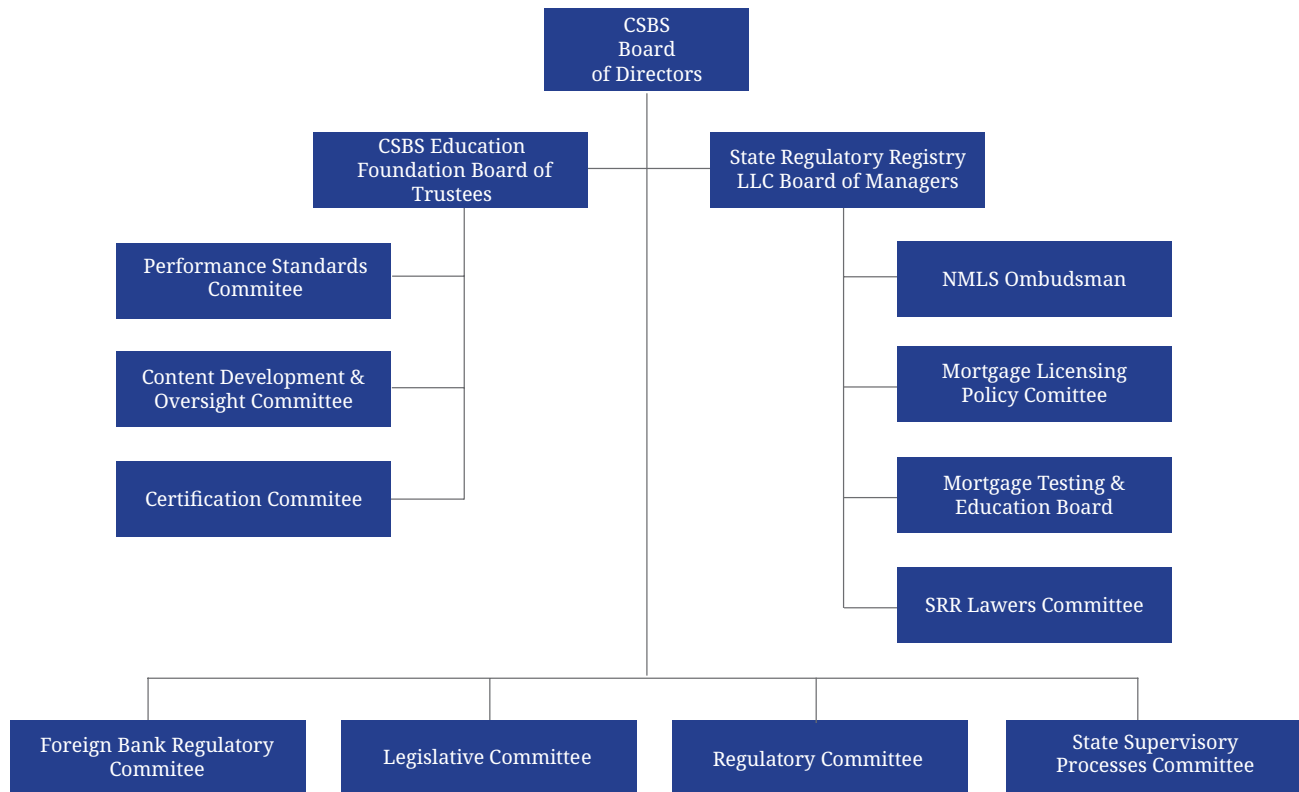
ABOUT THE CONFERENCE OF STATE BANK SUPERVISORS

consist of the vice chairman, treasurer, and immediate past chairman. There are a total of 15 members of the CSBS Education Foundation Board of Trustees.

In 2006, CSBS, in cooperation with the American Association of Residential Mortgage Regulators (AARMR), formed the State Regulatory Registry LLC (SRR), a limited liability corporation, to oversee the development and operations of the Nationwide Mortgage Licensing System and Registry (NMLS, or the System) for the residential mortgage industry on behalf of state regulators. The

SRR Board of Managers is chaired by David J. Cotney, Commissioner of the Massachusetts Division of Banks, and is comprised of eight state mortgage regulators. As Chairman of the SRR Board of Managers, Commissioner Cotney is also a voting member of the CSBS Board of Directors. In addition to the chairman, officers of the SRR Board of Managers are the vice chairman, the treasurer, and the immediate past chairman. The chairman of the CSBS Board of Directors serves on the SRR Board of Managers as an ex officio, non-voting, member. AARMR also has a voting board member on the SRR Board of Managers.

CONFERENCE OF STATE BANK SUPERVISORS



LETTER FROM THE CHAIRMAN OF THE CSBS BOARD OF DIRECTORS

May 1, 2012

On behalf of the CSBS Board of Directors, I present you with the 2011 Annual Report of the Conference of State Bank Supervisors.

2011 marked the nation's entry into a new financial landscape, characterized by a myriad of new statutes, regulations, and guidelines implemented in the wake of the financial crisis. The United States, and indeed the world, still finds itself tenuously positioned between financial crisis and economic recovery. Despite this precarious situation, state regulators and CSBS must quickly acclimate to this new regulatory and political environment.

By drawing on the collective thinking and expertise of state financial regulators, as well as our knowledge of the entities we supervise and local and state economies, CSBS is well positioned to provide valuable insight and direction for state financial supervision.



John P. Ducrest

New Focus

To that end, the CSBS Board of Directors, under the direction of then Chairman-Elect and former California Commissioner William S. Haraf, authorized the development of a comprehensive strategic plan. The resulting plan, which was unanimously approved by the CSBS Board in December 2011, is included in this Annual Report. The strategic plan will preserve the community banking system and enhance CSBS's efforts to strengthen the state system of supervision. Strengthening the community banking system is not only at the core of the CSBS strategic plan, but has also been my primary objective during my tenure as CSBS chairman. The community banking system is vital because of the important role it plays in our nation's financial system. Community banks provide access to credit, stability in times of uncertainty, and generate job creation by being the lender of choice for small businesses. In fact, the community banking system is systemically important to preserving the financial stability of the United States.

Financial Stability

Financial stability was a key focus of state and federal regulators, Congress, the Administration, and the industry in 2011, and promises to be a priority in 2012. Preserving the stability of the U.S. system is a main concern, but so too is the viability of the European economy. While state regulators and CSBS have limited influence on international affairs, we are monitoring the situation closely because of the impact a crisis in Europe would have upon the global and the U.S. economies. The financial crisis we suffered in America taught us about the interconnectedness of the financial system here and abroad.

Fortunately, state regulators have a role to play in strengthening the stability of the U.S. economy through the Financial Stability Oversight Council (FSOC, or the Council). The FSOC is a critical coordinating body for financial regulators, ensuring thoughtful risk identification and an appropriate regulatory response. In July, the FSOC issued the first report on U.S. financial stability. This annual report serves as a centering point for risks contained in the system and priorities for policymakers.

At that time, FSOC member Haraf issued a statement expressing appreciation to Treasury Secretary Timothy Geithner for creating a transparent and cooperative atmosphere and acknowledged the tremendous efforts of the staffs of the FSOC member agencies. However, the FSOC still has a significant amount of work to do. For instance, financial institutions must address excessive risk-taking and corporate governance weaknesses by strengthening their risk management capabilities to ensure a risk management framework appropriate for their size, complexity, and risk profile. Further, the importance of a diverse financial system cannot be overlooked. An unintended consequence of the response to the financial crisis has been expedited industry consolidation. Unfortunately, such consolidation actually increases risk to the financial system.

In 2012, CSBS will continue to be an advocate for the dual-banking system, which encourages industry diversity and a system of state-federal supervision that enables community banks to thrive. By ensuring industry diversity, CSBS will make a significant contribution to creating stability for our financial system.

LETTER FROM THE CHAIRMAN OF THE CSBS BOARD OF DIRECTORS

Uncertainty and Change

CSBS must play this role despite considerable uncertainty and change. The numerous new regulations that have already been introduced or are in development have created a sense of ambiguity as regulators, policymakers, and the industry adjust to new rules and requirements. This is further exacerbated by the fact that 2012 is an election year. The presidential election only contributes to this stagnation and gridlock, as Congress struggles to pass legislation or perform certain duties, such as confirming presidential nominees.

2011 saw the retirement of Sheila Bair from the Federal Deposit Insurance Corporation (FDIC) and the beginning of a new federal agency, the Consumer Financial Protection Bureau (CFPB, or the Bureau). Also, Martin Gruenberg, Thomas Hoenig, and Jeremiah Norton have been confirmed to serve as directors of the FDIC, with Vice Chairman Gruenberg serving as Acting Chairman of the FDIC. Thomas Curry has also been recently confirmed to serve as Comptroller of the Currency. However, several federal agencies are operating with acting leaders or with vacancies. During this tenuous time, we need confirmed leaders and policymakers in their posts to provide clear guidance and direction for the federal regulatory agencies.

There was also considerable turnover at the state level. In 2011, CSBS welcomed 13 new commissioners around the country. CSBS itself also underwent a significant transformation, as John W. Ryan ascended to President and CEO after the retirement of Neil Milner. John's broad knowledge of the financial services industry and state financial supervision, joined with his strategic and intellectual perspective, make him an invaluable asset to CSBS.

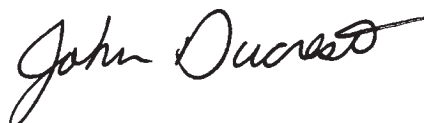
Coordination

The significant challenges facing the financial system, coupled with the uncertainty we face, have strengthened the resolve and commitment of state regulators to enhance coordination among state regulators and between state and federal regulators. CSBS plays a vital role in facilitating state participation in groups such as the FSOC, the Federal Financial Institutions Examination Council (FFIEC), and the Financial and Banking Information Infrastructure Committee (FBIIIC), which provide established forums for state-federal coordination. Further, CSBS staff routinely facilitates informal coordination with our federal counterparts. As a result, state regulators, through CSBS, enjoy enduring relationships with our federal supervisory partners.

Looking Ahead

2011 was a challenging year for financial supervision, policymakers, the industry, and consumers. While there are signs of economic healing, 2012 will undoubtedly have its difficulties. However, CSBS is well-positioned to endure the trials we will face and to make great progress. Yet we must act quickly and with resolve to meet the goals and objectives of the strategic plan. State regulators must work with great harmony to achieve the ambitious goals of the CSBS strategic plan and to continue to thrive in the post-crisis world.

Sincerely,



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

CSBS STRATEGIC PLAN

The following strategic plan was approved and adopted by the CSBS Board of Directors in December 2011.

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

The mission of CSBS is to support the leadership role of state banking supervisors in advancing the state banking system and state financial regulation and benefit the public by ensuring safety and soundness, promoting economic growth and consumer protection, and fostering innovative state regulation and supervision of the financial services industry.

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 - We will continue to provide training, engage thought leaders and maintain the highest of standards in all that we do.
- Relationship building - Our work depends on our ability to effectively communicate and understand many points of view. Through strong relationships we 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 our audiences/stakeholders.

Goals

Goal #1

CSBS will prioritize programs and areas of advocacy consistent with the organization's mission and member needs.

Goal #2

CSBS must maintain its central role in both encouraging and maintaining a diverse and competitive banking system and an effective state system of bank supervision and regulation.

Goal #3

EFSBS will design a new business model that minimizes financial, geographic, and frequency barriers to high-quality training, professional development, and continue networking opportunities for all levels and types of state financial regulatory personnel.

Goal #4

CSBS will support a robust licensing and oversight program for state licensed non-depository financial services providers.

Goal #5

There will be a central message for the work of CSBS and its members which promotes state supervision and advocates the states' views in public policy.

Goal #6

The governance of CSBS will reflect the regulatory role of the membership.

LETTER FROM THE CSBS PRESIDENT AND CHIEF EXECUTIVE OFFICER

May 1, 2012

The publication of this annual report of the Conference of State Bank Supervisors comes at a watershed moment in our nation's financial history and for the financial services industry. The United States continues to strive towards a full recovery from the country's worst economic crisis since the Great Depression, and our system of financial supervision is in the midst of a major restructuring.



John W. Ryan

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which mandates this regulatory overhaul, is intended to implement a supervisory framework to more effectively regulate the nation's largest, most complex, most systemically significant financial institutions. The Dodd-Frank Act seeks to preserve the business model of the largest institutions, while hoping to prevent future extraordinary government assistance, should the largest banks once more become insolvent. As a nation, we are dedicating a tremendous amount of resources, thinking, and time to the task of enhanced supervision for the largest market participants.

The provisions of the Dodd-Frank Act and related regulatory proposals promulgated by our federal regulatory counterparts are focused to address the complex risks of global institutions. However, we cannot forget the vast majority of our nation's local financial institutions, which are vital to the health of our local, state, and national economies. We must ensure the "trickle-down" effect of the rules and regulations intended for the behemoth institutions do not irrevocably damage the community banking system. The relationship lending business model that thrives in community banks cannot fall victim to blanket regulations or supervision better geared towards the nation's largest financial institutions. To put it simply, a system of localized credit-decision-making requires a localized and flexible regulatory system.

To that end, the state financial regulators that comprise the membership of CSBS have developed a multi-faceted strategic plan for CSBS that seeks to advance the quality and effectiveness of regulation of state banking and financial services, while preserving the diversity of our financial industry.

Priorities and Focus

The CSBS Board of Directors approved the CSBS strategic plan in December 2011. The development of the strategic plan was led by then Chairman-Elect and former California Commissioner William S. Haraf. The plan identifies members' priorities and serves as a roadmap for CSBS. CSBS staff has made achieving its objectives the organization's main focus.

Encourage and Maintain a Diverse Banking System and Effective State Supervision

One of the organizational priorities for CSBS is to be the driving force educating policymakers and federal regulators on the critical role of community banks and the dual-banking system to preserve and address local, regional, state, and even national economic needs. Ultimately, a strong community banking system is absolutely critical to the well-being of the U.S. economy. Policies and decisions made in Washington, D.C. and the supervisory examination framework must consider the impact upon smaller banks and the communities they serve.

CSBS established the Community Banking Steering Group to explore what is needed to support the community bank business model. To promote safe and sound business practices, this group of state regulators chaired by James M. Cooper, Deputy Director of the Indiana Department of Financial Institutions, brings a collection of expertise to address legal, regulatory, and supervisory issues. As part of this effort, the CSBS State Supervisory Processes Committee (SSPC) is reviewing examination procedures to identify those that could be improved to provide greater supervisory value or eliminated because of redundancy or ineffectiveness. Further, commissioners and staff have advocated for the extension of

LETTER FROM THE CSBS PRESIDENT AND CHIEF EXECUTIVE OFFICER

the Transaction Account Guarantee (TAG) Program to stabilize and strengthen community and regional banks across the nation. Also, in December 2011, CSBS published a white paper defining the issue of capital formation at community banks and raising awareness of its importance to the financial system. The steering group has also proposed amendments to the Bank Holding Company Act to facilitate capital formation for community banks.

Provide High-Quality Training and Professional Development

The CSBS Education Foundation has made a vast library of online education courses available to state financial regulators at no cost. Further, the CSBS Education Foundation continues to offer high-quality on-site training programs available to state regulators at decreased costs to maximize access. To enhance the effectiveness and timeliness of training, the CSBS Education Foundation has undertaken a significant new initiative to develop an online training platform that will give regulators the opportunity to take online training courses at their convenience and reduce state expenses.

Support Robust Licensing and Oversight Programs for Non-Depository Providers

CSBS is working to enhance the use of NMLS to accommodate state use of the System for non-mortgage, non-depository financial services industries such as consumer lenders, money transmitters, and debt collectors, among others. Ten states are scheduled to transition their existing licensees onto NMLS in 2012. Expansion of NMLS will enhance oversight of state-regulated non-depository financial services providers, increase protection for consumers of non-depository products, and provide efficiencies for both state regulators and the industry.

Provide a Central Message Promoting State Supervision

CSBS staff is committed to providing a consistent and effective communications program to promote state supervision, advance the leadership of state regulators, and advocate CSBS policy positions by utilizing the best communication tools and methods available. For that reason, CSBS retained a consultant in 2011 to conduct a comprehensive communications audit to ensure CSBS communications are complementary to and supportive of organization goals, as well as effective, consistent, and manageable. Staff has already begun implementing the recommendations contained in the communications audit to enhance communication efforts.

Financial Stability

The financial stability of the world economy and the United States remains a concern in 2012. To that end, state bank regulators are represented on the FSOC by John P. Ducrest, Commissioner of the Louisiana Office of Financial Institutions. Select CSBS staffers provide support to Commissioner Ducrest and facilitate his role on the Council. CSBS also formed the Financial Stability Task Force comprised of state regulators to inform Commissioner Ducrest's participation on the FSOC and establish policy positions when necessary. While respecting the confidential nature of the FSOC's work, the task force is able to provide support as Commissioner Ducrest offers the state bank regulatory perspective and advocates for a diverse financial system to mitigate risk to the nation's financial system.

In addition to FSOC responsibilities, CSBS's work to preserve and enhance the dual-banking system will do much to preserve financial stability in the United States. A diverse industry acts to mitigate systemic risk, and CSBS will continue to press this point to policymakers concerned with the underpinnings of our economy.

Uncertainty and Change

CSBS is working to understand how the new regulatory regime established by the Dodd-Frank Act and related regulations will be implemented and what impact they will have upon the financial industry. CSBS is building enhanced supervisory tools and education and professional development opportunities to assist implementation of the new regulatory regime. In doing so, CSBS will assist the many new commissioners and deputy commissioners who took office in 2011.

LETTER FROM THE CSBS PRESIDENT AND CHIEF EXECUTIVE OFFICER

Coordination

A constant priority of state regulators is to foster healthy coordination and cooperation among state regulators and between state and federal regulators. For instance, the Multi-State Mortgage Committee (MMC), a 10-member body created by CSBS and AARMR and staffed by CSBS, facilitated state regulators' participation in the February 2012 state-federal mortgage servicing settlement. Under the leadership of the MMC, state financial regulators joined together to conduct a comprehensive examination of one of the servicers. The MMC was the single point of contact for state regulators during the multi-state servicing examination and provided a seamless line of communication with the state Attorneys General during the course of the examination.

The settlement, which was announced on February 9, 2012, is a perfect example of effective state coordination and is the culmination of years of work by state mortgage regulators and state Attorneys General. State regulators, because of their proximity to the market and their consumers, are able to identify emerging trends and threats. By then joining with their federal counterparts, regulators have the ability to achieve comprehensive and effective solutions.

Continued coordination and consultation between state and federal regulators is a vital structure to preserve. The most effective system of financial supervision is one characterized by cooperative and appropriate state and federal financial regulation. For instance, the January 2011 information sharing memorandum of understanding (MOU) between state regulators and the CFPB established the foundation of coordinated state-federal supervision of providers of consumer financial products and services.

Outlook for 2012

The coming year undeniably holds challenges for CSBS and state financial regulators. Fortunately, through strategic planning, the CSBS Board of Directors has provided clear guidance and expectations for staff to meet and overcome these challenges. Staff will continue to rely upon state regulators to provide such guidance, expertise, and direction as we seek to overcome the obstacles before us.

Sincerely,



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

CSBS BOARD OF DIRECTORS

As of December 31, 2011

Chairman

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

Chairman-Elect

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

Secretary

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

Immediate Past Chairman

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

Member-at-Large

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

Chairman, CSBS District II

Mr. David H. Mills
Director
Indiana Department of Financial Institutions

Chairman, CSBS District IV

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

Bankers Advisory Board Co-Chairman

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

State Regulatory Registry Board Chairman

Mr. David J. Cotney
Commissioner of Banks
Massachusetts Division of Banks

Legislative Committee Chairman

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

State Supervisory Processes Committee Chairman

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

Vice Chairman

Mr. Greg Gonzales
Commissioner
Tennessee Department of Financial Institutions

Treasurer

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

Member-at-Large

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

Chairman, CSBS District I

Mr. Lloyd P. LaFountain, III
Superintendent
Maine Bureau of Financial Institutions

Chairman, CSBS District III

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

Chairman, CSBS District V

Mr. David C. Tatman
Administrator
Oregon Division of Finance and Corporate Securities

CSBS Education Foundation Board Chairman

Mr. Jeffrey C. Vogel, CEM
Director
Wyoming Department of Audit

Foreign Bank Regulatory Committee Chairman

Mr. Howard F. Pitkin
Banking Commissioner
Connecticut Department of Banking

Regulatory Committee Chairman

Mr. Mark Kaufman
Commissioner
Maryland Office of Financial Regulation

CSBS BOARD OF DIRECTORS



Conference of State Bank Supervisors Board of Directors, September 2011

Ex Officio

(Non-Voting Members of the Board)

Chairman Emeritus (2007-2008)

Mr. Jeffrey C. Vogel, CEM
Director
Wyoming Department of Audit

Chairman Emeritus (2003-2004)

Mr. Mick Thompson
Bank Commissioner
Oklahoma State Banking Department

Chairman Emeritus (1997-1998)

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

State Federal Working Group Chairman

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

Chairman Emeritus (2006-2007)

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

Chairman Emeritus (2002-2003)

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

FFIEC State Liaison Committee Chairman

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

Bankers Advisory Board Co-Chairman

Mr. Joseph G. Pierce
President and CEO
Farmers State Bank, LaGrange, IN

2011 MILESTONES

CSBS achieved several landmark accomplishments in 2011.

Milestones include:

- Established the Community Banking Steering Group to research and evaluate legislative and regulatory solutions to support the community banking model.
- Published a white paper defining the issue of capital formation at community banks and raising awareness of its importance to the financial system.
- Facilitated state-federal coordination through the FFIEC, the FSOC, and regular interaction with federal financial regulators.
- CSBS and state regulators implemented a comprehensive MOU with the CFPB, calling for coordination and collaboration across a broad range of regulatory and supervisory functions. This agreement, the first signed by the new CFPB, established a framework of state and federal cooperation for the supervision of providers of consumer financial products and services. At year-end 2011, 51 state agencies representing 43 states and Puerto Rico were party to the MOU.
- Expanded multi-state examinations of mortgage originators and servicers.
- Conducted enforcement negotiations and settlements for violations and practices identified through multi-state examinations.
- Published the MMC Examination Manual and developed new examination tools including the Loan Originator Compensation Rule State Examination Guidelines and the Limited Scope Electronic Examination Guidelines.
- Developed the Nationwide Cooperative Agreement for MSB Supervision and the Protocol for Performing Multi-State Examinations.
- Collaborated with the Financial Crimes Enforcement Network (FinCEN) and the Internal Revenue Service (IRS) on concurrent examination procedures and revisions to the Bank Secrecy Act (BSA) Examination Reporting Form.
- NMLS completed the registration of 375,654 MLOs and 11,081 depository institutions and subsidiaries employing such MLOs, as required by the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (SAFE Act).
- The NMLS Consumer Access website made information available to the public on registered MLOs and their employing institutions, as required by the SAFE Act.
- The NMLS Mortgage Call Report was launched, marking the first standardized information collection of quarterly financial and origination data from state-licensed residential mortgage lenders, as required by the SAFE Act.
- The CSBS Education Foundation conducted 47 online technical, continuing, and executive education programs with 1,675 attendees and, in collaboration with SRR, 45 webinars with nearly 11,000 connections.
- The CSBS Education Foundation awarded re-accreditations to eight bank regulatory agencies and new accreditations to five mortgage regulatory agencies.
- Conducted a communications audit in order to ensure internal and external communications are complementary to and supportive of CSBS's goals, yet effective, consistent and manageable.

2012 PRIORITIES

In 2012, CSBS will maintain, defend, and advance the state banking system and the overall role of the states in financial regulation, consumer protection, and local economic development. Additional priorities are detailed below.

Coordination

- Staff will continue to facilitate active state participation in the FFIEC.
- Staff will continue to facilitate the role of a state bank regulator as a non-voting member of the FSOC.
- CSBS will closely coordinate and collaborate with the CFPB on behalf of state supervisors in order to minimize regulatory burden.
- CSBS will identify legislative opportunities to enhance state-federal coordination, including in areas such as information sharing, supervisory cooperation, and ensuring state regulatory perspectives are properly represented in various federal regulatory bodies and forums.

Policy and Supervision

- During the on-going implementation of the Dodd-Frank Act, CSBS will continue to actively participate, inform, and shape policy to reflect state regulators' views on the impact of the rules and regulations on the diversity and strength of our financial institutions, the stability and sustainability of our financial system, and access to credit in communities of all sizes.
- The Community Banking Steering Group will develop proposals to provide prudent and meaningful relief to the community banking model.
- CSBS will develop best practices and examination tools use by state regulators.
- Staff will seek legislative opportunities for promoting the vitality and viability of the community banking business model and the state system of financial regulation.

Professional Development

- CSBS will work to enhance the efficacy of state regulation through application of the rigorous standards of the CSBS Accreditation Program, the CSBS-AARMR Mortgage Accreditation Program, as well as innovative training and professional development programs developed and provided by the CSBS Education Foundation.
- Staff will strengthen partnerships with CSBS sister organizations to enhance individual examiner professionalism through joint training initiatives and strict, ongoing certification requirements.
- CSBS will provide members with networking opportunities with industry thought-leaders and federal regulators in key leadership positions.

Non-Depository Supervision

- CSBS will modify NMLS to accommodate state use of the System for non-mortgage, non-depository licensing and registration in consumer lending, MSBs, and debt collectors.
- Staff will fulfill responsibilities to modify and operate NMLS pursuant to a contract with the CFPB regarding the registration of MLOs and their employing institutions through NMLS.

STATE OF THE STATE FINANCIAL INDUSTRIES

The U.S. banking system is large and diverse. With nearly 7,400 banking organizations across the country, the U.S. generally enjoys easy access to financial services. These institutions vary widely in terms of size and business model. CSBS views this diversity as a key strength of the system, which served the country well during the financial crisis.

The state system remains the charter of choice for 74% of banks. The state charter, while home to several large institutions, is the charter of choice for most of the nation's community banks. These banks value the ability to work with local officials who understand the economics and needs of local communities.

Industry Consolidation

While the nation maintains a significant number of institutions, the banking industry has experienced a consistent stream of consolidation. For instance, in 1985 the United States had more than 18,000 banks. By 2011, this number had dropped to fewer than 7,400 banks.⁴ The reasons for this consolidation are not fully understood. However, state regulators believe government policy should not drive consolidation. The driver of consolidation is worthy of further consideration to protect diversity in the system.

While the majority of banks are state-chartered, the majority of assets are housed in national banks supervised by the Office of the Comptroller of the Currency (OCC). As the country continues to enjoy a relatively diverse banking system, we have witnessed a tremendous consolidation of financial power into just four institutions. For instance, the country's four largest banks represent 43% of total bank assets and comprise 68% of the OCC's assets under supervision.⁵ Total deposits in the banking system have ballooned from \$4.9 trillion in 2000 to \$10.1 trillion in 2011, but small institutions are housing only a fraction of total deposits. The four largest banks control 40% of total bank deposits, representing a 21% increase since December 31, 2007.⁶ The size disparity between the average community bank and the average large bank has grown from 12 times larger in 1985 to 64 times larger in 2010.⁷ This disparity raises

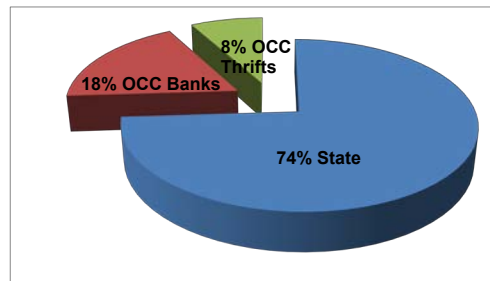
4 Source: FDIC as of December 31, 2011.

5 Ibid.

6 Ibid.

7 Source: FDIC Community Banking Research Project as presented at the FDIC Future of Community Banking Conference, February 16, 2012.

Percentage of Charters by Authority



Numbers of Charters by Authority

	STATE	%	OCC	%	OCC/OTS	%	TOTALS	Change
12/31/11	5,432	74%	1,315	18%	619	8%	7,366	-300
12/31/10	5,611	73%	1,386	18%	669	9%	7,666	-355
12/31/09	5,855	73%	1,465	18%	701	9%	8,021	-293
12/31/08	6,034	73%	1,540	19%	740	9%	8,314	-393
12/31/06	6,216	71%	1,723	20%	768	9%	8,707	-1,046
12/31/00	6,607	68%	2,231	23%	915	9%	9,753	-1,952
12/31/95	7,676	66%	2,858	24%	1,171	10%	11,705	-1,662
12/31/92	8,388	63%	3,593	27%	1,386	10%	13,367	
12/31/85 High Point							18,043	
Change from 1985 to 2011							-10,677	
Percentage							-59%	
Percentage per annum							-2%	

significant questions regarding financial stability and the impact industry consolidation has upon local economies.

Non-Depository Supervision and Enforcement

State regulators also oversee a variety of non-depository financial services providers, including mortgage loan originators. In 2011, state regulators utilized NMLS to manage 134,112 unique entities (mortgage companies and individual loan originators), which held 259,134 state licenses from all 58 participating state regulatory agencies. Additionally, in 2011 federally regulated MLOs were required to register with NMLS. The System held 375,654 federal registrants at year-end 2011.⁸

States have long recognized the need for enhanced supervision and enforcement of the residential mortgage industry, which led to the development and launch of NMLS by state regulators. In April 2012, NMLS expanded to include other non-depository consumer financial services providers. NMLS has proven to be an effective mortgage supervision tool, and is expected to streamline non-depository supervision and enhance consumer protection.

8 Source: CSBS-AARMR Nationwide Mortgage Licensing System and Registry as of December 31, 2011.

STATE OF THE STATE FINANCIAL INDUSTRIES

In addition to creating a supervisory framework for seamless and effective supervision, state regulators and Attorneys General cooperatively enforce state consumer protection laws against mortgage service providers. While certain landmark settlements have received significant public attention, success is sometimes better measured by those actions that never receive media attention. In 2010 alone, states took 9,272 enforcement actions against mortgage lenders and other non-depositories: a volume consistent with previous years.

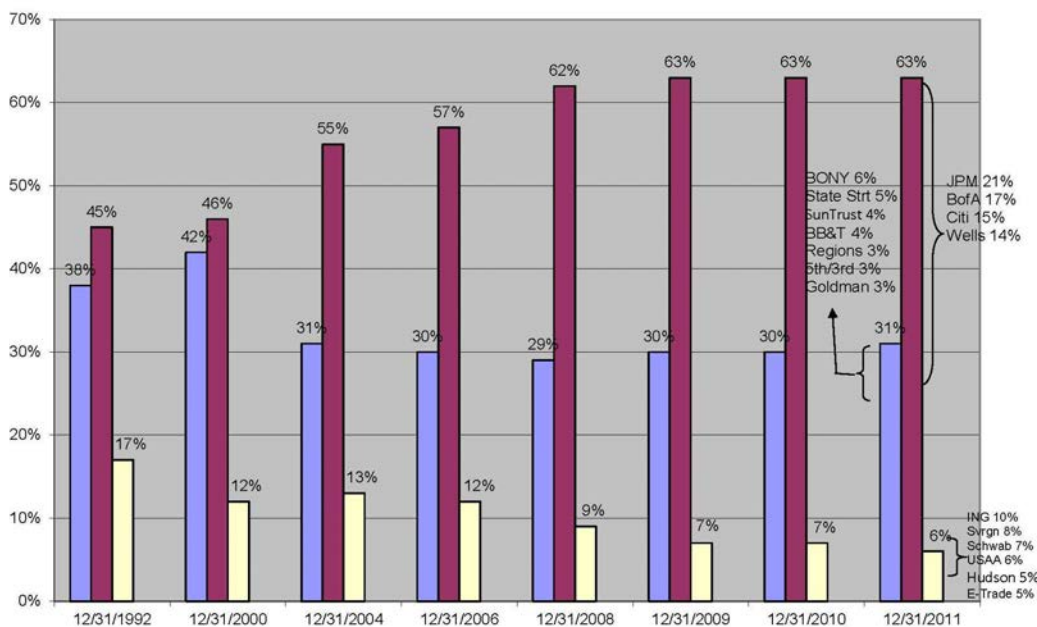
In July 2011, the newly-established CFPB officially began operations. In December 2011, President Obama appointed Richard Cordray to the role of Director of the CFPB. The new agency now has supervisory authority over the non-depository consumer financial landscape. The CFPB is in the process of determining which consumer financial market participants it will regulate beyond the mortgage, payday, and student loan industries. To begin this initiative, the CFPB issued a proposal in February 2012 to cover debt collectors and consumer reporting agencies in its non-bank supervision program. CSBS has committed to working closely with the CFPB to ensure seamless and effective supervision of the non-depository industry. In addition to the mortgage aspect of the non-depository industry, CSBS is committed to the continuing improvement of other aspects of non-depository supervision, particularly the oversight of more than 21,000 MSBs in the United States.⁹

Ending Too Big to Fail

Overall, the economy continues to recover from the financial crisis and regulators are implement-

ing key provisions of the Dodd-Frank Act. For instance, the FSOC has proposed rules to facilitate identification of systemically important financial institutions. The FDIC has implemented its orderly liquidation authority and is working with the Federal Reserve to mandate living will requirements for certain institutions. Also critical are proposals concerning heightened prudential standards for systemic institutions and the Volcker Rule. The

Percent of Assets by Charter



true impact of these new rules on large banks is still unknown, but their success is vital to mitigate the effect of “too big to fail.”

CSBS is actively monitoring the effectiveness of these changes. However, questions regarding the long-term viability of the community banking business model continue to flourish. Community banks are critical to economic recovery, as they are the lifeblood of small business and local economic activity. It will be critical for states to work together and with their federal counterparts to explore meaningful and prudent relief mechanisms for community banks. These institutions’ business models in many cases do not warrant the same regulatory treatment as larger banks. Steering community banks toward extinction is too perilous for the long-term prospects of job growth, small business, and the general health of the American economy.

⁹ Source: CSBS 2010 non-depository survey. All states did not respond to the survey. A principal MSB may have been reported by more than one state.

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Overview

In 2011, CSBS combined the policy and supervision functions of the organization. The traditional function of government relations was divided between two functional areas: legislative and regulatory. In 2011, CSBS further defined these roles to split the regulatory function into bank supervision and consumer protection and non-depository supervision. This recognizes the expanded work CSBS is doing with and on behalf of state regulators, as well as the workflow coming from the federal agencies. While there are three defined sections under the Policy and Supervision Division, the underlying work is supported by a common support structure for data collection and policy analysis. This has brought greater synergy and efficiency to the policy development process, which has improved the information flow to the states and led to greater member involvement in the process.

During 2011, major work streams focused on the ongoing ramifications of the financial crisis, including the implementation of the Dodd-Frank Act. The work highlighted in the following sections all has a connection to the problems exposed in the financial sector as a result of the crisis. Regulators are working hard to implement the provisions of the Dodd-Frank Act. Regulators are also working to adapt examination policies and procedures to clarify expectations of risk management in key areas as community banks, in particular, work to recover from the economic recession. Congress has demonstrated a keen interest in the implementation of the Dodd-Frank Act and the supervisory practices of regulators.

Community banks have been especially hard hit by the recession and the burdens of regulatory compliance. This area is a key initiative for the Policy and Supervision Division, as these banks are a core element of the state system and important to the overall economy. Each of the following sections will highlight the contributions being made to this effort.

Regulatory Policy Section

Overview

The Regulatory Policy Section supports the Bank Supervision Section and the Consumer Protection and Non-Depository Supervision Section to analyze and provide the state perspective on federal regulatory policy proposals that directly affect state-supervised entities. The Regulatory Policy Section facilitates state representation on the FFIEC and coordinates efforts among the state banking departments on supervisory related issues.

Regulatory Reform

During 2011, the Regulatory Policy Section analyzed and responded to the numerous proposals related to the implementation of the Dodd-Frank Act. Staff provided regular briefings to the states on implementation of the Act. Dialogue with the states has been productive in identifying implementation challenges and developing an understanding of the full impact of this historic piece of legislation.

The Dodd-Frank Act created two new instruments of the federal government: the CFPB and the FSOC. The CFPB is charged with enforcing federal consumer financial laws and developing rules and disclosures to protect consumers utilizing financial products. The Bureau has extensive and broad power over consumer financial services. As the Bureau was being formed, CSBS staff was, and continues to be, in regular dialogue with CFPB staff to ensure they understand the valuable and critical role the states play in consumer protection. As a first step in streamlining the supervisory process between the states and CFPB, the CFPB signed an MOU with CSBS and several states in January 2011. The agreement provides a framework for coordination and information sharing, which the states and the CFPB can build upon as they move forward.

The FSOC is responsible for monitoring risk within the financial system, identifying gaps in supervision, and designating non-depository companies to be subject to enhanced prudential standards and

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supervision. In addition to a host of federal regulators which serve on the Council, there are three state regulators serving as non-voting members. The state members represent state banking, insurance, and securities departments. The state banking supervisors, through CSBS, appointed William S. Haraf, Commissioner of the California Department of Financial Institutions, to serve as their inaugural representative on the FSOC. John P. Ducrest, Commissioner of the Louisiana Office of Financial Institutions, is now the state bank regulator member on the FSOC. Commissioner Ducrest is supported in his FSOC duties by three CSBS staffers who operate under secondant and confidentiality agreements. The FSOC will play an increasingly important role in public policy and financial supervision.

Policy Initiatives



Mark Kaufman

The ongoing work of the Regulatory Policy Section is to identify and analyze federal policy and its potential impact on state supervision, the banking and mortgage industries, and consumer protection. Policy positions are determined by the CSBS Regulatory Committee, which is chaired by Mark Kaufman, Commissioner of the Maryland Office of Financial Regulation. The policy process to evaluate these and other proposals serves to inform the states and advocate for regulatory policy that serves all communities. The regulatory response to the financial crisis and early implementation of the Dodd-Frank Act has required extended staff time and contact with the states to develop policy and respond to proposals. Key letters to the federal regulatory agencies submitted in 2011 include:

- January 24, 2011 letter to the FDIC on core and brokered deposits in anticipation of a required study. CSBS recommended enhanced analysis of the use of brokered deposits and allowing banks to gradually reduce their composition of brokered funds.
- February 22, 2011 letter to the Federal Reserve Board on interchange fees. In the letter, CSBS indicated the proposal could pose safety and soundness risk and warranted additional study.
- May 2, 2011 letter to the Federal Reserve Board on higher-priced jumbo loan escrow requirements. CSBS offered support for escrow requirements for jumbo loans, but stated the exemption for smaller institutions that portfolio loans should be broader.
- June 27, 2011 letter to the OCC on preemption. In the letter, CSBS argued the OCC's proposal ignored both Congress's clear mandate for the OCC to rescind its existing body of preemption rules and the opportunity to engage constructively with state regulators to work toward substantive uniformity that reflects the state-federal coordination required by the Dodd-Frank Act.
- July 22, 2011 letter to the Federal Reserve Board on the ability to repay. The CSBS letter supported the consideration and verification of borrower information before extending credit, and called for exemptions for balloon mortgages held in portfolio.
- August 1, 2011 letter to the federal financial agencies on risk retention. CSBS offered support for the proposal, including requiring a 20% down payment, but acknowledged divergent views and requested that the agencies conduct hearings to more fully understand the final rule's possible impact.

A comprehensive list of CSBS comment letters filed in 2011 can be viewed at <http://www.csbs.org/regulatory/policy/Pages/CommentLetters2011.aspx>.

Small Business Lending

In September 2010, Congress passed the Small Business Jobs Act establishing, among other things, a \$30 billion fund for capital distributions to qualifying community banks to increase small business lending across the country. Congress granted the Treasury Department administrative authority over the allocation, known as the Small Business Lending Fund (SBLF). In this capacity, the Treasury Department was charged with creating and administering an application and approval process for the fund. Institutions that received SBLF allocations would have incentive to increase small business lending through lower dividend payments to Treasury.

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Recommendations by regulators for program participation were critical in the application process. CSBS acted as the liaison during this process, coordinating at least weekly between state regulators and Treasury staff. At the end of the application process, Treasury approved less than half of the 932 applicants for an amount representing less than 15 percent of the \$30 billion fund. The states objected to Treasury's application process on the grounds of its unimpressive yield, opacity, and unnecessary risk aversion. Further, Treasury did not adequately address solvable issues surrounding matters such as state dividend statutes, which prevented certain institutions from participating. In the end, many healthy institutions were denied funding, which was a significant lost opportunity to stimulate small business lending and job growth.

Coordination

A cornerstone of the work of CSBS is to aid in the coordination between state and federal regulators. The coordination work covers policy development and examination processes. In this challenging environment, CSBS has been fully engaged in advising the states of various regulatory approaches, and when necessary, assisting in the escalation of cases to the Washington, D.C. staff of the relevant federal agency. CSBS is also a helpful conduit for the federal agencies when they need input on new initiatives or need to communicate with the states.

In 2011, CSBS staff continued to facilitate the states' membership on the FFIEC. The FFIEC's mission is to facilitate a common approach to supervision, policy, and examiner education. The CSBS Policy and Supervision and Professional Development Divisions provide staff support for the state regulators serving on the FFIEC, its task forces, and its numerous working groups. Active state involvement in the FFIEC is critical to ensuring a voice for the state system in the development of federal regulatory policy.

Outlook for 2012

The implementation phase of the Dodd-Frank Act will continue for some time and will require continued work by CSBS to inform the states and advocate for the state view. CSBS will also expend considerable resources to understand and propose remedies around the community banking model. As stated, community banking is a key component to many rural, local, and state economies. The regulatory system must support this model in the interest of the national economy.

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Legislative and Legal Section

Overview

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



Charles Cooper

CSBS legislative and legal staff provides state regulators with timely reports on Congressional developments, analyses of relevant legislative proposals and, through the CSBS Legislative Committee, facilitates development of policy positions on legislative proposals that could have a significant impact on state regulation of financial services. The CSBS Legislative Committee, chaired by Charles Cooper, Banking Commissioner of the Texas Department of Banking, also provides a setting for CSBS members to formulate proactive legislative proposals.

The CSBS Legal and Legislative Section monitors litigation affecting state authority and the operation of applicable state law on financial services providers. In past years, CSBS has submitted *amicus* briefs in seminal cases involving preemption of state law, including *Watters v. Wachovia* and *Cuomo v. Clearinghouse*. More recently, and since enactment of the Dodd-Frank Act, CSBS legal staff has been monitoring a variety of preemption cases in the lower courts, as well as participating in the rulemaking related to the Dodd-Frank Act's preemption provisions. CSBS expects significant activity in this area for several years to come.

Additionally, staff provides support to counsels in the state banking departments on a variety of legal issues. Since the passage of the Dodd-Frank Act, this work has focused on interpretive questions related to implementation of the Dodd-Frank Act.

CSBS legal staff also provides legal support for the operations of the organization's affiliates, SRR and the CSBS Education Foundation.

Highlights

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

Since passage of the Dodd-Frank Act, Congress's financial services work has shifted from legislating to oversight. The current Congress is very different than the Congress that passed the Dodd-Frank Act. Whereas the Democrats controlled both the House and Senate during consideration and passage of the Dodd-Frank Act, the current Congress includes a House with an overwhelming Republican majority with a historic number of freshmen, and a Senate narrowly controlled by the Democrats. Navigating this political dynamic has meant engaging constructively with a broad array of perspectives, ranging from those extremely skeptical of government regulation, to those who embrace the new structure as a necessary means of avoiding the excesses and mistakes that led to the financial crisis.

In this environment, CSBS's legislative work has focused on bringing state regulators' perspectives to issues affecting industry diversity and the role of state regulation in regulatory fabric. From initiatives to reduce regulatory and compliance burdens for smaller institutions, to legislation affecting the ability of the CFPB to share information with regulators, CSBS members and its legislative staff have provided the view of state banking and financial regulation.

During 2011, the voice of community banks continued to be heard loud and clear on Capitol Hill. Representatives of community banks effectively conveyed their worries, angers, and frustrations with

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regulation and the federal regulatory agencies. Congress has sought to respond to these concerns with a variety of proposals, including:

- H.R. 3461, known as the Financial Institutions Examination Fairness and Reform Act;
- H.R. 1965, a bill to change the Securities and Exchange Commission (SEC) registration threshold for community banks from 500 to 2,000; and
- H.R. 1697, known as the Communities First Act, a package of community banking related proposals.

The varied provisions of these bills and the nature of the discussion in Congress illustrate the challenge of a legislative response to the very real challenges facing community banks today. As other policy-makers and thought leaders explore the current state of community banking, CSBS looks forward to a collaborative approach that brings together legislative action and regulatory action in a coordinated state-federal approach.

Other Legislative Updates

Congressional Testimony

CSBS testified twice before Congress during 2011.

- In April 2011, CSBS Chairman John P. Ducrest appeared on a panel with federal regulators before the Senate Banking Committee to discuss the state of community banking. Ducrest spoke of the very local nature of community banking and of the importance of community banks in delivering local credit and in being immediately responsive to local needs, as many of the institutions Chairman Ducrest regulates were in the aftermath of Hurricanes Katrina and Rita. Chairman Ducrest also conveyed the concerns he hears from the banks in Louisiana, resulting from a combination of challenges from the current regulatory environment and the competitive challenges posed by larger institutions.
- In July 2011, Anne Balcer Norton, Deputy Commissioner of the Maryland Office of Financial Regulation, testified before the House Financial Services Committee on mortgage origination issues. In her testimony, Deputy Commissioner Norton provided an update on implementation of the SAFE Act and discussed the work of the MMC. She also offered state regulators' perspectives regarding ongoing regulatory work related to the Dodd-Frank Act's "ability to repay" requirement, as well as the qualified residential mortgage—or "QRM"—that the federal regulators have been developing.
- In addition, CSBS submitted a statement for the record for the October 27 House Financial Services hearing on an IRS proposed rule requiring banks to report interest paid to non-resident alien depositors. The CSBS statement expressed concern about the proposed rule's impact on smaller community institutions and took issue with the IRS's failure to consider such impacts in its rulemaking.



Anne Balcer Norton

CSBS Washington Legislative and Regulatory Fly-In

In March of 2011, CSBS hosted its annual Washington Fly-In, bringing more than 30 state banking commissioners to Washington for meetings with key members of the House and the Senate and with senior officials at the Federal Reserve, the FDIC, and the CFPB. Among highlights of the Fly-In were sessions with FDIC Chairman Sheila Bair and Federal Reserve Chairman Ben Bernanke.

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CSBS Legal Conference

In August 2011, CSBS hosted its annual Legal Conference in Raleigh, North Carolina. Coming shortly on the heels of the Dodd-Frank Act's "transfer date," the 2011 Legal Conference provided attorneys from the state banking departments with an opportunity to discuss Dodd-Frank implementation and other emerging legal issues, such as mobile banking and retail payments developments. Among the highlights of the Legal Conference was a keynote address by Joseph A. Smith, Jr., then Commissioner of Banks of the North Carolina Office of Commissioner of Banks, and a panel with general counsels from the FDIC and the Federal Reserve.

Outlook for 2012

In the wake of the Dodd-Frank Act, 2012 is unlikely to see large scale Congressional action in the financial services arena. However, the second session of the 112th Congress will see an energetic effort to respond to the concerns community banks continue to express about the current regulatory environment. While these concerns also flow from the current economy and uncertainty about the effect of Dodd-Frank implementation, Congress is likely to focus on the actions of the federal regulatory agencies. Despite the challenges of effectively legislating to address issues of with management and supervisory discretion, Congress will continue to highlight—through legislation and hearings—community banks' frustrations and challenges. Consequently, a large portion of the necessary but difficult work on issues such as the future of the housing system, including the housing Government Sponsored Enterprises, will be left to future Congresses.

For CSBS, this means continued work to ensure that Congress's work continues to recognize the importance of regulatory diversity, the dual-banking system, and the important role of state banking and financial regulation in the financial regulatory fabric.

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Bank Supervision Section

Overview

The Bank Supervision Section works closely with the state banking departments to implement new supervisory processes, develop and improve best practices, and maintain examination tools. Equally important is the section's dedication to fostering better state-federal and state-state collaboration and coordination. Historically, the primary focus of the section was on safety and soundness examinations, but the section expanded its support role to other areas, including BSA, information technology, trust, and holding company examinations. As it relates to depository institutions, the new regulatory landscape of consumer protection also falls under the responsibility of the Bank Supervision Section. The section works closely with the Consumer Protection and Non-Depository Supervision Section to develop consumer protection standards and processes that are as consistent as possible between the two disciplines. With the addition of these focus areas, the Bank Supervision Section now supports all disciplines of state bank supervision, leveraging the information and resources gathered by the CSBS accreditation process to align best practices and standards across the state banking departments.

Key Functions

One of the Bank Supervision Section's primary functions is supporting the development of examination tools. The Examination Tools Suite (ETS) is a major technology initiative, led by the FDIC, which aims to replace many of the critical examination tools currently used by safety and soundness and compliance examiners from the states, the FDIC, and the Federal Reserve. This initiative has involved participation from each of the committees the Bank Supervision Section works with, and which are detailed below. The primary objective of ETS is to replace the two most commonly-used applications, ALERT and GENESYS. These applications have been in use for over a decade and are critical tools to the examination process in the majority of states.

2011 was a pivotal year for ETS-ALERT, the replacement for legacy ALERT. The development process entered its final phase and is planned for release in the summer of 2012. ETS-SAGE - which will replace not only GENESYS, the Interagency Exam Repository (IER), and the Examination Download System (XDS) - took significant steps forward in 2011. ETS-SAGE advanced from the elaboration phase of development, to the construction phase.

The state stakeholder group, many of whom are from the CSBS State Examiner Review Team (SERT), increased its numbers by adding examiners from three new states to its ranks. The role of these stakeholders is critical. By voicing the often unique requirements of the states and by providing their expertise on state supervisory processes, these stakeholders ensure the tools built under the ETS umbrella meet the needs of all state users.

The other key function of the Bank Supervision Section is to provide examiner support. A broad and ever-expanding role, this function is fulfilled by the development of best practices, job aids, and supervisory processes that make the examination process more efficient. The CSBS committees comprised of state regulators play a significant role in this function, as the following paragraphs more fully describe.

Committee Work

The Bank Supervision Section has a number of committees and working groups to enhance examination collaboration, communication, and supervisory tools available for state regulators. The strength of these committees is the participants' broad range of experience and expertise. This expertise allows supervisory concerns seen at different levels to be centralized and evaluated. Often, these committees report on and address supervisory concerns of one state before they affect other states.

The CSBS SSPC is chaired by Vaughn M. Noring, Bank Bureau Chief of the Iowa Division of Banking. Throughout 2011, the SSPC worked to identify supervisory challenges and develop best practices to address these obstacles. These practices were coordinated with the CSBS accreditation process to ensure state banking departments utilize the best practices developed by the SSPC. The committee

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Vaughn M. Noring

also addressed supervisory issues and challenges that arose from state and federal coordinated supervision, released a troubled debt restructuring (TDR) examiner job aid, and evaluated supervisory concerns of rising municipal debt exposures at some state-supervised institutions. Finally, the committee evaluated and approved options for an approach to compliance supervision. Put simply, the SSPC evaluated and drafted a road map that allows states to either implement a risk management approach or a full-scope compliance supervisory process.

The CSBS Technology Committee is chaired by Danny Ragan, Information Technology Director of the Louisiana Office of Financial Institutions, and is charged with developing information technology (IT) best practices and information sharing between the states. The committee researched potential imaging and document management solutions, oversaw the development and upgrades to interagency examination tools (such as GENESYS, ALERT, and ETS), and assisted with the development of the program for the 2011 CSBS Technology Seminar, held in Atlanta, Georgia in October 2011.

SERT is chaired by Doug Hoselton, Supervisory Examiner of the North Dakota Department of Financial Institutions. SERT continues to represent the states on software development initiatives. Many SERT members have been longstanding participants on various examination tool development initiatives, the latest of which is ETS. In addition to its significant contribution to the ETS initiative, SERT also developed the TDR job aid published by the SSPC, evaluated a number of technology solutions, and is now working closely with the SSPC to identify ways to improve the examination process of community banks. SERT also participated throughout 2011 in remediation testing of several key applications used by the states, including GENESYS 5.7.1, the IER, and the FDIC Extranet, all of which are critical to the current examination process. The SERT team will remain busy in 2012 with the deployment of ETS-ALERT and the continued construction of ETS-SAGE.

CSBS Profile of State-Chartered Banking

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

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

The Profile is compiled and managed by the Bank Supervision Section and is available to state banking departments free of charge. More information on the Profile is available at <http://www.csbs.org/regulatory/resources/Pages/StateCharteredBanking.aspx>.

Critical Infrastructure and Disaster Planning

The Bank Supervision Section spearheads CSBS's participation on FBIIC. The organization is charged with improving coordination and communication among financial regulators, enhancing the resiliency of the financial sector, and promoting the public-private partnership. The section also leads efforts to have a comprehensive internal CSBS policy for disaster preparation, and assists states in developing their disaster preparation plans. In times of actual emergencies or disasters, CSBS staff has assisted impacted state regulators by performing a myriad of duties, including coordinating on their behalf with the federal agencies or other state regulators.

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Outlook for 2012

Many of the initiatives from 2011 will continue into 2012 as CSBS continues to support the state banking examination function and coordination with federal agencies. CSBS will continue to evaluate examination procedures, as well as develop examiner job aids and tools to enhance the state supervisory process. Going forward, through CSBS and the Bank Supervision Section, state regulators will maintain their prominent role in the examination tools development process, especially as ETS-ALERT is deployed across all states. Further, CSBS staff will continue to support state examiners through the continued development or refinement of supervisory practices.

Consumer Protection and Non-Depository Supervision Section

Overview

The role of CSBS in support of MSBs and BSA supervision expanded as the CSBS Board of Directors dedicated regulator and staff resources directly to these areas. Recognizing increasing demands in non-depository supervision, CSBS formed a new section under the Policy and Supervision Division called the Consumer Protection and Non-Depository Supervision Section. This section has responsibility for the following areas:

- Non-depositories (including mortgage and MSBs);
- The Bank Secrecy Act;
- Consumer protection; and
- Coordination between state regulators and the CFPB.

Issues of consumer protection and effective supervision led much of the headlines in 2011, driven largely by the emergence of the CFPB and continued concerns over mortgage foreclosures and the availability of consumer credit. Throughout the year, the MMC continued its focus on national review of both originators and servicers, as well as the development of effective uniform processes for supervision.

Multi-State Mortgage Committee (MMC)

The Nationwide Cooperative Protocol and Agreement for Mortgage Supervision (the mortgage supervision agreement) outlines a basic framework for the coordination and supervision of multi-state mortgage entities. The mortgage supervision agreement established the MMC, which is comprised of ten state regulatory officials appointed by CSBS and AARMR as the oversight body charged with implementing and directing supervisory processes. In 2011, the MMC was chaired by Donald Debastiani, Director of the Bureau of Non-Depository Examination of the Pennsylvania Department of Banking.

The MMC is responsible for the selection of examination targets and coordinating multi-state examinations. In addition, the MMC is responsible for the development of uniform examination processes and the modernization of traditional examination approaches for achieving more effective supervision. When necessary, the MMC coordinates, directs and negotiates enforcement resolution occurring under individual state authority.

The MMC fulfills its responsibilities through regular meetings of the full committee, as well as work groups assigned to specific supervisory processes and oversight functions. CSBS provides administrative, staff, and technical support for all of the MMC processes and functions—including examination and enforcement support—and acts as a facilitator for coordination of supervision between the states.

The MMC addressed many complicated and time-consuming issues in 2011. For instance, some of the

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largest lenders in the country were examined under the MMC protocol and agreement, and state examination teams ranged in size from a handful of states to more than 25 states participating on a single examination.

The MMC continues to play a critical role in the examinations of the nation's largest servicers. State regulators maintained their partnership with the state Attorneys General through the MMC and CSBS. At the close of 2011, this combined effort was nearing the announcement of a \$25 billion settlement with the country's five largest servicers.

Supervisory Processes and Procedure

The MMC issued several documents during the year providing uniform standards for supervision and guidelines for conducting examinations. Chief among these was the MMC's comprehensive mortgage examination manual.

The MMC continues to refine its risk-scoping mechanism used to identify entities for examination scheduling purposes and is moving forward with incorporating detailed loan portfolio and financial condition analysis derived from the NMLS Call Report into the risk rating model. The MMC's examination technology initiative was advanced in 2011 through a new type of off-site examination known as the Limited Scope Electronic Examination. This initiative, which was launched with 15 institutions examined by 28 states, is designed as part of the MMC's overall risk assessment program.

For more information on the MMC, go to

<http://www.csbs.org/regulatory/policy/policy-guidelines/Pages/MMCPublications.aspx>.

MSB Supervision

State banking departments have oversight over a host of financial services providers, including MSBs. The CSBS MSB Task Force was established by the CSBS Board of Directors to enhance coordination of MSB regulatory oversight. Greg Gonzales, Commissioner of the Tennessee Department of Financial Institutions, chaired the 16-state task force in 2011.



Greg Gonzales

During the year, state banking regulators, working with CSBS and the Money Transmitter Regulators Association, pursued several initiatives, including:

- Completion of the Nationwide Cooperative Agreement for MSB Supervision and the Protocol for Performing Multi-State Examinations;
- Collaboration with FinCEN and the IRS on concurrent examination procedures and revisions to the BSA Examination Reporting Form; and
- Drafting comment letters to federal agencies in response to notices of proposed rulemaking.

Coordination

The Dodd-Frank Act requires coordination and consultation between the state regulators and the CFPB to "promote consistent regulatory treatment," among other things. The Consumer Protection and Non-Depository Supervision Section will focus on three primary areas of support to state regulators:

- Coordination of non-depository supervisory activities, including examination schedules;
- Coordination on enforcement actions involving state licensed non-depositories; and
- Coordination of information sharing on consumer complaints.

In 2011, the section established work groups and regular meetings with the CFPB to focus on supervisory processes, examination scheduling, and information sharing on consumer complaints. These work groups and regular meetings are expected to be a significant part of the section's support responsibilities in the coming years.

CSBS DIVISION REPORTS

Policy and Supervision Division Report

Outlook for 2012

CSBS staff predicts a busy 2012. In the early part of the year, staff will provide support to the Attorneys General servicer settlement, will wrap up the 2011 mortgage exams, and will begin the MMC's 2012 examination cycle for mortgage examinations. With respect to MSBs, much of 2012 will be dedicated to acquiring state sign-on to the MSB Agreement and Protocol and the formation and support of the Multi-State MSB Examination Taskforce.

Working with state regulators, the Consumer Protection and Non-Depository Supervision Section will commit significant resources to the development of supervisory processes for both mortgage and MSB oversight and to identify additional needs in consumer protection and non-depository supervision. As the CFPB expands its rule writing, supervision, consumer complaints, and enforcement roles, the section will facilitate communication and coordination between state regulators and the CFPB.

CSBS DIVISION REPORTS

Professional Development Division

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



Jeffrey C. Vogel

To successfully perform this core function, state regulators created the CSBS Education Foundation, which is chaired by Jeffrey C. Vogel, Director of the Wyoming Department of Audit. An affiliate of CSBS, the CSBS Education Foundation was established in 1984 to fund and direct the education and training efforts of the CSBS professional development division.

The mission of the CSBS Education Foundation is “Enhancing State Financial Supervision,” which is fulfilled by providing:

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

Training and Professional Development

The CSBS Education Foundation provides technical training and professional development for staff of state regulatory agencies at all levels of experience and expertise, ranging from new examiners to commissioners. In 2011, the CSBS Education Foundation conducted 20 instructor-led online programs and 27 on-site programs. The CSBS Education Foundation also worked with SRR to produce 45 webinars and the third edition of the NMLS Annual Conference and Training, held in Orlando, Florida, February 7-10, 2011. The event drew more than 400 attendees. In 2011 alone, 1,675 state regulators, federal regulators, members of industry and other interested parties participated in the training and professional development programs developed and hosted by the CSBS Education Foundation, and nearly 11,000 participated in NMLS-related webinars.

Some states experienced travel restrictions and resource shortages resulting from state budget limitations continued in 2011. To counter these restrictions, the CSBS Education Foundation continued to provide a myriad of opportunities to state regulators at minimal cost.

First, the CSBS Education Foundation renewed access to a vast library of over 250 online, self-paced training modules from FIS/ComplianceCoach® and made them available to state regulators on Regulatory University, a product of FIS/ComplianceCoach.® This well-vetted training is available at no cost to the states so they can continue to build knowledge and skills. All federal regulatory agencies are also users of this product. Since the launch of Regulatory University, all states have been registered for access and many are using the system to track user activity and performance. Time spent in courses and test scores achieved can be documented in training records and for continuing education credits for examiner certification. By year end 2011, state examiners had completed 6,048 courses on Regulatory University.

The CSBS Education Foundation provided eight customized in-state programs upon request, which allowed states to provide training opportunities to a far greater number of their staff at significantly lower cost.

Finally, to reinforce the value of CSBS training and professional development, the CSBS Education Foundation secured National Association of State Boards of Accountancy (NASBA) and American Institute of Certified Professional Accountants (AICPA) continuing profession education credit for up to 25 on-site programs.

CSBS DIVISION REPORTS

Professional Development Division

Bank and Mortgage Accreditation

In addition to providing training and professional programs for individuals employed by state regulatory departments, CSBS also conducts accreditation programs for state bank and mortgage regulatory agencies. Established in 1984, the CSBS Accreditation Program seeks to strengthen state regulatory agencies and to demonstrate the high quality of state regulators to the general public, the federal banking agencies, the U.S. Congress, and other state regulatory agencies. The CSBS Accreditation Program is often credited as the most effective tool for advancing state financial regulation.

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

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

In the 27-year history of the CSBS Bank Accreditation Program, a total of 47 state banking departments have achieved and maintained the rigorous standards set forth by the program. As of year-end 2011, a total of 11 state mortgage regulatory agencies have achieved and maintained the requirements of the CSBS-AARMR Mortgage Accreditation Program.

Examiner Certification

Yet another way CSBS achieves its goal of enhancing the professionalism of state regulatory departments and their personnel is through the Examiner Certification Program. Through the CSBS Education Foundation, CSBS offers 15 examiner certifications, including safety and soundness, mortgage, and specialty certifications to recognize examiners who have attained expertise in specific areas of supervision.

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

The Examiner Certification Program continues to grow as states use it to document and recognize the professionalism of their staff with their legislatures and other state and federal regulators. In many cases, states have also secured salary and bonus increases to staff who maintain their certified status with continuing education and job performance. At the end of 2011, 863 examiners from 36 regulatory agencies in 35 states held one or more of the 15 examination or specialty certifications listed above.

Outlook for 2012

Although 2011 presented tremendous challenges, CSBS adapted to provide training and professional development for state personnel. In addition, state regulators maintained their commitment to providing the best possible oversight of their supervised entities and were able to achieve department accreditation and examiner certification.

To adapt to the new regulatory environment and to better serve the state financial regulators in the future, the CSBS Education Foundation will:

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Professional Development Division

- Design a new business model that minimizes financial, geographic, and frequency barriers to high quality training, professional development, and networking opportunities for all levels and types of state financial regulatory personnel.
- Further integrate new compliance examination requirements into the Bank and Mortgage Accreditation Programs.
- Promote the use of the Regulatory University online learning modules available at little or no cost.
- Call upon states to share their hard-won expertise with their counterparts through training and professional development programs.
- Develop a state-of-the-art online training platform for state bank and non-depository regulatory agencies that will:
 - Give examiners and other agency personnel the opportunity to take online training courses on their schedule from a computer, tablet or smart phone at any location;
 - Reduce agency expenses and provide convenient and immediate access to training;
 - Eliminate waiting for the next in-person training class; and
 - Ensure learning occurs because mastery of content is assessed and required for each module.

CSBS DIVISION REPORTS

State Regulatory Registry Division

CSBS, in cooperation with AARMR, established SRR in September 2006. SRR was created to develop and operate a nationwide licensing system for state regulators in the financial services industry. Such a licensing system was to be established in order to enhance a state's ability to protect consumers, improve supervision, and streamline the licensing process.

In January 2008, the states launched NMLS, a voluntary web-based system that allows licensed mortgage lenders, mortgage brokers, and individual MLOs to apply for, amend, update, or renew a license online using a single set of uniform applications. With the passage of the SAFE Act in July 2008, all MLOs were required to be either registered or licensed through NMLS and meet minimum professional standards.



David J. Cotney

CSBS staff in the SRR Division is responsible for maintaining NMLS and receives direction from the SRR Board of Managers, which is chaired by David J. Cotney, Commissioner of Banks for the Massachusetts Division of Banks. The SRR Board is comprised of state mortgage regulators who are CSBS and AARMR members.

2011 was an extraordinary year for SRR and NMLS in many ways. The 2011 accomplishments discussed in this report are part of a multi-year coordinated state effort through CSBS and AARMR to increase consumer protection, enhance state supervision, and streamline the licensing process in the residential mortgage industry. For more information, see the 2011 State Regulatory Registry LLC Annual Report at <http://www.csbs.org/mortgage/Pages/AboutSRR.aspx>.

The two most significant events in 2011 were: opening of the Federal Registry on January 31, 2011, and the registration of approximately 375,000 MLOs and 11,000 employing depository institutions and subsidiaries; and the implementation of the NMLS quarterly Mortgage Call Report in May for all state-licensed mortgage companies. Registered MLOs and their employing institutions were made available on the NMLS Consumer Access website in early August. By year-end 2011, 1,054,728 visitors viewed over 56 million pages on the NMLS Consumer Access website.

For the first time in history, 492,645 individual MLOs were either state-licensed or federally registered through NMLS. This full representation of state licensees gives, for the first time, the ability to present comprehensive information about the status of state mortgage supervision. As the system of record for state mortgage regulatory agencies, NMLS is able to track the number of unique companies and individuals, as well as the number of licenses they hold in each state. For example, a company licensed in three states would count as one unique entity holding three licenses. By year-end 2011, NMLS data show there were 17,121 state-licensed companies holding 33,124 active state licenses, and 116,991 individual MLOs holding 226,010 active state licenses.

With regard to federal registrants, federally regulated institutions register on NMLS and ensure that a registration is created and maintained for each employee mortgage loan originator. By the end of 2011, there were 11,081 registered depository institutions and subsidiaries, and 375,654 MLOs registered in NMLS. Because there is no requirement for a federally regulated MLO to register in each state he or she wishes to do business, federal registration data do not provide insight as to where these individuals are engaging in mortgage loan origination comparable to that provided by analysis of state-licensed entities.

NMLS User Conference and Training

In February 2011, NMLS conducted its third annual NMLS User Conference & Training. The conference brought together state and federal regulators, as well as industry professionals, compliance companies, top law firms, and education providers to learn about the latest developments in mortgage supervision and to discuss pressing issues confronting the industry. More than 400 individuals attended the event held in Orlando, Florida.

NMLS SAFE ACT Mandates

In 2011, additional functionality was added to NMLS to implement the remaining mandates contained in the SAFE Act, including:

CSBS DIVISION REPORTS

State Regulatory Registry Division

- The development of the NMLS Mortgage Call Report, requiring mortgage licensees to submit information reports containing quarterly financial and origination data through NMLS; and
- The ability for state regulators to enter into an NMLS record any public enforcement actions taken against mortgage companies and MLOs in NMLS. States began entering this information in October 2011. In 2012, such disciplinary and enforcement actions will be accessible to the public on NMLS Consumer Access.

NMLS continued to provide streamlined functionality in connection with additional SAFE Act-mandated requirements, such as collecting fingerprints and delivering over 500,000 criminal background checks and over 73,000 credit reports for review by state regulators.

Testing and Education

Under the SAFE Act, all state-licensed MLOs must demonstrate a basic level of industry and regulatory knowledge. Specifically, all licensees must take 20 hours of pre-licensure education, take a qualified written test and pass with a minimum passing score of 75 percent, and take eight hours of continuing education each year. NMLS is responsible for all test development and approval of course providers and began administering tests and providing approved courses through NMLS in 2009.

In 2011, NMLS administered more than 130,000 test components, bringing the total number of tests administered since July 2009 to 526,033. By the end of 2011, 170 course providers and 1,200 pre-licensure and continuing education courses were approved by NMLS and close to 1.5 million hours of education were delivered through NMLS-approved courses.

SRR Committees, Task Forces and Working Groups

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

NMLS Ombudsman

The Ombudsman provides the mortgage industry and other interested parties with a neutral venue to discuss issues or concerns regarding NMLS and/or mortgage licensing. The objective of the Ombudsman is to foster constructive dialogue between industry users of NMLS and state regulators to mutually work toward the goal of modern and efficient mortgage regulation. In 2011, the NMLS Ombudsman was Deborah Bortner, Director of Non-Depository Institutions of the Washington Department of Financial Institutions.

Mortgage Licensing Policy Committee (MLPC)

The MLPC assists SRR in decision-making and handling operational and policy matters related to NMLS operations and development. The MLPC is comprised of 11 state mortgage regulators representing each of the five CSBS Districts.

Mortgage Testing and Education Board (MTEB)

The MTEB has both oversight and advisory roles in connection with a wide array of issues affecting the continued development and operation of SAFE Act testing and education requirements. The MTEB is comprised of nine state regulators representing each of the five CSBS Districts and at least one AARMR representative.

Mortgage Advisory Council (MAC)

The MAC provides industry input on NMLS policies and operations. The MAC operates only in an advisory capacity and does not have policy or operational decision-making authority. MAC members consist of mortgage lenders and brokers and industry trade associations and meets periodically with MLPC.

SRR Lawyers Committee

The SRR Lawyers Committee consists of attorneys from state mortgage regulatory agencies. The committee typically meets bi-weekly to identify and analyze legal issues related to NMLS operations with

CSBS DIVISION REPORTS

State Regulatory Registry Division

the intent of helping SRR spot potential legal issues from a state agency perspective and help shape solutions before they are incorporated into the System. The committee also helps provide a multi-state perspective on issues of interpretation and offers recommendations in order to facilitate a more uniform application of law on a nationwide basis. The committee, however, does not provide SRR with legal advice.

Residential Mortgage Regulatory Taskforce (RMRT)

In 2005, the RMRT was created and includes representation from every state mortgage regulatory agency. The RMRT typically met monthly to guide and discuss NMLS policy, process, and development. With the substantial completion of the SAFE Act licensing and System mandates, during 2011 the RMRT was disbanded as a formal working group and replaced by the NMLS Participating States Committee, which consists of representatives from each state agency participating on NMLS.

Regulator Development Working Group (RDWG)

The RDWG is comprised of mortgage regulators representing a minimum of five states. RDWG typically meets weekly and serves as regulatory subject matter experts on detailed NMLS requirements and the development process.

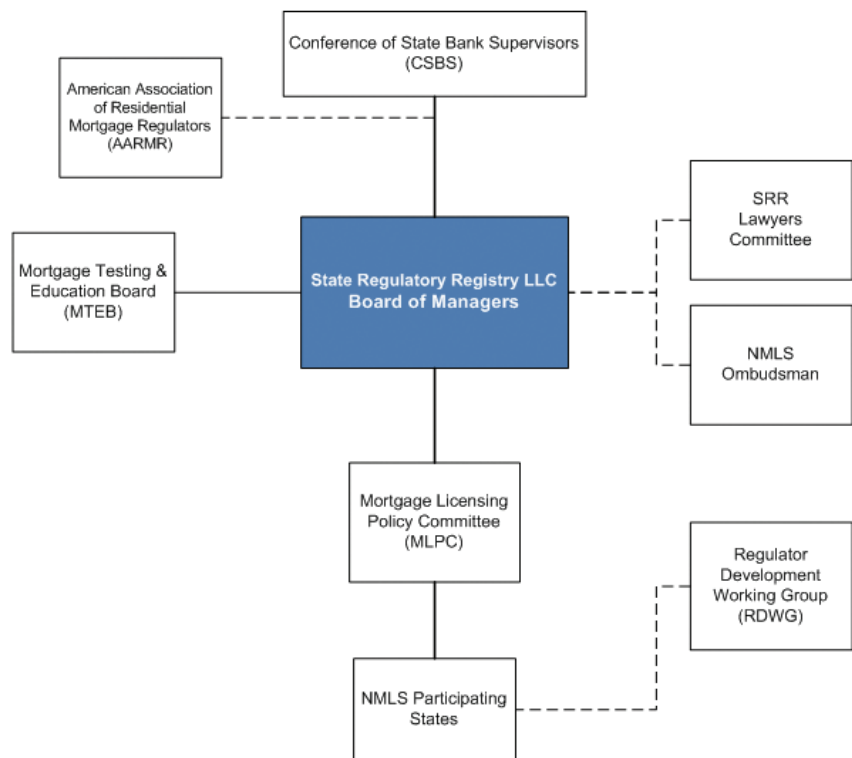
Industry Development Working Group (IDWG)

The IDWG is comprised of NMLS industry users and provides input to SRR staff regarding usage of NMLS. IDWG typically meets monthly to discuss NMLS operations, enhancements, and development issues.

Outlook for 2012

In the coming years, SRR will continue to work closely with state regulatory agencies and industry to provide System enhancements to ensure that both groups receive the optimum benefits available through the use of NMLS. SRR will also implement new functionality that permits states to manage other non-depository financial services licenses on NMLS. In 2010, the CSBS Board of Directors recognized the role NMLS played in bringing consistency, efficiency, and improved supervision to the mortgage industry could be replicated in other non-depository financial services industries. Moving towards a single, coordinated licensing process through NMLS is consistent with both the public interest and the provisions of law regulating consumer financial services industries. Beginning in April 2012, states will be able to utilize NMLS as their system of licensure for all non-depository financial services providers. Throughout 2012, SRR will continue to focus on the expansion of NMLS, regulatory policy issues related to SAFE Act implementation, and working closely with the CFPB on the federal registry.

State Regulatory Registry LLC Organization Chart



CSBS DIVISION REPORTS

Communications Division

Overview

The Communications Division publicizes state regulators' initiatives, successes, and policy positions. This enhances coordination and the profile of state financial supervision, a crucial task during these challenging economic times.

Key Initiatives

CSBS Sets Strategic Goals for 2012

Recognizing the challenges facing the system of state supervision by the existing regulatory and economic environment, the CSBS Board of Directors approved the CSBS strategic plan in December 2011. The Communications Division issued a press release highlighting three of the goals detailed in the plan. CSBS issued the press release not only to publicize the organization's priorities and goals, but also to provide transparency to the industry, federal regulators, Congress, members of the media, and the general public.

CSBS Communications Audit

CSBS retained a consultant, 133 Public Affairs, to conduct a three-month communications audit to survey the organization's internal and external communications efforts. The goal of the audit was to ensure communications are effective, consistent, manageable, and complementary to and supportive of organizational goals. 133 Public Affairs assessed CSBS in three key communication areas: communication strategy, communication practice, and communication support. The audit report made recommendations to improve upon the communication efforts underway. CSBS staff has begun implementation of the recommendations to enhance and clarify our communication efforts to state regulators, federal regulators, members of Congress, the industry, and the media.

Together, the CSBS strategic plan and the audit report will direct CSBS efforts to strengthen the state system of supervision, enhance the profile of state regulators, and preserve the community banking system.

Community Banking Initiatives

The CSBS strategic plan directs CSBS to maintain its central role in both encouraging and maintaining a diverse and competitive banking system and an effective state system of bank supervision and regulation. The Communications Division is contributing to that effort by publicizing initiatives undertaken by the CSBS Community Banking Steering Group. In December 2011, CSBS issued a white paper, titled "Community Banks and Capital," defining the issue of capital formation at community banks and raising the awareness of its importance to the financial system. The white paper, which was completed under the direction of the steering group, detailed several regulatory and statutory challenges inhibiting community banks from obtaining capital, and identified areas for potential solutions to these obstacles.

To publicize the white paper and bring attention to the task force's initiatives, the Communications Division hosted an on-the-record pen and pad session for members of the media to discuss with state financial regulators the health of the community banking system. Louisiana Commissioner and CSBS Chairman John P. Ducrest, Maryland Commissioner Mark Kaufman, and Indiana Deputy Director James M. Cooper spoke on the challenges facing the community banking system and the CSBS white paper on community banks and capital. The pen and pad session, the first of its kind hosted by CSBS, resulted in approximately five articles published by the *American Banker* and helped raise awareness of the challenges community banks may face in raising capital.

CSBS Media Releases

The CSBS Communications Division is responsible not only for publicizing the actions of state regulators and developing media strategies to meet objectives of the CSBS strategic plan, but also with publicizing events occurring at CSBS. Below are some key areas the Communications Division publicized in 2011.

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Communications Division

Depository Supervision Initiatives

The Communications Division publicized several policy positions on regulatory issues throughout 2011. Perhaps the most significant policy position espoused publicly in 2011 was CSBS's position on preemption regulations promulgated by the OCC. CSBS submitted several comment letters and issued several press releases on this topic, expressing objections to the OCC's proposed, and eventually finalized, preemption revisions to the OCC's regulations.

Congressional Testimony

In 2011, state regulators were asked to testify on behalf of CSBS at two Congressional hearings. In April, Louisiana Commissioner and CSBS Chairman John P. Ducrest testified before the Financial Institutions and Consumer Protection Subcommittee of the Senate Committee on Banking, Housing and Urban Affairs on the state of community banking. In his testimony, Chairman Ducrest discussed the critical role community banks play in economic development, addressed the regulatory environment in which community banks operate, identified concerns about the impact of regulations and policies on community banks, and provided recommendations for policymakers aimed at strengthening the community banking system.

In July, Anne Balcer Norton, Deputy Commissioner of the Maryland Office of the Commissioner of Financial Regulation, testified before the Insurance, Housing and Community Opportunity Subcommittee of the House Financial Services Committee on mortgage origination. Deputy Commissioner Norton detailed efforts by state regulators to improve and enhance mortgage regulation to better protect consumers and to strengthen the mortgage market itself, but also to ensure a diverse mortgage industry that supports a variety of business models.

Non-Depository Supervision Initiatives

CSBS issued press releases on several non-depository issues in 2011, including a joint CSBS-AARMR press release announcing the creation of loan originator compensation guidelines by the MMC. The guidelines provide state regulators with a standardized set of procedures for evaluating basic compliance with the Federal Reserve Board's final rules for closed-end credit under Regulation Z.

CSBS and AARMR also issued a press release on a 10-state settlement, in which Mortgage Access Corp., doing business as Weichert Financial Services, agreed to remit a \$3 million penalty. An examination conducted by the MMC found numerous compliance and internal control deficiencies, including the origination or completion of mortgage loan applications by loan originators that were not licensed in the appropriate jurisdictions.

Mortgage Press Releases

SRR and NMLS achieved several significant milestones in 2011, warranting many press releases. Perhaps the most significant announcement was the commencement of the federal registration of MLOs with NMLS in accordance with final rules published by the federal banking agencies and the Farm Credit Administration, ensuring all residential mortgage loan originators would be either state-licensed or federally registered through NMLS.

Another milestone was reached when CSBS and AARMR announced the launch of the NMLS Mortgage Call Report in accordance with the SAFE Act. The launch of the NMLS Mortgage Call Report marked the first standardized information collection for the residential mortgage industry.

Accreditation Press Releases

Throughout the course of the year, CSBS issued press releases announcing when state agencies received certificates of accreditation for either their bank or mortgage regulatory programs. Eight state agencies received certificates of accreditation for their bank regulatory programs in 2011, and five state agencies received accreditation for mortgage regulatory programs.

Internal Announcements

In addition to the changes occurring in financial supervision and among the industry, CSBS experienced its fair share of change in 2011. Neil Milner stepped down as President and CEO of CSBS, and John W.

CSBS DIVISION REPORTS

Communications Division

Ryan took the reins in September and established his senior team, comprised of: Michael L. Stevens, Senior Executive Vice President; William Matthews, Executive Vice President; Thomas Harlow, Executive Vice President of Finance and Administration; and Roger Stromberg, Senior Vice President of Professional Development. Because of these staff and organizational changes, CSBS is well positioned to meet the objectives outlined in the strategic plan.

Outlook for 2012

Looking forward to 2012, the Communications Division will implement recommendations of the communications audit report and the objectives of the CSBS strategic plan. Specific goals will be to provide communication tools for commissioners and their staff, such as talking points, model press releases, and newsletter templates. Staff will develop media strategies for initiatives undertaken by the CSBS Community Banking Steering Group to strengthen and preserve the nation's community banking system. Further, the Communications Division will work closely with the CSBS SRR and Professional Development Divisions to publicize the initiatives undertaken in those areas, such as expansion of NMLS to non-mortgage, non-depository entities and the development of new tools to enhance education of state personnel. Staff will continue to put an emphasis on communication with state regulators to publicize the knowledge, successes, and expertise of state financial regulators.

CSBS DIVISION REPORTS

Bankers Advisory Board

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. The BAB meets three times a year in-person, first in a separate session and then jointly with the full CSBS Board of Directors. The bankers bring their views on the issues of the day from their side of the desk, adding an important industry perspective to the regulators' policy-shaping discussions. The bankers also meet as-needed via conference call.

The CSBS strategic plan focuses on the future of community banking, such as key factors that drive success, perils to the system including regulatory burdens, and parity of treatment in relation to other sectors of the industry. In that regard, the BAB brings an industry perspective to bear, including the realities of balancing costly compliance programs and the need to provide a decent return to shareholders, all while maintaining the essential safety and soundness of the institution.

The members of the BAB provide a voice for the approximately 1,800 banks that voluntarily give CSBS their support each year.

CSBS AND AFFILIATES FINANCIAL PERSPECTIVE

Overview

This Annual Report presents the activities of three separate legal entities: CSBS, SRR, and the CSBS Education Foundation. CSBS is a non-profit, membership organization exempt from federal income tax under section 501(c)(6) 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. However, it is 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 December 31, 2011 was underway, but the final report had not been presented. When available, a copy of the final audit report will be posted on the CSBS website at:

<http://www.csbs.org/about/governance/Pages/CSBSDocuments.aspx>

Outlook

Looking ahead, 2012 is forecast to be the first year in CSBS's new "normal" cycle, as there are no new statutory requirements, licensees, or registrants being mandated on NMLS. CSBS's long-range plan has forecast that a significant reserve is essential in funding the ongoing development and maintenance of NMLS as mandated by the SAFE Act, as well as to prudently position the organization to ensure continued operations in the event of variations in revenue given the cyclical nature of the mortgage industry.

The new normal referred to above speaks to the fact that, in many respects, CSBS and the CSBS Education Foundation will continue to deliver the high quality products and services they have always delivered, but these services are now integrated with the SRR's NMLS products. There are, however, two new programs being launched in 2012 that will have a significant effect on the combined organization's financials. First, SRR is expanding NMLS to allow state regulators to license non-depository financial services providers using NMLS. While the cash flow for development of this new service will be required in 2012, participation by the states is voluntary. Several states have committed to participate in 2012, and others are expected to take advantage of this new opportunity in the coming years.

The second program development for 2012 is the launching by the CSBS Education Foundation of a new online educational platform for the creation and delivery of courses to bank and mortgage regulators. This platform is expected to provide "any-time and anywhere" training. The development of the new platform is made possible by a one million dollar contribution from SRR to the CSBS Education Foundation. SRR made the contribution in 2011, and the CSBS Education Foundation expects to complete development of the platform in 2012.



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