



SINCE 1902

CONFERENCE OF STATE BANK SUPERVISORS

“Insights” from Washington

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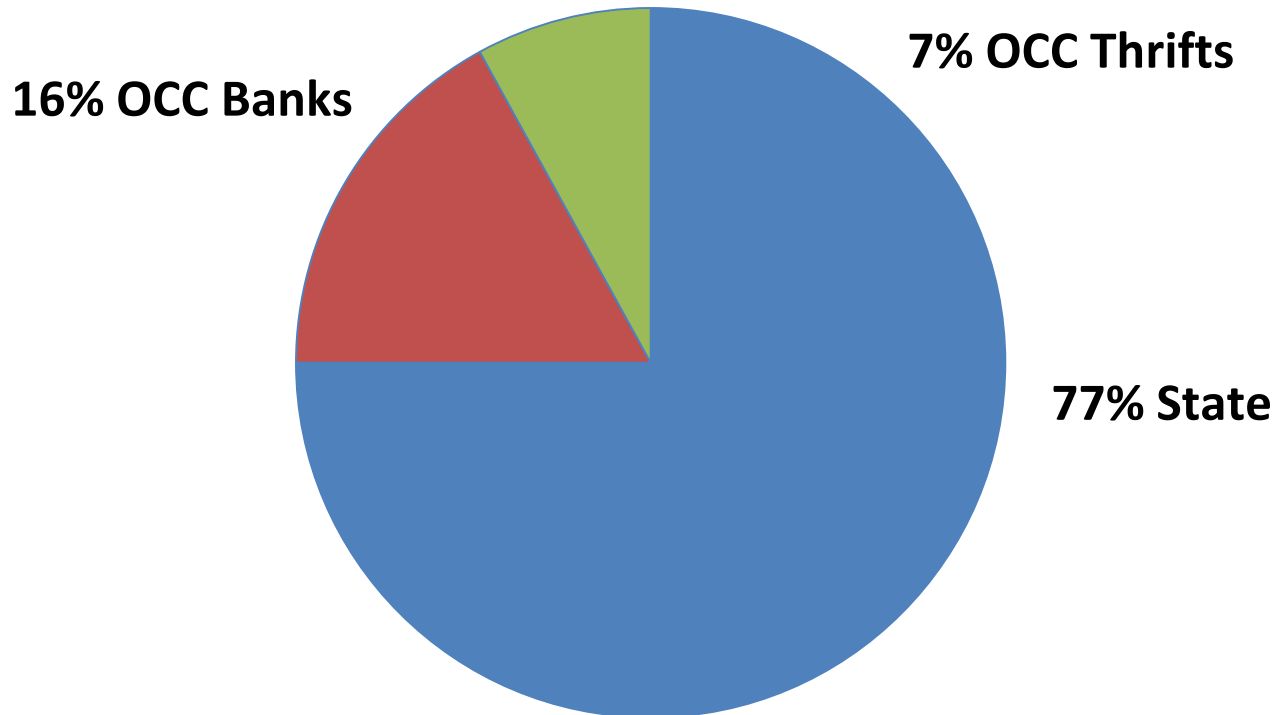
CSBS – Who We Are

- State Banking Regulators' Washington DC “Field Office”
- Legislative and Regulatory Policy Advocacy
- Regulatory Coordination
 - Federal Financial Institutions Examination Council (FFIEC)
 - Financial Stability Oversight Council (FSOC)
- Training
- Accreditation

Agenda

- I. **Industry Composition**
- II. Washington's "New World Order"
- III. Public Policy Outlook

U.S. Charters by Authority



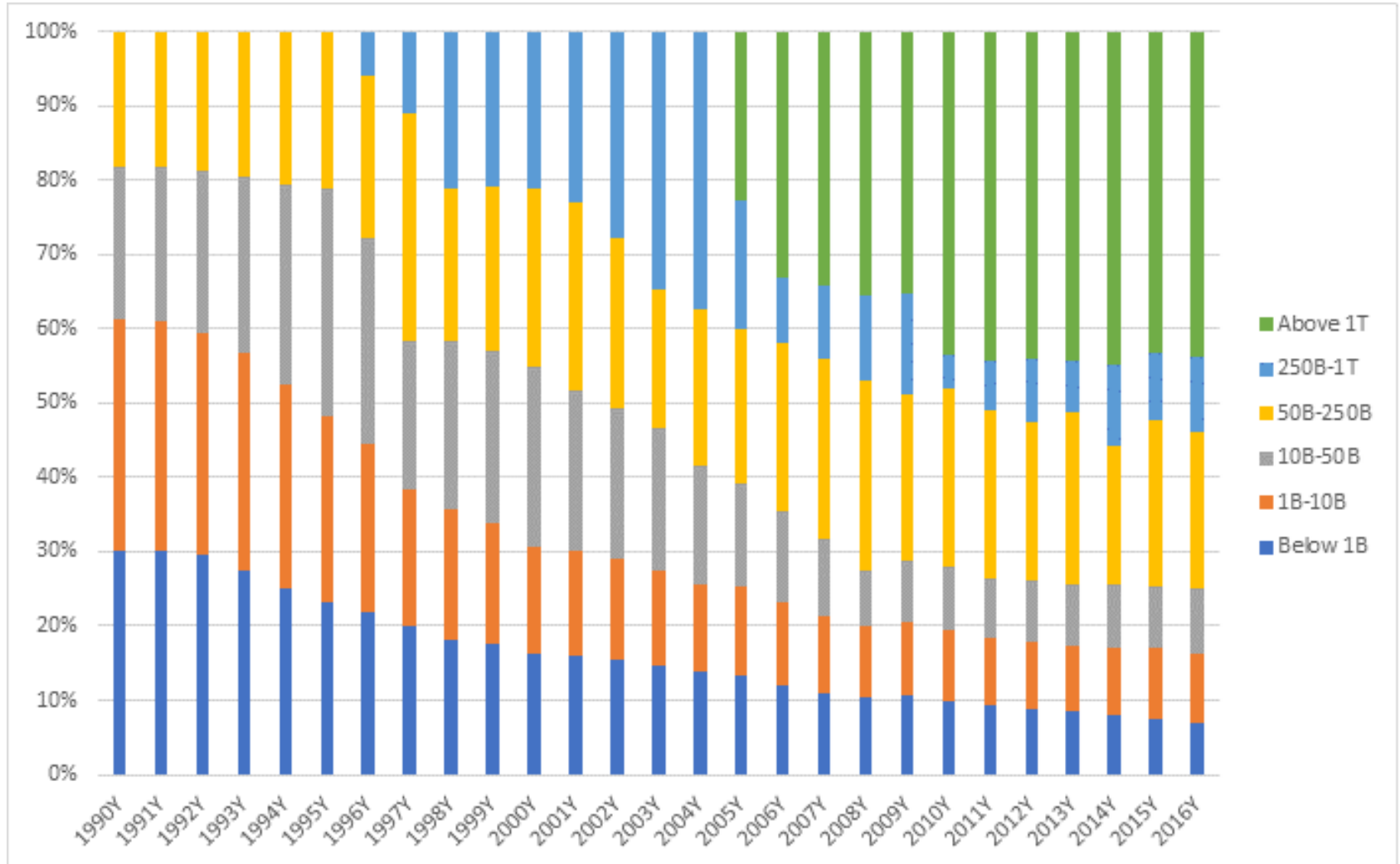
Source: FDIC

- In 1985 there were more than 18,000 active bank charters in the United States.
- Of the **5,989** banks in operation as of Q3 2016, **4,654** (77%) hold a state charter.

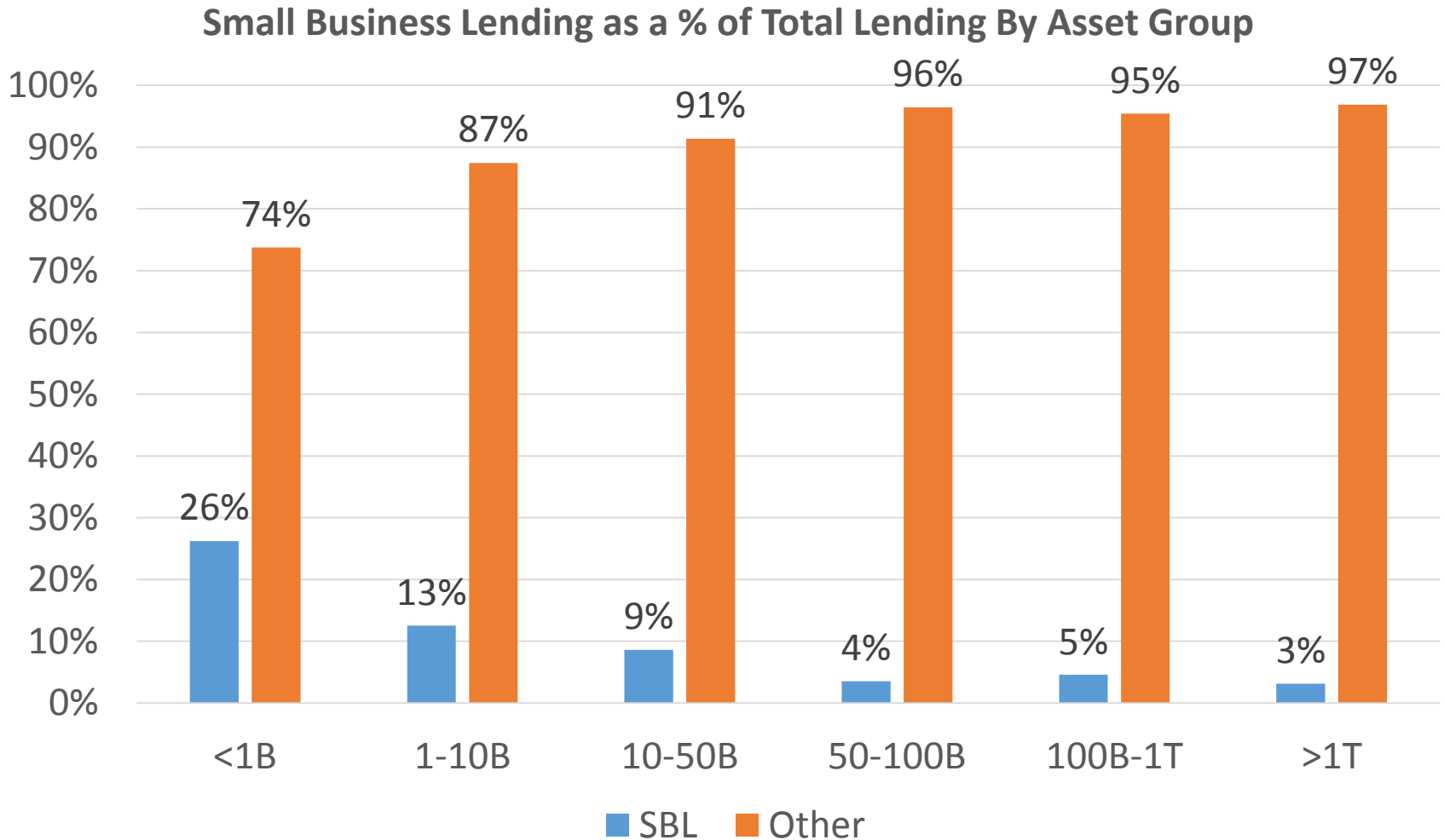
Industry Composition and Concentration

- There are 5,989 FDIC insured banks in operation as of Q3 2016
 - 78 banks left the system in Q3 (202 total YTD) (5 failures YTD)
 - 327 in 2015 (8 failures)
 - Only one recent de novo (Q1 2015)—New Hampshire
- Banks with assets less than \$10 billion control only 18% of total industry assets
- 89% of state chartered institutions have less than \$1 billion in assets
- Approximately 60% of National Bank assets are concentrated in 4 institutions
 - Those four banks hold 41% of total industry assets

Consolidation Impacts Diversity



Small Business Lending as a % of Total Lending by Asset Group



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The Trump Administration

- Donald Trump is the 45th President
- Vice President Mike Pence
 - Oversaw transition
 - Close to House Financial Services Chair Hensarling
- Treasury Secretary Steven Mnuchin
 - Goldman Sachs
 - OneWest
- National Economic Counsel Chair Gary Cohn
 - Goldman Sachs
 - Close to tech industry

115th Congress – Balance of Power

- Republicans lost some seats in the House, but maintain control of both chambers of Congress.
 - House: 238 Republican Seats, 194 Democrat Seats, 4 vacancies
 - Senate: 52 Republican Seats, 46 Democrat Seats, 2 Independent (Caucus with D's)
- Banking Committees—
 - House: Chairman Jeb Hensarling (R-TX); Ranking Member Maxine Waters (D-CA)
 - Senate: Chairman Mike Crapo (ID); Ranking Member Sherrod Brown (OH)

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The Financial Services Agenda

- Nominations
- Repeal/Replace Dodd-Frank
- Flood Insurance
- GSE Reform

Nominations

Agency	Leadership	Term Expires
FDIC	Marty Gruenberg	2017
OCC	Tom Curry	2017
CFPB	Richard Cordray	2018

Federal Reserve Seats

Chair Janet Yellen (Term as Chair ends in 2018) (2024)

Vice Chairman Stanley Fischer (2020) –
Vice Chairmanship ends 2018

Lael Brainard (2026)

Daniel Tarullo (*steps down April 2017*)

Vacancy

Jay Powell (2028)

Vacancy

Executive Order—Core Principles for Regulating the United States Financial System

EXECUTIVE ORDER

CORE PRINCIPLES FOR REGULATING THE UNITED STATES FINANCIAL SYSTEM

By the power vested in me as President by the Constitution and the laws of the United States of America, it is hereby ordered as follows:

Section 1. Policy. It shall be the policy of this Administration to regulate the United States financial system in a manner consistent with the following principles of regulation, which shall be known as the Core Principles:

- (a) empower Americans to make independent financial decisions and informed choices in the marketplace, save for retirement, and build individual wealth;
- (b) prevent taxpayer-funded bailouts;
- (c) foster economic growth and vibrant financial markets through more rigorous regulatory impact analysis that addresses systemic risk and market failures, such as moral hazard and information asymmetry;
- (d) enable American companies to be competitive with foreign firms in domestic and foreign markets;

THE GREAT DE-REGULATION

De-regulation by Executive Order

- 2 for 1
 - For every regulation proposed, identify at least two outdated regulations
 - Costs of new regulations must be offset by savings from eliminating existing regulations
- Core Principles of Financial Regulation
 - Treasury Secretary to consult with regulatory agencies (including state banking regulators) and report
- Implementing Regulatory Reform
 - Federal agencies identify Regulatory Reform Officers and create Regulatory Reform Task Forces
 - Consult with stakeholders, including states
 - Report on progress toward implementing reforms

What to do with Dodd-Frank?

- Repeal or Amend?
- Hot ticket items
 - Financial Stability Oversight Council (FSOC)
 - Authority
 - Process
 - Consumer Financial Protection Bureau (CFPB)
 - Funding
 - Leadership structure
 - Authority
 - \$50 billion threshold for enhanced prudential standards
 - Orderly Liquidation Authority and “Too Big to Fail”
 - Community bank regulatory relief

Financial CHOICE Act

- First introduced in 2016 by HFSC Chair Jeb Hensarling
- Highlights:
 - 10% capital = relief from Basel III Capital and Liquidity Rules
 - Repeal FSOC authority to designate SIFIs
 - Subject all federal financial agencies to appropriations
 - All federal financial agencies led by bipartisan commissions
 - Require congressional pre-approval of regulations
 - Repeal the *Chevron* doctrine
 - Replace “Orderly Liquidation Authority” with enhanced bankruptcy
 - Expand QM Safe Harbor to all loans held in portfolio
 - Repeal DFA Sec 1071 (Small Business Lending Data Collection)

Financial CHOICE Act v 2.0

- Possible changes
 - Capital election no longer requires 1 or 2 CAMELS rating
 - CFPB
 - Single director
 - Shift from supervisory to enforcement agency
 - Repeal the *Chevron* doctrine – deferred for 2 years
 - More stress test relief for larger institutions
 - Codifying “valid when made” doctrine
- New version expected shortly

The Senate and Regulatory Reform

- Financial Regulatory Improvement Act of 2015
 - QM safe harbor for all loans held in portfolio
 - Petition process for CFPB rural designations*
 - Volcker Rule exemption for smaller banks
 - Short-form call report
 - Exam cycle changes for smaller banks*
 - Regional bank priorities
 - Federal reserve reform
 - FSOC reform
- ISO Bipartisan Consensus

* denotes enacted

Right-Sizing Community Bank Regulation

- Rural petition process for the CFPB
- Expanded CFPB Escrow exemptions for rural and underserved areas
- QM Balloon Loans held in portfolio for rural and underserved areas
- Granting relief from Gramm-Leach-Bliley privacy notice requirements
- Increasing from \$500 million to \$1 billion the threshold for well-capitalized banks eligible for an 18-month exam cycle
- More broadly, agency officials talk with more certainty about the difference in how community banks operate and the regulatory approach.

Right-Sizing Community Bank Regulation

- Mortgage Lending Rules
- Call Report Simplification
- Capital Simplification
- TAILOR(ed) Regulation

Federal Understanding of Community Banking Has Been Uneven

- Post-financial crisis, policymakers and regulators focused more on larger banks that present systemic risk
- Appreciation for community banking, but actual understanding of the business model not as strong
- CSBS goal: regulatory regime that enables the financial system to produce positive outcomes more consistently
- CSBS approach: enhance federal understanding of community banking
 - Regulator-to-regulator talks
 - Research

Driving a Better Policy Outcome

- National Survey
- Direct banker engagement
- Community Bank Case Study Competition
- Video Series
- Academic Research

The screenshot shows the website communitybanking.org. The browser address bar displays the URL https://www.commun... and the page title is 'Community Banking - Home'. The website header features the text 'Community Banking in the 21st Century' and 'Research and Policy Conference'. A navigation menu on the left includes links for Home, 2016 Conference, About, Agenda, Papers, Speaker Bios, Video, Research & Analysis, and Conference News. The main content area features a 'Save the Date' announcement for the 'Fifth annual research conference scheduled for October 4 - 5, 2017', which is co-organized by the Federal Reserve and the Conference of State Bank Supervisors (CSBS). Below this, there are sections for 'Conference News' and 'Research & Analysis', with the latter mentioning the 'Dodd-Frank Federal Deposit Insurance Reform'.

communitybanking.org

And the regulators have work to do...

- CFPB:
 - Small Dollar Lending Rule
 - Overdraft
 - Small Business Lending Data Collection
 - Implementation of Expanded HMDA reporting
- Interagency Source of Strength
- Interagency Rulemaking on Automated Valuation Models
- More Cyber tools, standards, and expectations
- CECL Implementation
- 051 Call report

A New Administration Could Alter the Agenda...

- Approach to compliance examinations
- BSA exams and enforcement
- Brokered deposits
- De Novos
- Concentrations
- Mortgage rules
- Appraisal and escrow rules

Also on the “To Do” List

- The Fed – It’s structure and functions
 - Audit
 - Regional Reserve Banks
 - Role in Supervision
- Housing Finance Reform
 - The role of government in the housing finance system
- FinTech
 - Banks and innovation – Friends or Foes
 - State-federal balance in regulation
 - What’s at stake

Financial Services and Innovation – What is “fintech”?

The image shows a screenshot of the Wells Fargo website with several fintech logos overlaid. Red arrows point from these logos to specific services on the website. The logos include: venmo, LendingClub, CoverHound, robinhood, SoFi, ny bank, AVANTCREDIT, Goji, acorns, and CommonBond. The website interface shows a search bar, navigation tabs for Personal, Small Business, and Commercial, and a main menu with Banking, Loans and Credit, Insurance, Investing and Retirement, and Wealth Management. Below the menu is a 'View Your Accounts' section with a login form and a 'Need online access?' link. To the right is a purple banner for 'Act now to get a student loan' with an 'Apply Now' button. At the bottom, there is a navigation bar with icons for Fraud Information Center, Home Lending, Borrowing and Credit, Banking Made Easy, and Retirement. Below the website screenshot are logos for LendingHome, PRIVLO, nerdwallet, Credit Karma, wealthfront, Betterment, and LEARNVEST™.

State Regulators and Financial Innovation

- Study emerging payments and innovation
- Engage with broad range of stakeholders
- Identify connections to and effects on state law and state supervision
- Develop policy perspectives and supervisory structures and tools to
 - Encourage innovation
 - Promote consistent regulatory approaches
 - Maintain safety and soundness, marketplace stability, and consumer protection

Fintech and Public Policy

- Effects on competition
- Effects on marketplace diversity
- Effects on marketplace stability
- Consumer and borrower protections
- Consequences for payment system
- Consequences for tax payers

Questions?