THE YEAR AHEAD

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INTRODUCTION

Good afternoon and thank you for your kind introduction. And thank you to everyone for being here with us in this fabulous city! It is always exciting to be here in Chicago.

And what a wonderful event this is. The CSBS State-Federal Supervisory Forum is such a vital opportunity to engage in open, honest, and frank dialogue with our federal counterparts. We value this gathering for the opportunity it provides us to work together to face the issues that challenge all of us as regulators. Issues such as:

- Promoting a vibrant and diverse banking industry;
- Addressing the concerns of community banks;
- Mitigating emerging challenges like cybersecurity threats; and
- Developing strategies for reaching the unbanked and underbanked.

So thank you all for being here today.

I am honored to be elected to serve as the Chairman of the Conference of State Bank Supervisors for the next year. This is a very special organization and it is a particularly great opportunity to work with John Ryan, Mike Stevens, and all of the CSBS staff who have such enthusiasm for their work.

Also, I'd like to extend a special thank you to Charles Vice for his excellent leadership this past year as Chairman of CSBS. Charles' genuine interest in CSBS and the issues we as state regulators address together through CSBS is infectious. He very ably led our organization through a momentous year full of significant milestones. His will certainly be a tough act to follow.

Charles also led a very engaged Executive Committee, comprised of David Cotney, Charles Cooper, Lauren Kingry, and Greg Gonzales. This Committee demonstrated a willingness to participate and did so thoughtfully. I look forward to working with the new Executive Committee, and welcome new CSBS officer Chuck Dolezal to the Committee.

And while Charles left very big shoes to fill, I am very confident in the future of our organization. The commitment of my peers to CSBS is very encouraging. Through your efforts on the Executive Committee, on the Board, on the many committees, work groups, or task forces, or simply through participating in important forums such as this one, CSBS is a strong and able organization because of the high level of engagement we get from the members. Thank you for your participation.

I want to recognize my husband, Roger, who is here with me this week. We will celebrate our 37th wedding anniversary this summer. Roger has always been a great supporter of my career. He has spent limitless hours helping me throughout all these years doing those day-to-day things you do as your separate careers are beginning and expanding, as you try to balance your work, raise your child, and just deal with life in general. I want to thank him for helping me so much.

I also want to recognize the executive leadership of the Arkansas State Bank Department who are in attendance today. My Deputy Commissioners Luther Guinn and Susannah Marshall. Assistant Deputies Larry Hillyard, Wilks Marshall, Richard Buzbee, and Baker Moseley. My IT Administrator Robert Hughes. My Fiscal Manager Gail Green. And my Executive Assistant Cynthia Nixon. These people are the foundation of our agency. Their average tenure is 32 years with 288 years of experience.

Now really, how many work places can brag any more about excellent employees who care so much about what they do that they spend their life's work doing it? And I thank you each for that.

I recognize this devotion is not exclusive to my agency alone. I know each of you can tell similar stories about your staff. I think this dedication is so apparent in state regulatory agencies because we see the impact of what we do each day. We see the impact the banks and entities we regulate have upon the towns, communities, and citizens of our states. It is absolutely vital work, and it is why we can each boast about having such steadfast, loyal, and passionate staffs.

THE MORE THINGS CHANGE, THE MORE THEY STAY THE SAME

I think another reason we see this kind of dedication and commitment is because state regulation, and therefore CSBS, continues to evolve. Each day brings something different. The main drivers of this evolution or expansion have been technology and the recognition of the vital role state supervision plays in ensuring our financial system is resilient and healthy.

As a result, in the past decade and particularly in the last year, CSBS has become ever more involved in non-depository supervision.

- For instance, the states have expanded their use of NMLS beyond the mortgage industry to include other non-depository financial services providers, such as money services businesses, debt collectors, check cashers, or payday lenders.
- We have established the Emerging Payments Task Force, so ably led by David Cotney, to examine and investigate changes in payment systems to better understand the impact upon consumer protection, state law, and the entities we charter and regulate.
- The CSBS Education Foundation, chaired by Victoria Reider, has expanded our training and education curriculum and partnered with the CFPB to address non-depository areas.
- And CSBS has even re-structured to create the Consumer Protection and Non-Depository Supervision Section to facilitate coordinated supervision in these expanded arenas.

These are each critical initiatives and developments, and we are better regulators and a better organization as a result. For me, my background and the responsibility of my office is primarily bank supervision. My role at CSBS, however, has increased my awareness of the importance of state supervision of non-bank mortgage providers and other non-depository entities. However, as much as things change each day and as state regulators and CSBS take on new initiatives, it is important to remember that the basic principles of bank supervision and regulation are applicable to the other arenas in which we engage.

The Arkansas State Bank Department celebrated our centennial in 2013. When Arkansas's first bank commissioner, John McKissick Davis, opened the doors of the department, it is unlikely he could have predicted that 100 years later, a customer could deposit a check in a bank thousands of miles away with a swipe of their finger across a mobile phone. Like Commissioner Davis, I too am subject to the limits of foresight. I don't know what the Department, the industry, or supervision will be like 100 years from today.

But there are certain principles that stand the test of time. One can only assume that the banking industry 100 years from now will continue to require prudent, proactive management of risk. And if prudent, proactive management of risk continues to be a gold template for banks in 100 years, then bank regulators will need to continue to exercise prudent, proactive supervision, which includes anticipating emerging risks before they become systemic.

Identifying emerging risks in the banking system 100 years from now likely will be more challenging than it is today, especially if those risks are driven by technology. The pace of technological innovation has accelerated sharply in the last quarter century. In our industry, this trend perhaps has been most evident in the 21st century transformation of delivery channels and payment systems. If the pace of innovation and its application to banking do not slow, then staying out in front of the risks created by utilization of new technologies could be difficult for banks and their regulators. Bank supervisors will need to be adaptable and nimble to meet this challenge successfully.

We must also seek to preserve a diverse and dynamic banking industry. The community bank model is critical to preserving this diversity. For the past few years, preserving and enhancing the community banking system has been an organizational priority of CSBS. And as I reflect upon our industry in 100 years, I can't help but wonder what the financial services industry will look like 100 years from now.

I believe we will continue to have a thriving community banking sector, but sustaining the viability of the community bank business model will require community banks to capitalize on their greatest strength – an intimate knowledge of their customers and markets – while at the same time using the same product and service technologies offered by bigger banks to attract and retain younger customers.

As a state bank supervisor, I think our response to sustain the viability of the community bank model for the next 100 years will not have to vary much from what it is today:

- To serve as a regulator and as an advocate;
- To foster prudent innovation by our banks; and
- To optimize – not maximize – regulatory requirements.

I do foresee our continuing footprint in 100 years, but that footprint must be able to change direction at a moment's notice to meet the fast-paced challenges of the future.

So while many things will undoubtedly change dramatically in the next 100 years, not to mention the next year, there remain core principles to guide us. I for one will bear in mind the three "Bs" during my tenure as CSBS Chairman:

- Basics;
- Business; and
- Balance.

BASICS

The world is evolving and changing at a dizzying rate. It is nearly impossible to keep pace.

Many of us in this room have been regulators for a number of years. I think a lot of us have been regulators longer than we care to admit. Over those years (or those decades), the scope of supervision, the tools of supervision, and the pace of supervision have changed.

Yet, in spite of the rapid evolution, we must not lose sight of the core basics of what we as regulators do and what we're trying to achieve. And regardless of the changes in the scope, tools, and pace of supervision, the basics of supervision have changed very little.

Our goals and objectives of supervision – to create a sound financial services industry – are still the same. I believe a sound financial services industry means a diverse industry. One marked by banks and providers of all sizes, shapes, locations, and business models. This diversity makes credit available in all corners of our country and across the globe. It also makes our financial system and economy more resilient, as it guarantees the flow of credit in good times and bad.

Unfortunately, this diversity is currently under threat. The number of banks over the years has continued to shrink, while consolidation of assets has grown. In an industry with nearly 7,000 banks, the four largest banks hold 41 percent of total system assets. This is clearly not consistent with a diverse industry. From a public policy perspective, we must determine if this type of consolidation is in our nation's best interest.

After all, a diverse industry remains key for economic development and growth. For instance, despite their smaller size and market footprint, community banks play an outsized role in small business lending. Despite holding less than 10 percent of total industry assets, community banks accounted for 36 percent of total small business lending in 2013. In turn, it is these small businesses that drive economic growth in local, state, and national economies.

Financial supervision should also protect consumers and preserve consumer confidence in the industry. The stability of our economy relies upon consumer confidence and their ability to access credit. If consumers do not trust banks, or financial oversight to make them whole in the event of abuse, the strength of our economy suffers. By and large, most banks have aligned incentives with their consumers. Particularly for banks that portfolio loans, it is in the bank's best interest to make an affordable loan the customer can repay. Yes, there are always bad actors and we must be vigilant to protect consumers. But I caution against letting the pendulum swing too far toward becoming adversaries of the entities we regulate.

So in spite of the constantly evolving technology, despite the emergence of new players like bitcoin, despite the dizzying pace and the constant onslaught of information we must process, the basics of what we do and what we are trying to achieve remain the same.

They will guide us as we also evolve to meet the changes and the challenges we face. We should embrace technology, embrace new information, and embrace the emergence of new players to ensure we are adequately addressing the risks and understanding the ramifications of the ongoing evolution.

But no matter the channel, the forum, or the tools we and the industry use, we must seek to protect consumers, ensure safety and soundness, and enable economic development. These basic goals will guide us.

BUSINESS

The second "B" I will focus on as Chairman stands for "business."

I want to focus on how we conduct the business of financial supervision. We as regulators must take it upon ourselves to provide the best possible regulation for the entities we charter and supervise.

We should be cognizant of the impact our rules, regulations, guidance documents, and examinations have upon the industry. Our examiners must be well-trained and well-informed. We must coordinate our efforts with our federal partners.

This is why we issued a white paper on right-sized regulations that support the community banking business model to identify successes the federal regulators have had in tailoring regulation, and encouraging them to keep at it.

This is why we have engaged resources to hold the community banking research conference with the Federal Reserve.

It is why we are enhancing training and professional development programs and techniques.

It is why we continue to make enhancements to NMLS.

It is why we have created task forces and work groups such as the Emerging Payments Task Force, the Multi-State Mortgage Committee, the Multi-State MSB Examination Task Force, the State Coordinating Committee, and the Risk ID Work Group to better identify and understand emerging trends and threats, and to better coordinate our supervision amongst ourselves and with our federal partners.

This is a short list in the litany of initiatives we have underway through CSBS to enhance the way we do business as regulators.

During my term as Chairman, such initiatives will remain a priority as we seek to optimize the quality of supervision.

Business, of course, also refers to how banks and financial services conduct their business.

As supervisors, we must bear in mind that banks and financial services providers are not charities. They do not operate solely for the benefit of the customer or the public. Many financial services providers *do* act in charitable ways and give back in concrete ways to their communities. But they also are businesses and must turn a profit in order to survive and serve their customers.

BALANCE

Which brings me to my third, and final, "B." And this is one I'm borrowing from Greg Gonzales: Balance. Greg made achieving regulatory balance the key focus of his tenure as CSBS Chairman, and I think it is a core principle to continue emphasizing.

Among their many roles, our bankers and other financial services providers are risk managers. Each day, a financial services provider makes choices and seeks to mitigate risk. As regulators, we cannot – and should not – regulate the risk out of the industry.

Instead, we must create a responsive and agile supervisory structure that allows them to make money, and enables their customers to make money. *Our* job is to ensure that regulated entities are effectively managing their risks and protecting the consumer, then just step out of the way and let them do their job.

I also believe policymakers have a responsibility to ensure the industry operates under fair rules which allow for fair competition. Currently, we have certain entities that enjoy an unfair advantage over the rest of the industry.

Unfortunately, "too big to fail" remains unresolved. The Dodd-Frank Act did much to increase the cost of being too big to fail and increased the government's understanding of these firms. At the same time, the biggest banks have only gotten bigger since the financial crisis. These institutions benefit from the public perception of an implicit government guarantee. Due to their large market share, they are often able to beat competitors based upon price. They enjoy access to cheaper funding channels. In fact, according to a report by the International Monetary Fund, implicit government support of global systemically important banks is valued at up to $70 billion in the United States. Also, banks with $10-$50 billion in assets have reported the highest Return on Average Assets (ROAA) over the past three years. While community banks continue to heal, they currently lag in recovery of ROAA compared to larger banks.

Amazingly, in spite of these advantages, community banks have continued to survive. Yes, the trend of consolidation is troubling. But community banks simply won't go away. I don't think this is because of quaint old notions about the community bank on the corner. After all, record stores, corner drug stores, and plenty of mom-and-pop shops have been overtaken by the Apple iPhone, CVS, Target, or shopping malls. And while I think many of us do know George Baily-type bankers in our state, community and regional banks survive because they provide true value to our citizens, our communities, and our states.

And I have some hard data to back these claims up.

- Banks with less than $1 billion in assets have consistently reported the highest levels of core capital. Community banks increased capital during years of high economic growth, which left them in a better position to survive the financial crisis than larger banks. In fact, during the financial crisis, when the largest banks all but ceased lending to preserve capital and survive, community and regional banks maintained the flow of credit and kept the economy from complete collapse.

- As mentioned before, community banks continue to have an outsized role in providing small businesses with credit and banking services. Banks with less than $1 billion in assets allocate 28% of their total loan portfolios to small business loans. Banks with over $1 trillion in assets allocate only THREE percent of their portfolios to small business loans.
- Community banks also outpace their larger counterparts with regards to 1-4 family loans held in portfolio. As of year-end 2013, over 19% of the total assets of banks with less than $1 billion in assets were residential loans held in portfolio. Residential loans accounted for 12% of the assets of banks with $100 billion to $1 trillion in assets, and 16% of the assets of the four largest institutions (JP Morgan, Bank of America, Wells Fargo, and Citibank).

While these are positive metrics and indicators, we must continue to advocate aggressively for the community banking model and seek a balanced system of supervision and financial policy, and ultimately a balanced industry.

AREAS TO PAY ATTENTION TO IN THE COMING YEAR

We have certainly accomplished much in recent years, but there is much more work to do. The three "Bs" will guide me as Chairman as we take on the year ahead.

For instance, while indicators show our overall economy is improving, the industry continues to fully emerge from the recession at an inconsistent pace. And despite the improving indicators, we continue to hear from bankers about how the economic and regulatory environment has altered the way they do business and serve their customers.

Even with a stronger and healthier industry, it is always difficult to predict or anticipate the next crisis. Could an agriculture bubble be forming? Or is Commercial Real Estate the next shoe to drop, again? I know most of us in this room are focused on the threats posed by cybersecurity. Not only the actual threat of being hacked, or of a DDOS-style attack, but also the risks posed by over-reliance upon third-party servicers who are charged with protecting banks or customers.

Ultimately, our goal cannot be to regulate to prevent the last crisis, and we cannot rest upon our laurels and declare “mission accomplished” when the industry fully returns to health. We must continue to evolve and improve our system of supervision to ensure a resilient, dynamic, and nimble industry.

In many ways, we have gained tremendous traction among policymakers and won some incredible successes. For instance, we have a seat on the Financial Stability Oversight Council, where we are very well represented by John Ducrest. The Dodd-Frank Act not only preserved state supervision, but actually enhanced it. NMLS has become a part of the fabric of mortgage supervision and critical to the functioning of the mortgage market. Our education programs are using state-of-the-art technology to be accessible anywhere and anytime.

But we must continue to change the dialogue in Washington to level the playing field between the biggest banks and community banks, to discourage "one-size-fits-all" regulations and to convey the importance of a diverse banking industry. To that end, I applaud the FDIC for getting the ball rolling with their December 2012 Community Banking Study. And the work we have done with the Federal Reserve to launch the Community Banking Research Conference has been vital to educating policymakers on the importance community banks play in our economy. These efforts have already done much to create better financial policy. It is certainly my hope that efforts like these continue to do so.

CONCLUSION / CALL TO ACTION

So how do we continue the upward trajectory we are currently on, thanks in no small part to some of the talented past Chairmen we have in attendance here today.

I will focus on the three “Bs:” I will remember the *basic* goals and objectives of supervision, regardless of evolving technologies; I will work to improve the way we conduct the *business* of supervision to ensure we achieve a *balanced* approach to enable the entities we supervise to contribute to the stability and resiliency of the economy.

We all strive to be the best possible regulators we can be. Through better training and education, through better coordination, through better dialogue with the industry and our elected representatives, through better research, and through better technology.

When John Ducrest gave this speech in Seattle, he indicated preserving the viability of the dual-banking system would be his priority as Chairman. Greg Gonzales used this speech in Savannah to encourage state and federal regulators to seek balance in their supervision. And last year in Nashville Charles Vice used this speech to encourage us to participate in CSBS.

My predecessors and my peers have set us on a tremendous path. In the past few years alone we have tackled some incredible issues and achieved some remarkable successes.

Like John, Greg, and Charles, I will need your help to sustain this progress.

We continue to face evolving technologies, new threats, tremendous innovations, and novel tools. As the pace of change continues to increase, we will be able to stay ahead by embracing change that adds value, while staying fast to the three Bs: the basics, the business of supervision, and balanced supervision.

I'd like to conclude with some observations Arkansas Commissioner W.T. Maxwell wrote to a bank's board of directors in April 1920 on how a bank should conduct its business. It seems to get to the three Bs I've mentioned here today, and also seems to resonate as we face such drastic changes in our world and our industry.

Commissioner Maxwell wrote that:

> A careful reading of and a fair interpretation of the signs of the times warrant the preparation and delivery of this letter. The most forceful words in modern business are DELIBERATION, PRUDENCE, CAUTION.
>
> Your bank is open and doing business. The way to have it so, is to keep it so.
>
> Business enterprises do not operate automatically; sane, positive, intelligent direction is indispensable.

> Banks do not operate for a day or season, they are considered a permanent community enterprise.
>
> The banker is debtor to the depositor, and must guard well his trust.

What a wonderful articulation of how the core principles of our business have changed little over time.

Thank you very much. I very much look forward to the coming year and working with each of you to build upon our past achievements and seek out new successes.