



SINCE 1902

CONFERENCE OF STATE BANK SUPERVISORS

## CSBS YEAR IN REVIEW

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### OUTLINE

#### INTRODUCTION AND WELCOME

Thank you for that kind introduction.

It is my privilege to welcome each of you to the CSBS State-Federal Supervisory Forum.

And to welcome you to Tennessee. I hope that you are enjoying Nashville. This city is enjoying a great deal of publicity lately, and *The New York Times* called Nashville the new “it” city with so much creativity and good things happening here. Nashville was also named one of the top 5 cities in the world to visit in 2013. So enjoy yourself and come back again.

I want to say what an honor it has been to be Chairman of the Conference of State Bank Supervisors over the last year. It has been a great experience for me and I want to talk a bit about that today.

I am also honored to represent my home state of Tennessee and the talented men and women who work at the Department of Financial Institutions. If it weren't for that dedicated and capable team, I could not participate so fully in CSBS activities.

I am honored to have led my fellow state regulators, who work hard each and every day, striving to ensure a safe and flourishing financial industry for their state and for the nation.

I am honored to have further built relationships with my federal counterparts, with whom I have had receptive and constructive dialogues.

Events such as this are so very important for us to maintain the positive and beneficial relationships we have built over the years.

This forum provides us with the opportunity to engage in open, honest, and constructive dialogue regarding supervision, consumer protection, the state of the industry and economy, and our future goals. I truly believe coordination among regulators has never been better than it is right now.

We have made tremendous progress, yet we can do even more. I challenge everyone in this room to continue to build upon and further the relationships we have with one another.

Some of you may know that I am quite a baseball fan. This is a passion I share with some of you in this room. I know Chairman Gruenberg and I certainly enjoyed talking baseball this year. Comptroller Curry showed me a prized bat when I visited him some time ago. I got a positive reaction from Chairman Bernanke in March when I mentioned baseball to him.

So I have found baseball to be something that just brings people together. Baseball relies on individual achievement within the team concept. Think about it for a moment.

At the plate a batter seeks individual achievement and his teammates want him to succeed, but in the field you are part of a team. You catch, throw, and hustle. If the team doesn't field then each player does not amount to much. The team suffers. So what do the players think when they hit the field? I am out there for myself? No, I am there for the team because I only win if the team wins.

That's why I love baseball. You can strive for individual accomplishment, but ultimately you have to be part of a team to succeed. That is true in life and I know that it is true in our regulatory efforts.

I think that's a good metaphor for CSBS. Through CSBS, you still are autonomous and can achieve individual success. We celebrate when individual agencies accomplish great things for their citizens and for their institutions. We recognize the sovereignty and laws of each individual state and agency.

But there are times and issues where we put our individual states needs within the context of the entire system for the good of the country. When we work together, when we act as a team, that's when we can achieve some remarkable things. That's when we can make an impact. That's when we get somewhere.

#### YEAR IN REVIEW AND ACCOMPLISHMENTS

To that end, CSBS has enjoyed some remarkable achievements over the past year. It is not about me or some small group of folks. These successes are a result of us coming together as a team.

Let me mention briefly just a few highlights.

- Revised and enhanced comprehensive Strategic Plan which clearly states our vision, mission, and guiding values and outlines our primary goals. This multi-year plan will guide staff and members for years to come. The plan instructs us to:
  - Maintain and encourage a diverse and competitive banking system and effective state supervision;
  - Minimize financial, geographic, and frequency barriers to high-quality training;
  - Maintain the states' central role in non-depository supervision.
  - Provide a central message for CSBS and members which promotes states supervision and advocates our views.
  - Assist states in meeting their IT needs in areas of supervision, education, and IT best practices.
- Enhancing state bank supervision.
  - Accreditation process is ongoing.
  - Education and professional development. Working on measures to provide better schools at lower cost.
  - Examination Tools Suite (ETS) initiative to update exam tools we use each day.
  - Corporate Account Takeover best practices and guidance.
- Non-depository supervision.
  - NMLS enhancements this year have included expansion to other license types and launch of the uniform state test.
  - The Multi-State Mortgage Committee (MMC) is building its tools, using Limited Scope Electronic exam tool and launched a website.
  - CSBS-AARMR mortgage accreditation continues.
  - And we're doing a lot of work for other non-depositories, particularly MSBs with the MSB Protocol and Agreement and the creation of the MMET.

But the ultimate highlight is our work on community banking and let me spend just a few minutes on that.

I have been involved in financial regulation for over 25 years now. And in that time, I have seen the banking industry shrink in number and watched as the bigger banks keep getting bigger. Our friends at the FDIC issued a terrific report on community banking in December. According to that report, in 1984 we had nearly 18,000 banks in the nation. As of year-end 2012, there were approximately 7,100. That is a shocking decline in the number of banks. But it's not only the number of banks that concerns me, but the size of the remaining banks.

There are 19 banks in the U.S. with assets over \$100 billion. These 19 banks make up only 0.3 percent of the total number of banks in the country, but they hold 60 percent of total system assets! The four largest banks control 40 percent of total bank deposits! In 1985, the average big bank was 12 times larger than the average community bank. By 2010, the average big bank was 64 times larger than the average community bank.

It's shocking to me that the very institutions that were considered too big to fail at the onset of the Great Recession are bigger today, even after the crisis and the passage of the Dodd-Frank Act.

True, there are some who like this trend. They think our country would be better off with a handful of huge banks operating around the globe, and supervised by a single federal regulatory agency.

But those of us here today understand that community banks matter. This consolidation most likely alarms you as much as it does me.

It's what inspired the FDIC to conduct such an extensive study to understand what was happening in the marketplace.

It's what led the Federal Reserve to partner with CSBS to host a conference of community banking and to encourage research in this area.

It's why CSBS formed a Community Banking Steering Group and identified encouraging industry diversity as an organizational priority.

And it's why we're all here today.

Because we know that community banks matter. That they play a critical role in economic development, job creation, and market stabilization.

As a result, state regulators, though CSBS, have stepped up our efforts to advocate on behalf of the community bank model and industry diversity. This goal cuts across many divisions within CSBS and across many work streams. State regulators believe federal policy must take an accommodative approach, recognizing the unique characteristics of community banks and tailoring policy, instead of implementing one-size-fits-all solutions.

To that end, CSBS weighed in on several policy issues this year, including the Volcker Rule, enhanced prudential standards, and stress testing requirements. But the single most significant policy issue of my chairmanship has been the Basel III and Standardized Approach proposals.

As a regulator, I support efforts to improve the level and quality of minimum required capital standards. However, I have serious concerns regarding the federal banking agencies' proposed approach to implementing the rules. If enacted as proposed, the Basel III and Standardized Approach rules would affect the behavior and business decisions of community banks in a manner that would further delay our economic recovery, stifle job growth, and ultimately weaken the banking industry.

Ultimately, this is all about job creation and economic development. And if implemented as currently drafted, I fear the Basel III and Standardized Approach rules would have a significant

and negative impact upon credit availability and economic development at the local, state, and national levels.

To that end, I issued a public statement opposing the proposals. CSBS also filed comment letters to the federal banking agencies opposing the proposals, and I testified before Congress on the proposals.

The Community Banking Steering Group—chaired by Jim Cooper of Indiana—also continued its work this past year. The group engaged in a number of initiatives, including defining “community bank,” which is harder than you think, and developing a series of recent opinion pieces on issues impacting community banks.

We’ve done good work on this goal and have made some progress. But more must be done. Community banks are operating in a very challenging environment.

- Capital is difficult to attract.
- Negativity around the industry and demographic shifts are impacting the flow of human capital in parts of the country.
- Economic, regulatory, and political uncertainty affects the business approach of banks and their customers.

Community bankers across Tennessee often ask me whether national policymakers can do more for community banks. Community bankers appreciate the kind words coming out of D.C., but they are looking for tangible evidence of tailored and pragmatic regulation and expectations for the community bank model.

Regulation is often driven by and geared to the “too big to fail” banks, but regulations shouldn’t be one-size-fits-all. After all, a community bank serving the needs of Murfreesboro, TN should not be subject to all the same rules and requirements as JPMorgan.

Let me say something to my federal colleagues.

I think you all, as well as state regulators, stand at the crossroads of a great and historic opportunity. Through the community bank initiatives that so many of you are engaged in, I sense hope and expectation from community bankers that federal agencies are serious about trying to tailor regulation to the community bank model.

To my federal colleagues, I want to say thank you for the courage you have displayed to open up this honest dialogue regardless of where it might go and we as state regulators stand ready to work with you to help us all realize a regulatory system that values and recognizes the importance of the community bank model.

We think this is an effort that is critical to thousands of communities and neighborhoods throughout the country as well as to the welfare of millions of citizens who depend on community banks.

Certainly the time for action is now and we commend you for your courage and leadership.

## OBSERVATIONS

You get out of CSBS what you put into it. Obviously, we're all very busy with our day jobs. But the more you can participate in CSBS calls, meetings, and events, the more you will directly benefit. Everyone one of us has goals that we lay out for our state, for our departments, for our industry and citizens. CSBS has been a great platform to make things happen on critical issues for all of us that very few of us could ever impact individually.

Bankers of Tennessee have a different view of CSBS now that I have been Chairman. Not because of me. But because of the team. Because they have had a close-up view of what CSBS means to the system and to the operation of community banks. They understand the purpose of the organization and how it makes supervision better and more efficient, how we're fighting to preserve the community banking system.

You don't need to be Chairman to make a difference and be a leader, though. Joe Smith first encouraged me to get active and participate on the board, and I in turn want to encourage each of you. I may not be the dynamic fiery leader that Joe Smith is, but that is what makes every year interesting at CSBS. Each chairman brings his or her own style and what I appreciated was how the CSBS staff adapts to each personality and style. Granted they probably don't see many chairmen like me, but we made it work and I am grateful to the professional staff that we have at CSBS. One of the things I tried to do was to encourage some of you in the great work you are doing because sometimes a little encouragement is all folks need to do great things.

I said last May that I ask our examiners to just call it as they see it and have the courage to do so, because unfortunately in this environment it does take courage sometimes to make certain calls in the field.

I also call on us as supervisors to have the wisdom and courage to trust our examiners' judgment. I think the key to finding balance between safety and soundness and economic development is not in more and more one-size-fits-all laws and regulations, but in exam judgments that we all make. It is in those judgments that we understand the reality of the industry bank-by-bank-by-bank. Lately, I have been saying to Tennessee bankers that the greatest tool for economic development that our department can offer Tennessee is the bank examiner. That may sound odd to bankers initially, but they get it. They understand that examiners are the contrast to more and more one-size-fits-all regulation that does not necessarily distinguish between those banks that are well managed versus those that are not.

## CONCLUSION

I want to challenge my state colleagues. Every one of you in this room is capable of leading this organization and achieving tremendous accomplishments for CSBS and the system as a whole. I understand there are those that say why take the risk and stick your neck out. I have enough critics now. But in response to that, I think about the quote of Theodore Roosevelt that has shaped my personal views and actions. He essentially said that it is not the critic who sits on the sideline that counts. It is not the critic who tells the doer of deeds how imperfect he is that gets the credit, but rather it is the person who is actually in the arena that counts. The person who is making the effort and tries to make a difference. The person who is scarred and bloody from battles.

Who expends himself for a great cause which is bigger than himself. Who in the end may know the great thrill of victory and personal achievement or on the other hand, if he fails at least fails while daring greatly so that his place will never be with those cold and timid souls who know neither victory nor defeat.

These are words of encouragement to me and I encourage all of you to be in the arena.

I congratulate Charles Vice as our new Chairman for his willingness to enter this arena and let's rally behind him and help him just like you helped me.

There is so much work still to be done. We must continue to seek out balanced supervision that allows financial institutions to serve customers safely and contribute to economic development. We need pragmatic, real-world, common-sense judgment mixed with big-picture, long-term thinking. The only way for us to do that is to work together, state and federal regulators alike.

Let no one be critical of those who are willing to enter the arena, step up to the plate, and swing for the fences to gain that individual achievement. But know it is all in service to the team as a whole. It is in service to the state system. To our regulated entities. To our communities. To our citizens. To our country.

And just as in baseball, we can't achieve these things alone. So I'll end this speech and my chairmanship by calling upon each of you in this room. Strive for individual accomplishment and be great. But field, throw, hustle and work together for the good of the team.

Thank you.