

**THE YEAR AHEAD
GREG GONZALES
COMMISSIONER, TENNESSEE DEPARTMENT OF FINANCIAL INSTITUTIONS
CHAIRMAN, CONFERENCE OF STATE BANK SUPERVISORS, 2012-2013**

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INTRODUCTION

Good afternoon, and thank you for that kind introduction. And thank you for attending the CSBS State-Federal Supervisory Forum. I would like to thank Rob Braswell of Georgia for hosting us in this historic city and his wonderful state.

I am honored to be the Chairman of the Conference of State Bank Supervisors for the next year, and I would like to recognize some people before I get into my remarks today.

Over the last year and a half, we have seen change and transition at CSBS, but we were fortunate to have steady hands at the helm. Please join me in saying thanks to a great chairman and a great friend, John Ducrest. And thank you also to John's wife, Becky, for letting us have so much of your husband's time and attention.

In that vein, I would like to also recognize John Ryan and the entire CSBS staff for the work that they do to support state banking departments and coordinated regulation.

On a personal note, my wife Lori is with me. We met at the University of Tennessee and at church nearly 30 years ago, and I appreciate the love and support she has given to me over the years that have allowed me to be at the Tennessee Department. I want to recognize and thank her.

I have a number of the senior leadership of our bank division here today. I owe a great deal to them for the excellent work they have done for many years in supervising banks in a balanced way, and I thank all of you.

Finally, I must ultimately thank God for His many blessings and for how He sustains us in so many ways.

WHAT'S HAPPENING IN TENNESSEE

Today, I want to highlight some of the things that we at CSBS will be focusing on over the coming months and during my tenure as Chairman. But first let me set the stage by talking about our experience in Tennessee to give you a sense of our regulatory background.

I have been with the Tennessee Department for nearly 26 years, and – along with my colleagues – have experienced a lot during that time.

The Tennessee Banking Act establishes our regulatory philosophy by stating that we are to ensure a safe and sound system of state banks and restrict their activities to the extent necessary to protect depositors. But it also calls on us to encourage the development of state banks, allow for the exercise of business judgment, and permit banks the opportunity to contribute to the economic progress of Tennessee and the nation. Thus, by law we are mandated to find a balance in regulation.

Last year, Tennessee Governor Bill Haslam asked every state agency to engage in a top-to-bottom review. In that review, the Governor asked members of the cabinet to determine whether the missions of our agencies were still appropriate and if we could find ways to meet our mission more effectively, while possibly reducing cost. Governor Haslam had already determined that he wanted Tennessee to be a top state for well-paying jobs, and our Department reviewed our mission to see how we could better align with the Governor's goals.

After considerable discussion with department staff, with state banks, and with other institutions, we determined that our mission was not only still relevant, but was vital to meet the Governor's goals for Tennessee's economy.

In our judgment, we must do our best to achieve the regulatory balance I mentioned earlier. If we are too lax in establishing safety and soundness standards, we could allow an industry to develop that might not be fully capable of serving the people of Tennessee. Conversely, if we are overly aggressive on those banks that do not warrant it, we could inhibit healthy and well-managed banks from serving their customers. Thus, we need to do the best we can to tailor our regulation and not arbitrarily impose a one-size-fits-all model of supervision.

To that end, I have asked our examiners to simply call it as they see it on exams. I have told our examiners not to worry about later criticism, politics, or anything else. That is my responsibility. I just want to know their unfiltered view of the condition of banks, and I am grateful for the competence and professionalism they have shown. I believe that our examiners are great examples of the state regulatory system as a whole.

In recent years, many banks were downgraded, appropriately so. But I am glad that we are seeing more upgrades over the last year. Further, I am pleased that our examiners have the courage to recognize improvement. Unfortunately, in today's regulatory environment, it does take courage sometimes to argue for that upgrade.

Supporting our examiner workforce is one of our stated goals to the Governor. However, this goal really leads to our primary goal, which is to explore ways to put institutions in as good of a position as possible to serve the people of Tennessee.

This is important to us in Tennessee, and I am sure to all states. As the nation's economy continues its slow recovery from the Great Recession, it is critical that we, as state and federal regulators, continue to discuss the condition of the financial industry, our shared supervision, emerging trends and threats, and the future of financial supervision in the United States in order to tailor regulation appropriately for community banks.

PRIORITIES AND KEY THEMES FOR 2012

Thanks to our strategic plan and the able leadership of my predecessor, CSBS has charted a steady course for the coming year and identified the following priorities and key themes for my tenure as Chairman.

Community Banking

There is no greater goal than the effort to ensure the viability of the community bank model. 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. Community banks are simply too important to the health of our local, state, and national economies to be ignored.

In Tennessee, I have visited a number of individual bank boards in recent years to explore broad issues, as well as specific challenges these banks face. I would like to share some of things that I have learned travelling across Tennessee as to why community banking matters, not just to the stability of the financial system or to the health of the U.S. economy, but to individuals.

Everywhere I have gone, I have seen how community banks are critical.

One east Tennessee banker spent the better part of a day driving me from one small community to the next where his bank's branches are located. He spoke of his customers, while pointing out where the bank had made an impact in the community. One example he shared with me is that of a young couple creating a business out of their home. When the couple started the business 20 years ago, they had three employees. The bank financed the business into a building constructed by the town. Today, the business employs more than 150 people with sales exceeding \$30 million last year. The business owner said that the large institutions now want their business, but for years did not care about them. This community bank was the difference maker for that home-grown small business.

The McMinnville, Tennessee area — not far from where I grew up — is known as the nursery capital because of all the plants and trees they produce and ship throughout the United States and around the world.

As you can imagine, the housing downturn has challenged the nursery and landscaping business, but community banks in that area understand the nursery business and the uniqueness of their cash flow. This knowledge of their local economy and community enables

the local banks to work with borrowers and help preserve this vital part of Tennessee's economy.

Another east Tennessee banker explained his balancing of safety and soundness and community service by saying that when he denied credit to an individual who was clearly not creditworthy, he then invited the customer to come back to the bank to learn the basics of how to become creditworthy, because in his small town every individual counts.

The fact I see over and over is that these banks are clearly and deeply ingrained into the very fabric of these communities. For some communities, the banks are the very lifeblood of the towns and cities they serve.

That is the part of banking we all like to talk about, and I imagine my colleagues can share similar stories. Unfortunately, there is another part of the story. These same banks which paint a very American story are under duress and some have a dim view of the future. Bankers across the state ask me whether national policymakers could do more for community banks. Community bankers appreciate the kind words coming out of D.C., but are looking for tangible evidence of tailored regulation and expectations to the community bank model.

These anecdotes are repeated throughout the country, prompting state banking commissioners to work through CSBS to form a Community Banking Steering Group, chaired by Jim Cooper, Deputy Director of Indiana. The Steering Group was formed to explore what is needed to support the community bank business model, and has already embarked on a number of initiatives, including the publication of a white paper about capital formation at community banks.

COORDINATION

To ensure the community bank model succeeds, increased coordination among state and federal regulators is needed to determine how statutes and regulations can be tailored to community banks, identify emerging threats and trends, discuss opportunities for improving supervision, our ongoing partnerships, and the future of financial supervision. Forums such as this supervisory conference are vital to this coordination, as are established groups such as the FFIEC and the FSOC.

The relationship we have with our federal counterparts is a special one, but it has its complications and challenges. There is a designed tension of the state-federal relationship, which is necessary to provide checks and balances to financial supervision. I have a tremendous relationship with my federal counterparts, and am honored to welcome so many of you to this forum.

But I encourage all of us in this room to continue to strive towards a regulatory system that provides safety and soundness and consumer protection, while preserving the very qualities of our unique dual-banking system that have contributed so significantly to our nation. I fear

without honest and constructive coordination, the community banks we so heavily rely upon as a nation will fall victim to the recovering economy and to regulatory schemes designed to mitigate risk at our nation's largest and most complex institutions.

While this community bank initiative is fundamental for all banking commissioners and wide-ranging in scope, let me briefly mention a few other issues that will be a focus for CSBS in 2012, as well.

Non-Bank Supervision

For a number of years now, CSBS and the states have moved the regulation of non-bank companies to the forefront. The Nationwide Mortgage Licensing System and Registry, commonly referred to as NMLS, is one of the hallmarks of the state effort. Under the leadership of David Cotney, the Massachusetts Commissioner and Chairman of SRR, there is a concerted effort to expand the NMLS platform to include other regulated industries, such as money transmitters and payday lenders.

The Multi-State Mortgage Committee, or MMC, led by Charlie Fields of North Carolina, is playing an important role in addressing national issues, such as the recent settlement with major mortgage servicers, as well as assisting in coordinating the regulatory focus and examination of multi-state companies that require a national perspective to be effective.

Another non-bank area that I believe should receive great emphasis is money services business regulation. For many years, I have been involved with the Money Transmitter Regulators Association (MTRA), as well as CSBS. There is much work to be done in this area, but progress is being made. Through a collaborative effort between CSBS and MTRA, a revised cooperative agreement and examination protocol have been approved by our respective boards, and we are moving toward implementation. I thank Texas Commissioner, and new CSBS Treasurer, Charles Cooper for assuming leadership in this effort.

Efficient Supervision

CSBS has also undertaken a number of initiatives to enhance the efficiency of state supervision of both depository and non-depository entities. In particular, advancements in technology have had a significant impact in this area.

Professional Development

For instance, with regard to professional development, the CSBS Education Foundation has made a vast library of online education courses available to state financial regulators at no cost and continues to offer high-quality on-site training programs available to state regulators at reduced costs.

Bank Supervision

With regards to bank supervision, the FDIC, in collaboration with the states and the Federal Reserve, is leading a modernization initiative to replace the current examination tools. The first of these applications will begin to be used this Fall, and will significantly improve the workflow of state and federal examiners. The FDIC, Federal Reserve, and state regulators — through CSBS — have coordinated on information sharing, while protecting sensitive exam data.

Non-Bank Supervision

In terms of non-depository supervision, technology enhancements will increase uniformity and effectiveness. Use of technology will eventually replace the manual file review process, while covering more possible violation areas and building more comprehensive data.

EMERGING TRENDS

The financial system is ever-changing, and new threats and challenges emerge each day. In addition to the priorities I have already discussed, there are a few additional areas CSBS is monitoring as emerging trends. I would like to mention two areas specifically.

International Financial Stability

While CSBS and state regulators are generally concerned with preserving the stability of the state system and the U.S. economy, CSBS is also monitoring the viability of the European economy and international financial stability.

As the Banking Commissioner in Tennessee, my primary focus is not a default in Europe, but the safety and soundness of my supervised entities and protecting the consumers of Tennessee. And yet, I am very concerned about the impact such a default would have upon the international economy and upon the U.S. economy.

Fortunately, state regulators have a role to play in strengthening the stability of the U.S. economy and monitoring the international system through our participation in the Financial Stability Oversight Council (FSOC).

Discussion of the FSOC offers me a unique opportunity to mention my good friend and former California Commissioner Bill Haraf. Bill was the first state bank regulator to represent his peers on the FSOC. And what a tremendous representative he was. Bill represented his fellow state bank regulators, providing insight and steadfast dedication to the FSOC. Bill leaves big shoes to fill at the FSOC, but I am grateful that John Ducrest has assumed this responsibility.

Student Lending

Student lending is another emerging threat to our economy and financial system. It is perhaps the next great threat to American consumers. Increased media attention has shown even Baby Boomers are still saddled with student loans. As tuition increases, consumers will need to

receive more student loans and we need to have a good understanding of bank involvement and planned intent in this area.

CAPTURED

I would like to wind up my comments today by talking about something that I have been thinking about for some time.

As you know, there are those who question the results and quality of state regulation. We have had discussion on that topic during this symposium. It has been suggested that state regulators are possibly “captured.” That we cannot carry out our responsibilities because we are conflicted by other interests.

Well, I am here to confess that I am “captured.” I admit it.

But I am not captured in the way that some think.

For instance, I am captured by Tennessee law and Governor Haslam that require my department to fundamentally ensure safety and soundness, but also to find ways to allow community banks to contribute to economic progress and the needs of our citizens, because Tennessee’s economy depends on it.

I am captured by the efforts of my fellow commissioners.

I am captured by John Ducrest of Louisiana, John Harrison of Alabama, Theresa Brady of Mississippi, Charles Vice of Kentucky, Rich Weaver of Missouri, Mick Thompson of Oklahoma, and a host of others that help state banking systems get back on their feet to serve their citizens in so many states around this country in the face of hurricanes, tornadoes, floods, and other natural disasters.

I am captured by an idea from Gavin Gee of Idaho to create a mortgage licensing system that now serves and protects millions of consumers when this country needs it the most.

I am captured by watching cooperative federalism at work. When allegations of questionable practices such as “robo-signing” first came to light, state regulators joined together to conduct comprehensive examinations of servicers under the leadership of the MMC that resulted in a spectacular example of cooperative federalism and the recent mortgage servicer settlement.

I am captured by federal officials who used to have the title of state banking commissioner and who first distinguished themselves in serving their state’s citizens and the state regulatory system.

I am captured by the acts of community banks and bankers that serve time and time again to remind us of why community banks matter.

I am captured by the efforts of a banker from west Tennessee whose foundation since the late 1990s has provided basic scholarships to all high school graduates in a certain rural area of west Tennessee to attend college or other places of higher learning. This program also provides guidance counselors for these students to give them the best chance of succeeding.

I am captured by a small minority owned bank in Tennessee which has for decades served communities that otherwise would not have been fully served. Years ago, this bank provided economic stability to those who marched for a cause greater than themselves and which changed a nation. In fact, the bank was often a focal point for the Civil Rights Movement in the region.

This bank speaks proudly of its past and honestly about its future. And board members ask me if small banks can survive, or if they are just too small to matter in this regulatory environment.

They find it ironic that a minority owned bank survived so much upheaval over the last 60 years, to now be at times inhibited by well-meaning regulators and regulations meant to protect the people that they have historically served.

For all of these communities that I have alluded to today, I am not ashamed to say that I am captured by the belief that community banks often provide hope for self-sufficiency and economic self-determination that should not be underestimated. To the extent that community banks weaken, I believe that the people of these communities could lose some of their ability to control their economic future.

All of these examples may not lend themselves to the data analysis that drive some conclusions, but they are the evidence that have reflected how the state regulatory system and community banking have not only been successful, but vital to our citizens needs.

But while there are challenges and obstacles, I am encouraged.

I am encouraged by a state system that continues to adapt to the needs of our citizens.

And I am encouraged by the efforts and acknowledgement of the federal agencies regarding the importance of community banks.

CONCLUSION

I believe that the purpose of regulation is not to be an end all to itself, but a means to an important end, which is to help facilitate the delivery of critical financial services to the country. I have to tell you that it appears to me that sometimes we as a regulatory community forget this purpose in the midst of a complex and often times overwhelming regulatory environment that appears to many citizens in the communities I visit to be out of touch and ill-suited for the reality of life as they know it.

For the sake of community banks, and the communities that depend upon them in Tennessee and all over this country, I think we would do well to step back and reflect upon these things.

There is plenty of work to be done. We must improve our processes and strive to understand and accommodate different supervisory perspectives. But I do believe we have established successful working relationships that are a foundation for good things to happen.

I will end by saying that as I look around this room, I see so many people that I know are doing good things. I am grateful for what you are doing, and let me say “thank you” for the things that you will do. I look forward to working with all of you over the coming months to see what we can achieve together.

Thank you.