STATE OF THE STATE FINANCIAL SYSTEM
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CSBS CHAIRMAN, 2011-2012

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Good evening and thank you for that kind introduction. And thank you to everyone here for traveling to Seattle to participate in this year's State-Federal Supervisory Forum. I would also like to thank Scott Jarvis of Washington for the hospitality his beautiful state has shown us. Now more than ever, it is important for us as state and federal financial regulators to meet regularly to ensure comprehensive and pragmatic financial supervision which protects consumers, ensures the safety and soundness of those entities we regulate, and also strives to strengthen local, state, and national economies.

I am honored to be here tonight and am excited to serve as Chairman of the Conference of State Bank Supervisors. I am joined by my wife, Becky, and my sons, Matt and Mike. Having them here makes this already memorable event that much more special.

Rising through the ranks of the CSBS Board has been a great honor and privilege for me, and I am very grateful to have the pleasure of working with all of you in this room.

I began my career as a regulator in 1985 as an examiner with the Louisiana Office of Financial Institutions. In 1994, I was named Deputy Chief Examiner of OFI, a post I held until 2004 when I was first appointed Commissioner. Along the way, my family, particularly my wife, was always at my side and a source of strength for me. This was particularly the case when two other females abruptly entered my life and demanded most of my attention beginning in the fall of 2005. I am of course referring to Hurricanes Katrina and Rita, which struck the Gulf Coast just three weeks apart.

More than any other single event in my career, the devastation wrought upon southern Louisiana by these hurricanes forged my outlook and approach to financial supervision. Hurricane Katrina, in particular with its widespread devastation, illustrated the absolute necessity of having a strong community banking system.

I saw firsthand the role that community banks play in providing economic stability during times of crisis. In the wake of Katrina, community banks were the leaders in re-opening their doors in the affected areas of the state. Locally-based institutions quickly re-opened branches, often at shared locations, in order to restore public confidence in the banking system and to provide assistance to their customers through their deposit and lending activities. When the people of Louisiana needed help the most, the financial services industry reacted quickly and aggressively, in any way possible, to assist their fellow citizens.

Why does this matter six years later? Simply, this is the lens through which I view community banking. I see it from a very real and tangible perspective which has a direct impact upon people's lives.

As a nation, we witnessed the stabilizing role community banks played during the crisis in the capital markets. As our nation's largest institutions ceased lending to preserve capital, which was necessary for their survival, the entire U.S. economy teetered on the brink of disaster. However, community banks continued to make credit available to consumers and businesses, thereby stabilizing the economy and preventing a complete collapse. This is why I have made ensuring the continued viability of the community banking system the primary focus of my tenure as Chairman of CSBS.

As regulators, our primary objective is to ensure the safety and soundness of the banks we regulate. This is done to preserve the health of the financial system, protect consumers, and provide economic stability and growth. But we must take a pragmatic approach to supervision, particularly in times of crisis and recovery, to protect those very characteristics of our unique dual-banking system which have proven time and again to be so valuable.

In order to preserve what is best about our financial system, we must be particularly cognizant of the impact provisions of the Dodd-Frank Act and other regulatory and legislative initiatives can have upon the industry.

To that end, we at CSBS recognize that the Dodd-Frank Act was drafted with an eye to preserving the dual banking system. However, uncertainty about the impact of Dodd-Frank, especially when combined with the current challenging economic environment and general concerns about the direction of regulation, has created the sense of a challenging regulatory environment for a number of banks.

As FDIC Director of Risk Management Supervision Sandra Thompson, who emerged as a trusted friend in those dark days following Katrina and Rita, mentioned during Monday's dialogue, community-bank oriented provisions in Dodd-Frank such as the change in the deposit insurance assessment base and the increase in deposit insurance coverage are favorable to community banks. Additionally, the coordination that Dodd-Frank requires among state and federal regulators, including the newly created Consumer Financial Protection Bureau and the Financial Stability Oversight Council (of which my colleague and good friend Bill Haraf is a leading member), serve the important goals of improving regulatory efficiency and give voice to a community bank regulatory perspective.

Further, full implementation of the provisions contained in Dodd-Frank will take years to complete. The federal agencies should be commended for the manner in which they have begun implementation of the Dodd-Frank Act. This is a monumental undertaking requiring tremendous resources, and with high stakes. As has been widely discussed, the "too big to fail" solutions have not been proven yet. Effective implementation of the designation of systemically important institutions, creation of living wills, and the orderly liquidation authority rules must occur to at least begin to fix this problem. While it may not be obvious on the surface, effective implementation of the systemic risk framework will restore some degree of equity and fairness to our regulatory system, thereby helping to level the playing field between community banks and those institutions deemed "too big to fail."

There have also been a multitude of initiatives undertaken by the federal regulators in an attempt to stabilize the system. These initiatives are designed to enhance our system of supervision to strengthen financial institutions, protect consumers, and prevent a repeat of what we have just gone through. However, in our rush to fight our current battles, let us not lose sight of the future and the impact the new regulatory regime and these initiatives are having upon community banks.

The year ahead remains full of challenges to overcome. As is the case with any period of significant challenges, opportunities also arise. CSBS and the states are well-poised to overcome these challenges and take advantage of future opportunities.

The economic crisis, the resulting recession, and now enhanced regulatory burden have combined to create an incredibly challenging operating environment for community banks. More consideration must be made by Congress and regulators to understand the long-term impact that our decisions and actions have upon the dual-banking system. Continued coordination and consultation between federal and state regulators is crucial to better understand how local and national economies will be impacted by new laws and regulations.

State regulators are engaged in unprecedented levels of coordination with our federal counterparts. Through involvement with the Federal Financial Institutions Examination Council's State Liaison Committee, state regulators work closely with the federal regulatory agencies to craft tools and procedures to enhance supervision. We have several members of the State Liaison Committee in attendance, including David Cotney of Massachusetts, Charles Vice of Kentucky, and Doug Foster of Texas. As I mentioned before, Bill Haraf of California is a member of the FSOC, providing an important and unique perspective on issues that pose a systemic risk to our nation's financial system. My fellow state regulators and I value the partnership we have with our federal counterparts, and will continue the effort to maintain and enhance this relationship.

Policymakers and regulators should also investigate ways to tailor regulatory requirements to institutions based upon their size, complexity, management structure, and lines of business. The "one size fits all" approach to regulation over time has fallen harder on community banks and driven consolidation of the banking industry. As has been discussed several times through this forum, perhaps now is the time to consider a bifurcated system of supervision.

The coming year is also promising because of the many new faces among us. There are a host of new Commissioners within the ranks of CSBS, each of whom brings new perspective and energy to our organization. I welcome each of you and look forward to working side-by-side to enhance state supervision. I also would like to acknowledge the service that the Commissioners who are no longer among our ranks have given. We have been through an incredible time in our nation's history and these men and women have provided outstanding leadership and forward-thinking solutions to the challenges we faced. Thank you for your service.

I would also like to take this opportunity to recognize that Neil Milner will be retiring at the end of this year. In his tenure as President of CSBS, Neil has managed time and again to unify state regulators on an unprecedented level. Under his leadership, CSBS has achieved tremendous success and is well-positioned to face future challenges and embrace the opportunities before us. We will celebrate Neil's career at CSBS in December, but please help me recognize his efforts and thank him for his tremendous contributions.

We still don't know if the new regulatory regime implemented by the Dodd-Frank Act will prevent a future financial collapse or put an end to the concept of "too big to fail." We still have many hurdles from the last crisis to overcome before we can consider ourselves back to business as usual.

However, by leveraging the perspectives of multiple state regulators and finding consensus through CSBS, the state system of supervision will remain strong. We are well-positioned to overcome the challenges we still face and to emerge from the current economic challenges stronger than ever.

I encourage all of us here to seek the opportunities available to us through this time of change. Let us re-commit ourselves to enhance the coordination between our state and federal colleagues. And most importantly, let us work together to preserve a diverse financial system which stabilizes our economy in times of need, and spurs its growth in the good times.

I hope to see all Commissioners in New Orleans for the September Board Meeting and all of you in Savannah for next year's third annual State-Federal Supervisory Forum.

Thank you.