CSBS YEAR IN REVIEW

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Introduction

Thank you for that kind introduction, Neil. Today is a bittersweet day. I am saddened to be relinquishing my title as CSBS Chairman, but I am 100% confident in the future of our organization under the leadership of Incoming Chairman Joe Smith. Also, I am honored to be joining the ranks of Former Chairmen of CSBS, quite a few of whom are here today. Jeff [Vogel], Joe [Face], John [Allison], Ed [Leary], Mick [Thompson], thank you for your continued service and dedication to CSBS.

This time last year, I expressed to you my belief that CSBS and the state system were positioned to not only survive the onslaught of challenges we continue to face, but to emerge stronger than ever. We are not out of the woods yet. Danger still lies around every corner as our nation remains mired in an economic downturn, the H1N1 flu continues to threaten public health around the globe, Congress debates regulatory reform, and the Supreme Court deliberates on the topic of federal preemption of state law.

But I absolutely believe CSBS is stronger than ever and the states are more unified than we have ever been. The tide is turning in Congress, among our federal counterparts, and in the media as our efforts are increasingly gaining attention and acclaim.

Achievements in the Past Year

The past year has been truly monumental for CSBS and for state financial supervision. As an organization, we have enjoyed tremendous achievements.

Nationwide Mortgage Licensing System

First and foremost among these accomplishments is the successful implementation of the CSBS-AARMR Nationwide Mortgage Licensing System. NMLS celebrated its one-year anniversary on January 2, 2009. As of today, 24 states and Puerto Rico are using NMLS. By January 2010, CSBS expects 43 states, the District of Columbia, and Puerto Rico to be using NMLS.

The SAFE Act

The hard work and dedication of the states was recognized by Congress when they passed the Housing and Economic Recovery Act in July 2008. From our perspective, the most important aspect of this law is undoubtedly the SAFE Act, which requires all mortgage loan originators to be licensed or registered through NMLS by July 31. Passage of the SAFE Act presented an enormous task for the state system. We have each been called upon to amend our state laws to meet the requirements of the SAFE Act within a very short time period.

This time last year, I stood before you and urged each of you to coordinate and unify our efforts to enhance state supervision. I told you we would be judged on our ability to supervise the mortgage industry and if we failed to step up our efforts in this arena, we could run the risk of losing our authority to regulate banks.

As of today, 20 states have passed legislation to become compliant with the SAFE Act. An additional 29 states have legislation introduced. To date, no state legislature has adjourned without approving SAFE legislation.

Today, I believe our efforts to implement the provisions of the SAFE Act are undeniable proof that the state system of financial oversight is alive and well.

Multi-State Mortgage Examinations

Back in 2007, CSBS and AARMR initiated the Nationwide Cooperative Protocol and Agreement for Mortgage Supervision to assist state mortgage regulators by outlining a basic framework to coordinate supervision of multi-state mortgage entities. To date, 48 states, the District of Columbia and Puerto Rico have signed the Protocol and Agreement. And this month, the first multi-state examinations began based upon examination procedures and methods designed to provide broader institution coverage, while focusing examiner resources where problems are most likely to reside.

The Protocol and Agreement and multi-state examinations will enable state regulators to more effectively supervise multi-state mortgage entities and protect our consumers.

EFSBS 25th Anniversary

In today's vulnerable economy, the safety and soundness of the entities we regulate is crucial. In the overall financial system, consumer confidence is low and banks are inundated with challenges. However, as Treasury Secretary Geithner mentioned last week, consumer confidence in community banks remains high. The recession has led to a back to basics approach of supervision, which quite frankly, most of us never strayed from. For the most part, our banks remain safe and sound and continue to make credit available to qualified borrowers. We must remain ever mindful that as regulators, we are only as effective as our examiners in the field.

On Monday, the Education Foundation of CSBS celebrated its 25th Anniversary, which is a significant milestone. Since 1984, EFSBS has done a tremendous job training and educating state examiners and accrediting state banking departments. Illinois was the first state to be accredited by CSBS back in 1984. And EFSBS continues to grow and evolve. In 2008 CSBS launched the Mortgage Accreditation program to promote excellence in state mortgage regulatory agencies. In December the Commonwealth of Massachusetts, under the leadership of Steve Antonakes, became the first state accredited under the program. As a former instructor and trustee for EFSBS, I would like to extend my congratulations to EFSBS for this achievement.

Not only is the training and accreditation of our examiners critical in maintaining the safety and soundness of our institutions and protecting our consumers, it is also effective succession planning, ensuring our departments will be left in capable hands after our tenure. Quite a few of our current examiners will rise through the ranks of our departments to become leaders within the state, and possibly the nation. In fact, a number of us in this room were bank examiners. As a young examiner, I acquired invaluable expertise and experience during the Savings and Loan Crisis, the agriculture crisis, and the oil and gas crisis that continues to serve me well today. Therefore, it is incumbent upon CSBS to continue developing training, certification, and accreditation programs to provide examiners with the tools they need to achieve great success.

<u>FHLB Information-Sharing Agreements</u>

In January of this year, I signed an information-sharing agreement with the Federal Home Loan Bank of Des Moines. It is my hope that this agreement will serve as a model for the flow of communication between the Federal Home Loan Bank System and state banking agencies. Fellow Commissioners, I encourage you to discuss the agreement with your respective Federal Home Loan Bank. Even if you choose not to sign the agreement, I believe the discussion would do much to improve communication and coordination with your Federal Home Loan Bank. If these discussions take place, the agreement will have served its purpose to strengthen our ability to detect problems and enhance our response to emerging issues.

<u>Increasing Prominence</u>

In the past year, CSBS and the states have begun to enjoy an increased level of prominence among our federal counterparts, Congress, and the media. While our work in this arena is never-ending, state officials have made significant improvements with our federal colleagues through the FFIEC. State-federal coordination is improving as the FFIEC develops initiatives to enhance financial supervision and consumer protection.

Another area where states have garnered more attention is within Congress. In the past year, state authorities have testified before House and Senate committees on a variety of topics. I testified before the Senate Banking Committee in June on the condition of the banking industry in which I asserted the diversity of our financial industry was our greatest strength. Most recently, Steve Antonakes testified before the House Financial Services Committee on the Mortgage Reform and Anti-Predatory Lending Bill. Steve testified on a panel consisting of only one other witness: the Federal Reserve Board.

CSBS has also made inroads with major news publications such as *The Wall Street Journal*, *The New York Times,* and *The Washington Post*. Also, Michigan Commissioner Ken Ross recently published an op-ed in the *American Banker* describing his supervised banks' efforts to continue making credit available to the public, despite the economic downturn.

These achievements are indicative of the progress states have made towards enhancing supervision of the mortgage industry and maintaining safe and sound financial institutions.

<u>Regulatory Reform Task Force</u>

Recognizing that reform of the financial regulatory system was inevitable, CSBS formed a Regulatory Reform Task Force chaired by Maryland Commissioner Sarah Bloom Raskin to orchestrate the state response to reform proposals. The Task Force developed a set of principles that should be adhered to as reform proposals are considered by Congress.

Another achievement for the states was obtaining a seat on the Congressional Oversight Panel, the organization tasked with overseeing and assessing Treasury's actions to stabilize the economy. New York Superintendent Richard Neiman represents the states on the fiver-person panel. In addition, the Panel issued a special report on regulatory reform in January. In the report, the Panel recommends preemption of state consumer protection laws should be repealed. In recent Congressional testimony, FDIC Chairman Bair also advocated for the elimination of preemption, arguing that now is simply not the time for regulators to preempt each other's efforts. Combined with the recent *Cuomo v. Clearinghouse* case heard by the U.S. Supreme Court, the Panel's recommendation and Chairman Bair's comment illustrates a shifting of public support away from preemption of state law.

Challenges and the Year Ahead

Despite these and other successes, we continue to face a barrage of challenges.

We are currently operating in historic times. The current recession has drawn comparisons to the Great Depression and the Savings and Loan Crisis of the 1980s. As is usually the case during an economic down cycle, the industry, regulators, consumers, and Congress tend to seek shelter in a "common sense" approach to the economy and personal finances. Industry participants and regulators stress safety and soundness; consumers are cutting back on expenses and in many instances, are retreating to their local community bank which they know and trust; and Congress is back to the drawing board to "fix" our imperfect system of financial oversight. There is an ever-present call to consolidate financial regulators, just as Comptroller Dugan called for consolidation in an interview with the *American Banker* last week.

While some may point to the states as the weak link in financial supervision, it simply is not the case. These days, safety and soundness is king in financial regulation, and no one has preserved safety and soundness in their institutions more effectively than state regulators. Our proximity to the entities we supervise allows us to quickly identify emerging risks and potentially harmful practices. The ability of states to react quickly and forcefully ensures consumers are protected. Right now the dedication and talent of our examiners is our greatest strength. And while we may currently have a lot of new examiners in the field, I believe it is during these darkest times that tomorrow's leaders and experts are cultivated. Through the tremendous training and education programs offered by CSBS, we can ensure our examiners are well-prepared to meet the challenges that will continue to arise in the field. To use a sports metaphor, today's rookies will be tomorrow's Hall of Famers.

Nationwide, the weakened economy has led to a flurry of bank failures and even more institutions hang in the balance. The federal government has invested billions of dollars in recovery efforts to stabilize our financial system and spark growth. Congress continues to debate regulatory reform. Within our states, our resources have been limited as we face travel restrictions and are forced to furlough valued employees. Despite these challenges, I have great confidence the states will meet these challenges with the innovation that is our hallmark.

Conclusion

This year has truly seen the best of times for CSBS. We have achieved tremendous highs, even while our nation is mired in a recession and our supervised entities face difficult challenges. When I was elected Chairman, I never dreamed I would host an all-states call on a Sunday, let alone twice. The federal actions regarding Fannie Mae and Freddie Mac and the overall stability of the industry called for us to engage, coordinate, and communicate. While the "too big to fail" banks were propped up and community banks were allowed to fail with increasing frequency, causing losses to uninsured depositors and hurting local economies, it was critical for us to mitigate these disruptions. State supervisors have successfully expedited the sale of failing institutions and encouraged buyers of failed banks to purchase all deposits. We understand that market stability happens first at the local level. It has been my honor to serve as Chairman of CSBS during such a monumental period. I believe this organization is stronger than ever, and ready to meet any challenge head on. I know we can, and will, overcome any obstacles in our path towards developing the best system of financial supervision in the world.

CSBS is in excellent hands. Joe Smith will be a phenomenal leader, and I wish him the best of luck. Further, the CSBS Board of Directors is rife with talented regulators, thereby ensuring the future of our organization.

Thank you for the opportunity to serve as your Chairman.