

HANG TOGETHER, OR HANG SEPARATELY
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Introduction

Thank you, Neil, for that kind introduction.

And I would also like to thank Joe Smith, our Immediate Past Chairman. Joe, thank you for the leadership you've shown the past year. You deftly led CSBS and represented our interests in testimony before Congress, meetings with the federal financial agencies, the industry, and the media. Thank you for your hard work and commitment to the state system of supervision. The accomplishments you achieved during the past year have put us in an excellent position to triumph over the ongoing challenges that will face us in the year ahead.

While CSBS is poised for further successes this year, we will have our share of challenges. Yes, there are signs indicating the "Great Recession" is coming to an end. While this is encouraging, we have a long way to go before we can feel comfortable.

As regulators, we must make sure the dual-banking system and state regulation of non-bank financial institutions are strong and effective. In order to achieve this goal, those of us in this room today and around the nation must work together. Comprehensive and effective financial supervision requires coordination and cooperation among state regulators and between state and federal regulators. As Benjamin Franklin so eloquently stated upon the signing of the Declaration of Independence, "We must all hang together, or assuredly we shall all hang separately."

Regulatory Reform Debate

Currently, the financial world is focused on the pending regulatory reform legislation in Washington. Millions are being spent on lobbying and the financial media is overloaded with speculation on who the winners and losers will be.

The history of the last 150 years recounts several financial crises that spawned landmark regulatory reform. After each past crisis the dual-banking system was in jeopardy, and each time the states led the way in developing new and better regulations and stronger, more diverse financial institutions.

I come from a little town in Western Iowa. I have a very different perspective on the need for regulatory reform legislation than the people who are writing and debating the bill. Put simply, I would like to see regulatory reform that would improve the prudential regulation of financial institutions. The people in Washington who are writing the legislation seem to want regulatory reform that improves their chances of being re-elected. The two perspectives are not in complete conflict, but they are different.

There will undoubtedly be many consequences of the new law—some intended and some unintended. As the new rules are put into place, the financial industry will develop new business models to exploit new opportunities in order to turn a profit in the regulatory environment.

Because of our proximity to the entities we supervise and our knowledge of local markets and economies, state regulators are able to spot potential trouble as new business models, trends and products emerge. Because of our ability to react quickly, we can be proactive with our state legislatures to encourage rulemaking to promote safe and secure financial institutions.

A perfect example of this supervisory model is the securitization market. Securitization of residential mortgages developed because of the regulations promulgated in the wake of the savings and loan crisis. State regulators were the first to recognize the abuses that the non-bank mortgage originators began to perpetrate on consumers. Working with state legislatures and Attorneys General, state financial regulators began to license and regulate this industry before it bubbled up to gain the attention of federal regulators.

We do not yet know what products or business models the financial industry will create to adapt to the new regulatory regime. But we do know that state regulators will be the first to witness their emergence in local markets and will be the first responders. It will then be our responsibility to work with our federal partners to draw national attention to these threatening trends and to develop a reasonable response.

Fortunately, our involvement through the Federal Financial Institutions Examination Council, better known as the FFIEC, provides the perfect forum for this coordination. Our participation in the FFIEC, facilitated by CSBS, provides state regulators with a voice in the development of regulatory initiatives designed to enhance supervision of financial institutions. Our federal counterparts are able partners on the FFIEC. Truly, the FFIEC is a great forum for us to harness our collective expertise and pool our resources to enhance financial supervision for all market participants. I commend the work accomplished to date by the FFIEC, and I look forward to the continuing partnership in the year ahead.

Lessons Learned

As we have all discovered in the past few years, there is always room to improve supervision. There have been many painful lessons learned over the past few years. As the economy begins the slow emergence from the “Great Recession,” there are handful of lessons learned I would

like to discuss today. The future generations of regulators and bankers must be made aware of these lessons so they don't have to learn them the hard way in the future.

1. Asset values do not always rise over time. The painful collapse of the housing market and the resulting wave of foreclosures speak to the truth of this lesson.
2. Abusing customers by setting them up to fail is a bad business model. Regulated industries should not be allowed to use bad business models.
3. Selling risk does not reduce risk, it merely transfers it to someone else. When risk is transferred with extreme amounts of leverage, systemic risk increases exponentially.
4. Safety and soundness regulation is the cornerstone of consumer protection regulation. While several million consumers were hurt by obligating themselves to sub-prime mortgages, hundreds of millions of consumers around the world were injured by the credit crisis and financial meltdown caused by obscene risk taking by investment banks and hedge funds.
5. A global economy that operates with fiat currencies **REQUIRES** strong prudential regulation of **ALL** institutions, regardless of their size and complexity.

Unfortunately, those of us in this room have had to learn these lessons the hard way through past crises. But these lessons have prepared us to achieve great successes and to lead our nation and our economy through this crisis and back to prosperity.

Moving Forward

Recovery from the current recession and a return to prosperity will come when the public is confident their savings are safe because financial institutions are prevented from taking on too much risk.

CSBS and its affiliated organizations—the State Regulatory Registry and the Education Foundation—provide state regulators with the framework to lead our country and our world to a new era of financial stability and security.

All of us must work together to continue to enhance state regulation of the financial services industry. Fortunately, we have many leaders in our ranks. For example:

Jeff Vogel, a former CSBS Chairman from Wyoming, chairs the Regulatory Committee, which establishes CSBS' policy positions. Jim Cooper of Indiana chairs the State Supervisory Processes Committee and develops supervisory best practices. Greg Gonzalez of Tennessee chairs the Money Services Businesses Work Group to provide consistent and enhanced oversight of MSBs.

The State Regulatory Registry, or SRR, is lead by Gavin Gee from Idaho, yet another former CSBS Chairman. SRR operates the Nationwide Mortgage Licensing System, which has been a huge success and a shining example of states "hanging together" to efficiently regulate a massive industry. The entire CSBS staff and numerous state regulators have expended tremendous effort to get this System up and running.

John Prendergast of Massachusetts chairs the Multi-State Mortgage Committee, which is responsible for conducting examination of mortgage providers that operate in multiple states.

Sarah Bloom Raskin of Maryland is the chair of the Legislative Committee and has been nominated by President Obama to serve on the Board of Governors of the Federal Reserve. Her nomination to such an esteemed post is clearly a recognition of the great work done by Sarah and by state regulators around the nation.

Scott Clarke of Illinois is chair of the Education Foundation, which provides comprehensive training for state regulators.

Bill Haraf of California serves as CSBS Treasurer and has done a tremendous job leading a working group on systemic risk issues.

Conclusion

Unfortunately, I do not have time to recognize all of the people in this room individually, but I do have just a few more to mention.

First—my wife Joan. We have been married for almost 36 years and I would not have gotten anywhere without her.

There are several people from the Iowa Division of Banking here: Vaughn Noring, Rod Reed, Kathy Barber, Craig Christensen, and Tracy Bergmann. These professional regulators make my job as Superintendent interesting and enjoyable.

Many people in Washington and around our country may assert the states are not up to the task of financial regulation. They question our ability to examine and take enforcement actions against the entities we charter and license. They have even tried to blame state regulators for the financial meltdown. They also assert there are too many banks in the United States.

They are wrong.

I have been involved in bank regulation for a little more than 11 years during my career. I spent about 26 years as a banker, more than half of that time as a CEO of a community bank.

During the last eight years I have been associated with CSBS and have gotten to know state regulators from across our nation. These state regulators are committed, serious people who know their jobs. They do what it takes to get the job done regardless of circumstances. I am proud to be their colleague.

I look forward to the challenges the next year brings and the opportunity to work with all of you.