Prepared Remarks for Charles G. Cooper
Chairman, Conference of State Bank Supervisors
Commissioner, Texas Department of Banking
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I am certainly honored to be Chairman of the Conference of State Bank Supervisors for the next year. I would like to recognize a few people before I get into my remarks.

- Please join me in giving a special thanks to David Cotney for his leadership as chairman over the last year. David, you have set a high mark.
- Thanks to John Ryan and CSBS staff for all the hard work.
- And many thanks to the team at the Texas Department of Banking. Many are here today, including Deputy Commissioner Bob Bacon. I am proud of every one of you and what you have accomplished.

On a more personal note, I want to especially thank my wife, Linda, who is also here, and my family. Years ago, I graduated from Baylor University on Friday, got married on Saturday, and went to work as a new FDIC Assistant Examiner in Houston on Monday. I was an examiner with the FDIC for 12 years, spent 26 years as a banker in community banks and large banks, and now nearly eight years as banking commissioner.

After I received a call from someone representing the Governor asking me to consider the job, I discussed the offer with Linda and she asked me why I would want to do that. This was in 2008, at the beginning of the worst recession since the Great Depression, and the best response I could give her was that I wanted to give something back to the industry, that had been so good to us, and to try to make a difference.

I believe that is what all of you out there are trying to do – to make a difference.

Many of the former chairs of CSBS are in the audience, and it is certainly an honor to join such an accomplished group.

In Texas, not only are we charged with the responsibility for the safety and soundness of our regulated entities, we are also charged with facilitating economic progress. This is true for most states and causes us to have a unique perspective in regulating our entities. This requires a balanced approach.

Community Banking

After being appointed banking commissioner, and having been on both sides of the desk, I was asked – are you a regulator or an advocate for the banking system? My answer was an emphatic “yes.” I believe in the banking system and especially the community banking system. Depending on whose numbers you use, community banks comprise only 17 percent of banking assets, but make nearly 50 percent of all small business loans and 70 percent of all agriculture loans.

All of us have heard the story about the young couple requesting their first loan to buy a car, or a house, or to start a small business, and they approached their community bank. Based on what is now called “soft” information, that community bank made the loan and the rest, as they say, is history.

I have seen this first hand. Community banks do this all over the country. For years, community banks have been the driver of our economy. Community banks engage in relationship lending. Their role in providing credit and banking services is just as important as that of the largest financial institutions.

Many individuals and businesses are not particularly well-served by the larger banks’ standardized, model-driven lending. This is especially the case in rural areas, where the FDIC found that community banks are three times more likely to operate a banking office outside of a metro area than their large bank counterparts.

When I testified before Congress one year ago on the regulatory burden from a regulator’s perspective, I used the term “right sized regulation.” What this means is that the regulatory scheme for examining the large banks should not be the same as that for a community bank. The committee members seemed to like this term.

This term…right sized regulation…was first introduced by my good friend from Tennessee, Commissioner Greg Gonzales, then the CSBS chairman, in his congressional testimony in 2012. The term was later used in congressional testimony by another CSBS chairman, Kentucky Commissioner Charles Vice in 2014. And again, in early 2015, by CSBS chairwoman, Arkansas Commissioner Candace Franks.

I believe that Congress needs to right-size regulation through legislation, and there has been a movement to do that. We, as regulators, need to continue to right-size our regulatory and supervisory processes.

A few years ago, only a few members of Congress knew what the term “community bank” meant. Today, thanks to many of you in the room, the term community bank is known by all in Congress. This session, many regulatory relief bills for community banks have been filed. And with the advocacy of CSBS, a few have been passed and signed in to law:

- Increasing the threshold from $500 million to $1 billion for well-capitalized banks to be eligible for an 18-month exam cycle
- Allowing community banks to more easily qualify for rural or underserved designations under the Ability-to-Pay rule of the CFPB
- Expanding CFPB's ability to exempt creditors serving rural or underserved areas from escrow requirements
- Providing the CFPB with greater flexibility to treat a balloon loan as a "qualified mortgage"

As we sit here today, other regulatory relief bills are being considered by Congress. CSBS believes, and other commissioners and I have testified, that right-sized regulation is needed for community banks due to their relatively simple business model, versus the more complex business models of larger banks.

We have testified that right-sized regulation should not be driven by any one metric, such as asset size or capital ratio, but by a community bank definition that CSBS has offered, one based on the FDIC definition developed for research in 2012 with some modifications.

The number of community banks continues to decline. Some say it is the normal progression of change. Some say it is to achieve economies of scale, or the lack of de novo activity. Others say it is lack of management succession, or just the need to liquefy the bank ownership asset. And of course, increased regulatory burden is blamed.

There have been many rationalizations of the cause. I say that it is a mixture of all of the above. Community banks are important to our nation, and we should work at a hastened pace to make sure unreasonable regulatory burden is no longer the issue.

Nearly every day, I use the lessons learned as a bank examiner in my early career. As I stated in my Congressional testimony, being an examiner is a tough job. It requires skill, education, and the use of good judgment. Over my 46 year-career, I have found that the field examiner generally does a good job.

The process begins to break down when decisions are made from afar, resulting in inappropriate action. Well-intentioned guidances that become requirements result in one-size-fits-all supervision. When I worked with a group seeking to acquire banks, we learned that concentrations themselves were not the problem, unless there was a concentration in bad loans.

Recently, when evaluating our Texas banks with high concentrations in the oil and gas sector, something became obvious that we have known for a long time. Banks with experienced management that adhered to well thought out policies and procedures had a few problems, but not alarmingly so. Banks without these qualities did not fare so well. The obvious is that the M in the CAMELS rating – management -- is the key.

Cybersecurity

A serious and growing threat to the banking industry, and to all our regulated entities, is cyber security. Our department in Texas has been working on this issue since 2010, when we started the Texas Bankers Electronic Crimes Taskforce in conjunction with the U.S. Secret Service. Out of this came the Corporate Account Takeover program that CSBS developed for the states.

Then came ELOC – short for Executive Leadership on Cyber Security -- a CSBS program to bring bank executives together to raise awareness and, ultimately, share best practices. The intent is to bring this cyber issue out of the backroom and into the Board room.

The FFIEC (Federal Financial Institutions Examination Council) worked long and hard, with input from the states, to develop CAT, or Cybersecurity Assessment Tool. This is a working document that can be used and tailored to the bank's specific complexity and risks, and not just a compliance checklist. We have to resist telling our banks that if they do certain things, that they will be immune from attack, because that is just not true. The risks change daily. I applaud the Treasury Department for working with law enforcement and intelligent agencies to provide more timely information to stakeholders so they can better protect themselves.

We have come a long way in combating cybercrime, but there remains a long road ahead.

Non-Depository

On the non-depository front, issues are evolving quickly. Initially, the Nationwide Multistate Licensing System was created by the states to better coordinate regulation. Then, after the financial crisis, Congress mandated our approach to license and monitor mortgage loan originators.

Based on this success, we have expanded the NMLS to include other industries such as check cashers, debt collectors and money service businesses. It is now the system of record for 62 state agencies. Thanks to recent congressional action, now criminal background checks can be processed as required by states for non-mortgage entities that we regulate, thus creating efficiencies for the states and our regulated entities.

I applaud Idaho Commissioner Gavin Gee and the other commissioners that created this system. And thanks to North Dakota Commissioner Bob Entringer for his work as Chairman of the State Regulatory Registry that oversees the NMLS, along with the other SRR directors and the dedicated staff.

Coordination and expansion of multi-state examinations of money service businesses continues and improves under the Multi-State MSB Task Force, in cooperation with the Money Transmitter Regulators Association. The examinations of many of the larger MSB's are coordinated with the CFPB.

Finally, no discussion of non-depositories can be complete without touching on financial technology. This is an area that is advancing at a fast pace. We have marketplace lenders, online lenders, and other fintech companies. How should they be regulated? How should they interact with traditional banks and vice versa? These are questions that many of us in this room are dealing with today.

As you can see, there are many issues in the non-depository space. To formulate our policies here, we at CSBS have created the Non-Depository Committee, comprised of commissioner level members, ably chaired by California Commissioner Jan Owen. The goal of this committee is to approach these issues on a uniform basis and in real time.

Moving Forward

All of us as regulators are immersed in change. I have a proposal for you to consider to deal with this change and the issues that are created. Years ago, after becoming an FDIC commissioner examiner, I had a regional director and an FDIC chairman who were well respected. However, the regional director and the Texas Banking Commissioner at that time would not even be in the same room together.

Back then, we did concurrent examinations. We went in at the same time, but did separate reports. I was in-charge of a bank that quickly turned into a problem situation. Both agencies started moving toward administrative action. I observed that my state counterparts wanted the same thing that we did. In some cases, the state could move much quicker than we could at the FDIC. Being the smart person that I was back then, I determined that it would be better if we worked together, because we could accomplish much more. So we joined forces to take action.

The idea of working together was common sense, and 20 years later, in 1996 it was formalized through a Nationwide Cooperative Agreement among the states, the Fed, and FDIC. Now, here we are, another 20 years later, and again we need to ask ourselves "What does regulatory collaboration mean today."

State banking departments, the FDIC, and the Fed all have shared the same space for some time. But now, new agencies have come on board, so to speak, in FinCEN and the CFPB. This gives us an opportunity to step back and remember what is important in our relationships with each other.

We must realize that each organization brings something to the table. Each organization has its own mission, its own mandate, and its own contribution. These qualities make us all equals. We will not always agree on everything, but if we work together, honoring each other's position, we will come out with a much better product in the long run. This should be what we all want, and what our regulated entities deserve.

So why don't we really work together? And so I say the following to our federal counterparts:

To my friends at the OCC, thanks for working with us and sharing information. In the dual-banking system, we are somewhat competitors. The states and the OCC are the only chartering authorities. We charter banks, and unfortunately sometimes we have to close them. From cradle to grave so to speak. I believe this gives us both a unique perspective and insight into regulating the banking system.

To my friends at the Fed, your broad understanding of the economy provides insight into the supervision of large and complex banks. Twenty-one states have banks with assets over $10 billion, and our breakfast meeting yesterday helped us think through large bank supervision.

Also, thanks for partnering with CSBS in creating the Community Bank Research Conference, which is going into its fourth year this September. Much of the research underscored the value of discretion in supervision and lending. In other words, one size does not fit all. So it is to the Fed's credit that you have been receptive to the concept of to right-sized regulation. One avenue to implement this is through delegated authority and local decision-making by the Reserve Banks.

To my friends at the FDIC, ours is a critical relationship as 83 percent of community banks have the FDIC as their primary federal regulator. We need to have a strong partnership. Over many years, I have heard that the insurer should not be the regulator. Indeed, there is intrinsic tension in these roles. But I also see where they can align.

For the future of community banking, it is critical for the states and FDIC to find common approaches to supervision that meet our collective responsibilities. Yogi Berra famously said, "When you reach a fork in the road, take it." We need to both choose the right path and go in the same direction.

To my friends at the CFPB, Texas was one of the first to sign-on to the Cooperative Agreement. Our jurisdiction overlaps in many areas. And it is to the CFPB's credit that one of your first actions was to reach out to the states. We have a framework to work together, and we need to do just that. We also realize that you operate in a swirl of controversy over your creation and, now, your existence. So let's commit to working better together.

By being consistent in our actions, clear in what is expected of banks, and committed to the right outcomes, we should make sure that regulation and examining practices do good, not harm, to the people we are charged to protect, and make it easier, not more difficult, for community banks to adequately serve their communities. Partnerships are often learning experiences, and both of us have much to learn from working with each other.

To my friends at FinCEN (Financial Crimes Enforcement Network), we have been working together and formed a good partnership. Let me acknowledge the fine work of Director Jennifer Shasky Calvery, who is stepping down. As we look ahead, let's commit that the states and federal regulators will drive for supervisory practices for the Bank Secrecy Act that are safe, secure and efficient in their outcome.

And to my state brethren out there, we as a group regulate 77 percent of all banks in the nation. That is more than any other regulator. When Congress considers bank regulation, we need to have a seat at the table.

We need to come together as never before – 50 sovereign and strong. Let's recognize our own challenges. Let's have our own disagreements. But in the end, let's work together to strengthen our own system of financial supervision. And we can do just that through our common touchstone -- CSBS – where we have the forums, the information, the resources and tools.

Then that seat at the table will become a voice that is loud and clear because we have stayed true to our mission, kept the financial system safe and sound, supported communities, protected consumers, and brought leadership and perspective where it is most needed.

That is the vision that I have as incoming chairman of CSBS. We all have more than we can say grace over. Let's work together and get it done.

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