THE YEAR AHEAD

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INTRODUCTION

Good afternoon and thank you for that kind introduction.

I hope everyone has enjoyed the conference so far. I know I have learned a great deal from the speakers and presentations over the past two days. This is the purpose of this meeting: to be a forum for us as regulators to come together and discuss in an open and honest way the challenges we see, to share ideas, and to brainstorm solutions.

I am honored to stand before you as the Chairman of the Conference of State Bank Supervisors. And I have several examples of successful Chairs to look to for inspiration. There are quite a few former CSBS Chairs in this room who I would like to recognize and thank for their ongoing service to CSBS and the system of state supervision:

- Charles Vice of Kentucky;
- John Ducrest of Louisiana;
- Jeff Vogel of Wyoming;
- Mick Thompson of Oklahoma;
- Gavin Gee of Idaho; and
- Ed Leary of Utah.

I'd also like to recognize our Immediate Past Chair, Candy Franks of Arkansas. Candy: thank you for your tremendous leadership this past year and for representing us so ably.

I have a tremendous staff at the Division of Banks that make my service as Chairman possible. Without their efforts, I would not be able to focus so much time and energy on CSBS. Some of my staff are here today, so I'd like to recognize Cindy Begin, Sandra Clarke, Paul Gibson, Chris Pope, Mayte Rivera, and Holly Chase, and send a heartfelt thank you to the entire staff back in Boston.

Of course, none of my achievements would be possible without my wonderful family.

ROLE OF THE STATES

The United States stands alone among nations in the number and diversity of our financial services providers, and state regulators charter, license, and supervise the vast majority of these entities. The entities we regulate range in size and business model from the smallest community bank operating in one town to some of the world's largest financial firms doing business around the globe.

The rich diversity of banking companies we enjoy in this country is vital to the growth of our economy, ensuring credit and banking services are available to everyone, and the resiliency of our financial system.

For more than 150 years, the United States has gone to great lengths to promote the uniquely American dual-banking system, with national banks chartered and supervised at the federal level, and state banks chartered and supervised at the state level. The dual-banking system is a primary example of the government's longstanding commitment to financial diversity, innovation, and dynamism.

The highly diverse U.S. financial services industry necessitates an equally robust and distinctive regulatory framework. Regulators at the state and federal levels, with distinct missions, perspectives, and approaches, work to make sure financial institutions of all shapes and sizes play by the rules, thereby promoting a safe and sound financial system that protects consumers. However, state regulators have an additional mission that our federal counterparts do not: to promote local economic development and prosperity.

State regulators' authority is local, and our approach to financial regulation is profoundly shaped by our close geographic proximity and firsthand knowledge of our regulated entities and the markets in which they operate. By supporting flexible, appropriate, and tailored supervision – or what CSBS calls right-sized regulation – states are designing creative supervisory processes to ensure safety and soundness, consumer protection, and industry diversity. Additionally, right-sized regulation allows financial institutions to promote economic growth and contribute to job development in the communities in which they operate. Make no mistake, we also perform the more challenging duties of a chartering authority. We take enforcement actions when necessary, remove management when warranted, and close the bank when every other remedy has failed.

STATES AS LEADERS

At last year's State-Federal Supervisory Forum in Chicago, my good friend Tom Curry, Comptroller of the Currency, challenged the industry and state and federal regulators to "step up our game." I should note that I have known Tom a long time. In fact, it was 25 years ago this month that Tom interviewed me for a job at the Division of Banks. And in fact, it was at the CSBS Annual Meeting 15 years ago this month that Tom Curry was elected Chairman of CSBS, right here in San Francisco. If you believe in fate, that must only mean one thing: 15 years from now, I will be Comptroller of the Currency.

Last year Tom called for us to compete "on the basis of who is best at identifying weaknesses early, when they can be most easily cured, and who can provide the kind of expertise and support that enhances bank and system resilience."

The very reason we created the SFSF is to engage in open, honest, and frank dialogue about supervision. Tom was blunt, and asked us to be blunt in return.

My blunt response to the Comptroller is that the OCC's challenge came a bit late. Each and every day, state regulators identify emerging weaknesses and provide supervision that enhances the resilience of the system, except when we have been hindered by overly broad federal preemption. That's our job, and we've been leading the way for decades.

And we will continue to lead.

States are leading in bank supervision by:

- Developing high-quality research and data from the CSBS-Federal Reserve Community Bank Research Conference to create better financial policy;
- Launching a community bank case study competition to study the impact community banks have upon their local communities; and
- Advocating for a more appropriate definition of a "community bank" that does not rely solely upon assets.

States are leading in non-depository supervision by:

- Unprecedented coordination of multi-state and state-federal non-bank examinations;
- Establishing the CSBS Emerging Payments Task Force to examine the many changes in the payments system and the States' role in ensuring the security and stability of the system for both bank and non-bank entities, including development of a model regulatory framework for regulating virtual currency; and
- Developing prudential standards for non-bank mortgage servicers.

States are leading in education and professional standards by:

- Raising awareness among bank CEOs of the threats posed by cyberattacks through the Executive Leadership of Cybersecurity (ELOC) initiative;
- Raising examiner certification standards; and
- Revamping our education and training programs to best meet the needs of 21st century state examiners and regulators.

These and other initiatives have been very ably led by many of the people in this room, and supported and made possible by everyone in this room.

For instance, Greg Gonzales, Charles Vice, Candy Franks, and Shane Deal have been instrumental in the development of the Community Bank Research Conference.

Candy and Charles Cooper have been our most vocal advocates for the development of a community bank definition.

As Chair of the State Regulatory Registry, Bob Entringer has steered the expansion and further development of NMLS.

The CSBS Education Foundation, under the leadership of Vicki Reider these past two years, is modernizing the training programs we offer, as well as the certification and accreditation programs.

Charles Cooper and his staff in Texas have been leading the way on cybersecurity.

This type of involvement is not at all surprising to me. After all, state regulators and CSBS are a group of leaders. Not only do we come together through CSBS to ensure the state system of supervision is out front, but each of you is a leader in your own right. You are leaders because of your current role as state officials, but also leaders in industry, commerce, and government.

For instance, Candy Franks has three times been named as one of the "Top 100 Women in Arkansas" by *Arkansas Business*. Jim Schipper was Chairman of the Iowa Bankers Association. Deryl Schuster is in the Business Hall of Fame at Southwestern College, and still serves on the Advisory Council for the college's School of Business. He even ran for the U.S. Senate in 1978 and has received awards from two U.S. Presidents for his service to the Small Business Administration. Charles Vice is a former FDIC examiner who was awarded the FDIC Chicago Region employee of the year in 2007. Finally, a good examiner the states stole from the feds, and not the other way around!

Some Commissioners also served in the state legislature. For example, Mark Quandahl, Lloyd LaFountain, and Mick Thompson all served in their state legislatures and held leadership positions. It's no surprise there is a Mick Thompson Boulevard in Mick's hometown of Poteau, Oklahoma in recognition of his leadership and contributions to the community.

Additionally, there are former state regulators who now serve as national leaders, such as Steve Antonakes, Sarah Bloom Raskin, Joe Smith, and Tom Curry.

Speaking of leaders, this past weekend, we remembered the men and women who paid the ultimate sacrifice in service to their country. Both of my parents were in the Marine Corps – my father fought in the 1st Marine Division at Guadalcanal, and my mother was a radio telegraph operator sending Morse Code. So I learned early on that there was no greater honor than putting on that uniform for the United States. My mother had her heart set on me being a Marine. (You can imagine her disappointment when I became a diabetic as a teenager!) Monday was special not only because it was Memorial Day but because it was the five-year anniversary or my Mother's passing. So I would just like to recognize all of the women and men here today who have ever served in our nation's military.

As for me, I have risen through the ranks, having been fortunate to begin my career as an entry-level examiner with the Division of Banks. In fact, next week will mark my 25th anniversary with the Division. I began my career during the New England banking crisis. I saw first-hand how devastating widespread bank failures can be for consumers, small businesses, and local communities. I also witnessed the impact that a failing bank had on all of the bank's employees. There were many lessons from that crisis. Bankers and regulators together learned about the need for strong risk management, experience throughout the organization, and a healthy dose of skepticism. This experience certainly shaped my outlook on regulation and the industry. I imagine each of you have a similar story to tell about how your personal and career experiences have guided you.

Looking across this audience and knowing your accomplishments is inspiring. We draw from a lot of talent and experience in this room. I know that state regulators are leaders in our own right, and only become stronger by coming together through CSBS.

CRITICISM OF THE STATES

Yet there are those who confuse our passion for ensuring our financial entities can meet their full potential to contribute to economic development with "capture." There are still those that would do away with the state system of supervision, and consolidate all supervision in one federal agency.

Throughout our nation's history, particularly following times of crisis and economic stress, policymakers have sought to reform our financial regulatory system. Indeed, we have been asking many of the same difficult questions and having the same heated conversations about the country's regulatory structure since Thomas Jefferson and Alexander Hamilton debated them.

At most every major juncture, policymakers have deliberately chosen options that favored diversity and discouraged the concentration of either financial assets or supervisory authority. Offered the opportunity to create a single federal regulator, policymakers have declined to do so time and time again.

- They declined at the beginning of the last century, when they created the Federal Reserve System;[1]
- They declined during the Great Depression, when policymakers considered merging the FDIC and the Federal Reserve;[2]
- They declined during successive Administrations who recommended consolidating regulatory authority in one behemoth agency;[3] and
- They declined in 2010 when Senate Banking Committee Chairman Dodd argued for consolidation throughout the course of the Dodd-Frank debate.

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[1] "Answering the Call for Banking Supervision." Federal Reserve Bank of Minneapolis. *The Region*, August 1, 1988. Available at http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=3824.

[2] "Prior Proposals to Consolidate Federal Financial Regulators." The Volcker Alliance. Available at https://volckeralliance.org/sites/default/files/attachments/Background%20Paper%201_Prior%20Proposals%20to%20Consolidate%20Federal%20Financial%20Regulators.pdf.

[3] Luttrell, C. "The Hunt Commission Report – An Economic View." Federal Reserve Bank of St. Louis, April 14, 1972; "Blueprint for Reform: The Report of the Task Group on Regulation of Financial Services." U.S. Government Printing Office, July 2, 1984; "Modernizing the Financial System: Recommendations for Safe, More Competitive Banks." U.S. Treasury Department, 1991; and "The Department of the Treasury Blueprint for a Modernized Financial Regulatory Structure." U.S. Treasury Department, March 2008.

Throughout our history, financial crises have occurred not because of our system's unique design or because we had too many regulators. More often than not, they have occurred because we've strayed from time proven principles, and had a lack of political or regulatory will to stand by those principles. Consolidating and concentrating authority into a single large federal agency would exacerbate these problems, not correct them. Safety and stability require more than one set of eyes on the system as a whole.

The fundamental principle of checks and balances applies to our bank regulatory system, just as it applies to all other elements of our government. Our dual system of federal and state supervision is an example of the principle's success.

STATE / FEDERAL COORDINATION

But success is only guaranteed when we work together. None of us are able to do this job on our own. We need each other, rely on one another, and make the other stronger. We must retain what is best about our dual-banking system: strong state and federal supervision.

During this coming year, we will mark the 20th anniversary of the Nationwide State-Federal Supervisory Agreement. This agreement between state regulators, the FDIC, and the Federal Reserve, serves as the foundation for coordinated state-federal supervision of interstate banks. The stated goals of the agreement which we have signed are to:

1. Provide for a seamless supervisory process;
2. Ensure that supervision is flexible and commensurate with the organization's risk; and
3. Minimize regulatory burden and cost.

This is the very bedrock of our regulatory framework, and now serves as the foundation of our coordinated efforts for non-depository supervision, as well.

As we reach the 20-year anniversary of this milestone agreement, let us rejuvenate our efforts to retain what is best about our system of supervision. The agreement was broadly framed and should be broadly applied to areas beyond traditional bank supervision. For example, the framework is the roadmap moving forward for coordination with respect to BSA, compliance, and non-depository supervision.

Of course there are challenges with coordination. We are going to disagree at times. And, quite frankly, federal agencies often disagree among yourselves more than 50 states do among each other. Believe me, I have been closely involved with FFIEC matters for almost nine years. I know how difficult it can be to reach consensus. However, more often than not, the back and forth among the federal agencies and the States has resulted in a better policy outcome. This tension is an inherent and necessary component of our system. But we also respect one another to speak candidly and honestly.

There are also inherent and necessary benefits and advantages of our system. We each have different goals and strengths as regulators.

The federal agencies have a system-wide, national viewpoint. You contribute significant research and data capabilities, and you can implement regulatory fixes on a national scale.

The states are able to identify emerging risks and create flexible and innovative regulatory solutions.

So while the states benefit from the federal regulators' national perspective, federal regulators can benefit from our local knowledge.

Our varying missions and strengths are not mutually exclusive and we cannot operate in a vacuum. In fact, these missions and objectives all serve as vital pieces in the larger puzzle of financial supervision.

We must work together on bank supervision, non-bank supervision, consumer protection, cybersecurity, the payments system, and other regulatory issues. Regardless of our different missions, I believe we share the same goal: a diverse, competitive, dynamic financial services ecosystem that feeds the economy, supports small businesses and the jobs they create, allows individuals to pursue the American Dream in a safe manner, and provides financial stability for the nation.

CALL TO ACTION / CONCLUSION

I am eager for the opportunities that lay ahead. This is an exciting time for our financial system. But I don't believe we can carry on with business as usual. Emerging technologies, new market participants, and the speed of commerce simply will not allow for us to operate in silos or without enhanced coordination and cooperation.

Therefore, building on the 20 years on cooperation and coordination, I challenge my federal counterparts to continue to listen and learn from us. At last year's State-Federal Supervisory Forum, FDIC Chairman Gruenberg invited CSBS to create a working group with the FDIC, including the Chairman and his senior deputies and a small group of commissioners, to allow us to meet on a regular basis. As he said in his speech, "I can't believe we haven't done this before now." I commend the Chairman for his leadership in this area. CSBS and the states happily accepted the Chairman's invitation and I believe we have benefitted from our regular meetings and frank discussions. By listening and sharing with each other, we can learn from lessons of the past and help identify emerging threats and issues. Let us truly work together to allow our state-federal system to work to its full potential.

As for the states, we're not resting on our laurels, either. We also recognize business as usual is not a solution. The states have accepted the Comptroller's challenge. In fact, we're well on our way.

With regards to bank supervision, we will seek to implement a better definition of a "community bank" and will incorporate better research and data to create a "right-sized" regulatory system. We will continue to participate in the EGRPRA outreach and review process and will encourage our federal partners to take concrete steps to tailor financial regulation based on an institution's size, risk scope, and business model. We will continue our efforts to mitigate cyberattacks, which is rapidly becoming the single greatest risk to our nation's financial system.

With regards to non-bank supervision, we will continue to expand the use of NMLS to serve as the foundation for all non-bank supervision. We will create regulatory frameworks for growing or emerging markets, such as non-bank mortgage servicers and virtual currency. And we will improve coordination through multi-state and state-federal supervision of non-depository entities, such as mortgage companies and MSBs.

Finally, with regards to professional standards, we will use enhanced technology to delivery state-of-the-art education and training for regulators. We will improve and strengthen our accreditation and certification programs. And we will work to ensure state regulatory agencies have the resources necessary to retain a talented and dedicated examination staff.

So I challenge my fellow state regulators to carry on. By working through CSBS, by being leaders, and by seeking innovative and flexible solutions, we can meet the demands of a rapidly evolving financial services marketplace.

Thank you for the honor of addressing you today and to serve as the Chairman of CSBS. I look forward to working with each of you in the year ahead.