CSBS YEAR IN REVIEW
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Introduction

Thank you, Neil, for that kind introduction. And thank you to my fellow Commissioners. As always, it is a pleasure to be with friends and colleagues.

As most of you know, it is customary for outgoing chairmen of this organization to sum up the accomplishments during their terms of office at the annual meeting. This year, there is a fair bit to report.

This past year has certainly been the kind of year Charles Dickens was referring to in A Tale of Two Cities: "it was the best of times, it was the worst of times." Over the past year we have faced a combination of continuing severe economic challenges and some very significant victories for CSBS, the system of state bank supervision, and the public interest.

The Worst of Times

The melt-down in the financial markets and the so-called "Great Recession" that has followed it have been—if not the "worst of times"—pretty close. Although recent economic data suggests that the worst of the recession is over, our economy has experienced a significant decline, with accompanying and persistent increases in unemployment levels not experienced since the early 1980s. Millions of foreclosures have been initiated since 2007[1]—primarily involving subprime loans—and is expected to increase during 2010, but now involving prime or conforming loans instead.

More ominously, perhaps, the crisis has resulted in the subvention of a relatively small number of large or interconnected institutions by American taxpayers, thus solidifying the "too big to fail" patina that allows such institutions preferred access to capital markets at a cost which has made their investment banking and trading activities somewhat akin to shooting fish in a barrel. The remainder of America's banks—the ones we supervise—have none of these advantages and are more and more often caught in a regulatory "Catch 22" where they are required to raise more capital without anything approaching the advantages enjoyed by the favored few.

[1] Source: RealtyTrac statistics for Auctions and REOs (2007=1,239,510; 2008=1,871,733; 2009=2,485,993).

The result of these challenging economic conditions and the government's implicit guarantee of the nation's biggest banks has been an increase in bank failures among banks that are "too small to count" and an attendant blow to the communities they serve.

The Best of Times

Despite these challenges and obstacles, CSBS and the state system of supervision have achieved a multitude of accomplishments and victories.

As we meet, the Senate continues to debate financial regulatory reform legislation. This process itself has shades of the best of times and the worst of times.

We have seen a recognition of our roles as regulators and of the need to coordinate with state regulators. If there is new consumer protection bureau, it will have to coordinate with us and we have the opportunity to establish ourselves as robust partners. Separately, we might have a presence on any new financial stability oversight council. Additionally, we are likely to be successful in preserving our authority to interpret state-specific legal lending limits. Yet, through the continuing preemption debate, we have seen continued efforts to erode and constrain our authority and our ability to protect our communities and our citizens.

Through the efforts of many in this room and colleagues who weren't able to join us, we successfully fought back efforts at excessive regulatory consolidation that would have damaged the dual banking system. We saw this with Dodd's significant walk back from his "Single Regulator" And, most recently, our efforts were instrumental in securing Senate approval of the Hutchison amendment, which preserves the Fed's supervisory role over state-member banks. On the other hand, in terms of industry consolidation, it remains unclear whether the regulatory reform legislation has done enough to truly address "too big to fail" in our system.

In the legal arena, the role of states in consumer protection was—at long last—vindicated by the decision in *Cuomo v. Clearing House LLC*. While the victory mainly buttresses the efforts of our Attorneys General, we should applaud it as a vindication of the vital role that states play in consumer protection and of our long-held view that the assertion of federal preemptive power has gone too far and has frustrated that vital role.

Our year as a regulatory organization was tremendous. Through the efforts of the State Regulatory Registry and its Board of Members, states have banded together to create and now to implement a nationwide system of mortgage licensing that will form the foundation of regulation of the retail mortgage market. Further, the SRR platform can be expanded to encompass other non-bank financial markets as well. As state regulators, we are being judged on our ability to effectively regulate those financial services providers that fall outside of the traditional banking model—mortgage brokers, payday lenders, money services businesses, and a host of other entities. If we fail to protect consumers of these non-bank providers, we run the risk of being relieved of our supervisory responsibilities over banks. Through NMLS, we have revolutionized mortgage supervision. We must now explore the opportunity to revamp supervision of other financial markets.

A further regulatory win has been the effective state participation, under John Munn's able leadership, on the Federal Financial Institutions Examination Council. As chairman of the State Liaison Committee, or SLC, Commissioner Munn has a vote on the Council and is joined on the SLC by Sarah Bloom Raskin, Charles Vice, Harold Feeney, and Doug Foster. Yet there are several more individuals around the nation that have represented the SLC on FFIEC Task Forces and Working Groups, or have been called upon by CSBS staff to review documents and make policy determinations. I estimate there have been approximately 35 state representatives hard at work on FFIEC initiatives this past year, not to mention the CSBS staff that facilitates our participation in the FFIEC. The FFIEC has had a prolific year and has issued a number of important supervisory directives and guidance documents, including proposed reverse mortgage guidance, an issue first brought to the FFIEC's attention by the states. The FFIEC has been improved by the unique perspective brought by state regulators. Further, CSBS and state supervision have benefited from our participation in the FFIEC. But I offer this to my fellow state regulators: the benefits we reap are directly correlated to the time and resources we dedicate to the FFIEC.

"E Pluribus Unum"

So how did state regulators and CSBS achieve these successes during such a trying period? The answer is literally written all over the bills and coins that funnel in and out of the banks we regulate and throughout the U.S. and international marketplace: E Pluribus Unum.

Loosely translated, the phrase means "out of many, one." It powerfully expresses the way in which the United States was originally established. Thirteen sovereigns worked together to create a national government that could serve their common needs and promote the welfare of their citizens. As even a cursory reading of history will show, the process was not an easy one. While this seems like a routine occurrence today, such a unification of multiple sovereign governments was nearly unheard of in the late 18th century. Achieving this solidarity was difficult and met several setbacks. Each of the constituent states—represented by visionaries and head-strong legends such as John Adams, Benjamin Franklin, and Thomas Jefferson—had to give up something in service of the greater good and in the interests of its citizens.

The ongoing story of the creation and preservation of our Constitution is the story of the working out of that union, including the tensions that exist between states and between the states and the federal government. Many have argued that our system of financial supervision was an accident of history and that no one would establish such a system if starting from scratch today. We could argue that point all day long. But what is irrefutable is that our nation is best served by a federalist supervisory system characterized by checks and balances upon supervisory power. The bedrock principles of our Constitution are preserved in our system of financial supervision. There is a healthy tension among state and federal supervisors and a built-in check upon the concentration of authority within the confines of Washington, DC. Our

Founding Fathers recognized that power can corrupt and therefore built a nation which pits powers against one another. Similarly, Congress, throughout the decades and the regulatory reform debates, has maintained the dual-banking system to preserve the principles of federalism.

I do not think it is an exaggeration to say that our work together as an organization is in the best tradition of our Founding Fathers. We are, to be sure, a diverse group in terms of background, interests, and political views. However, we have put those differences aside to pursue the greater good: sustainable economic growth and the protection of our citizens from depredation. As the old timers in the room will attest, our work together has not always been easy, but we have always found a way to find common ground and to work together effectively. If that is not the very definition of effective federalism, I don't know what is.

Conclusion

In the coming year, we will continue to be presented with significant challenges and roadblocks. However, these obstacles can be overcome by banding together with our state peers and our federal counterparts. By following the motto "E Pluribus Unum," we can harness our resources and expertise to surmount any threats to our financial system and economy as a whole.

It has been my honor to serve as your Chairman. I conclude my term with a profound sense of satisfaction at our accomplishments working together.

And as I hand the gavel over to my colleague Tom Gronstal, I have great faith in the future of CSBS and the state system as a whole. Under Tom's leadership we will achieve great things this year. I am looking forward to the future and hope you are too.

Thank you.