

Speeches

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Beyond Safety and Soundness

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Almost exactly four years ago, I came before you in San Francisco within days of becoming OTS Director. Today I address you as I prepare to leave office.

Then, and now, and in the four years in between, both in this forum and others, I've tried to encourage you without preaching (although sometimes I probably went over that line), support you without cheerleading (although I probably strayed there too), and let you know what we were concerned about--since regulators are always concerned--and why.

Today I want to do all that, and to do it within the context of why the thrift charter is the best business choice for a community bank, and what you need to do to keep it working that way--for you, your owners, your employees, your customers and your communities.

But first, I want to thank all of you, individually and collectively, for the tremendous support ACB and your leadership has given to OTS and to me. We haven't always agreed. That's the way it should be. But I always knew we could count on you to tell us what you think, to be constructive, and ultimately to be supportive of who we are and how we supervise.

I want to particularly thank the ACB Chairmen and Presidents who have served during my tenure--Neil Mahoney, Lee Beard, Bill Fitzgerald and David Bochnowski, and Diane Casey and Paul Schossberg. It's been a pleasure working with each of you.

About a month ago, I went back to San Francisco to give what was really the first half of this speech: a discussion of how banks and community groups--with a broader set of partners and better understanding from those who fund community groups--need to think "Beyond CRA."

Beyond CRA obviously does not mean doing away with CRA. I believe--and my four years at OTS have strengthened my belief--that CRA has been a vital element in one of the great successes of American finance and American democracy: the vastly increased availability of credit, particularly mortgage credit, to those who had previously been shut out of the American dream.

The point of going beyond CRA is that there is still so much to do--including continuing and expanding on what we've done, and not letting what we've accomplished be diminished by those who would abuse unsophisticated borrowers. But to accomplish this, both banks and community groups must establish new ways of working together, and must bring new partners into the picture.

I also reiterated what we discussed with many of you at the OTS-sponsored Leadership Conference in Atlanta last April: the communities CRA targets are often the communities that today hold maximum business opportunities. I urge you to take a look at the San Francisco speech, which is on our website.

Today I'd like to focus more directly on the special opportunities and obligations of the thrift charter, and what the dedicated people at OTS and I have tried to do over the last four years to make it all work better.

Whenever I speak to someone who is either amazed that thrifts still exist--and I'm sure that you encounter them too, although I'm happy to say there are far fewer of them today than four years ago--or who want to know the difference between a bank and a thrift, I go back and start with Home Owners' Loan Act of 1933.

Think back to HOLA, passed in the midst of an economic crisis when Americans were losing their homes, and amended over the years to offer the ability to be a complete community banker. It provides "for the deposit or investment of funds and for the extension of credit for homes and other goods and services."

What I've learned over the last four years as OTS director is how the best of you act as community bankers and serve your communities with all that entails--how you combine financial leadership, market leadership and civic leadership.

Where does it start? In my view, it begins with a strategic vision:

- A vision that focuses on long-term profitability, not short term gain or the "business line of the week."
- A vision developed by an involved board with the strong support of management, employees, the community to be served and other stakeholders.
- A vision that recognizes and builds on what makes, or could make, your institution special, and give it a competitive edge, including thinking creatively about the potential new markets in your midst.
- A vision that includes measurable goals and results, and a monitoring system that measures results and alters strategies and tactics if desired results are not achieved.
- A vision that encompasses a series of strategies that are periodically reviewed and renewed.

And then, of course, it means implementing that vision well, safely and soundly, profitably, and with full attention to your responsibilities--legal and moral--to the customers and communities you serve.

And our job is to help you do just that. After all, section 5(a) of HOLA also directs the Director of OTS to regulate giving "primary consideration to the best practices of thrift institutions in the United States."

Over the past four years, we've tried to do this three ways:

First, we've worked hard to rebuild OTS. To make certain our staff, particularly those on the front lines, have the training, tools and understanding of both the changing financial environment and your needs and challenges to serve both you and the American public well. This is what we've done:

- While we've downsized, we've substantially upgraded the skills of the staff.
- We've been refilling our pipeline of examiners, shut off when I arrived, with enthusiastic and well-trained newcomers, both right out of school and in their second careers, and trained them not only in the classroom, but also on the job.
- We've upgraded our technology substantially, so that across the agency, in both the examiner and supervisory ranks, as well as for policy-making purposes, we have better and faster access to the information we need both to supervise individual institutions and to develop and implement policy.
- We've strengthened and speeded up our application process and, in general, our process for responding to your requests and concerns. At the same time, we've also increased the thoroughness with which we look at business plans, particularly those that present new or apparently risky strategies.
- We've enhanced communication across the agency so that we learn effectively from each other and increase the likelihood that we will act consistently across the nation.
- We have upgraded both our Ombudsman and Quality Assurance functions to assure both you and us that we are acting fairly and effectively.
- We've put the agency on a better financial footing, for now and the future, with a series of fee schedule revisions that attempt to better align fees charged with the time spent on and difficulty of supervising an institution. As I've discussed with you previously, I believe a more level playing field across charters for the payment of the costs of supervision is an important element in retaining full charter choice, including the choice of state charters for those who favor them, and is an appropriate subject to be considered in the course of deposit insurance reform.
- And overall, we've significantly increased agency morale. No longer do OTS employees spend their days worrying whether OTS will continue to exist. It's not that the concern has gone away--after all, they read the *American Banker* too--it's that they're confident enough now of their own value, and the agency's, that the issue has receded into a long-term news story, not an every day worry. And that means that they're much more effective in doing their jobs.

Second, we've worked to enhance communication with you, and to try to make as much of it as possible two-way communication. Let me give you some examples:

- Probably the most obvious way we've done this is with a different exam philosophy, one that started before my tenure. Any number of you, over the years, volunteered to me that the "new OTS" is one that is no less thorough, but is far more collaborative and less adversarial. Our policy of working with you throughout an exam to let you know what we're finding and to provide an opportunity to correct what can be corrected while we're on site is part of this new philosophy.

More frequent field visits and follow-ups when there are problems and concerns is another. Greater use of technology in exams, including collection and analysis of loan data electronically and use of electronic documents also helps exam efficiency and quality. So does increased attention to meetings with the Board that focus not only on our concerns, but also on the critical issue of the institution's long-term strategy and how it plans to implement it.

- Our Community Affairs Liaisons and Specialists have been out working with you, individually and collectively, to help you find and effectively serve those new

markets where the "high touch" community orientation of the thrift industry gives you a leg up. They've also been there to help you develop partnerships: with each other; with community groups; with government agencies, both national, such as SBA and Rural Home Loan, and state and local.

The work we've done together in this city is a shining example: the New Orleans Bankers Roundtable; the Thrift Loan Consortium between ten New Orleans thrifts and Neighborhood Housing Services of New Orleans; the partnership among Eureka Homestead, Central City Housing Development Corporation and the Dallas Home Loan Bank to provide IDAs to low income families to help them build assets for home ownership; the partnership between Dryades Savings Bank and Shell Oil Company to expand Dryades' lending capacity to qualified minority- and women-owned businesses; and the partnership between State-Investors Bank and New Orleans Habitat for Humanity.

- We've also stepped up our broader communication with you, through town meetings, the Directors' Forums, the Leadership Conference, financial management seminars, TFR training, community forums, mutual meetings, participation in state and national trade association events, and participation in all sorts of training events. We hope to start a new series of Directors' Forums, which will have some advanced as well as some more basic elements, next year.
- We've implemented innovative ways of dealing with difficult regulatory issues, such as our Privacy Preparedness Checklist, which helped OTS-supervised institutions successfully get ready for implementation of the privacy regulations in a timely and orderly manner.
- We've substantially upgraded our web site and made it much more user-friendly. Regular morning visits to the website can give you a wealth of information about what we're doing, and the search engines can provide you with enough information that you might think you can fire your lawyers. Please don't. For those who haven't made visiting a regular habit, give it a try. We've kept the graphics to a minimum so you can move quickly through the site.
- And we try to stay easily available and responsive, at both the regional and Washington level. I'm frequently told that people like working with OTS because you can pick up the phone and usually reach the person you need to talk to without going through a lot of red tape. I've personally enjoyed the reaction when a CEO--usually from a western time zone--calls my office at 7:00 in the evening and I pick up the phone myself. Most of the time, I enjoy the ensuing conversation too.

Third, we've made improvements to the charter through our regulations, guidance, handbooks and opinions, as well as through our work on the Hill and with other agencies, such as the SEC.

- In addition to streamlining the applications process, we updated fiduciary powers and published a flexible series of regulations dealing with electronic operations. We have revised our interest rate risk bulletins and models, and continue to work to improve them further. We've completely revised our trust handbook, making it by far the most forward-looking and modern of any of the regulators.
- We're better aligning our capital rules with the practices of the other regulators and last week issued a proposed regulation that would better align investment authority, including authority to invest in municipal securities. A final rule on risk weighting residential mortgages should be out very soon.
- We have made clear our support for the mutual form of organization. While we haven't quite completed the mutual conversion rule, we have in fact implemented many of its principles that clarified and expanded on existing practice. And last week we issued new mutual exam guidance, including guidance on compensation,

that should go a long way toward helping our examiners work more effectively with those who want to stay mutual--and other small institutions as well.

- While some of you haven't been entirely enthusiastic about our holding company policy, I hope by now you understand our concerns; we do see somewhat better communication between holding companies and OTS, and also between thrifts and their holding companies. This week we will publish a proposed regulation that makes clear how the actions of the Fed concerning financial services holding companies benefit thrift holding companies too. Read it--you'll find confirmation of the continuing vitality of the thrift holding company charter, even for new holding companies.
- We've established a close working relationship with other regulators, including not only the other bank regulators, federal and state, but also the state insurance commissioners. We have made it a priority to understand both the insurance industry and its regulation, and to make certain that commissioners whose jurisdiction includes insurance companies that own thrifts also understand our industry and how we regulate. Our interactions with the SEC helped pave the way for parity between thrifts and banks with respect to broker-dealer status.
- And, we've worked quietly but steadily on the Hill, both offensively and defensively, to maintain and enhance the thrift charter while also maintaining our ability to regulate effectively. It's sometimes easy to forget that four years ago, "charter merger" was being discussed as practically a foregone conclusion. Obviously the work you and your colleagues did was critical to turning this around, but having a credible regulator was also important.

Finally, I want to mention something that dominated a year of my tenure, Y2K. Sure, it was painful--and expensive--for all of you, and for a while it seemed as if the effort had been pointless. The benefits we spoke of then--the three "c's" of contingency plans, collaboration, and communication--were being forgotten.

The events of September 11 reminded us of the importance and utility of what we learned two years ago, and, fortunately, we hadn't completely forgotten those lessons. They will serve us all well not only with respect to potential disruptions, but also in the effort to ensure that the American banking system is not used as a haven for, or means of moving, funds for terrorist purposes. It is now more crucial than ever to keep those three "c's" healthy and active.

Now, let me leave you with a few thoughts:

First, work with your regulator. No, we're not perfect, but we see a lot of institutions, and spend a good deal of time learning from our fellow regulators about what they're seeing. When we spot a problem, try to understand what we're seeing and why and work with us to fix it. Avoid the classic defensive reaction.

It's been interesting over the course of four years to watch the institutions that have become healthier and those that have become weaker. Often, the difference is that those who paid attention worked with us avoided getting hurt by market events that were beyond their control, whereas the others suffered the full effects.

But if you think we're really out to lunch, don't sit on your hands, since we get particularly ornery if problems are ignored. Take it up the chain in your region, and use the services of the Ombudsman if you're still having a problem.

Second, remember that the bad acts of others in the financial services industry will come back to bite you if you don't get ahead of them. Remember truth in lending, privacy, predatory lending? You're part of a very large, visible, regulated industry with lots of players, some with actual or perceived deep pockets. Just because you're doing things right doesn't mean you can ignore what others do.

Third, remember that competition and technology are both your friends and your highest source of risk. Keep on top of what's happening, think creatively, understand what works for you and what doesn't, use experts and consultants, but don't depend on them to make your strategic choices or manage your operations for you. Remember the importance of strategies for long-term profitability.

Fourth, value what you have. It's a great charter, wonderfully flexible, with nationwide reach and a single regulator. The state thrift charters are also flexible. If you want to be in the community banking business, in the retail banking business, you've got something good going. Make certain you keep the federal and state options available, including the mutual option. Keep up the pressure for meaningful deposit insurance reform. All this may, of course, require a trip to the Hill and a visit with your congressman when he or she is back home and more able to concentrate on why you're worth listening to.

Fifth, value your community. They're your lifeblood. If the community has changed or is changing, get out in front of it and figure out how best you can serve it, both as business and as civic leaders.

If you need help reaching folks, there are some extremely competent and effective partners and intermediaries out there. If your community is not doing well, you won't either. If you help them do well, you're well set up for long-term profitability. Being a responsible lender and provider of financial services is your comparative advantage.

And finally, thanks for a wonderful four years. It has been both a pleasure and an honor to serve the American people by supervising an industry that so overwhelmingly serves them well too. I appreciate all the advice and support you've given to me and to OTS over the years. I'm certain you'll give the same to Jim Gilleran. But I'll miss you all. Thank you very much.