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Good morning. Thank you for the generous introduction.

As you just heard, I am the new Commissioner of the California Department of Financial Institutions, and I supervise banks and credit unions – not your big brothers like Continental Illinois, or a WaMu, Countrywide, Wachovia, Golden West Financial, IndyMac, or your 21st Century Brave New World of Banking first cousins – AIG, GMAC, MF Global, Bear Stearns, Lehman Brothers, Long Term Capital Management, Sentinal Management, Madoff Investment Securities, or Peregrine Management Group.

Don't you get tired of every news commentator and pundit referring to all these infamous first cousins, as "banks"? And now banks in California are experiencing the regulatory consequences brought upon the banking industry by these big brothers and first cousins.

It makes you wish for the peaceful days before the Financial Services Modernization Act of 1999, which, among other things, repealed part of the Glass–Steagall Act of 1933, removing barriers in the market among banking companies, securities companies and insurance companies that prohibited any one institution from acting as any combination of an investment bank, a commercial bank, and an insurance company. I find a little history to be both insightful and instructional when I take on new responsibilities. With the passage of the Financial Services Modernization Act, commercial banks, investment banks, securities firms and insurance companies were allowed to consolidate.

A year before the law was passed, Citicorp, a commercial bank holding company, merged with the insurance company Travelers Group to form the conglomerate Citigroup, a corporation combining banking, securities and insurance services under a house of brands that included Citibank, Smith Barney, Primerica, and Travelers. Because this merger at the time was a violation of the Glass–Steagall Act and the Bank Holding Company Act of 1956, the Federal Reserve gave Citigroup a temporary waiver in September 1998. Less than a year later, the Financial Modernization Act of 1999 was passed to legalize these types of mergers on a permanent basis.

Everyone knows the famous line that those who fail to understand the past are doomed to repeat it. Somehow everyone just knew it was going to be different this time around!
It is now 2012. What has changed? First, these huge new financial institutions strain the notion of too big to fail and the threat that they will drag down numerous institutions. Today they are much larger than when the current banking crisis began. Second, greed and envy crept into the financial system. Envy of the huge profits and the resulting bonus's given to investment bankers and hedge fund managers. So the Financial Modernization Act was passed to allow bankers to get a piece of the profit pie from non-

traditional financial activities by allowing these once-banned activities for banks back into the banking system. We turned a blind eye to history.

Many bankers … but certainly not all … could, and did, take larger and bigger risks in pursuit of profits, and a generous bonus system, designed by the very people who were to benefit from the bonus system, was born.

Bonuses were paid on short-term profits with little or no consideration of the potential consequences for long term disastrous losses. It was enterprise risk management gone amuck!

But that was yesterday. Let's talk about today.

Today, I wish to talk about the good in the banking industry – your bank - Community Banks. Traditionally, a community bank has been defined in terms of its size, up to $1 billion in assets, or its narrow geographic locale, or high amounts of loans and core deposits, or its local ownership.

I do not believe any of these characteristics specifically define a bank as a community bank, particularly in California.

Simply put, I consider a bank to be a community bank if it serves the needs of the community in which it operates. That means, among other things, a focus on small business lending, building core deposits where possible, facilitating mortgage lending. In other words, community banking is relationship banking that drives profits through long-term relationships brought about by full-service banking provided in your community.

So, whether located in small towns, suburbia or big-city neighborhoods, community banks improve our towns and cities by funding local businesses and using local funds to assist families to purchase homes, cars, or finance college for their children.

A few moments ago I talked about bankers thinking that things were going to be different with the elimination of the prohibitions found in the Glass-Steagall Act. And of course, the results were the same, and could have been much worse if the Federal Reserve had not bailed out most of the large financial intermediaries.

I think there are lessons to be learned from banking history that are appropriate to consider today in California. The history I'm talking about is not the Glass-Steagall Act, or all the banking laws past and present, but rather the history of a California banker, A. P. Giannini. The son of immigrants, A.P. made loans to immigrants when other bankers refused. Giannini's revolutionary idea was to lend money to working class people, an entire class of people who were deemed by banks at the time as uncreditworthy. Most bank customers today take for granted the things Giannini pioneered, including home mortgages, auto loans and other installment credit.

Giannini kept his banks open until nine or ten at night for the workers in his communities. He believed banks should be a part of the community, open and accessible - each local branch had a local advisory committee, much like the credit unions today. Giannini hired local staff. His bank officers, including AP himself, sat in the middle of the floor where members of the community could walk in and talk to them. Studies today show that consumers are willing to pay more for personal services, something I know many California banks do very well in serving your communities.

Giannini was generous with his employees, and instituted profit-sharing and stock ownership plans. He understood that sharing profits with his employees would guarantee their loyalty and his success.

Remember, the face of your bank is usually your lowest paid employees, your bank tellers and account clerks.

Why do I speak today about Giannini and his banking experience with a largely immigrant population? Because of the current demographics of California:

- California is the most populous sub-national entity in North America.
- If it were an independent country, California would rank 34th in population in the world. Its population is one third larger than that of the next largest state, Texas;
- No single racial or ethnic group forms a majority of California's population, making the state a minority-majority state.

All of this data reflects opportunities for banks in California, but it also reflects challenges. Much of the above statistics represent a population that comes from countries where bank deposits are uninsured and there is little opportunity to have a banking relationship. As bankers in California, you have a unique opportunity to take advantage of a program now administered by the Department of Financial Institutions, called Bank On California.

Bank On California is a voluntary collaborative initiative in eight cities and counties that gives unbanked households access to mainstream financial products and services, including no- and low-cost checking and savings accounts and access to financial education.

Community partners include community-benefit, non-profit organizations, local, state and federal government agencies, and banks and credit unions.

Bank On California has made significant progress opening over 200,000 new accounts over the past four years, expanding financial education opportunities by conducting over 2,000 financial education workshops, and reaching out to thousands of unbanked low- and moderate-income families and individuals throughout the state.

Earlier I told you I consider a bank to be a community bank if it serves the needs of the community in which it is located. Size doesn't matter.

The bottom line is that each bank needs to look at its community and determine how best to serve that community and its members.

Banking is no longer just a portfolio of commercial real estate loans. Rather banking is about knowing your community and ex ploiting all the possibilities in a l ong term commitment.

As the new Commissioner for the Department of Financial Institutions, I am often asked by bankers what is my vision for banking in California. My answer is always the same. My vision is to restore the public's trust and confidence in the banking system by ensuring the safety and soundness of the state's chartered depository institutions.

I truly want to return to the days when the public viewed bankers as the good guys, pillars in the community. Bank On California is simply one side of that same coin.

I have been working in the banking industry for almost 35 years. I know banks. I know bankers. I have worked with majority banks and minority banks, "too big to fail" banks and what I call "too small to lose" banks … banks that are the only bank serving their community.

I know all of the bankers that I have worked with to be good people.

On one occasion when I shared my vision to restore the public's trust and confidence in the banking system in California, the response I received was "Good luck with that".

At the time, I was surprised with the sentiment that my vision might be impossible to achieve. However, in the seven months that I have been with DFI, I have come to believe that the realization of my vision might not be so far off, as long as each bank's leadership continues to lives and breathes the vision and the means to achieve it.

I have met with many bankers, many bank customers and many consumer groups. Everyone is concerned about the new rules, regulations, reforms and agencies. Regardless of whether it is the Dodd-Frank Act, FSOC, Living Wills, CFPB, the Volcker Rule, Securitization Reform, Derivatives Regulation, Rating Agency Reform, Capital Requirements, Basel III, OFAC, Bank Secrecy Act, AML Regulations, Compensation and Corporate Governance, or the extension of TAG. By the way, I am sure all of you know that President Obama has come out in support of extending TAG for two year and the vote in the Senate is expected this Thursday. Stay tuned.

When considering the multitude of regulations and reform, the question for the banker is the same. How is this going to affect my bank, my customers, my employees, my investors, my business, my family and my community?

Will we be better off?

And as the prudential regulator and supervisor of banks, I must ask, will these rules and regulations contribute to the safety and soundness of the depository financial institutions in California?

I must confess, it is difficult to make the argument today that additional oversight of financial institutions is unnecessary.

There are still too many cracks in the laws and r egulations that major institutions continue to fall through or just simply ignore.

MF Global's missing customers' funds, Barclays manipulating LIBOR, ING Bank violating OFAC rules, JP Morgan's $9 billion trading loss, and just yesterday, the U.S. Department of the Treasury announced settlements amounting to $875 million – the largest collective settlement in the department's history – with HSBC Holdings plc (together with its affiliates, HSBC). The Treasury Department's collective settlement, reached by the Financial Crimes Enforcement Network, the Office of the Comptroller of the Currency, and the Office of Foreign Assets Control is part of the combined federal, local, and international government action that amounted to the largest bank settlement in U.S. history. In total, more than $1.9 billion were assessed in penalties for HSBC's conduct in violation of the Bank Secrecy Act and U.S. sanctions.

The Treasury Department stated that the penalties reflect the damage to the integrity of the U.S. financial system inflicted by HSBC.

And let's not forget the Order issued by the Superintendent of the New York Department of Financial Services against Standard Chartered Bank for allegedly scheming with Iranian banks, corporations and other entities to allegedly hide 60,000 transactions, worth at least $250 billion, in violation of OFAC, BSA and AML.
In a statement released on August 7th, Standard Chartered Bank strongly rejected the allegations of the New York Superintendent of Financial Services.

"According to SCB, its success as a bank is due in part because it is 'trusted worldwide for upholding high standards of corporate governance.' SCB prides itself for having a 'distinctive culture and values [that] act as a moral compass.'

These are words that I know all of you use to describe the culture and values at your bank and to describe your personal moral compass.

As we consider today how best to manage all of the enterprise risks that will face banks tomorrow in California, the question for all of us is whether or not the leaders in the state chartered banks in California are "walking the talk". Are the actions of the bank leaders in California that espouse these words consistent and supportive of the promises made to their customers, employees, investors and community?

If the actions of any bank officer are inconsistent with or contrary to the vision to restore the public trust and confidence in bankers and banks, that person does you, your bank and your customers a disservice. They damage the integrity of the financial system in California.

They undermine your good work and your goodwill.

How do the banks, credit unions and the prudential regulators and supervisors restore the public's trust and confidence in the financial system in the face of these egregious violations of the public's trust? How can we ask the public to have confidence in our financial system?

The answer lies in the culture of each financial institution and the character of its leadership.

Public confidence in our financial institutions will be restored, truly restored, when strength of character and strength of balance sheet are aligned.

When past errors serve as lessons learned, not to be repeated.

When fairness to customers, employees and investors is paramount.

When prudent enterprise risk management is overriding and vital to the success of the enterprise.

When the practice of repeated exceptions to policy, procedures and proper governance is not tolerated.

When the safety and soundness of the financial institution is a fundamental and guiding principal.

When the rule of law is sacrosanct.

Only then will the general public again hold all bankers in high esteem, as pillars in the community.

I know that the bankers and banks in California are well on your way to demonstrating that the banks in the Golden State are deserving of the public's trust and confidence.

I look forward to working with each of you towards our common vision.

Thank you for your vigilance, staying true to serving your community and preserving the integrity of the financial system in California.

TEVEIA R. BARNES, COMMISSIONER

CALIFORNIA DEPARTMENT OF FINANCIAL INSTITUTIONS (DFI)