

California Bankers Association
60th Annual Legislative Conference

One Year Later: State of Banking in California

Sacramento, April 2, 2013

Good morning. Thank you Jeff Ball for your very gracious introduction. I also wish to thank Rod Brown, Mary Allis Curran, Maureen Padden and Kevin Gould for your leadership and initiatives, including the Consumer Center, at the California Bankers Association. You have been steadfast champions of banks and consumers by offering resources for consumers to learn more about credit borrowing, building wealth and banking services.

Thank you also to the California Bankers Association for inviting me back after my first year as Commissioner of the Department of Financial Institutions. I remember distinctly my first meeting with the CBA last year, because it was on the morning of my birthday. One of the very first questions was “What is your vision for the banking industry in California?” Birthdays have a way of causing you to look back at history and to also look forward to the future. So I was not troubled by the question on my birthday as to my vision. Without hesitation, I responded that my vision is to restore the public’s trust and confidence by ensuring the safety and soundness of the state’s chartered banks. Looking back in history, I remember the days when bankers were considered pillars in the community.

I remember sensing some misgivings in the room that day. I also sensed some promise of hope for the future.

Looking back at 2012, I agree with Charles Dickens, “It was the best of times, and it was the worst of times.”

It was the worst of times in terms of the number of bankers at major financial institutions that contributed to bringing down the reputation of an entire industry. Standard Chartered Bank's \$250 billion in violation of OFAC, BSA and AML, Barclays manipulating LIBOR, ING violating OFAC rules, and HSBC's violation of the BSA. 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.

It was also the worst of times in 2012 for 24 state chartered banks that were the subject of enforcement actions, including six Cease and Desist orders, three Board Resolutions, and 15 Memorandums of Understanding.

Looking forward in 2013, DFI is focused particularly on the "M" in the CAMEL. We are focused on you, the banker. How are you managing the bank's capital, assets, earnings, liquidity and sensitivity to risks? Are these factors strong despite your efforts? Or are they improving because of your efforts? It is fitting that the "M" is the middle letter, because every aspect of your bank revolves around your actions and your character.

As you participate today in the 60th CBA Legislative Conference, I wish to point out two new laws in California that may affect state chartered banks. The first is Financial Code Section 583. As of January 1, 2013, DFI is required to publish its final orders on the Department's website. In addition to final orders, decisions to modify or rescind an order of a bank also will be published on DFI's website. Final orders and decisions issued prior to January 1, 2013, are not affected by this law, unless the final order or decision is modified or rescinded after January 1st.

DFI published on its website its first Order affecting a state chartered bank last Friday, March 29th. That was my birthday. It was not the birthday event I had hoped for this year. But it will be the event that will continue in DFI's supervision of banks when necessary.

Going forward in 2013 and beyond when considering whether a final order is appropriate to be issued, modified or rescinded, the following considerations will be factors in DFI's ultimate decision regarding a specific bank. We will be considering:

- The board and management's policies and procedures regarding compliance and the importance placed on correcting objectionable practices;
- Whether violations or objectionable practices were willful or intentional, repetitive, substantive, or numerous;
- The bank's history of violations or unsatisfactory practices, as well as its history of instituting remedial or corrective actions in a timely manner;
- The extent of financial or other harm caused, or likely to be caused, by the violations or unsatisfactory practices; and
- Whether the bank has initiated corrective action and established procedures to prevent future deficiencies or violations and

We will be considering whether your bank's capital, assets, earnings, liquidity and sensitivity to risk are improving because of your efforts.

2012 was the best of times for many of you who rallied to the call to conduct the business of banking in a safe and sound manner in the true tradition of banking. Thirty-four bank enforcement actions were lifted in 2012, including 12 Cease and Desist Orders, four Board Resolutions, and 18 Memorandums of Understanding. The management and boards of these 34 banks are to be commended for understanding your responsibilities and for taking appropriate and timely action to get your banks back on the path to safe and sound banking. You serve as a model to the industry.

In January of this year, DFI's banks were directed to submit responses to the Residential Mortgage Survey with year-end data for 2012. The purpose of the survey was for DFI to maintain complete, accurate, and up-to-date information on the real estate loan portfolios of state chartered banks to determine current risk and to assess

the potential effect of any proposed regulatory or statutory changes at the federal and/or state level.

The second new California law that I wish to discuss today is the Homeowners Bill of Rights that became effective this January. This year's Mortgage Survey included questions regarding foreclosures on first lien mortgages within California on 1-4 unit Family Residential Property that is owner occupied. The preliminary results of this year's Survey indicate that the volume of mortgage loans past due 90 days or more has decreased by approximately 37%. In addition, foreclosures and modifications have decreased by approximately 40%, while short-sales have increased by approximately 20%. DFI banks and credit unions reported holdings of approximately 320,475 mortgages with balances totaling approximately \$54.2 billion. No DFI licensed bank or credit union reported more than 175 foreclosures on first lien owner occupied mortgages.

After the enactment of the Homeowners Bill of Rights, the movement is clearly in the right direction in terms of the safety and soundness of banking in California and the protection of the consumer. These preliminary results provide some comfort that the interest of banks in California to operate in a safe and sound manner and the interests of the consumer to be treated fairly are more aligned. We are moving closer to the true traditions of banking in California.

I must admit that when I think of the true traditions of banking in California, there is no more genuine California banker to me than 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. Giannini hired local staff. His bank officers, including AP himself, sat in the middle of the bank lobby where members of the community could walk in and talk to bankers.

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.

Banking is about knowing your community and enjoying all the possibilities in a long term commitment. California is the home of community banking, the foundation of the banking industry, where bankers are considered the pillars in the community.

A bank is a community bank if it serves the needs of the community in which it is located. I hope that each of you are considering the needs of your community and determining how best to serve that community and its members in a safe and sound manner.

At DFI, we will continue to be focused on the 25 banks that need to take prompt corrective action to return to safe and sound banking. And if we identify similar risks at other banks, they will be added to this list of banks whose Orders will be published on DFI's website. Safety and soundness is core to our mission and protects the people of California.

We are also encouraged by those of you that are operating in a satisfactory manner and are not subject to any enforcement action. Today your leadership has demonstrated the importance of aligning strength of character and strength of balance sheet.

- Your management and boards have learned from your past errors and the errors of your peers.
- Fairness to your customers, employees and investors is paramount to you.
- You appreciate that prudent enterprise risk management is vital to your success.
- The safety and soundness of your bank is a fundamental and guiding principal.

I have been working in the banking industry for 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.

The realization of our shared vision to restore the public’s trust and confidence might not be so far off, as long as each bank’s leadership continues to live and breathe the vision and the means to achieve it.

As bankers in California with a desire to get closer to your community, 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 individuals 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 10 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.

Please also join me and Governor Brown as we Celebrate Financial Literacy Month. Our theme this April is “Empowering Californians To Make Well-Informed Financial Decisions.” The CBA and California are working in concert in promoting financial literacy.

In 2013 the bankers 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 most of all thank you for preserving the integrity of the financial system in California.

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