VIEWS & VISIONS

A publication of Bowles Rice LLP

Spring 2016

Balanced Regulation and Supervision

Sara M. Cline, Executive Vice President
West Virginia Bankers Association

Sara M. Cline joined the West Virginia Bankers Association in September 2015 as executive vice president to succeed Joe L. Ellison, the current president and CEO, upon his retirement in July 2016. Previously, Ms. Cline served as commissioner of the West Virginia Division of Financial Institutions, responsible for the oversight of the state's financial services industry.

Ms. Cline began her career with the division as an examiner trainee in 1984. She worked her way up to senior examiner and in 1992 became the Division of Financial Institutions' staff analyst responsible for applications processing for bank and bank holding company charters, acquisitions and mergers. She left the Division and joined The Huntington National Bank in 1995 as a commercial loan portfolio manager for North Central West Virginia. In November 1999, Ms. Cline returned to the Division as deputy commissioner, and in December 2000, accepted a position as director of regulatory operations, which was subsequently changed to director of depository institutions. She was appointed acting commissioner by then-Governor Joe Manchin in August 2008, and permanent commissioner in March 2009.

Ms. Cline is a graduate of West Virginia University, where she earned a bachelor of science degree in business administration with a concentration in finance. She is also a 1991 graduate of the Graduate School of Banking at Louisiana State University.

It is universally recognized that community banks play an essential role in the U.S. economy. Community banks are crucial in keeping their local economies prosperous by lending to creditworthy borrowers in their geographic footprint. Community banks are particularly important to homeowners and businesses in rural areas because of their willingness to meet the demand for tailored, nonstandard mortgages and small business loans. They are often accommodating to lending requests because of their detailed knowledge of the needs of their customers and their close proximity and ties to the communities they serve.

Since the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act in July 2010, communities have suffered. The regulatory environment has adversely impacted community banks' ability to efficiently and competitively meet the credit needs of their communities. Although the vast majority of the provisions of the Dodd-Frank Act do not apply to community banks, increased and ongoing regulatory burden is a real threat to their ability to serve customers and also to their viability.

The growing concern and frustration from bankers has received attention from policymakers in Washington. Members of Congress and the federal banking agencies agree that calibrating regulations for community banks is appropriate, and they express genuine sympathy for the need to do so. Some targeted relief for community banks has occurred. Most recently, Congress passed and President Obama signed into law a highway and transportation funding bill that included community bank regulatory relief. This legislation expands the number of banks eligible for the 18-month exam cycle, equalizes the SEC registration and

125th ANNIVERSARY WVBA
WEST VIRGINIA BANKERS ASSOCIATION
HONORING THE PAST, EMBRACING THE FUTURE

de-registration thresholds for savings and loan holding companies, and reduces the burden of unnecessary privacy notice paperwork.

But clearly, more work needs to be done. At issue is whether policymakers can effectively achieve desired outcomes for all commercial banks under the current regulatory framework, or whether they need to further bifurcate the system with separate rules for the largest banks and community banks. Some say the industry has become too complicated and we cannot go back to less complex and more straightforward regulation that requires greater examiner judgment. I'm not convinced. Because community banks pose little systemic risk to the nation's financial system, they do not warrant such extensive public interest and oversight. Balanced regulation can in fact serve the public interest without imposing unnecessary or duplicative compliance burdens.

While policymakers debate how to best shape the path forward, federal and state banking agencies must allow for more examiner judgment and common sense in fulfilling their supervisory responsibilities for community banks. State bank supervisors, in particular, are in a unique position to do so. At the West Virginia Division of Financial Institutions (WVDFI), every examiner is trained on community bank issues through a rigorous program focused on examination concepts, policies and procedures. Because these examiners work and live in West Virginia, they are knowledgeable and experienced in local issues of importance to community banks, and they are expected to take local market conditions into account when assessing a bank's management and credit decisions.

When state examiners discover significant findings and recommendations, state examinations sometimes require involvement by the federal regulators. In these cases, agreeing to supervisory solutions appropriately designed for a specific community bank and its business model also requires a balancing act. The WVDFI is fortunate in that it benefits from close working relationships with the federal banking agencies and is uniquely positioned to use its local regulatory voice to structure corrective action plans so that the benefits outweigh the costs.

Bank supervision is a coordinated process that requires effective communication, consistency throughout the state system and fairness to the individual bank. Just like regulation, supervisory results should be right-sized to the institution's specific issues and risks. It should be tailored in a way that benefits not only the institution, but also consumers and the local economy. V

An Avalanche of Regulation

***"As battle-scarred survivors of a financial crisis and deep recession,** community bankers today confront a frustratingly slow recovery, stiff competition…and the responsibility of complying with new and existing regulations. Some observers have worried that these obstacles—particularly complying with regulations—may prove insurmountable."*

– Ben Bernanke, October 2, 2013

Each new regulation is hundreds of single-spaced, 3 column, 9-point font pages.

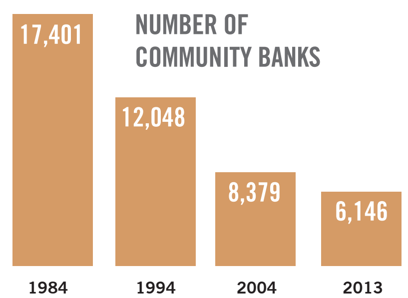
A majority of small banks tend to have just **one compliance officer** who must understand and implement all the new regulations.

Source: ABA 2013 Bank Compliance Officer Survey

456 pages	Servicing Rules
408 pages	ATR/QM
313 pages	2013 HOEPA Rule
275 pages	Basel III
272 pages	Volcker Rule
248 pages	Remittance Rule
225 pages	Loan Originator Rules

Source: Number of Federal Register Pages

Heavy regulatory burden has helped fuel consolidation of community banks.

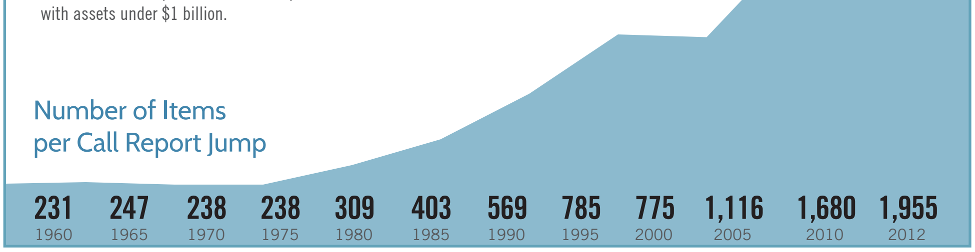


Source: Federal Deposit Insurance Corporation. Number of banks with assets under $1 billion.

1 in 5

"Almost one out of every five U.S. counties…have no other physical banking offices except those operated by community banks."

– FDIC Community Banking Study



Source: Call Report, Federal Financial Institutions Examination Council