



## Through the Lens of Our Department Assessment

By Greg Gonzales, Commissioner, Tennessee Department of Financial Institutions

I always enjoy speaking to bankers at the annual *Credit Conference*, and I wanted to take this opportunity to briefly revisit my recent remarks. I reviewed some important issues for state banks through the lens of an assessment of the Department of Financial Institutions. Specifically, I considered the department's overall effectiveness in meeting our mission, our relationship with our federal partners, and what the industry thinks of our work as demonstrated in the survey that the majority of state banks completed last year. I also raised the question of whether advocacy is a part of our mission.

All of this starts with Governor Haslam and his Customer Focused Government initiative. Government exists to do things that citizens cannot do for themselves. Government should add value to the public and not be a stumbling block. I personally have enjoyed the effort that the governor has initiated to measure our work in reducing the time it takes to get a bank exam to a bank board. The bank division has done a wonderful job in improving our turnaround time. We continue to revisit our process to determine if our metrics can be developed further but also to ensure that our procedures are good and not weakened in any way in a pursuit of metric numbers.

One of the real keys here is that the governor had all state agencies engage in a top-to-bottom review of our missions before measurements of department activities began. That was crucial to ensure that state agency mission was set appropriately before we continued and measured our work. From time to time, I ask our

staff to boil down the ultimate issue on a question we may have in front of us so that we can see more easily whether we are moving consistently with our mission of ensuring safety and soundness while giving banks the opportunity to contribute to economic progress.

In my remarks at *Credit Conference*, I laid out a number of efforts we are undertaking to support our mission—from developing new agreements with federal agencies in order to establish a better coordination to reviewing every department rule to determine whether rules need to be modified or simply eliminated.

One specific effort we are making is with respect to examiner salaries. We fundamentally believe in empowering our examiners to make judgments about bank condition on an institution-by-institution basis to the greatest extent possible rather than relying more and more on one size fits all regulation that may tend to take local regulatory judgment out of the equation. With the help of Governor Haslam, we have made significant improvements in examiner compensation and will implement pay for performance within a year. As a result, we are seeing some reduction in examiner turnover rates lately, and we know that you want experienced examiners coming into your bank. These efforts should help produce greater experience over time.

I also talked about our relationship with our federal partners, which is good. For the most part, we are on the same page, and the industry is the beneficiary of that good relationship. I gave one specific example among many that I could make by pointing out the Federal Reserve Bank of St

Louis, which has led the Federal Reserve system to partner with state bank regulators to produce an annual community bank research conference that highlights the real issues confronting community banks that might not get attention otherwise. My hope is that, over time, this conference will produce real results. This is one of the great examples of a federal/state effort to create a better banking environment.

But, there is also another positive aspect to the relationship with our federal partners. The point that there is built in tension in this relationship. That does not mean that an agency is always right and another is always wrong. Any government agency that proclaims to have all wisdom and is always right is not only mistaken, but, I believe, is a danger to justice and freedom. No one has all the answers, and it is a blending of state and federal regulation that gets us to an appropriate balance.

The department's goal is to be a full partner in this relationship for the sake of the industry but also for the sake of our federal partners. To be anything less is to yield some of the state's ability to control its economic future through the regulation of its economic engines. That is state banks. To the extent we yield on any issue where we have the ability to have a voice, we yield to Washington some of our economic independence, and we have given up to an extent on Federalism.

A good example of this is where we hired for the first time a few weeks ago a consumer compliance specialist to give us a real seat at the

table on compliance issues in Tennessee. We are determined to have a voice and not yield in that effort.

I spent some time in discussing the results of the industry survey of last year. The survey was completed by a significant majority of state banks and credit unions in Tennessee and revealed that institutional managers have a very positive perception of the department. We received high ratings for accessibility, responsiveness, fairness, professionalism, and providing objective examinations.

Some responses suggested that the department should consider enhancing examiner familiarity with specific markets. In response, we are asking bankers to help us at examination to enhance our understanding of your markets.

Bankers also suggested that they wanted the department to take an even greater role in being an advocate for the state banking system, which raises the question of whether advocacy is a part of the department's mission.

To no one's surprise, I answered that question with a resounding "yes" and proceeded to give a number of great examples of advocacy that we have not spoken about publicly before. We knew that we had been advocates for some time, but we had not articulated before how we were doing that. The examples ranged from avoiding a bank failure because it was the easier thing to do to examiners using discretion where circumstances permitted to find ways to allow banks to work with borrowers and support local economies.

I also mentioned a new examiner reference guide that is in the process of being finalized which will give all examiners further guidance on finding regulatory balance. For example, we listed some of the characteristics of regulatory balance such as:

1. Just tell it like it is. No more and no less.
2. Where the law permits, find common sense solutions.

3. Do what is right and just. Challenge injustice where it can be identified.

The importance of this is fundamental. It is not enough simply to be great technicians. We also must be great from a values standpoint, as well. Otherwise, without the right values and philosophy, we could send many great technicians in the wrong direction and potentially do more harm than good.

My assessment of the department is that we are moving in the right direction, but we can't afford to get too comfortable. We seek continuous improvement. If we are not moving forward, we will be going backward. We would love to hear from you and any feedback you could give us at anytime. ■

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