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MEDIA RELEASE

Conference of State Bank Supervisors

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CSBS Incoming Chairman Tom Gronstal Encourages Colleagues to Band Together

BOSTON—Iowa Superintendent of Banking and newly elected Chairman of the Conference of State Bank Supervisors (CSBS) Thomas B. Gronstal addressed attendees of the CSBS State-Federal Supervisory Forum today in Boston, Massachusetts.

In his speech, Gronstal encouraged his fellow state regulators to work together through CSBS to “make sure the dual-banking system and state regulation of non-bank financial institutions are strong and effective.” Gronstal quoted Benjamin Franklin in his exhortations to his peers to work together by warning, “We must all hang together, or assuredly we shall all hang separately.”

Gronstal looked to the regulatory reform debate that continues in Washington as both a challenge and an opportunity for state financial regulators. “There will undoubtedly be many consequences of the new law—some intended and some unintended,” Gronstal stated. In spite of the challenges the new law will provide as business models and products emerge in the new regime, “because of our ability to react quickly, [state regulators] can be proactive with our state legislatures to encourage rulemaking to promote safe and secure financial institutions.”

Gronstal did recognize that regulators must always seek to improve supervision by learning from painful lessons. Gronstal listed a few lessons learned from the past few years, including:

1. Asset values do not always rise over time. The painful collapse of the housing market and the resulting wave of foreclosures speak to the truth of this lesson.
2. Abusing customers by setting them up to fail is a bad business model. Regulated industries should not be allowed to use bad business models.
3. Selling risk does not reduce risk, it merely transfers it to someone else. When risk is transferred with extreme amounts of leverage, systemic risk increases exponentially.
4. Safety and soundness regulation is the cornerstone of consumer protection regulation. While several million consumers were hurt by obligating themselves to sub-prime mortgages, hundreds of millions of consumers around the world were injured by the credit crisis and financial meltdown caused by obscene risk taking by investment banks and hedge funds.

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5. A global economy that operates with fiat currencies requires strong prudential regulation of all institutions, regardless of their size and complexity.

Gronstal concluded his address by urging his colleagues to work through CSBS to help return the economy to health. “Recovery from the current recession and a return to prosperity will come when the public is confident their savings are safe because financial institutions are prevented from taking on too much risk, Gronstal said. “CSBS ... provide[s] state regulators with the framework to lead our country and our world to a new era of financial stability and security. All of us must work together to continue to enhance state regulation of the financial services industry.”

The full text of Gronstal’s speech can be viewed [here](#).

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The Conference of State Bank Supervisors (CSBS) is the nationwide organization for state bank regulation, representing the bank regulators of the 50 states, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands. State authorities supervise approximately 6,000 state-chartered financial institutions. Further, the majority of state banking departments also oversee mortgage providers and other financial service providers. CSBS is also responsible for improving the quality of state bank supervision by providing performance evaluation and accreditation programs for the banking departments, as well as supervisory education and training programs for state personnel.