2010 Corporate Dinner
December 1, 2010

Featuring:

Hon. Richard H. Neiman,
Superintendent of Banks for the State of New York

MR. RICHARD H. NEIMAN: — Thank you for that introduction. I am overwhelmed and humbled by those kind words. Seeing so many friends from various points in my career means so much.

Since tonight is the first night of Hanukkah, I will take advantage of the coincidence by noting that the word "Hanukkah" in Hebrew means "dedication." This is fitting, as this evening is dedicated to public service.

Award recipients often rightfully start off accepting the honor by acknowledging the many colleagues and coworkers who made receiving the award possible. Tonight is no exception, and really any one of those dozens of people could have received this award in my place. I am so fortunate that several of my senior colleagues from the Banking Department are here tonight to share in this honor. This group combines dedicated career public servants with seasoned lawyers and bankers who joined me from the private sector, and is the reason I stand here this evening.

In preparing my remarks, I came across a letter that then-Senator John F. Kennedy wrote in 1960 to the Foreign Policy Association, in which he said –

"The complexity and multiplicity of the foreign policy questions facing the U.S. today places a premium on intelligent understanding of the issues by the widest possible cross-section of citizens… I am particularly impressed with the approach which the Foreign Policy Association has taken."

I certainly don't have to tell this group the importance of President Kennedy's words today. The only difference is that President Kennedy could not have imagined the financial products and globally interdependent system that would emerge fifty years later. The complex "foreign policy questions" Kennedy wrote about then, overlap more than ever with the complex "global financial issues" of today. This new reality only heightens the importance of his call to public service.

That's why I would like to accept this award on behalf of my staff and all those in New York and across the country who exemplify Kennedy's vision for the "widest possible cross-section of citizens" to engage in public service.

B. Consumer Protection and Cooperative Federalism

The Banking Department has certainly given me a once in a lifetime opportunity to contribute to issues in financial reform that will have an impact far beyond New York and long after my tenure as Superintendent. The Department has a wide range of institutions under supervision, from the largest banks such as our oldest, Bank of New York Mellon, and our newest, Goldman Sachs Bank, to mortgage brokers, non-depository lenders and other providers of financial services. I believe this diversity in supervisory responsibilities gave me a unique vantage point on the financial crisis, particularly on the role of the states in a reformed regulatory structure.

The crisis has also illustrated that consumer protection is not a separate social policy concern, but is inextricably linked with safety and soundness. We experienced the implosion in the mortgage market precisely because this connection was underappreciated. A loan that is unfair to consumers is not prudent bank business. And as the origination of subprime and nontraditional mortgage loans increased, frankly the federal government was not as swift to act in preventing abusive lending practices.

Instead, state governments were the first to respond to this need and translate a heightened concern over the proliferation of subprime mortgage loans into action. For instance, states like New York and North Carolina identified the seeds of the subprime crisis amidst dangerous lending practices over 10 years ago. The irony is that states were forced to stand down their enforcement efforts by federal regulators who were asserting preemption and calling for exclusive authority at the federal level. Even worse, appropriate federal standards were not developed to replace the preempted state laws.

That is why my consistent message as Superintendent has been to call for a renewed level of coordination among state and federal financial supervisors, a Cooperative Federalism. By this I mean an approach that retains what is best in our current dual state-federal regulatory framework. We can achieve appropriate oversight and national standardization while making the highest use of the expertise and resources of each level of government.

I believe this vision has been accomplished to a large extent through the Dodd-Frank financial reform legislation. I see Dodd-Frank as a re-affirmation of the state-federal dual banking system that has served this nation well for a hundred and fifty years.

Reform could have eliminated a meaningful state oversight and enforcement role, as some called for. It could have removed supervisory authority from the FDIC and the Federal Reserve, the agencies that partner with the states, and created a single monolithic regulator. It could have undermined state supervision of the vast majority of branches of foreign banks operating in the U.S. But instead, Congress confirmed that the state role is critical – providing checks and balances, more cops on the beat in enforcement, and serving as a proving ground for new laws.

I am especially proud that New York has led the way in developing enhanced consumer protection laws and regulations, which could serve as a model for action by the new federal Consumer Financial Protection Bureau. The Banking Department worked with the Governor to pass landmark legislation to create new protections for borrowers at risk of foreclosure, as well as licensing and duties of care for loan originators that will help prevent future crises. As a result, New York has enacted the most comprehensive conduct of business rules in the country for mortgage loan servicers, a sector that was largely unsupervised nationwide.

We were able to accomplish these reforms because we have a professional mix of staff members who have been on both sides of these issues at some point in their public or private sector careers. They understood with confidence the extent to which we could craft progressive reforms without harming the very consumers we were trying to protect, for example by jeopardizing access to credit.

C. From Cooperative Federalism to Cooperative Internationalism

The same type of cooperation that we are striving for in the US between states and the federal government also holds true on the international level. In the wake of the financial crisis, an effective framework for cross-border supervision has become an even more compelling imperative. Financial and technological innovation has rapidly interconnected global markets, but our supervisory infrastructure has failed to keep pace.

So how should we move forward as an international community? What strategies will best promote financial stability through cross-border supervision that is conducted primarily by national regulators? I believe the key is to harmonize standards whenever practical and to strengthen mechanisms of mutual accountability among financial supervisors. That is precisely what nations are doing under the auspices of the G-20 and the IMF.

While striving for greater convergence on global financial issues, I believe it is healthy to recognize that progress often comes in stages. There is always a tension between a nation being a First Mover on an issue and striving for global harmonization. For example, for the sake of greater international uniformity, the US could have abandoned the leverage ratio, which is a safety check on the use of risk models in determining the adequacy of bank capital. The financial crisis made clear, however, that the FDIC was correct in insisting on retention of the leverage ratio for the US. What was sometimes misinterpreted as intransigence became an occasion for meaningful reforms under Basel III, which includes an international leverage ratio for the first time.

Far from frustrating international progress, this appropriate use of discretion by a national supervisor actually reinvigorated our shared goal of creating even more effective international capital standards. Multiple national regulators working together yield better results in setting a robust framework for financial stability, just as multiple judges are used in the Olympics to achieve a fair outcome. As with the state-federal dynamic in the US, it may look messy from the outside, but this Cooperative Internationalism works.

An important component of Cooperative Internationalism is the way we coordinate in the everyday work of cross-border supervision. In New York, we have agreements in place with regulators from around the world, and have developed very strong supervisory relationships with those home countries. In fact, over 80%

of the assets of foreign banking organizations in the US are under New York's supervision.

While banks from many parts of the world were revisiting business plans, the latest wave of foreign bank expansion in the US is coming from China. New York has recently licensed the first branches of banks from China to open in the US in almost twenty years, which reflects movement toward privatization in China, the growing trade between our countries, and New York's role as a hub for global finance.

With economic expansion and growth in the financial sector coming from emerging markets, we are seeing new partners in global supervision. China, for instance, is actively involved in the Basel process and other international forums. They are also further developing their own supervisory framework, which includes the well-established concept of supervisory colleges. Supervisory colleges are working groups composed of the relevant regulators of an international banking organization, coordinated by the home country supervisors. Key functions of a supervisory college include information sharing, assessment of cross-border risk exposures, and coordinated inspections and examinations.

I considered it critical to attend the China Banking Regulatory Commission's first supervisory college held in Beijing last year for its largest bank – and in fact the largest in the world by market capitalization. The nonbinding but still effective mechanism of the supervisory college is the best practical fit for engaging with supervisors from jurisdictions with legal systems and other processes that are very different from those in the US.

D. Conclusion

The past few years of market turmoil remind us that globalization is about more than economic growth. It is about cooperative relationships. The Basel process and the G-20's framework for financial stability are critical guideposts, but financial stability is ultimately achieved in the everyday supervisory work by the employees at agencies like the New York State Banking Department and our US and global counterparts.

I am honored that the Governor chose me to lead the Banking Department during this time of profound change for the financial system. My goal was to bring a constructive state perspective to the task of financial reform, whether through my position on the TARP Congressional Oversight Panel or in work with federal and international supervisory partners. I am honored to receive this award from the

Foreign Policy Association tonight, as a testament to the enduring value of the state role in an increasingly global world.

Thank you again Archie and Noel. And most of all, thank you to my wife Eileen, without whose support I would not be here tonight.