I am honored to be here and was particularly happy to be introduced by Pat Doyle, who I consider a friend and colleague and who mentored me for over 25 years while I was at Arnold & Porter.

So you would think I learned the intricacies of bank regulation from Pat. Well…that is true. But what I really learned from Pat was I needed to know all I could about sports because you never know when you may need it. – Lawyers and bankers love their sports teams.

So Pat, given that this banking conference is always scheduled during the NCAA basketball tournament… and your team… Syracuse, right? .. it’s out. … UN… Duke… NC State … they are all out. So I want to check your sports trivia knowledge… when was the last time the ACC had a member school in the final four of the men’s tournament?

2010! That is Four years! So what are you all going to do about this next year?

OK, a little touchy. Many of us believe UVA—or some ACC team – like Duke -- should be playing this weekend. And next year I am sure we’ll set this straight.

The point is… it’s hard work for a sports league to earn the reputation for excellence year after year. It takes winning results, achieved the right way with hard work, creative strategy and a reputation for integrity.

And the same can be said for the banking industry. For years, banks earned a reputation as community builders. They spent time knowing their customers and community needs, offered convenient hours, and created new innovative products – the money market account, credit cards, sweep accounts, prepaid and payroll cards, small business products based on local knowledge and different types of mortgage products to fit consumer needs. There also were innovative mergers, many across state lines.

There were of course instances of malfeasance. And of course lots of mismanagement and failure over the years – I have lived through three financial crises since I started practicing in 1985.

But I believe the financial crisis beginning in 2008 tarnished the reputation of the entire industry to a greater extent than before. And the harm continues, to the constant drumbeat, it seems, of daily headlines about government investigations into the financial industry … and
banks entering into large settlements for such things as mortgage servicing, securitization and rate manipulation issues.

Community banks are not immune from this. Last week, the American Banker reported on alleged financial mismanagement at Certus, a local community bank. While the reports of lavish spending on things like a ceiling of 300,000 pennies grab the headlines, the more serious allegations revolve around the executive management team funneling money to themselves by setting up an outside consulting firm, which was then hired by the bank to help it resolve problem assets.

The bank I now work for, CommunityOne, in essence failed. Its issues were not malfeasance – it was felled by bread and butter issues including poorly underwritten CRE loans that resulted in wiping out a century of hard earned profits. Nevertheless, its troubles were well publicized, resulting in a real loss of reputation in its communities – many of which are in rural areas of NC where our bank has been a welcome neighbor for generations.

The American Banker’s 2013 Survey of Bank Reputations revealed that folks that do not use banks rate banks do not think much of banks. That is to be expected. But importantly the survey showed that even bank customers that rate their banks high in terms of reputation -

- would not recommend a specific bank to friends or family members,
- might not purchase additional products and services from their banks, and
- may not give the brand the benefit of the doubt in times of trouble.

This continued perception that the banking industry lacks integrity – which Webster’s defines as being in a sound condition and adheres to values such as honesty -- has I believed opened the door for an intense expansion of regulatory oversight. Basically, ethics and integrity are being imposed on the industry from the outside, not from within.

So whether one is among the largest banks in the United States, or a community bank, like CommunityOne, we need to restore our reputations.
As Shakespeare wrote in Othello:

Good name in man and woman, dear my lord,
Is the immediate jewel of their souls:
Who steals my purse steals trash; 'tis something, nothing;
'Twas mine, 'tis his, and has been slave to thousands:
But he that filches from me my good name
Robs me of that which not enriches him
And makes me poor indeed.

Of course banks want to keep their purse and reputation. And most banks, including CommunityOne have restored their balance sheets and are again making money.

But I don’t believe that business is quite back to normal.

We still need to restore our reputation. Why?

Our reputations – our names – are what make it possible for us to be successful, to earn the trust of our customers, regulators and ultimately our shareholders.

- The markets are changing and we all need to attract a younger generation to use banks. The FDIC issued a report on the unbanked in 2012, stating that 10% of the population were unbanked and one of the primary reasons was that they didn’t trust banks. The generation that uses banks is graying and we need to gain their trust or they will go elsewhere.

- We also need to be able to attract good management and executives and again a younger generation to want to go into this business.

- And we really need to re-earn the trust of regulators in order to argue compellingly that the regulation we face is too much. After all, Dodd-Frank and the tsunami of the regulation we have experienced since then is government’s efforts to impose integrity on the banking system. Indeed, the 3 areas I believe that we need to focus attention on are many of the same areas the regulators are focusing on.

By the way, I am not the first or only person that believes that regaining reputation or trust is key to being successful again. Yale professor Jonathan Macey, in his 2013 book “The Death of Corporate Reputation: How Integrity has been destroyed on Wall Street,” argues that increasing reliance on complex regulation rather than on reputation as the primary mechanism for protecting consumers was one of the causes of the financial crises.
Regardless, how do we restore bank reputations?

1. First of all, we need to maintain good risk management –

Risk management has been a key focus of regulators since the financial crisis. And that focus is here to stay. The OCC’s proposed guidelines on heightened risk management standards for large national banks shows how intrusive the regulators are being in dictating risk management structures. For example, the proposal dictates the make up of the Board of Directors and its committee structure of large national banks, and elevates the risk management function to the equivalent of the internal audit department, with the chief risk officer reporting directly to the board rather than to executive management – showing an audacious lack of trust in management.

The proposal by its terms applies to the largest banks. But we have been specifically told that the principles in it will be applied to all national banks, modified based on the size and complexity of the institution. And the expectation is that the Federal Reserve and the FDIC will apply similar risk management guidance to state banks.

As you can see, there are lots of issues with the OCC proposal, which I believe the commenters on the proposal are eloquently communicating.

But regardless of the OCC’s proposal, sound risk management makes sense. It is the equivalent of getting your own house in order in order to operate business with integrity and in a disciplined risk-controlled manner.

At CommunityOne, after the recap, we established a new corporate governance philosophy based on sound risk management. Indeed, in our business plan and all our securities filings, we clearly state our hierarchy of goals as 1st – sound risk management; 2nd – profitability; and 3rd – growth.

Part of our rationale in specifically adopting this goal hierarchy is that CommunityOne did not have a good risk management system before the recap and without one, you really don’t have the capability to grow responsibly. Indeed, we believe these three goals support each other so long as the profitability and earnings growth expectations are consistent with a risk-controlled business strategy, which allows the Company to attain maximum benefits over the longer term with wholeness or integrity.

We also have instituted the three lines of defense risk management and control model, where the line of business and operations employees are responsible for risk within their areas.

And we adopted an enterprise risk management program that takes into consideration the OCC’s eight risk categories of credit, liquidity, interest rate, price, operational risk, compliance,
reputation and strategic risk. But because we have elevated classified assets and constrained capital, we specifically also added three additional risk categories of capital, management and earnings risk. These additional risk categories allow us to focus on our capital position in relation to our credit risk and ability to earn money. As we complete working out our bad assets and consistently earn quarterly income, we will likely change these risk categories and how we objectively assess the risk. But we now have the formal structure in place to do so as our risks change.

Our risk management system is by design simple – after all, we have less than 600 employees, many of whom are tellers, and we have a simple business plan. But we have spent a lot of time educating both management and employees in the line and operations area the importance of identifying, tracking and reducing risk, with consequences for not following the rules...and rewards for proactively doing the right thing.

This may seem elementary to those of you at larger banks, which have elaborate risk management systems and many lawyers and risk managers and departments following those risks. But regardless of size or complexity, the point is that risk management programs, designed well and implemented by folks who believe in them, are effective.

But can they prevent all losses? No – loss is part of operating a for-profit business that takes risk.

2. Thus, the second element to restore trust is to maintain solid capital.

Capital has always been king in the eyes of the Federal Reserve. I recall back in 1986, during the thrift crisis, when I first arrived at Arnold & Porter, Pat sent me to negotiate putting capital into a troubled Texas thrift. Here I was, flying up to NY, as a 27 year old, rereading the capital and control rules on the plane, and negotiating for hours in a windowless, stuffy, smoke filled conference room – only to find out after the negotiation was concluded that the capital consisted of underwater land in the Gulf of Mexico. Needless to say, the regulators rejected that plan and the bank failed.

So it should be no surprise that capital also has been a focus of the regulators since the financial crisis. We have seen it in the passage of the Basel III and related capital rules, with new and higher capital ratios, capital conservation buffers and a supplemental leverage ratio.
We also see it in the importance the Fed places on the FDA stress tests and the CCAR tests. Last week’s release of the results of the CCAR tests in particular show the material impact of failing to have the Fed approve a capital plan.

But again, regardless of the complexity of the new capital regime, the reasons for having adequate capital and a good capital planning process make sense. Banks should take into consideration the risks they face and the possible stress scenarios that may cause that capital to decrease in their capital plans. And passing these stress tests with sufficient capital raises confidence in banks and increases the financial integrity of the banking system.

But is having sound capital and good risk management enough to restore bank reputations?

3. No - we have to be fair to our customers.

Burrowing through tens of thousands of pages in new CFPB regulations boils down to this – do the right thing for customers.

Thus, the new mortgage origination and servicing rules, which will be discussed by a panel this afternoon, require that borrowers have the ability to repay the loans they receive. They require clear disclosures and time to read them. We should be paid for what we do but the amount of that fee should be reasonable to the services being provided.

Perhaps if these principles had been practiced in the mid-2000s, we would not have thousands of pages of new rules. Unfortunately, the additional regulations have resulted in unintended consequences. For example, CommunityOne, which has a small mortgage operation and collections area had to completely reorganize the area and spend a huge amount of time and resources to comply with the rules, even though the Bank did not originate the type of mortgages that resulted in so many losses to consumers and indeed has had very few complaints about this servicing or losses or repurchase requests in its legacy mortgage portfolio.

But we do agree with the philosophy that we should know and serve our customer and do the right thing by them. That is the essence we think of being a community bank. Our efforts since the recapitalization to reach out to our customers to determine and serve their needs are some of the most important ways we have to restore our reputation in our communities.

But at the end of the day, it is not clear to me that having sound risk management, high capital and clear disclosure will fully restore our reputations – especially if they are all imposed from the outside. After all, there will be risk management failures; there will be unforeseen stresses on capital and we will have instances where we will inadvertently violate regs.
Regaining credibility in the face of inevitable failures will probably only be successful if our financial institutions act with integrity in a consistent manner every day.

What do I mean by integrity?

I call it being honest and doing the right thing.

This is not an original idea. There is an entire industry around integrity management (or I think what we used to call business ethics). Some of the programs now being marketed can be extreme. For example, the WSJ last week reported that in London, banks have hired a corporate philosopher, Roger Steare – known as “weirdy beady” – to advise them on ways to improve behaviors and change culture. At almost $1,000 an hour, Weirdy Beady sits with executives and gets them to analyze themselves using a Moral DNA questionnaire that asks questions like “why do you exist?” and “who am I?”

But integrity involves more than just saying you are honest and exhorting others to be also. You have to do the right thing. As Henry Ford said, you can't build a reputation on what you are going to do. You have to actually do it.

Then the inevitable mistakes are more likely to be forgiven and forgotten. Modeling that behavior as a leader on a daily basis makes it more likely our employees will also want to do the right thing – regardless of what the rules say. And that will allow us to restore our reputations in the community.

Remember, it takes 20 years to build a reputation and five minutes to ruin it.

Let’s rebuild for the next 20 years.

Thank you.