
THINKING BACK, AND FORWARD, ON THAT WONDERFUL FELLOW, THE 'REGULATOR FROM HELL'

Has he retired, mellowed, or changed over to compliance?

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Over the last three years, while I have been blogging about community banks, I have had the opportunity to address numerous situations impacting the lives of community banks and community bankers. As you might appreciate, the blog that generated the most hits (5,441) was the one entitled "The Examiner from Hell."

Looking back at my old "friend"

I wrote this blog, published in April 2010, at the height of the financial crisis. My personal experience with an examiner triggered it.

He had criticized a bank that was under a consent order. The consent order required the bank to do something within 90 days after the order. The bank's "sin" was that it accomplished the task even before the order was finalized and thereby, was not in technical compliance with the order because the activity did not occur within 90 days after the imposition of the order.

I have not had any further experiences with that particular examiner lately, and that is likely a good thing. I anticipate the examiner may have retired now, having shot all of his creative bullets at community banks along the way. This leads me to the issue of what is happening around the country as it relates to community banks and regulatory relations.

Scan of the community bank community

I have not done any major surveys on this issue. I have reviewed a few of the surveys that are available. But what I'd really like to share is my anecdotal experience from traveling coast to coast working with community banks.

My overall conclusion is all parties--bankers and regulators-have grown tired.

In fact, the bankers are fatigued. The regulators are fatigued. And more so than that, the borrowers are fatigued, having lived through four years of economic disaster.

At the beginning of the financial crisis, regulators put a lot of pressure on community banks to comply with whatever requests they made, appropriate or not. This particularly involved compliance with or execution of consent orders. The regulators also put a lot of pressure (and verbal abuse) toward the directors.

During the course of events in the middle of the financial crisis, I even coined a nickname for one of the federal regulatory regions as the "home of the screaming regulators."

Those community bankers who experienced life that particular region know which one I am referring to. The rest of you, count your blessings.

Inconceivable becomes reality

Fast forward a couple of years, and although I cannot believe I am even uttering these words, it appears that the regulators have moved into a kinder and gentler phase.

I still run into the examiner-from-hell types, mostly in the compliance area these days. But on safety and soundness, as the industry has grown healthier and the regulators have grown more fatigued, the approach to the banks appears to be much more reasonable.

No more screaming and yelling about what the bank is going to do or how they are going to close them down. It has not yet progressed to the point where the community bankers and the examiners, at an exit meeting, sit in a circle and sing "Kumbaya," but it does come much closer to the regulators taking the position that "we do not want to close your bank, we hope it works out, we have had enough failures in the industry, etc."

Hopefully, if the regulator from hell has not retired, at least he has mellowed.

Not done with trouble yet

We are still seeing a tremendous amount of asset quality problems and lingering legacy problems in the boom-bust states. And we are now seeing some asset quality impairment/softening in the non-boom-bust states, .e.g. West Virginia, Wisconsin, etc. For the most part, however, regulatory relations have grown much easier, thank goodness.

Notwithstanding the fact that regulatory relations have gotten kinder and gentler, the regulators continue to "pile on" the requirements both in safety and soundness and compliance.

Witness the OCC's recent "guidance" regarding capital planning.

Does everyone remember the "guidance" on commercial real estate? It became pretty hard and fast rules pretty quickly.

And then there is the Basel III problem. Regulatory relations are not rosy in the community banker's perspective when they involve his or her bank, but for the industry as a whole, it seems to me things are getting better, thank goodness!

About Jeff Gerrish

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