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Bankers, regulators need steady contact: Jewell Hoover

Charlotte Business Journal - by [Adam O'Daniel](#) Staff writer

Financial regulators have been criticized by bankers for being too tough and by lawmakers for not being tough enough as the nation recovers from the worst economic crisis in 75 years.

But Charlotte consultant Jewell Hoover, a former bank regulator, believes examiners are doing the best they can.

Hoover in 2003 retired from the Office of the Comptroller of the Currency as a deputy comptroller in its western district. In that role, she helped oversee 427 banks.

Today, she advises small banks on how to improve their relationships with regulators. She also trains bank directors to perform better.

Hoover can see firsthand the operations of a bank board. She serves as a director of **Fifth Third Bancorp**.

She recently spoke with the *Charlotte Business Journal* about what banks should be doing in an era of heightened scrutiny of their operations and what she's teaching board members. Following are edited excerpts of that conversation:

Is there a big gap between how most banks are operating and how regulators would prefer them to operate?

I wouldn't say there's a gap. All banks are different in terms of compliance and regulation, and the level of regulatory oversight is determined by their asset size. So I can't say there's a gap. But what I'm trying to do is help them operate in the safe area. The term regulators use for this environment is safety and soundness. And that means they want banks to have the appropriate policies, risk-management processes and controls in place. I try to help them

craft those policies and then evaluate the management structure to make sure they can prudently navigate this economy.

What's the biggest need among the problem banks you work with?

Regulators are looking for two things. No. 1, they want banks to have adequate capital. So I help them evaluate their capital structure to make sure there's enough of a cushion for any losses they may suffer in the future. The other thing I tell them to do is make sure they have adequate liquidity. Those are the two primary things regulators are looking for today.

But the most important thing I advise my clients to do is communicate on a regular basis with bank regulators. The banks and the regulators have the same objective: to make sure banks are operating in a safe and sound manner. The other thing I ask clients to do is get ahead of the bank-examination process. When they know an examination is scheduled, I advise them to perform their own self-assessment of compliance with banking laws. That's what regulators are looking for.

Bankers need to be proactive and correct any deficiencies prior to bank examiners arriving on their door step. That demonstrates to the regulators that the board and management are capable of supervising the bank, and the board and management know and understand what the risks are. They need to be able to demonstrate they have developed and implemented appropriate policies to address any issues.

The other thing I tell banks to do is take a critical view of their balance sheet and to be proactive about credit-quality concerns. For example, if they have heavy loan concentrations, they need to wind those concentrations down or at least minimize them. Right now, regulators are very concerned about commercial real estate. They feel that will be the next credit bubble that will cause problems. So if a bank has commercial real estate on its books, they need to know what the concentration is and have an exit strategy.

The financial crisis convinced many of the need for more regulation. Do you agree?

The banking industry, like every other industry, changes. It evolves. Financial instruments become more complex. At the same time, banks have to be competitive. They have to offer products and services that are in demand. And there's a level of sophistication with some of these products. I know it's a difficult job to keep up with all the regulations. But as these products become more sophisticated, it's becoming increasingly necessary to have regulations to manage the risks and make sure banks can operate in a safe and sound manner.

Do you see a particular new tool regulators need?

There isn't a particular one that stands out. I think the reforms will be geared to the entire industry and making sure risks are understood and sufficiently regulated. There will also be

a whole host of consumer-protection laws, mortgage laws and changing the roles of the Federal Reserve and FDIC. It's still being debated, but for sure, the way banks operate in the future is going to change.

Do you believe regulators did enough to prevent a crisis?

I think bank regulators have a very difficult job. And I think it's been a very challenging environment. But I think they've tried to address the risk. A regulator's job is to call bank's management and directors' attention to risk and the need for the right controls. And I think regulators have done that. Still, at the end of the day, it's the board and management's responsibility to operate in a safe and sound manner.

A large part of your work is training bank directors. How is that going?

I developed and teach a program called the Bank Director's College, a two-day training program that focuses primarily on new bank directors. The course is also available to seasoned bank directors. They are taught their legal responsibilities and what banking is all about.

Most directors are not professional bankers, so they need to understand the industry and what their responsibilities are.

I also do a number of other things such as strategic planning, expert-witness opinions and testimony, and lately I've been working with problem banks that have various mandates from regulators. I help bankers put together action plans to rehabilitate themselves and become healthy again. I serve as a regulatory liaison for them. As a former regulator, I help them understand what regulators want.

What's the biggest lesson you're teaching bank directors?

The biggest thing I tell them is their job is to oversee the affairs of the bank, not manage the bank. Sometimes they forget that; they think they're there to manage. They're not. The most important thing a board can do is hire competent management. Put the right policies in place and then let the management team run the bank. That's difficult because directors can become very excited about their fiduciary role; but they're not there to manage the bank on a day-to-day basis. Also, they need to critically challenge management. Understand what's going on. Question management and the status quo and make decisions independent of management.

We often hear about directors at community banks using their bank to finance personal business deals. Do you caution directors about insider lending?

There are a whole host of banking laws. I wouldn't say one is more important than the other. But that is one that I tell them to pay special attention to. As part of my training, I spend a lot of time on Regulation O, which deals with insider transactions. I tell them Regulation O

is a golden nugget and they need to really pay attention to the requirements. It's very important they understand the rules about insider transactions.

Do you think new bank directors receive enough training?

I think in the past training was not a primary focus. But in recent years it's become more important. It has gotten a lot better. Most state banking regulatory agencies have programs to make sure directors are trained. The N.C. Banking Commission has one of the most-renowned training programs in the country.

Some banks have been criticized lately for not having enough expertise on their boards. Is that a fair assessment?

I think in this environment banks should be encouraged to make sure they have the right mix of directors. More banks are electing individuals to the board who have a financial background. And that helps the entire board and management understand complex issues. But what I'm telling my clients is to have the right mix. Board members have varied backgrounds and different ties to the business and civic community. Depending on the bank's business model, the board's membership should reflect the skills they need to meet their strategic goals.

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