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On Focus and In Depth

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Payoff for small banks?: Friday's speakers included Federal Deposit Insurance Corp. Chairman Sheila Bair, who warned that after a strong second quarter, her agency expects to report a third-quarter earnings decline for banks and thrifts, and that "the worst may not be over."

Still, Ms. Bair said she hopes the turmoil in the mortgage market enables community banks and thrifts to regain market share. "We could see a renaissance in Main Street banking."

The lesson from the subprime mortgage meltdown is that banks and their customers are best served by safe products that average people can understand, she said.

"So while you haven't been part of the current problem, you can now be a big part of the solution," she told several hundred bankers and directors attending the trade group's last gathering before its merger with the American Bankers Association.

Regulatory roulette: In a panel discussion with regulators, Kevin M. Bertsch, deputy associate director for the Federal Reserve Board's division of banking supervision and regulation, urged directors to be watchful when banks get into new products and business lines, saying too many look at the revenue potential without adequately reviewing the risks. Banks must have proper controls in place to deal with new ventures, Mr. Bertsch said.

He also said directors should monitor such trends as a shift from core deposits. "Diverse funding sources are a good thing. However, there are added risks to moving away from core deposits."

Scott M. Polakoff, deputy director of the Office of Thrift Supervision, also emphasized vigilance. He said directors should be inquisitive; insist on getting the board packages well before each meeting to prepare; and have examiners report their findings directly to the board instead of relying on information relayed by the CEO.

In the question-and-answer session, directors asked whether the agencies would take action to reduce the regulatory burden — a recurring theme at the conference. The responses, while coming across as sympathetic, were not a satisfying yes. Mr. Polakoff said the complaints he hears most often are that the rules are not clear and that the rules get changed "in the middle of the game," leaving bankers to feel they are getting dinged by regulators unfairly. "And I can understand that," he said of the bankers' point of view.