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## VIEWPOINTS

### Communicate With Regulators To Build Trust

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In the wake of the past year's economic wreckage, bank examinations will become more frequent and tougher. It is important to remember the fundamentals about developing and maintaining a cooperative relationship with your regulators.

There is one simple rule: A bank must establish trust with its regulators.

A bank needs to take the initiative in communicating with its regulators, rather than merely waiting for a request for information. Schedule regular meetings to discuss urgent matters, such as your risk profile and steps taken to correct previous criticism. Regulators will share opinions and insights in these meetings. Use these discussions as an opportunity to learn. Regulators have seen many banks with similar issues and can tell you what measures appeared to work in the past.

Even regular communications can be difficult if the news is bad. Still, do not avoid the discussion. Take the time to develop an accurate description of what has occurred. You should know the whole story before you tell it to your regulator.

If the news is truly catastrophic, however, prompt notice becomes essential, even if the full ramifications are not yet known. There is nothing more embarrassing to a regulator than hearing bad news about a bank from an independent or outside source.

Remember that one of the jobs of bank regulators is to judge the quality of management. Quality management teams know what the problems are, know how to fix existing problems and have a plan in place to do so. If you convey these capabilities, the regulators will be more inclined to provide you the opportunity to make needed corrections. Today, with asset quality so integral to an institution's overall health, be prepared to discuss the loan portfolio (particularly commercial real estate loans); how underwriting, appraisals and monitoring are being reviewed; and how workout situations are being identified.

Although communication is key, give careful thought about whom to communicate with. Always remember that you have multiple regulators. Larger, more complex institutions may find themselves caught between turf battles within an agency as well as between the agencies. If so, communicate significant news to multiple parties as simultaneously as possible. Setting up joint meetings helps you avoid being perceived as more open with one agency than with another.

If the news affects a bank, communicate with the bank regulator, but don't forget the Federal Reserve, which regulates the holding company. More complex institutions should consider a communications plan with responsibility clearly assigned for

informing each of your regulators so that none is overlooked at a time of crisis.

The examination process itself provides a good opportunity to enhance communications between a bank and its regulator. Look at regulatory requests from the examiners' perspective. Your job is to make it easy for them to obtain the information they require. A focus on inconvenience to you rather than on the needs of the regulators can backfire and show up in subtle or not-so-subtle ways in the substantive findings.

We are not suggesting there shouldn't be pushback with regulators at appropriate times. If an information request is unreasonable or a timetable is impossible to meet, do not hesitate to air your concerns. The key here is to pick your issues carefully.

Examination reports are now almost always presented to the board of directors at a formal meeting, which allows a discussion of the issues raised and any corrective measures to be taken. This lets the board understand the regulators' concerns, discuss relevant issues and establish a solid relationship. The more comfort and trust at the board level, the better.

In short, there are many avenues for open communication with your regulator.

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