

**Remarks by  
John C. Dugan  
Comptroller of the Currency  
Before the  
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I'm delighted to have this opportunity to talk to you today about the challenges and opportunities facing minority-owned banks in the United States.

Both before and during my term as Comptroller, I've learned just how important minority-owned national banks are to the communities they serve. You know the needs of your customers, and you tailor services to meet those needs. Many of you do business in underserved communities, and you know better than I do just how important an insured depository institution is to the economic health of a community. That's why the OCC is committed to preserving a robust and healthy minority-owned banking sector. In fact, I plan to reissue shortly the OCC's policy statement on minority-owned national banks, in part to reaffirm the agency's support – and my personal support – for this key banking sector.

What I'd like to do today is, first, update you on what we're doing at the OCC to support minority national banks, and then talk for a few minutes about one issue – subprime lending – where I am concerned that overreaction has the potential to do great harm to many of the communities you serve.

As you may remember, we told you at this conference last year that we were in the midst of an internal review intended to help us design strategies for enhancing minority bank supervision. The first stage involved an internal survey of the Assistant

Deputy Comptrollers and Portfolio Managers who oversee supervision of minority national banks. In the second stage, we surveyed minority national banks. In general, the responses from the banks matched up pretty closely to those of our staff, which suggests to me that our supervisors on the ground have a good sense of the issues minority banks face.

What we've learned, in a nutshell, is that there is no typical minority bank, and no one right approach to technical assistance. You vary greatly in profitability, in the markets you serve, and in your business strategies. That shouldn't surprise anyone. Community national banks are all very different, and we at the OCC have always taken the position that cookie-cutter approaches don't work. Instead, the ADCs who manage portfolios of community banks work with examiners to design supervisory strategies that are tailored to the unique circumstances of each bank. That's even more important in the case of minority-owned national banks, since the unique customer base that many of you serve presents special challenges for bank management.

So, we've instructed our ADCs and portfolio managers to develop those tailored strategies and implement them. Each strategy will address the bank's technical assistance needs and will provide a plan for meeting those needs, including the actions we'll take to ensure effective communication between the OCC and the bank.

I want our ADCs to clearly explain the rationale for our supervisory expectations – what we'll be looking for when we examine the bank, where we believe improvement is needed, and what type of technical assistance we're able to provide. In some cases, it may be helpful, for example, for our ADC to be on site with the exam team and

examiner-in-charge during the examination, to have an opportunity to interact with management, in addition to being there for the board meeting.

We'll also take steps to ensure that the needs of minority-owned national banks are discussed routinely throughout the year. For example, at an upcoming OCC managers' conference, ADCs will have an opportunity to share ideas and information about what's working and what's not working with respect to minority banks.

We recognize we need to do a better job on the mechanics of communication. We plan to improve the structure and content of the minority bank pages on our Web site, and to build a feedback mechanism into the Web site so we can find out, in a regular and routine way, whether our web pages are serving your needs. And we'll use more traditional newsletters – both the paper kind and the electronic version – to keep you up-to-date on OCC-sponsored activities that will help you, your staff, and your board of directors. For example, we hold multiple workshops over the course of the year designed to help directors of community national banks meet the growing challenges of board membership. These small meetings of 30 to 50 directors provide opportunities to drill-down into timely issues, interact with other community bank directors, and benefit from the knowledge of the seasoned OCC examiners who teach these classes.

I'm not trying to say that we have all the answers, but I am saying that the OCC is committed to working with you and your managers to help ensure the success of the minority banking sector.

In that regard, we recognize just how important capital investments and joint ventures with other institutions can be to your future growth and continued success. This is an issue that was raised at last year's conference, and it continues to be a significant

concern. So, I think you'll be happy to know that the agencies have been working to put in place greater incentives for these cooperative efforts.

I am pleased to tell you that we are about to propose amending our CRA regulations to make clear that the agencies will take into consideration majority institutions' capital investments, loan participations, and other ventures undertaken with minority and women-owned institutions that benefit the credit needs of those minority and women-owned institutions' local communities. Incorporating these provisions from the CRA law into our CRA regulations will also make clear that these types of investments and joint ventures do not have to benefit the investing bank's assessment areas. We believe that formally including these provisions in our CRA regulations will reinforce that joint ventures and investments with minority and women--owned banks *will* receive favorable CRA treatment.

Another component of the proposed CRA amendments is aimed at providing more incentives for loans, services, and investments in areas that have been hard hit by mortgage foreclosures, including low, moderate, and middle-income areas.

I believe both actions are long overdue and will facilitate the flow of capital to minority institutions and their local communities.

But while minority national banks have always been ready and willing to serve low-income communities, I'm concerned today that the reaction – and potential overreaction – to the subprime lending crisis has the potential to do serious damage to those same communities.

It's true that in too many cases sound underwriting was sacrificed to make loans affordable, not just for lower-income borrowers, but also for relatively well off

individuals who wanted to buy houses they could not afford. The fact that a lot fewer of those loans were made by banks is small comfort, considering the damage that has been done to housing markets, to families that lost their homes, and to communities scarred by foreclosures.

Clearly, we need to restore discipline to the mortgage market. But if we let the pendulum swing too far and lenders decide subprime loans just aren't worth the trouble, many perfectly bankable low-income families may not be able to get the credit they need to improve their lives.

We simply cannot let that happen. Subprime lending, done right, serves an important market in a safe and sound way. And to do it right, we need to return to the basics.

What do I mean by that? Obviously, it includes adequate disclosures so borrowers know what they're getting into. But it also means a return to simpler loans, where all-in monthly payments can be met over the entire life of the loan. It also means borrowers should have some "skin in the game" through a reasonable down payment and voluntary participation in homebuyer counseling and education classes. Finally, as simple as it seems, it means income must be verified and risks of default assessed. That doesn't mean that W-2s must be presented in every circumstance, but it does mean that lenders and originators must verify the borrower's capacity to repay the loan.

Borrower risk assessment is an area that has seen significant changes since the 1990s. Automated underwriting and credit scores have given prudent lenders productive methods to assess risk. These innovations provide promising ways to treat those with

little or no credit history more equitably. They also hold the promise of making the underwriting of these borrowers more efficient and accurate.

Equally important, new opportunities will arise for minority institutions to play a more significant role in meeting the credit needs of underserved markets and individuals. That is a role your institutions have played well for many years, and one that you are uniquely suited to fulfill. We only have to look your way to find constructive ways to qualify borrowers for prime and sub-prime credit alike that makes a positive and sustainable contribution to the markets you serve.

Thank you very much. I look forward to your questions.