Remarks by
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Thank you. It's a pleasure to be here with you today. I'd like to begin by congratulating Michael Grant on his new position as president of the National Bankers Association. The OCC has a long history of working with the NBA's leadership, as well as the minority national banks the organization represents. I'm looking forward to continuing that relationship with you in the months and years ahead.

I've been responsible for the OCC's supervision of community banks for a little more than six months now. One of my first opportunities for dialog with community bankers in my new capacity was meeting with your Board of Directors during its Legislative Conference in Washington last April. So I am pleased to be joining you today to continue that conversation.

The past year has been a tumultuous time for the banking industry. The number and magnitude of historic financial market events that have occurred since your last conference are staggering. A year ago we were starting to see deterioration in the credit markets. But the depth of deterioration that has occurred since then has presented tremendous challenges to you as bankers, and us as regulators.

I know, for example, that many of you have relied upon commercial real estate, especially residential construction and development, as a source of loan growth and as a major contributor to your bottom line. Commercial real estate lending has been an extremely important product for community banks, and it plays a vital role in the economic vitality of your communities. But it has also been a major factor in the increase in problem banks – and yes – in the bank failures that we've seen this year.

Meanwhile, many community banks, including minority owned institutions like yours, have suffered losses on their investments in Fannie Mae and Freddie Mac. Recent action to move these government-sponsored enterprises into conservatorship, and the subsequent sharp decline in the value of their preferred stock, has caused significant challenges for a number of national banks. Banks with significant holdings will feel immediate pain in their capital levels as well as lingering negative effects on future earnings.

And consider the serious conditions currently surrounding liquidity. It's hard to believe the extraordinary developments in the markets in the last month. While commercial real estate has been a root cause of many of the failures we've seen this year, most of the banks that have been closed were closed for liquidity reasons, not because loan losses had depleted their capital. Depositor nervousness – especially in the aftermath of the IndyMac failure – has presented significant challenges for some institutions.

Amid all this turmoil, capital has never been more important as an antidote for the credit and liquidity risks presented by the current economic environment. Strong capital levels are necessary to maintain the confidence of your depositors and fund providers. Access to capital has become challenging even for banks in solid condition. And it has become extremely difficult for those banks that have developed problems and need it the most.

It is against this backdrop of literally unprecedented conditions that the OCC is adamant in reaffirming its commitment to community banking, and to supporting minority owned national banks. Comptroller of the Currency John Dugan recently reissued the OCC's policy statement on minority-owned national banks. He did that in part to update a document that has been a vital part of our supervisory program for many years now. But he also wanted to reaffirm his own commitment – and that of the OCC – to minority owned national banks. We know how important your banks are to minority communities. We know how you work with customers who might not have many options when it comes to financial services, and we know how you tailor products to meet their needs. You provide essential services to communities across America, and we at the OCC are ready, willing and able to support you in a variety of ways.

Along with other important OCC initiatives to support minority owned national banks, the updated policy statement incorporates an expanded discussion of the OCC's practice of developing an individualized supervisory strategy for each minority national bank. Each supervisory strategy is based on the risks facing the individual bank, including any specific supervisory issues identified by the OCC as requiring attention. Strategies recognize that each bank is unique – that banks serve different markets and have different business objectives. And that along with these differences come different needs for support from your regulators. Recognizing that these differences exist, a key focus of each supervisory strategy is how the institution's technical assistance needs will be determined and met.

What exactly do we mean by "technical assistance"? Generally, it is any individualized assistance tailored to a specific bank's situation, condition or needs. This includes technical information, instruction, guidance, or other supervisory tools or resources.

At the OCC we also interpret technical assistance to include general informational sources and programs that are relevant to all banks, including minority banks.
Our updated Policy Statement details many of these resources including:

- numerous publications;
- our series of educational seminars for bank directors;
- banker outreach events;
- peer bank data and technical information available on OCC's National BankNet;
- information of particular interest to minority banks on the External Outreach and Minority Affairs page of the our Web site;
- assistance from licensing specialists in preparing corporate applications; and,
- the technical advice available from numerous subject matter experts and our community affairs officers.

So why is OCC's commitment to provide your banks with technical assistance so critical in today's environment?

The nature of the technical assistance we offer evolves to meet the changing needs of institutions. For example, Bank Secrecy Act compliance is an area that in recent years presented challenges to community banks, and we responded by providing support that helped minority national banks develop programs that met the requirements of the Bank Secrecy Act, the Patriot Act and other laws aimed at deterring money laundering.

Today, the industry has moved into a much different environment, and we're ready to respond by offering technical assistance on a variety of relevant issues. For example, our examiners are an excellent resource for you in refining your bank's methodology for assessing the adequacy of its Allowance for Loan and Lease Losses. While this is always a challenging process that receives a lot of attention from regulators, it has become even more challenging in the current environment which bears little resemblance to recent history. Determination of an appropriate balance is difficult in times of rapid changes in the credit cycle where recent historical charge-off metrics become less meaningful. Rather than waiting until the examiners review your methodology and raise questions or concerns, I would encourage you to solicit their input and advice while you are working on the methodology to make sure you have considered all of the points that they feel are relevant to your particular bank's situation. There is no one right answer – each situation needs to be evaluated individually, but it is easier to have that exchange of ideas during the development process, rather than after the fact when examiners identify shortcomings in your final product.

I mentioned GSE exposures earlier and want to spend a few more minutes on this subject, because I know it's very important to a number of you. For many banks, the decision to place Fannie Mae and Freddie Mac in conservatorship has caused considerable pain.

Fortunately, only a small number of banks have exposures that are significant compared to their capital. But if your bank has experienced a loss from its holdings of preferred stock, then you aren't likely to be comforted by the fact that the GSE-related losses are manageable from the perspective of the industry as a whole.

What I can tell you is that we are prepared to work on an individual basis with any national bank that needs to develop a capital restoration plan as a result of its holdings of Fannie Mae or Freddie Mac stock. In addition, the federal banking agencies are preparing to publish a proposed rulemaking that will change the risk weighting for debt issued by these two agencies to 10 percent, down from 20 percent. While that won't offset the losses that some banks have suffered, it does signal the regulators' willingness to help banks manage through this issue.

Technical assistance needs will inevitably vary from bank to bank. That's why I encourage you to communicate openly and frequently with your examiners, and to let us know what type of technical assistance would be useful for your institution. Of course, communication is a two-way street, and I want to make sure we do our part as well. Our examiners and Assistant Deputy Comptrollers should clearly explain the rationale for our supervisory expectations including:

- what we'll be looking for when we examine a bank;
- where we believe improvement is needed and why; and
- what type of technical assistance we're able to provide to help the bank achieve those improvements.

As Comptroller Dugan said at this summer's interagency Minority-Owned Institutions Conference in Chicago, we recognize that we need to do a better job on the mechanics of how we communicate with minority banks, especially informing you of the assistance we can provide. Toward that end, I am taking steps to ensure that the needs of minority national banks are discussed among our supervisory offices in an effort to share best practices and enhance our assistance to these banks. Just as an example, OCC managers will be meeting at an agency-wide conference later this month, and we'll take advantage of that opportunity to hold a session for our Assistant Deputy Comptrollers to share ideas and information about what's working and what we can improve with regard to our oversight and guidance to minority banks.

We are also working to improve the structure and content of the minority bank pages on our Web site, and to build a mechanism into the Web site so we can receive ongoing feedback about whether our Web pages are serving your needs. And we'll use more traditional newsletters to keep you up-to-date on OCC-sponsored activities that will help you, your staff, and your board of directors.

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.

Good communication between banks and regulators is important anytime, but it's especially important today, as we work our way through the most difficult economic environment in recent history.

Before I close and take your questions, I'd also like to take this opportunity to update you on two important issues that have been of longstanding interest to the NBA. The OCC has long been a proponent of finding ways in which majority banks can receive positive consideration under the Community Reinvestment Act for investments in minority depository institutions as well as other activities conducted with them.

In July 2007, the four federal banking agencies requested comments on a range of new interagency "Questions and Answers" regarding community reinvestment. One proposed Q&A specifies the circumstances under which a partnering majority bank can receive positive consideration for investments, loans, and other ventures with a minority bank, even if the minority bank is *not* in its CRA assessment area, or a broader statewide or regional area.

The Q&A seeks to clarify how the regulators are to take into account these activities in the context of the general CRA standard of evaluating a bank's performance in its own assessment area. We want to make sure that positive CRA consideration is afforded to a majority bank that partners with a minority bank anywhere in the country.

The bank regulatory agencies are near the point of publishing the final Q&A on this topic in the *Federal Register* and we believe it will address the concerns that your organization has raised in the past. In addition, Comptroller Dugan is in discussions with the other bank regulatory agencies to incorporate this guidance into the CRA regulation itself.

Another OCC initiative involving an area of longstanding interest for NBA members is the removal of regulatory barriers to the flow of equity capital into minority national banks. One mechanism for facilitating equity investment in minority national banks is the "Part 24" public welfare investment authority. Comptroller Dugan has worked with Congress over the past few years to ensure it is sufficiently flexible to allow a range of needed community development investments, including investments in minority banks.

The Comptroller's efforts helped persuade Congress to raise the limit on public welfare investments by national banks from 10 percent of capital and surplus to 15 percent. And this year, I'm pleased to say, the OCC revised its Part 24 regulations to specifically identify investments in minority-owned institutions as an eligible equity investment for national banks.

Following up on this regulatory change, the OCC issued an interpretive Question and Answer which clarifies that, consistent with the CRA criteria I mentioned previously, a national bank may make a Part 24 investment in *any* minority-owned bank or thrift that serves the local community in which it is chartered.

It is our hope that the legislative change in the public welfare authority, combined with the changes we have already made in our CRA guidance, will have the effect of increasing the flow of capital into minority owned national banks, and better positioning each of you to serve your communities. I can assure you, we are anxious to help in that process.

I know there are other issues that are important to you, so now I'd like to again thank you for the opportunity to be here, and open the floor for any questions or comments you may have for me.