

Statement of
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Chairman Frank, members of the Committee, thank you for this opportunity to talk to you today about the OCC's role in ensuring the availability of credit for small and midsize businesses in Massachusetts. I have been a National Bank Examiner for twenty-eight years, and I served in a variety of positions in the field and in our Washington D.C. Headquarters before taking on my current responsibilities as Deputy Comptroller for the OCC's northeastern district. In that capacity, I am responsible for the oversight of nationally chartered community banks in the District of Columbia and fourteen states, including the Commonwealth of Massachusetts.

The OCC has long recognized the importance of small and midsize businesses to the overall health and vitality of our economy, and we believe the administration's small business and community lending initiative will have a positive impact on the ability and willingness of commercial banks to lend to that important sector.

Like much of the United States, Massachusetts is coping with serious economic challenges. Consumer loan delinquency rates are rising as home prices and labor markets decline, and commercial real estate is also suffering.

Many Massachusetts firms have responded to the downturn by scaling back their operations. The vast majority of these small businesses are still fully viable. They continue to produce goods and services, and they still need access to credit.

As bank regulators, we recognize the important role that credit availability plays in the viability of these companies, and we have encouraged banks on an interagency basis to meet the credit needs of their small and midsize business customers. Yet, in times of recession, bankers may be more cautious about the level of credit risk they assume and more selective in the loans they choose to make, especially if they find their capital or access to funding constrained. This is one reason why we stress the need for strong risk management systems, capital, and liquidity planning.

Fortunately, most banks have such systems in place and remain well-positioned to meet their customers' demand for credit. Indeed, our examiners indicate that most community national banks in Massachusetts expect to see modest growth in their small business loan portfolios this year.

Various federal and state programs, including the Small Business Administration loan guarantee program, can be especially valuable in this environment in helping bankers meet the credit needs of small and midsize businesses. In evaluating the underwriting and quality of small business loans, the OCC views government guarantees or support provided through these programs as effective mitigants of credit risk. In fact, our guidance to examiners specifically states that those portions of credits having a

government guarantee should usually be accorded a “pass” rating. National banks, with the strong encouragement of the OCC, are active participants in these programs.

The OCC also encourages lending to small and midsize businesses through our evaluations of bank performance under the Community Reinvestment Act, or CRA, our extensive Community Affairs activities, and our formal outreach programs.

I know that some people believe CRA contributed to the current credit problems. We at the OCC disagree. CRA encourages each insured financial institution to help meet the credit needs of the community in which it operates, but it does not ask banks to make bad loans. In fact, CRA lending has been a profitable business for most banks, and a business that has had very significant benefits for communities across the country. The OCC’s CRA examination process ensures that a national bank’s lending to small and mid-sized businesses is carefully assessed and subject to public scrutiny, and that these activities have a direct influence on the institution’s CRA rating. This creates an additional incentive for banks to lend to creditworthy small business borrowers.

The OCC’s Community Affairs Department provides important information and resources to examiners, bankers, industry associations and community groups. Ten OCC Community Affairs officers are located in major metropolitan areas across the country, including Boston, and these individuals actively promote existing programs and innovative ideas for advancing small business lending.

We also have a number of activities and publications specifically aimed at increasing awareness of programs that promote lending to small businesses. For example, the OCC and the other bank regulatory agencies regularly convene seminars for Massachusetts financial institutions, focusing on prudent lending and promoting bank

involvement in Community Reinvestment Act activities, including small business lending. My written testimony contains more information on these and many other OCC efforts to advance small and midsize business lending.

Let me close by emphasizing that the OCC will continue to support and encourage lending to small and midsize businesses in Massachusetts and throughout the country.

Thank you. I look forward to your questions.