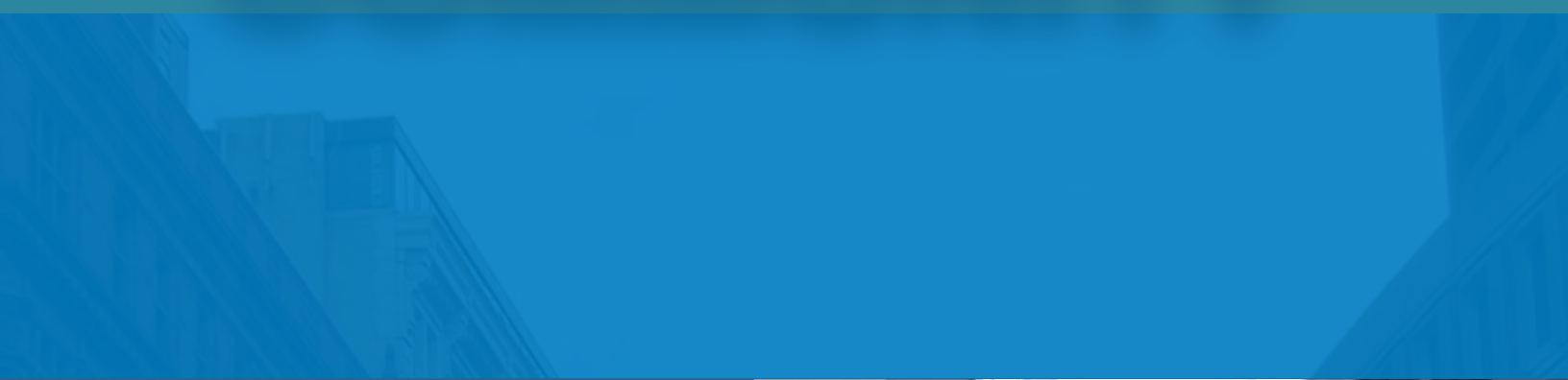




COMMUNITY



VII.

Communities: The Bedrock of a Strong National Economy

Community banks, central to the health and development of the U.S. economy, are a mainstay of the supervisory mission of the Office of the Comptroller of the Currency. Nearly 1,700, or over 90 percent of banks in the national banking system, are community banks. More than 600 of those banks hold less than \$100 million in assets. Approximately two-thirds of the OCC staff and the majority of the agency's annual budget are devoted to community banking.

Locally owned, locally managed, and locally focused, community banks provide the credit and personalized service that drive local economies. Small businesses receive 35 percent of their commercial bank loans from community banks. The OCC recognizes the critical role of local banks, and has a supervisory structure and approach to support this component of the financial services industry.

One way OCC extends this support is in our evaluation of proposals to open new community banks or expand existing ones. Soundly conceived charter proposals aid the community, and the OCC welcomes the opportunity to work with organizers to ensure that their proposed national banks, when approved and opened, will succeed.


Relationship banking is the key business model for many smaller institutions. This model is driven by local ownership and direction, an emphasis on local decision-making, relating to customers on an individual basis, and exercising personal judgment on credit issues. The needs of the community, and individuals within that community, are the focus of bank management.

The OCC, too, takes a relationship approach to the supervision of community banks. The OCC has 68 supervisory offices around the country, staffed by people who live and work in those communities.

The agency's management structure, with only three levels between the community bank examiner-in-charge and the Comptroller, promotes rapid, focused decision-making. With few exceptions, supervisory decisions are made locally by OCC staff who know and understand the bankers they supervise.

The relationship between community banking and the OCC goes back to the very beginning of the agency's history, and continues to be central to its identity. "The truth is that OCC has almost 1,400 examiners out there

who live, shop, vote, raise families, and have a personal interest in the economy of their state and region," Comptroller Dugan said.

 **The community bank perspective plays an important part in all areas of OCC supervision—in its Large Bank program, in mid-size and credit card banks, and in formulating supervisory policy.**

Community Banks and Examinations: Setting Standards for Safety

The OCC examines community banks every 12 to 18 months using a risk-based, continuous supervisory process. In the course of its ongoing supervision, OCC examiners review the adequacy of a bank's policies, systems, and controls relative to the character and complexity of a bank's business, and evaluate whether the bank's activities are being carried out in compliance with applicable consumer protection laws and regulations. Examiners typically sample individual loans and other transactions

to validate their assessment of the bank's systems, controls, and legal compliance. Depending on the bank's risk profile and other supervisory information, including consumer complaints, examiners may target their reviews to a particular loan product, business line, or operating unit.

Communication is continuous, and includes formal and informal meetings as well as reports of examination and other written material. The written materials detail findings from the ongoing supervision and targeted reviews. Violations of law or regulation, nonconformity with supervisory guidance, and other significant problems typically are detailed as "matters requiring attention" (MRA). Examiners obtain management's commitment to correct these deficiencies and track these MRAs until resolution. OCC examiners expect MRAs to be corrected promptly, and without further action by the OCC. Failure by bank management to do so can lead to formal enforcement action.

The supervisory process can be especially effective in addressing problems early, before they become more widespread. In many instances, banks consult with OCC examiners about their plans before implementing them, so that any issues can be raised and addressed before missteps are taken. Examiners often are able to address potential consumer protection and safety and soundness issues proactively with management through this ongoing supervision process.

OCC Measures Effectiveness of Supervisory Process

The OCC assesses the effectiveness of the supervisory process through an examination questionnaire, administered by its Office of the Ombudsman. The questionnaire is provided to all national banks at the conclusion of their 12- or 18-month supervisory cycle. The questionnaire is designed to gather direct and timely feedback from bankers on the OCC's supervisory program.

The national bank appeals process is another method of feedback. It addresses disagreements arising from the supervisory process that cannot be resolved through informal discussions. National banks may appeal OCC decisions and actions to the Office of the Ombudsman. With the consent of the Comptroller, the Ombudsman can stay a pending

decision or action until the appeal is resolved. In FY 2007, the Ombudsman's office received a total of 21 informal, formal and substantive inquiries and more than 100 general inquiries.

OCC Outreach and Education: Creating a New Bank Director Workshop

The OCC launched a new offering in April 2007 in its series of community bank director workshops. The workshop, titled "A New Director's Challenge: Mastering the Basics," is designed to appeal to directors with less than three years of experience, as well as to longer tenured directors who would like to review the fundamental requirements of their position. This two-day workshop combines lectures, discussions, and exercises on such subjects as understanding the regulatory structure, creating effective boards, identifying effective board processes, operating in a regulatory environment, overseeing the audit function, working with examiners and the report of examination, understanding the Uniform Bank Performance Report, and managing bank information.

This workshop joins three other programs devoted to the core of the community bank supervision process: Risk Assessment, Credit Risk, and Compliance Risk. These workshops are offered around the country throughout the year and are geared primarily to outside directors of national community banks with assets of less than \$1 billion. Management directors also find the workshops beneficial. Space is limited to 50 participants, so that open and constructive dialogue can take place.

Banks Help Meet Community Needs

The mutually supportive benefits of relationship banking can extend indirectly to activities that may not be obvious to bank customers. When flooding occurred this year in Wisconsin, Minnesota, Illinois, and Ohio, the OCC encouraged national banks to reach out to affected customers. The agency encouraged them to consider alternatives that may include:

- Extending the terms of loan repayment.

Comptroller Dugan and Chief of Staff Walsh Participate in a Community Bank Examination

Downtown Newton, Iowa, about 170 miles east of Omaha, looks like a lot of other small American towns. The bank occupies one corner of the square, the courthouse is in the middle, and you can park at a meter for 10 cents an hour. They don't get too many people from Washington out here, and certainly not many federal agency heads.

But for one week in May 2007, Comptroller of the Currency John Dugan and Chief of Staff John Walsh accompanied an OCC exam team—which included a group of OCC examiner-trainees—for a hands-on introduction to community bank examination procedures. It was an interesting week for the visitors and for the staff at the First National Bank of Newton, a \$75 million institution.

The Comptroller had emphasized that he wanted to be a contributor—not just an observer. And so, with an experienced examiner at his side, the Comptroller reviewed the bank's wire transfers for Bank Secrecy Act compliance, participated in the loan review process, and helped enter exam findings into the OCC's databases. He met with the bank's president to elicit his views on the examination process. The Comptroller and Walsh then met with each member of the OCC exam team to discuss supervisory strategies and review the exam findings.

On the final day, the Comptroller and Walsh attended the team's 90-minute exit meeting where examiners discussed their conclusions and recommendations with bank management and the board of directors.

The Comptroller was impressed. "I really enjoyed working with the exam staff and observing just how competent and professional our examiners are at what they do," he said. "I was pleased to observe our commitment to rigorous 'real world' training of our newest hires—who by the way performed very well despite the extra scrutiny from their Washington visitors . . . Thanks to the entire team, my first bank exam was an experience I'll never forget," the Comptroller said.

- Restructuring certain borrower's debt obligations.
- Easing credit terms for new loans to certain borrowers.

The OCC suggested measures that could help borrowers recover their financial strength and position them to repay their debts. When these recovery efforts work, they can contribute to the health of the community and the long-term interests of the bank and its customers.

The OCC's District Community Affairs Officers (DCAOs), located in nine cities throughout the country, serve as a resource to national banks. These community development experts provide consultations to national banks seeking clarification on Community Reinvestment Act (CRA) qualified lending, investment, and service activities. They assist with the identification of state, local, and community-based partnerships to promote community development. They can assist national banks seeking to form a Community Development Corporation or lending consortia, and offer assistance with Part 24 Community Development investment filings.

Working individually and in partnership with their peers at the other federal financial regulators, DCAOs provide group training for bank CRA officers interested in obtaining up-to-date information on assessing community needs, forming meaningful partnerships with community groups, and creating a bank's individualized CRA performance context. The training forums facilitated by DCAOs allow access to regulatory training as well as an opportunity for national bank officers to learn from the best practices of their peers and engage in case study exercises.

The best national bankers see themselves as community resources, especially for small businesses that are often in need of financial and technical support available nowhere else. Many banks use collaborative forums involving their government and community development organization partners to learn about the credit and other needs of small businesses and to develop ways of reaching those that need assistance. In that connection, these banks

engage in extensive training of their own personnel, so that they can provide the level of support that small business customers require.

The OCC works closely with national banks and community organizations to bring financing and retail services to underserved communities and consumers. We conduct one-on-one consultations with lenders and organizers to assist in identifying opportunities and resources to support community development finance, sponsor conferences and workshops to promote the exchange of ideas and information, and produce publications and Web-based resources on innovative approaches banks have used to provide community development financing and retail financial services to underserved populations.

Comptroller Brings Supervisory Message to Communities

Since taking office in August 2005, Comptroller Dugan has logged thousands of miles meeting personally with national bankers all across America, learning first-hand about the issues that concern them and about the work they do. To actually see the fruits of bankers' investment in time, energy, and capital, however, the Comptroller and OCC staff travel into the nation's streets and towns, where creative partnerships between national banks and community development organizations are changing lives for the better every day.

In November 2006, the Comptroller toured community development projects in the revitalized East Liberty neighborhood of Pittsburgh, the birthplace of what is now NeighborWorks America (NWA). NWA is a network of nearly 250 local community organizations that brings together residents, business leaders, financial institutions, government officials, and volunteers in support of community revitalization projects across the country. The Comptroller and principals of the other federal regulatory agencies serve on its board of directors.

The East Liberty neighborhood is bolstered by public welfare investments. The Comptroller met with members of the Pittsburgh Community Reinvestment Group (PCRG) who have led the effort to fund and implement these projects. As a result of

OCC Facilitates Solutions to a Branch Closing Dilemma

In response to the announced closing of several branches of national banks in the Philadelphia area, the OCC Community Affairs division sponsored three community meetings that offered bank customers a forum for their concerns and fresh hope of obtaining alternative banking facilities. The meetings were conducted under the auspices of the Waters Amendment of the Riegle–Neal Act of 1994, which requires the bank regulatory agencies to convene meetings of community leaders and other interested persons to discuss the feasibility of obtaining alternative banking facilities and services under such circumstances.

The meetings took place in North Philadelphia, Coatesville, and Linwood, Pennsylvania.

Nearly 100 private citizens sat alongside representatives of banks, thrifts, and credit unions in a joint OCC-sponsored effort to explore the credit needs of the residents and ways to alleviate the impact of branch closings.

“Many people in town walk to their bank,” said Carolyn Johnson, Executive Director for Community Impact Legal Services in Philadelphia, during the Coatesville session. “It was a concern of mine that these people would not have access to [the bank] any longer . . . and this limits their choices.”

Joyce Taylor, the Executive Director of the Chester County Assistance Office, noted that customers on public assistance often cash their checks at that bank branch, where the assistance office has an account. Most do not have bank accounts, so people rely on cashing their checks at the bank, free of charge.

Barry Wides, OCC Deputy Comptroller for Community Affairs, raised the possibility that other financial institutions would be willing to accommodate people affected by the closing. “What I have seen before is that financial institutions will agree to take customers at no charge and hope they might gain them as a customer.” The meeting led to discussion of several such possibilities, as well as consideration of the community’s larger financial needs for low-cost checking and deposit accounts, opportunities to refinance predatory loans, financial education, and one-on-one counseling for homeowners to help them avoid aggressive predatory lenders.

such support, development in the East Liberty area has already attracted more than \$200 million and created more than 400 jobs. PCRG is now turning to financial education and foreclosure counseling programs to ensure that residents can sustain these investments and their benefits to the community.

Also in FY 2007, the Comptroller on two occasions visited the nonprofit East Los Angeles Community Union (TELACU), which has approved more than \$2 million in small business loans each

year since 1999, in cooperation with contributing national banks. The NeighborWorks America affiliate, Neighborhood Housing Services of LA, has reinvested more than \$63 million to improve housing, create homeownership opportunities, and prevent predatory lending with the support of its bank partners.

Several community development projects are the result of national bank financing through low-income housing tax credits and new markets tax cred-

OCC Staff Join the Comptroller in Improving D.C. Affordable Housing Complex

On June 2, Comptroller Dugan led more than 20 volunteers from the OCC in landscaping an affordable housing complex in the Brentwood neighborhood of Northeast Washington, D.C.

As part of National NeighborWorks' Week 2007, the event represented just one of hundreds of similar projects held throughout the country involving thousands of volunteers. At this project, OCC staff, their families, and friends worked alongside residents to improve the grounds surrounding the Unity Gardens Condominiums, which Manna, Inc., another member of NeighborWorks America, recently renovated. The event also marked the 25th year that Manna, Inc., has worked to help hundreds of low-income homebuyers purchase their first homes.

"The event was about making a difference in our community," said Comptroller Dugan. "As a D.C. native, I'm proud to participate in such a worthwhile effort to support my community, and I share the personal commitment that OCC volunteers, community residents, and Manna staff demonstrated."

In 25 years, Manna has produced more than 850 affordable homes under its programs, which have accumulated more than \$50 million in equity for program participants. The Unity Gardens Condominiums project combines housing development and design with human service programs to promote homeownership through pre-purchase counseling, asset-building, and job training.

Each year the Comptroller and OCC staff members volunteer in a NeighborWorks' Week project to make a difference in the local community and demonstrate the agency's commitment to community reinvestment and redevelopment. Many projects have resulted from Community Reinvestment Act credits and have involved community reinvestments from national banks or their community development corporations.

its using the public welfare investment authority. The Comptroller said, “These investments support critically needed urban revitalization, rural redevelopment, and job creation. They do so in a manner that not only benefits the communities served, but also enjoys a solid track record of profitability and safety and soundness.”

These accomplishments, and the need for additional resources, led the OCC to support an increase in the level of bank investments permitted under the Part 24 public welfare investment authority, from 10 percent to 15 percent of a bank’s capital and surplus. This increase, which was authorized by Congress in the Financial Services Regulatory Relief Act of 2006, opens the door to substantial new private investment, as banks work together with their community partners to revitalize and stabilize communities and promote the public welfare.

New market tax credit financing was used recently to renovate a former department store, vacant for more than 20 years, and located in a downtown commercial district. A nonprofit developer received a senior loan of \$11.3 million and a subordinated loan of \$2.8 million from a national bank-owned community development entity to restore an approximately 140,000-square-foot building as a business incubator that will include space for a biotechnology life sciences facility. The project will add laboratory and custom-designed space to accommodate high-tech, biotechnology, and biomedical business start-ups and ultimately house as many as 65 start-up companies at one time. The tenants and incubator “graduates” have combined annual sales of \$127 million as of 2004 (the most recent year for which data are available). The businesses are projected to have created jobs for 775 people by 2007.

Community Banks and the Global Economy

Today, even small community banks find themselves drawn inexorably into the global economy—a trend that offers opportunities and challenges for them, as it does for their customers. Small community banks—those of \$100 million in assets or less—are probably not as affected by the trend toward globalization as larger institutions. But their roles, like the lives of their customers, *are* changing.

Community banks are adjusting to tighter margins and tougher competition. For example, over the past 10 years, commercial real estate loans doubled in community and mid-size banks. Some of these loans went to Americans who were starting businesses to serve rising immigrant populations—populations who went on to borrow and start businesses of their own. Community banks added foreign-language-speaking personnel to serve the new clientele from foreign countries; some of these bank employees became founders of the minority-owned national banks that are the pride of their communities—and the country—today. In this way community national banks not only promote the well-being of their customers, but also that of the entire national economy.

EVENTS

January 2007	OCC Releases CRA Evaluations for 36 National Banks
February 2007	Comptroller Dugan Hosts Workshop for New Community Bank Directors in Washington, D.C.
March 2007	OCC Publishes Newsletter Highlighting Community Development Venture Capital Investment Opportunities
April 2007	Comptroller of the Currency Hosts Community Bank Directors Workshop on Compliance Risk in Tulsa, Oklahoma
May 2007	Agencies Release List of Distressed or Underserved Nonmetropolitan Middle-Income Geographies
	OCC Volunteers Help to Improve an Affordable Housing Property in Northeast Washington, D.C.
June 2007	Comptroller of the Currency Hosts Community Bank Directors Workshops in Houston, Texas
	Agencies Release Proposed Revisions to Interagency Questions and Answers Regarding Community Reinvestment
July 2007	Comptroller of the Currency Makes Statement Regarding Community Reinvestment Act Questions and Answers
	OCC Chief of Staff Addresses Minority-Owned Financial Institutions
	Comptroller Distributes Booklet to Help Banks Fight Child Pornography
August 2007	Comptroller of the Currency Hosts Community Bank Directors Workshop on Compliance Risk in Lexington, Kentucky
September 2007	Comptroller of the Currency Hosts Community Bank Directors Workshops on Credit Risk in Grapevine, Texas