Remarks by
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I am delighted to be with you this morning at the annual conference of the National Bankers Association. Of course, bank supervisors always get a little nervous about coming to meetings in Las Vegas: "safety and soundness" doesn't exactly rhyme with "slot machines and stud poker." Rumor has it that a famous former Fed Chairman simply refused to come here for fear of showing up in the tabloids walking out the door of a casino. Your shareholders would be pretty unhappy, too, if they thought you were betting the bank in Vegas, so I guess we had all better be on our best behavior.

I really am pleased to be here, because I've observed over the years the important role that the NBA plays in providing a forum for its members. You give voice to the challenges you face in your communities, and you vigorously represent the interests of minority-owned institutions in the nation's capital. I look forward to a strong and productive relationship with your organization during my tenure as Comptroller – and feel I'm off to a good start with this, my third meeting with members of the Association this year.

The Context for Minority Banking

I am keenly aware of the role your banks play in your communities, because understanding and supervising community banks is central to the OCC mission. Community banks play a fundamental role in our nation's banking system. They operate in places that larger banks won't; they provide credit and personalized service to customers in ways that larger banks don't; and they force larger banks to compete in ways that bring real benefits to businesses and consumers. These traits are magnified in minority institutions, which must focus like a laser on the needs of their communities if they are to survive and prosper.

When I say that supervising community banks is central to our mission, it is important to recognize that bank supervision is the OCC's only occupation. We don't worry about monetary policy or deposit insurance: we supervise banks. And while we supervise everything from trillion-dollar "megabanks" to trust banks to credit card banks, we view community banks as our real "bread and butter." Fully 92 percent of the banks we supervise are community banks, involving 65 percent of our bank examination force.

Our supervision of community banks, like that of any bank, focuses first on credit quality, because that is critical to our safety and soundness mission. This is a particular concern for community banks because a relatively small mistake can result in real loss and even failure, where the same mistake would not threaten a larger bank with a more diverse portfolio. (Of course, when problems do occur in larger banks, the consequences can be much more severe.)

Community banks like yours also face an increasingly complex set of compliance requirements covering anti-money laundering, fair lending, and consumer disclosures, to name just three, and you "feel the pain" of these requirements more than larger banks that can spread the costs more easily over a larger organization.

It is fair to say that running – and supervising – banks has gotten more complicated over the years. Given our sole focus on supervision, I like to think the service we provide is the "gold standard" of bank supervision – and that is certainly what we strive for every day. Of course, no system is perfect, and we therefore welcome the valuable suggestions we've already received from NBA members that have helped us make our supervision more effective.

The starting point of our supervisory relationship is a Portfolio Manager: each community bank is assigned one examiner who is responsible for the bank's overall supervision and for developing detailed knowledge of that bank. The Portfolio Manager is expected to hold a community bank to high standards, which we believe in the long run is best for the bank and its customers. But we also recognize that community banks sometimes need more guidance to comply with the regulatory maze than larger banks do. OCC examiners are trained and encouraged to provide advice that goes beyond the scope of the formal examination for those banks who want it. And in this way we really believe that we can, and do, add real value to what you do.

In this context, the success of our supervisory relationships with minority-owned banks depends even more critically on the quality of the relationship between the bank and our Portfolio Manager. The agency makes every effort to ensure that the Portfolio Manager is familiar with a bank's unique attributes, sometimes assigning staff from more distant offices or making special arrangements to ensure continuity of oversight. And just as we promote cultural diversity and awareness in the OCC workforce, we make special efforts to ensure that our examiners understand the cultures of the minority-owned banks they supervise. Let me cite a few examples.

- Here's one: In a minority-owned institution where bank management and examiners had fundamentally different views on loan review practices and credit risk ratings, the Examiner-in-Charge organized a one-day seminar at which an experienced outside examiner explained the OCC's approach to loan review and credit risk ratings. Understanding what we look for in bank systems and sharing best practices gained from examining across a range of similar community banks provided the bank a convincing rationale for modifying their processes.

- Here's another: In an OCC field office where a substantial number of minority-owned banks served Asian-American markets, the OCC manager organized a "Diversity-in-Action" training session for examiners by a diversity consultant to better understand Asian business practices and cultural perceptions.
- And here's a third one: Because effective compliance is such a challenge for directors unfamiliar with the numerous requirements facing banks, the President of one of our minority banks enlisted our examiners' help in providing the Board with training on high profile Bank Secrecy Act and Anti-Money Laundering enforcement.

Of course, there are also many instances in which you teach us. One of our minority banks had a niche in a specialized and risky loan product. The bank's management had their senior credit officer meet with OCC credit examiners to help them better understand the structure of these credits, the performance of the portfolio, and the risk controls around it. Without this insight, our examiners might have been critical of the bank's practices, and might have inhibited the growth of one of the bank's important sources of interest income. Because the bank was able to demonstrate effective control over delinquencies and losses, it was able to develop a successful specialized lending area.

As an aside, let me say that this approach by our examiners is at the heart of our risk-management approach to supervision. Our job is not to tell you what risks to take. But our job <u>is</u> to understand these risks, and even more important, to understand that <u>you</u> understand them – and that you're measuring and managing them appropriately.

While such individual examples are heartening, minority bankers have expressed concern that OCC examiners will, in fact, evaluate their performance against non-minority banks that face quite different operating environments and business challenges. The good news is that technology enables us to assemble customized peer-bank groupings to which we can compare a minority bank's performance. OCC databases permit us to do this by location, asset size, market characteristics, product emphasis, and just about any criteria, really. This is such an effective analytical tool that we plan to add the capability to create minority bank customer peer groups to the tool we provide on our online BankNet System called "Comparative Analysis Reporting" or "CAR." BankNet and CAR are free for all national banks – another part of value-added supervision at the OCC. If any of our bankers here haven't signed up for this feature, we hope you will.

While we believe we have a positive story to tell about OCC relations with our minority-owned institutions, there is no arguing with the basic numbers. Today, there are fewer than 200 minority banks nationwide. Less than a quarter of those are nationally-chartered banks regulated by the OCC, while the rest have opted for a state charter. If that choice was made because our supervisory standards are high, then so be it. But if it's because of a miscalculation of the value an OCC charter adds to a bank, or a misperception that we only care about big banks or don't care about minority institutions, then we have work to do.

To that end, the OCC has embraced the training, technical assistance, and educational goals in support of minority banking contained in Section 308 of the Financial Institutions Reform, Recovery, and Enforcement Act. Our commitment is embodied in the OCC's own Policy Statement on Minority-Owned National Banks. As you know, the Government Accountability Office (GAO) recently issued a report that concluded that the federal banking regulators, including the OCC, need to do a better job of assessing the effectiveness of their efforts to support minority-owned institutions. The GAO found that only about 25 percent of eligible minority-owned institutions have taken advantage of the services provided by the OCC, such as those that I just described, and therefore may miss opportunities to address problems that limit their financial performance.

I agree with the GAO's conclusions. The OCC is now exploring additional ways to provide minority banks, particularly small and African-American banks, tools that may assist them in strengthening their operations and financial performance.

<u>OCC Outreach Efforts</u>

We begin with banker outreach. This is one of the principal mechanisms the OCC uses to take the pulse of the market and ask our banks how we're doing. In my first year as Comptroller, I attended more than a half dozen OCC-sponsored banker outreach events in cities across the country, where I met with more than 350 bankers.

Our outreach efforts specifically include minority banks. Last February we invited four CEOs of African American national banks to come to Washington for a full-day session to discuss the strengths and struggles of minority institutions. I know that several of those who attended that session are here today, and I'm pleased to see you again. We began with a private meeting and luncheon with the OCC's Executive Committee and me, which was a frank and substantive exchange of views. That was followed by a panel discussion and Q&A session with our Washington staff, at which the bankers discussed the mission of their institutions and shared accounts of the economic and regulatory obstacles they face. Hearing about these issues directly from bankers provided immediacy and context to our understanding of the challenges they face.

A few weeks later in Washington, I had the pleasure of addressing the NBA's legislative and regulatory conference. While I hope my formal remarks added value to the conference, I particularly welcomed the dialogue in the question-and-answer session. In the coming months, I look forward to extending this dialogue to other members and segments of the minority banking community.

In addition to face-to-face interaction, we are making increasing use of the Internet to expand our outreach. We have launched a minority banking website, an idea, I might add, that emerged through our discussions with NBA representatives. We will also be enhancing the content on our BankNet site to make it even more valuable to minority bankers. Among the new features will be a list of minority national banks, news of interest to minority bankers, announcements of training and conference opportunities, discussions of legislative and regulatory issues of unique concern, and an identification of investments that are eligible for CRA consideration.

Strengthening our Focus on Minority Banks

Moving beyond outreach, the OCC recently initiated an internal review process to develop strategies for enhancing minority bank supervision, tracking our progress, and assessing the impact of these initiatives. Key staff from all parts of the agency that are involved in supervision, outreach, training, and technical assistance are involved in this exercise.

The first step is an internal survey of our Assistant Deputy Comptrollers and Portfolio Managers who supervise minority institutions. This survey will both catalog our existing efforts and solicit advice from OCC staff on what works and what can be improved. In addition to identifying current agency “best practices” that can be shared by our supervisory offices, assembling comprehensive data rather than anecdotal evidence will allow the OCC to make informed decisions on how best to meet the needs of the minority banks.

Conclusions drawn from this first phase of work will be used to frame an external assessment of the OCC’s efforts on behalf of minority banks. Responding to the principal GAO recommendation, the agency will survey all OCC minority banks to find out how better to target our education, outreach, and technical assistance efforts so they are more useful and effective. In particular, we hope to better understand the phenomenon, identified in the GAO study, that few minority banks take advantage of the training, education, and technical assistance efforts the federal banking agencies now provide. To drill deeper into issues once we have the survey results, the OCC also plans to conduct several focus groups aimed at various sub-groups of our minority bank population. The overall results of this analysis will help the OCC better to focus our supervisory, education, and outreach activities for minority institutions

Hot Topics for the Banking Industry

My remarks today have focused on our experience with, and plans for, minority bank supervision and outreach. In the time I have left, let me touch briefly on some of the issues on which the OCC is working that concern you more generally as community bankers. I can assure you that it has been a very busy Fall.

Modest regulatory relief legislation has just passed both houses of Congress. I am especially proud of a provision that increases the amount of community development investments national banks can make. As many of you know, national banks have authority to make public welfare investments: so-called "Part 24 investments," after the relevant section of our implementing regulations. National banks have made more than $16 billion of these investments over the past decade. The program has been such a success that some banks have reached the legal limit. The OCC was instrumental in pushing for an increase in the limit from 10 to 15 percent of capital and surplus, which will make an additional $30 billion of capital available to support projects that benefit low- and moderate-income communities throughout the nation.

The Part 24 authority provides one mechanism through which national banks can make equity investments in minority-owned financial institutions. National banks may also make investments in minority-owned banks or thrifts under other sources of authority as well. As the OCC indicated publicly earlier this year, these investments will be considered favorably under the Community Reinvestment Act if they help meet the credit needs of the communities in which the minority-owned institution is chartered.

Turning to the regulatory process, the Notice of Proposed Rulemaking for the new Basel IA capital rule is undergoing final regulatory review by the Office of Management and Budget, and we hope it will be available publicly in the coming weeks. In addition, the Federal supervisory agencies just issued interagency guidance aimed at improving underwriting and transparency for nontraditional mortgage products. And of course, we are working hard to finalize our proposed guidance on concentrations in commercial real estate lending, which we know has been controversial. Each of these topics could be a speech of its own, so I should probably let you identify the ones that particularly interest you in the Q&A period to follow, where I will be happy to address your questions.

Conclusion

I have focused today on your important role in our banking system. Let me conclude with a few specific examples that drive home what I mean.

Many banks claim to speak their customers' language. But how many can match Omni Bank, N.A., an Asian American bank headquartered in Alhambra, California, where the staff speaks eight different languages, including three dialects of Chinese?

Many banks claim humble beginnings. But Commonwealth National Bank in Mobile, Alabama, an African American institution, was founded in 1969 by 15 men who volunteered to invest 15 cents to cover the cost of sending letters to the bank regulatory agencies, inquiring about a charter.

And many banks have a substantial base of non-mainstream customers. But how many can match the United Americas Bank, N.A., in suburban Atlanta, where two out of every three customers are Mexican–American, who routinely send half their incomes to relatives abroad?

What these institutions have in common is a commitment to treat their customers with respect, and to deliver the banking services they need. And that commitment, in turn, is why the OCC is committed to the success of minority banking in America.

I look forward to a fruitful working relationship with the National Bankers Association in the years ahead. Thank you for this opportunity to meet with you today.