

Remarks by

John Walsh

Acting Comptroller of the Currency

Before the

Interagency Minority-Owned Depository Institution Conference

June 15, 2011

Thank you. It's a pleasure to be here today to talk about the challenges and opportunities facing minority-owned depository institutions in the United States. We at the OCC believe in the importance of community banks in general and minority-owned institutions in particular. Families look to community banks for the credit they need to buy homes and educate their children. Small businesses, which create most of the new jobs in the United States, depend heavily upon community banks for the funding they need to grow. And municipalities throughout the country look to small banks for a range of financial services.

Beyond the financial services they provide, the small, often unpublicized, actions of community bankers make important contributions to the quality of life in a community—whether sponsoring local charities, community events, or school programs.

If anything, minority-owned banks and thrifts play an even more vital role in their communities, since they often operate in under-served areas. Whether it is the inner city or a struggling rural community, a minority-owned bank or thrift may be the only insured depository institution easily accessible for families to entrust their savings or for a small business to obtain a loan. It's impossible to overstate the importance of an insured

depository institution to the economic health of a community, and I suspect that many of the neighborhoods in which you operate would have very limited options without your presence.

Given this important role, everyone must be concerned that minority-owned banks are under such great stress today. On the one hand, some of the problems you deal with, like recruiting qualified professionals, raising capital, and identifying creditworthy borrowers, are the same challenges faced by all community banks. But they can be even more challenging in the markets you serve and for the services that minority-owned institutions endeavor to provide.

In fact, the range of tough issues community banks face has led some to question the viability of the business. We at the OCC are optimistic about the staying power of the community banking model. The country has always had a diverse banking system, with community and minority-owned depository institutions serving local communities, and there are important reasons that will not change. You know your communities. You know your customers. And, you can respond quickly to local needs. When a small business needs a quick decision on a loan, you can respond because you know the local market, and you know the character of the men and women who stand behind the business. That's something that local companies just can't get from large financial institutions.

But while we're optimistic about the future of community banks and thrifts, it would be Pollyanna-ish to ignore what is happening in the industry. Net-interest margins are under pressure, and many credit products, from auto loans to fixed-rate mortgages and education loans, have been commoditized to the point that a bank needs considerable

scale to make money. At the same time, commercial real estate, a significant source of profit for many community banks, has turned into a source of losses as a result of the economic downturn. In fact, CRE concentrations have played a major role in almost every bank failure this year.

We are also mindful that new regulations arising from the Dodd-Frank Act will add strain on community banks, even though the primary focus of many of the more publicized portions of Dodd-Frank is on larger institutions. No one requirement represents a particular burden, but the cumulative effect of the many rules under development can, particularly for small banks that don't have the capacity to deal with the expanded compliance burden.

Clearly, all community banks face challenges, and those challenges are magnified for those of you who operate in more difficult markets. It's a hardship whenever a community loses a bank, but it represents a far greater setback for an underserved community. I can tell you that the OCC is committed to doing everything we can to ensure that minority national banks and federal savings associations remain healthy and capable of serving their customers.

We do frequent surveys of minority national banks, and invariably hear that you have a great desire for technical assistance. I think that's very important, and the OCC is committed to meeting this need. One example is the workshops being held at this convention. The OCC is sponsoring several of these workshops, covering three topics: Activities of Effective Boards, Commercial Real Estate Risk Management, and Managing Interest Rate Risk. I think you'll find these sessions extremely useful, and I hope you'll take advantage of them.

We also offer workshops for directors for national banks and federal savings associations on a number of topics in cities around the country. This can be a very cost-effective way to ensure your directors are prepared to carry out their responsibilities and participate in the management of your bank. I encourage you to make your boards aware of these opportunities, which we offer without charge to minority banks and thrifts. This year, we're offering more than 30 of these workshops. Some cover the basics that every director needs to know, and others get into more specific subjects, such as credit and compliance risk.

The most important work we do in this area, however, involves technical assistance tailored to specific institutions. The technical assistance we have provided to minority institutions runs a gamut of issues. At one bank alone, we have made presentations on issues ranging from budgeting and strategic planning to best practices on consumer compliance regulations. Another popular topic is Bank Secrecy Act compliance.

However, the areas where we are most frequently asked to provide this type of assistance are credit analysis and underwriting. One minority-owned national bank asked us to provide training to give management and the lending staff a better understanding of the OCC's perspective on the application of non-accrual and impaired status to various lending scenarios. We have also offered in-person training on the underwriting and administration of commercial real estate loans, credit analysis, and risk rating evaluation.

My point is that we're prepared to offer training and assistance on topics important to your banks, and we'd like to do more of it. I am completely biased on this point, but I believe you will find no better examiners and policy experts in the business

than ours at the OCC, and their knowledge and experience can be of great help to your institutions. All you have to do is ask.

Internally, we are launching quarterly conference calls among the Assistant Deputy Comptrollers who have minority institutions in their portfolios. This is an opportunity to share ideas and experiences in order to develop best practices that can be applied broadly. Again, I think this will help us in our efforts to provide technical assistance on an institution-by-institution basis.

We're also undertaking a new initiative stemming from the transfer of most of the supervisory responsibilities and staff from the Office of Thrift Supervision to the OCC. As we move toward the July 21 transfer date, we have begun planning for an advisory committee with representatives of minority banks and thrifts that will replace a similar panel sponsored by OTS. This will give us an opportunity outside the supervision process to hear more about the issues that you think are important. I expect the discussions to provide us with valuable perspectives and insights.

A core theme of what I've discussed so far is the importance of good two-way communication. The OCC has stressed to banks of all sizes how important it is to touch base with us when you recognize a developing problem, whether it is a commercial real estate concentration starting to deteriorate, or a compliance program that isn't working. This is a two-way street. It's just as important for examiners and EICs to communicate clearly and directly with the banks they supervise as it is for bank management to address compliance and credit quality problems forthrightly.

It's also important that an agency be willing to review its supervisory actions and reconsider any that are found to be unfair or incorrect. The OCC's Office of the

Ombudsman provides an independent avenue of appeal that you can take advantage of if you disagree with a supervisory judgment. Larry Hattix, our Ombudsman, is fully independent of the supervisory process and reports directly to me. The results show that bankers who appeal decisions don't always get the result they had hoped for, but they always receive fair consideration. Last year, of the 11 appeals decided by the Ombudsman, two decisions upheld the bank, seven upheld the supervisory office, and two were split. I hope you will first raise your concerns with your local supervisory office, but if issues remain, you should not hesitate to contact the Ombudsman to discuss the issue and determine whether you want to file a formal appeal.

In closing, let me say that one of the great things about this conference is the way it spotlights the diversity of America. I believe that the regulatory agencies should strive to reflect that same diversity in our workforces and should support diversity among and within the institutions we supervise. We have a long history of supporting diversity at the OCC and throughout the industry as well as promoting the strength of minority-owned banks. Much of our effort has involved our External Outreach and Minority Affairs team, headed by someone I'm sure most of you know—Glenda Cross. And, during this past year, we have built on that success. In January, I selected Joyce Cofield, a seasoned executive with more than 28 years of experience in human resources and workplace diversity, to lead our Office of Minority and Women Inclusion, which we established as part of our implementation of Dodd-Frank requirements. Joyce is a dedicated professional who brings enormous energy and great conviction to this position. I have no doubt whatsoever that she will make a significant contribution to our efforts to increase diversity in OCC management, employment, and business activities. Joyce is attending

part of this conference, and I hope that you will have an opportunity to meet her while she is here.

While the OCC is serious in our approach to minority depository institutions, I also recognize that it is inevitable to question whether the OCC, or indeed any of the regulatory agencies that supervise a broad national population, really understand your banks, your markets, and your customers. What I can tell you is that we are working very hard to make sure we do, and to make sure that our supervision is not just fair, but that it helps ensure the vitality of your banks. Our goal has to be the preservation of vibrant minority national banks and federal thrifts that are safe, sound, and strong enough to continue to serve their communities.

Thank you.