

Remarks by
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Thank you, it's a pleasure to be here; in fact, it's a bit of an *unexpected* pleasure to be here. As recently as three weeks ago, I didn't know I would be giving this speech, and I'm not sure if you even had time to update the program after my Senate confirmation. In any event, I'm grateful to the Senate for voting to confirm me as Comptroller of the Currency in time for me to be here with you today.

This is my first speech as head of the Office of the Comptroller of the Currency, and it actually is a very appropriate topic to start off my term since the challenges facing small businesses today touch elements of the history and longstanding goals of the OCC.

The national banking system created during the Civil War had several objectives. One was to create institutions that would serve as the source of reliable financing to support economic recovery and growth of business and agriculture in cities, towns, and communities in the expanding nation. The system would also distribute a sound national currency, eliminating the uncertainty of value and regional disparities of locally issued bank notes. The OCC's mission today, in the post-Dodd-Frank world, now includes oversight of federal savings associations as well as national banks, but stays true to

founding principles: assuring the safety and soundness of the institutions we supervise so that they have the capacity to make credit and other services available to customers throughout the nation.

This mission, and the history behind it, is particularly relevant to the role of national banks and federal thrifts as lenders to small business today. Making credit available to start up or expand a small business contributes to job creation and to the vitality of communities, and these in turn contribute to the health of the national economy. To perform this role, national banks and federal thrifts must have the financial capacity and expertise to make credit available on a safe and sound basis.

It's hard to overestimate the importance of small business to the U.S. economy. According to the Small Business Administration, firms with fewer than 500 employees account for 43 percent of the nation's total private payroll and 65 percent of the net new jobs created from 1993-2009. And they play a vital role in their communities that goes beyond providing jobs.

However, these are challenging times for small companies. While the economy has experienced modest growth since the recession ended in June 2009, small businesses have found it much more difficult to regain their footing than larger firms. Profit margins at large and medium-sized companies have rebounded sharply, and are now very close to their pre-recession peaks. Yet more than half of the nation's small public companies were unprofitable in 2011. Post-recession job growth has been significantly weaker at small firms than at large and medium-sized companies, and their appetite for credit remains below pre-recession levels, reflecting their assessment of the strength and staying power of the recovery.

That's not to say that there are no signs of life among small businesses. While they are rebounding more slowly than larger firms, they are, in fact, rebounding.

Job growth at small firms increased significantly in the first quarter of 2011, the latest quarter for which we have hard data, and surveys indicated that this improvement continued through the second half of the year. Borrowing also trended upward, although not consistently, over the six months ending in February. The Federal Reserve's January 2012 survey of senior loan officers shows that the share of banks reporting stronger demand for commercial and industrial loans from small firms increased from the prior quarter, and was roughly the same as the share of banks reporting stronger demand for C&I loans from large and midsize firms.

In any case, small business has a number of challenges to meet before it fully shares in the upswing. So, I'd like to spend the rest of my time today discussing what the OCC and the national banking system are doing to help small business, and in particular, how our supervision of community banks and thrifts benefits small firms.

I am mentioning community banks and thrifts in particular, not because they are the largest source of funding for small businesses – they are not – but because of the close relationship between small firms and the community institutions that the OCC supervises.

It is true that the OCC supervises the largest banks in the country, but most of our resources – including the preponderant share of our supervision staff – are devoted to community banks and thrifts. In fact, 87 percent of the banks and thrifts we supervise have less than \$1 billion in assets.

At the end of 2011, insured banks and thrifts held \$664 billion in small business loans, and small institutions, those with less than a billion dollars in assets, accounted for 38 percent of those loans. That's a large share, and it shows how vital the relationship is between small businesses and community banking. While community banks and thrifts provide nearly four out of every ten dollars in credit that small businesses receive, their share of the total loan market is much smaller – only 12 percent. So in many ways, the fortunes of small banks and small business are inextricably linked, and community banks and thrifts will have trouble growing without strong loan demand from small companies.

Today, however, demand for credit is light. According to a recent report from the National Association of Small Businesses, only three percent of small business owners say that credit access is their top problem, and a mere eight percent say their credit needs weren't being satisfied. More than half – 52 percent – said they weren't even looking for credit.

However, credit demand among small business will almost certainly grow as the economy begins to pick up steam and optimism increases. When that happens, it's important that banks and thrifts be in a position to support them.

On that score, the news is mostly good, but with some caveats. Bank profitability is improving steadily, even though it still stands at barely two-thirds of its pre-crisis level for the system as a whole. And the story for small national banks and federal thrifts parallels that of small business generally – they are recovering more slowly than large institutions. Nonetheless, the vast majority of national banks and federal thrifts have the capacity to respond to an increase in loan demand from small business.

While the major share of small business lending is done by large and midsize banks and thrifts, it's important to remember that small business is an intensely local undertaking, as is community banking. From our position as a nationwide regulator, the OCC brings significant resources and expertise to the table. But our local presence in communities throughout the country provides an equally important perspective.

Although I'm new in my position as Comptroller, I can say that with confidence because of the many opportunities I had to interact with OCC staff and observe their work during my eight years as a director of the Federal Deposit Insurance Corporation. I've always been impressed by their professionalism, and by the local character of the OCC's community bank supervision. Most of our examiners work from one of the more than 60 offices the OCC maintains around the country, and they clearly know those local markets as well as anyone.

That's extremely important. Local banks and thrifts are in the best position to make credit decisions about the small businesses in their communities, and we won't try to substitute our judgment for that of the bank, nor will we discourage banks and thrifts from making creditworthy loans to small businesses. In fact, we and the other federal banking agencies have consistently encouraged the institutions we supervise to make loans to creditworthy borrowers, especially in difficult times.

In that regard, the OCC and the other federal banking agencies issued a statement in early 2010 encouraging prudent small business lending. This statement addresses the important role of small businesses in the economy, their dependence on banks for credit, and the difficulty experienced by some small businesses in obtaining new credit or renewing existing credit. As with earlier statements, we reiterated that examiners should

take a balanced approach in assessing banks' underwriting and risk-management practices and should not criticize banks that follow sound lending practices.

As we continue to transition into a more robust economic environment, there are important programs available that will facilitate lending to small businesses, while allowing banks to manage and reduce their credit exposures. For example, the SBA's 504 program has been temporarily expanded to allow more businesses to refinance their existing debt, which can improve cash flow and enhance a small business owner's capacity to retain employees through tough times and grow their business as the economy turns the corner.

A program that shows particular promise for small business entrepreneurs involves Small Business Investment Companies, or SBICs. Banks can invest equity capital into a SBIC that, in turn, provides financing to small businesses on terms that banks are generally not able to offer. The SBIC program can be very attractive to small business borrowers because it offers them both equity capital as well as debt with a longer term repayment horizon. This helps companies grow without bearing an overwhelming financing burden. Many of these small businesses eventually mature enough to become mainstream customers of banks. This patient capital has proven to be critical during the past few years, allowing small business owners to get through this period of slow growth.

Community Reinvestment Act consideration is often available for providing small businesses with loans, investments, or technical assistance services. CRA consideration is available for investments in SBICs. Large banks that originate or purchase SBA loans of \$1 million or less receive lending test consideration. Additionally, SBA loans of more

than \$1 million may receive positive CRA consideration if they meet the definition of a community development loan.

For each of these programs and many others, the OCC is ready to support community banks and thrifts that want to increase lending to small business. We have joined forces with the Federal Reserve and the FDIC to host dozens of outreach events with bankers to discuss how they can participate in programs that meet their business objectives. To keep bankers abreast of the many changes in these small business programs, the OCC has published reports that explain in a concise way how to do business with the various federal agencies that offer small business programs.

We have also offered a popular series of teleconferences with presentations by agency staff and industry experts that provide an opportunity for bankers to ask questions about the best ways to participate in these programs. These reports and materials from past seminars and teleconferences are available on the OCC's Small Business Web Resource Directory at www.OCC.gov.

All of these efforts to support lending to small businesses are extremely important, not only because of the role that small companies play in adding jobs to the economy, but because of the role they play with respect to community banks and thrifts. The OCC has been deeply concerned, as have I, with the challenges that community institutions face today. Without getting too deeply into the weeds, let me say that community banks and thrifts are dealing with new laws, new regulations, and new accounting requirements that each impose their own separate set of challenges. In addition, as we come out of the recession, community institutions are continuing to deal

with problem assets, while struggling at the same time to find creditworthy customers who want to borrow.

As I noted earlier, community banks and thrifts, which account for only 12 percent of total lending, hold 38 percent of small business loans. So the success of these community banks and thrifts depends heavily upon the success of small businesses, and these institutions are looking for opportunities to support the credit needs of this important sector, especially as the economy begins to gain traction.

At the OCC, we are concerned with both sides of this equation, and we will continue to support small business lending by providing resources to banks and thrifts that want to serve this sector and through balanced supervision that is aimed at keeping national banks and thrifts safe and sound, and capable of serving their communities.

Thank you. I'd be happy to answer any questions you may have.