Statement of

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Chairman Brown, Ranking Member Corker, and members of the Subcommittee, thank you for this opportunity to talk about the condition of community banking in the United States and the potential impact of the Dodd-Frank Act on those banks. As the Senior Deputy Comptroller for Midsize and Community Bank Supervision, I am the senior OCC official responsible for supervision of nationally-chartered community banks. The OCC supervises 1,200 banks with less than $1 billion in assets. The majority of our resources, including 75 percent of our examination staff, are devoted to community bank supervision. In July, when the supervision of federal savings associations is transferred to the OCC, over 650 more institutions will come under OCC supervision. Almost all of those are community institutions.

Community banks play a crucial role in providing consumers and small businesses in communities across the nation with essential financial services and credit that is critical to economic growth and job creation. While the recent economic cycle has been difficult and extremely challenging for institutions of all sizes, I am pleased to report that conditions are beginning to stabilize for community banks, and we are seeing these institutions return to profitability. And despite the financial crisis and the deep recession, three quarters of the community banks we supervise have satisfactory supervisory ratings, reflecting their sound management and strong financial condition. These banks have successfully weathered the recent economic turmoil by focusing on strong underwriting practices, prudent limits on loan concentrations, and stable funding bases.

However, the operating environment for community banks remains challenging. Lending activity, which is the primary revenue source for community banks, has been hampered by the overall economic downturn and net interest margins are at historical lows. At the same time, community bank financial performance continues to be pressured by elevated levels of problem loans, particularly in the area of commercial real estate. Against this backdrop, it is easy to understand why community banks are apprehensive about how the Dodd-Frank Act will affect their business.

Although much of the Act was intended to apply exclusively to large banks, smaller institutions will feel the impact in a number of ways. As discussed at greater length in my written statement, they will be subject to new regulations that impose additional restrictions and compliance costs, as well as limits on revenues for certain products.

We at the OCC are mindful of the economic challenges and regulatory burdens facing community banks, and we recognize that a new law as comprehensive and complex as the Dodd-Frank Act may magnify these challenges. Our goal is to implement the Dodd-Frank Act in a balanced way that accomplishes the law’s intent without unduly hampering the ability of community banks to support their local economies and provide the services their customers need. It will be extremely important that we hear from community banks during the comment process of our rulemaking efforts to help determine whether we achieved this goal and whether additional changes or alternatives could be considered to lessen the burden on community banks. I can assure you we will be listening. Again, I appreciate the opportunity to appear before the Subcommittee today and look forward to your questions.