Remarks of John M. Reich, Director
Office of Thrift Supervision
to the Interagency Minority Depository Institution Conference
Chicago, Illinois
July 17, 2008

Introduction

Good morning. It's my pleasure to join you and my counterparts from the other banking agencies again this year for this important event. You chose to invest your time at this conference designed to support your mission, your operations, and your long term success as community bankers. I hope you leave the conference tomorrow convinced that your investment was a good one.

Community banks have a proven track record of safely and soundly serving small businesses, home buyers, real estate developers, consumers, farmers and ranchers. In addition, community bankers frequently make major contributions to their local communities as leaders and volunteers. Community banks may play a somewhat smaller role than they once did, as a result of industry consolidation, but community banks like yours have demonstrated remarkable resilience, innovation, and flexibility during periods of stress.

And there is no question that our industry and the economy overall has been hit hard by a continuing housing downturn. GDP growth is down; existing home sales have fallen and the number of homes available for sale has risen to the highest level since 1985. Homes are lingering on the market causing a considerable pullback in new home construction. Delinquencies and foreclosure continue to rise and borrowers with option ARMs still face headwinds from loan recasts due to negative amortization triggers.

According to the June 2008 National Delinquency Survey, provided by the Mortgage Bankers Association, the seasonally adjusted delinquency rate for one-to-four-unit residential mortgage loans was 6.4 percent of all outstanding loans at the end of the first quarter of 2008. And the rate of foreclosure starts and the percent of loans in the process of foreclosure were the highest recorded since 1979.

In this environment it is not surprising that pressure is mounting on banks and thrifts as margins compress further, competition for loans intensifies, delinquencies increase, and regulators focus more intently on credit quality and the adequacy of your response to worsening market conditions.

The role of minority depository institutions during such times of economic stress remains critical. You have made loans and provided services that are fundamental to the revitalization of depressed and distressed neighborhoods, by financing churches, first-time homebuyers, small businesses, and community centers. And you have made loans to, and established partnerships with, local nonprofit organizations engaged in numerous affordable housing and community economic development activities. You have been there for your customers in good times and bad, and we, at OTS, affirm our commitment to support your mission and goals.

The Thrift Industry in Today's Economy

To date, the hardest hit financial institutions have been those with an "originate-to-sell" business strategy, particularly institutions in California, Florida, Nevada, and Arizona. In fact, as I'm sure you observed, last week OTS closed Indy Mac, a $32 billion dollar thrift based in California that operated as a mono-line mortgage lender. However, in this environment, even community-based banks and thrifts with an "originate to hold" business model could be impacted because they generally have a higher-than-average percentage of assets in construction loans, nonresidential loans, and consumer loans.

Overall, I am still cautiously optimistic and believe the thrift industry is well-positioned to withstand these current challenges. However, all institutions, particularly smaller institutions, must be proactive in provisioning for loan losses and building sufficient loan loss reserves. This should entail a rigorous analysis of the adequacy of the Allowance for Loan and Lease Losses. We have seen higher general and administrative expenses among some OTS supervised minority depository institutions, which has depressed return on assets. As a possible resource for our Minority Depository Institution Program, OTS is investigating the potential benefits of preparing a digest of strategies and best practices that some minority depository institutions and other community bankers have developed to limit G&A expenses. In fact, I'd like to turn now to a description and update on our MDI program.

OTS Support of Minority Depository Institutions

OTS and its predecessor have maintained a technical assistance function for minority depository institutions since the 1970s. Our program continues to evolve, based in part, on input we receive from the institutions we supervise. For example, earlier this year OTS surveyed the minority savings associations we regulate. One of the areas of feedback that emerged was a preference for web-based technical assistance or the receipt of resources, training and materials via conference call or other means that allow management and staff to limit time away from their institutions. There also was interest in training and resources to assist with operations, compliance and revenue generation.

With that feedback in mind, on June 26th OTS co-hosted and sponsored a web-based training event, in partnership with the Community Development Financial Institutions Fund (CDFI Fund) for OTS supervised savings associations. The webinar highlighted how to become a CDFI and the advantages of obtaining CDFI certification including the ability to access financial and technical award assistance from the CDFI Fund and related programs to support established community development financing.

I spoke at this event, along with Donna Gambrell, the CDFI Fund Director, and her staff – who are also speaking and participating in this conference. I encourage you to talk with them about their programs and initiatives that can expand and strengthen resources available to your institution.

Another program and resource I'd like to mention is the Federal Housing Administration's new FHASecure program. In late August 2007, President Bush introduced a new product called FHASecure for homeowners who were unable to make their mortgage payments after their interest rate reset. Since then, HUD and the FHA have reported that more than 260,000 families have refinanced with FHA-insured loans. Hundreds of thousands more are expected to refinance with FHA by the end of the year.

Starting on July 14th, FHASecure will begin to provide additional assistance to subprime borrowers with adjustable rate mortgages, and help to restore liquidity and stability to the markets. It will assist families who have missed up to three monthly mortgage payments over the previous 12 months or have experienced temporary economic hardship, as well as those who were affected by payment shock. HUD and FHA estimate that the combination of all efforts under FHASecure will help a total of 500,000 families by year's end.

Increases in the size of mortgage loans the FHA can insure went into effect in March. I encourage you to consider participation in enhanced FHA programs as another tool to help you support and serve the communities in your area.

I also want to highlight one of the breakout sessions on Friday that will focus on the value of participation in Small Business Administration (SBA) loan guarantee programs. Loans made to these small enterprises are frequently made in tandem with SBA and other loan guarantee programs.

An important resource to consider is the SBA 504 loan program, which enables small businesses to finance real estate and other fixed assets on attractive terms. The bank's participation in 504 loans is typically limited to 50 percent of the financing package. There are a number of valuable benefits to participation in the SBA 504 program. The low - 50 percent - LTV ratio substantially lowers the risk exposure in the event of default. As a result, your institution may be able to finance additional and larger projects. SBA 504 loans may also receive favorable CRA consideration, either as small business loans or community development loans, consistent with applicable requirements.

Identifying programs and resources like the CDFI Fund, FHA programs and SBA programs are part of an ongoing effort, as the conference theme suggests, to help you grow your business. Links to information on such programs are being added to the Minority Depository Institution section of the OTS website as a component of our ongoing efforts to support the minority institutions we regulate.

In that context, today I am also very pleased to announce that the OTS will issue, a notice of the establishment of the OTS Minority Depository Advisory Committee. While we are finalizing steps necessary to form the committee and issue the Federal Register notice, I envision an Advisory Committee composed of seven to twelve representatives from

OTS-supervised minority depository institutions, industry trade associations representing minority-owned financial institutions, consumer advocacy organizations, and other parties. Membership will also be open to public nominations.

We envision the Advisory Committee convening twice a year to explore the needs, concerns and challenges unique to minority depository institutions, and to make recommendations concerning OTS's supervisory expectations and process. The Advisory Committee will serve as an invaluable feedback mechanism to highlight and focus upon issues integral to minority savings associations and promote an ongoing dialogue with OTS as we develop and implement appropriate responses. We expect to publish detailed information about the Advisory Committee in the Federal Register shortly.

Another proposal I'd like to highlight is one OTS recently issued along with the Federal Reserve Board and the NCUA. OTS recently issued for public comment, along with the Federal Reserve Board and the NCUA, a proposed rulemaking on unfair and deceptive acts and practices. This proposal is focused on credit card lending and overdraft protection programs. Our goal is to strike the right balance to ensure that we combat potentially unfair or deceptive practices, while being mindful of additional regulatory burden. The public comment period closes on August 4 and I encourage you to comment if you offer credit card or overdraft protection programs because it could impact some of your operations. We definitely want to hear from you.

Closing

I'll close by stating that as a former community banker, I am keenly aware of the commitment that community institutions, including many minority depository institutions, demonstrate each day in tangible and intangible ways. Competition from large banks has placed pressure on community banks as has technological innovation and the emergence of non-bank competitors. I have confidence that you as community banks will continue to innovate and provide vital financial services to the people and businesses in communities around the country. Because of your tenacity and commitment, I sincerely believe that you will remain an indispensable part of the financial services industry. OTS remains committed to supporting your mission and goals. Thank you and I look forward to your questions.