Remarks by

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Thank you, it's a pleasure to be here today. This conference is by no means the largest one I will attend this year, but in my mind, it's one of the most important. The OCC has a deep interest in the success of the nation's community banks generally, and we are particularly concerned with those community institutions that are minority-owned. Minority-owned banks and thrifts provide financial services to consumers and businesses in communities that might not otherwise have access to a financial institution, and so your success is vital to the economic well-being of disadvantaged or under-served neighborhoods in cities and towns across America.

Managing a community bank or thrift is hard enough in good economic times. But the recent financial crisis created the most difficult economic environment of my lifetime, and every bank and thrift has had trouble keeping up. Minority institutions were especially hard hit. Your customers were stretched thin, and that affected your margins, your loan performance and your profitability in a very direct and negative way, and made it more difficult for your bank or thrift to provide credit to help your communities recover.

The good news is that minority institutions are returning to health and profitability, and that puts them in a better position to serve as a catalyst for economic growth.

In fact, we see clear evidence today that minority banks and thrifts are bouncing back. Margins have improved and aggregate profitability among minority-owned banks and thrifts has returned to pre-crisis levels. Fewer minority institutions are unprofitable, and, taken together, return on assets is approaching 1 percent. It is true that operating revenue is recovering slowly, but minority banks and thrifts are managing expenses tightly and benefiting from improved loan quality and the resulting reduction in loan loss provisions. We at the OCC watch these so-called “reserve releases” closely because we don’t want banks and thrifts to boost profits at the expense of future stability. However, noncurrent loans have dropped sharply at MDIs since 2009, so there may be some room to reduce quarterly provisions at individual institutions, depending upon asset quality trends and risk management practices. That would be especially true at MDIs where capital has grown stronger over that period.

These trends are encouraging, since they put minority-owned institutions in a better position to support economic growth in their communities, and we at the OCC stand ready to do everything we can to help. In fact, if you’ll permit me to pause for a short commercial break, I’d like to encourage you to check out the resources we make available to community banks and thrifts that are especially relevant to minority-owned institutions.

You'll find a wealth of material on our Web site at OCC.gov. For example, our Community Affairs pages have information covering everything from small business lending to New Markets tax credits, and you'll find more resources available on our Minority Banker pages. If you're a national bank or federal thrift, I hope you're taking advantage of BankNet, which has a variety of tools for community banks, including one to help you stress test your loan portfolio and another that makes it easy to compare your bank or thrift against a group of peer institutions you select yourself. And I also hope you'll take advantage of our workshops for bank directors. They're an efficient way to make sure your directors have the knowledge base they need to do their job, and we waive the fees for minority institutions.

As you begin to look at the resources available through the OCC, you'll see that they reflect our determination to do everything possible to support community banking. All of you are community bankers, and you are dealing with the same challenges that small banks face everywhere. But you'll also see a recognition that minority institutions deal with issues that are unique to their geography and their customers, and I can tell you that we at the OCC are doing everything we can to help you deal with those challenges.

I'm especially proud of the way we tailor our support to the specific needs of individual minority institutions. For example, one of our ADCs met with a minority institution recently and offered assistance with the bank's strategic plans to grow and deploy excess liquidity. In another case, an ADC met with an institution to discuss its plans to raise capital and acquire a troubled institution through an FDIC-assisted purchase. In other cases, our ADCs have provided strategic advice on everything from TDRs to OREO accounting.

As part of our effort to support minority institutions, we've established an advisory committee focused squarely on issues of importance to minority national banks and federal thrifts. We held the first meeting of our Minority Depository Institutions Advisory Committee on March 5, and it was a very productive session. Part of the meeting was devoted to briefings from our staff, but what I found most important was the opportunity for free-wheeling discussions. Our committee is made up of a diverse group of industry leaders, and there was no shortage of ideas or questions. One committee member noted that the opportunity to trade ideas with his peers was a valuable experience in and of itself. Another discussed the importance of having the right people in the room.

Getting the right people in the room is important, and among our speakers was Rep. Maxine Waters, the ranking Democrat on the House Financial Services Committee. I think everyone appreciated the opportunity to hear her views on minority institutions. I'm pleased to say we also had senior representatives from the Small Business Administration present, as well as a representative from a large national bank. One of our thoughts in seeking large bank participation was to further discussion of partnerships that would benefit minority institutions.

That's a subject that we've devoted considerable time to over the years, particularly in the context of the Community Reinvestment Act, which I think is an extremely important tool for ensuring the viability of minority institutions.

The federal financial institution regulators are in the midst of a thorough review of the Community Reinvestment Act. In light of the many changes that had taken place since the last major regulatory revision in 2005, we believe that it is time to see if we can make CRA evaluations better reflect today's markets and today's banking industry. We started by holding hearings in four cities and inviting public comments. The comment process generated a wealth of ideas from the public, including ideas on how CRA could be used to benefit minority banks and thrifts.

New Questions and Answers have been proposed to address feedback received on several items. And we have received constructive input on these proposals as well as suggestions as to other actions we might take to improve our administration of CRA. Minority bankers provided feedback through our CRA review process, and I would encourage you to continue to make your views known about how we can best update CRA to reflect the financial services marketplace today.

The current CRA statute, regulations, and interpretive Questions and Answers recognize the vital financial services that minority institutions provide and their pivotal role in promoting the economic vitality of the communities they serve. Specific provisions authorize CRA consideration for majority-owned banks that provide capital investment or loan participations, or that undertake other ventures in cooperation with minority financial institutions, provided that these activities help meet the credit needs of the local communities in which the minority institutions are chartered.

National banks and federal savings associations can also make equity investments in minority institutions under the public welfare investment authority, and these investments would be considered qualified investments in a large bank's CRA performance evaluation. Also, the geographic requirements of CRA are broadened in order to encourage banks to partner with minority institutions—so a majority-owned bank will receive CRA consideration even if the minority financial institution is not located in or the CRA activities do not benefit the bank's own assessment area. The

OCC has a fact sheet on our Web site that lays out in detail how these CRA provisions apply and explains how these activities can factor into a majority bank's CRA performance.

All of these incentives are helpful if they encourage investment in minority-owned banks and thrifts. For as long as I've been involved in bank regulation, the ability to raise capital has been a key to your growth and to your ability to serve your communities. Today, I know many of you are worried about the new capital requirements, and whether you will be expected to add to your capital base. We're sensitive to that concern, and we've spent a lot of time looking at community bank capital to see how smaller institutions might be affected. We do believe most community banks already have sufficient capital to meet the new requirements, and we are committed to doing everything possible to implement the forthcoming rules in a way that recognizes the special circumstances of community banks.

But I recognize that in the aftermath of the financial crisis and recession, some of you need to be able to raise more capital to shore up your balance sheets, while others will seek additional equity so you can grow to meet the needs of your communities. That can be difficult for any bank or thrift, but it's a particular challenge for minority institutions.

There are only so many places to go for investment capital, and under current rules, there's a real danger that if you raise capital from non-minority investors, including larger financial institutions, you will dilute your minority ownership to the point that you no longer qualify as a minority institution. And, in fact, the OCC's definition of minority depository institutions specifically required at least 51 percent minority ownership.

We've taken a close look at that issue, and recently updated our policy statement on minority banks and thrifts in a way that helps address that concern. We still think it's important that more than half of the equity be held by minorities, women or economically disadvantaged individuals. But we also think it's important that existing institutions have some flexibility to seek out new sources of capital, and so the policy statement I signed last week includes new language to accomplish just that.

First, our new policy statement provides that mutual federal savings associations may be considered MDIs if a majority of the board is minority and if the communities it serves are predominantly minority. In addition, a mutual can be considered a minority institution if women comprise a majority of the board and hold a significant percentage of senior management positions.

Second, we have added discretionary language that allows us to continue to treat an institution as an MDI even if it no longer meets the 51 percent ownership criteria provided that it meets two requirements. First, it must primarily serve the credit and economic needs of the community in which it is chartered. And second, that community must be predominantly minority.

I think that's at least a good start. Our policy statement recognizes that minority institutions should be just that – owned by investors who are part of a minority group – but it also provides some discretion to ensure that the financial and credit needs of minority communities are met. In addition, we exclude U.S. subsidiaries of foreign banks to ensure that the benefits of being designated as an MDI go only to true minority institutions.

But while it's a good start, we continue to be interested in hearing from you about how we can best address this and other issues. I can assure you that the OCC will continue to look at our MDI advisory committee as an important platform for raising and addressing these questions. In fact, I'm looking forward to hearing from the OCC-supervised institutions in this room tomorrow morning at the breakfast we're having with minority-owned federal banks and thrifts.

And now, in the spirit of continuing a dialogue, I'll stop to ensure that we have time for your questions and comments. Thank you.