Remarks by

Thomas J. Curry

Comptroller of the Currency

Before the

National Bankers Association

Washington, DC

October 1, 2014

Thank you, Glenda, for that kind introduction. I would also like to thank Michael Grant for the invitation to speak here today. I'm going to talk a bit about the importance of leadership, so I'll take this chance to recognize Michael's leadership of the National Bankers Association during these challenging times. I also want to offer congratulations to Preston Pinkett of City National Bank of New Jersey, for taking the reins of leadership from Doyle. Preston is a member of the OCC's Minority Depository Institutions Advisory Committee, and we wish him well as he takes on this important new responsibility. The NBA and the OCC have had a long and productive relationship. This is my third opportunity to speak to your organization and I am glad to be invited back. It gives me the chance to strengthen my relationship with the bankers here today and to listen to your concerns.

My remarks will focus on the value of strategic planning.

As minority depository institutions you face many of the same challenges as other community banks – the combined effects of low growth on a macro level, a tepid and uneven economic recovery, high underemployment and unemployment in many sectors, margin pressure from low interest rates, and lost revenues have all combined to constrain the strategic and tactical choices for many institutions. But when you add into that mix the challenge of profitably meeting the needs of the underserved communities that many MDIs are chartered to serve, the task becomes even more difficult.

Community bankers often ask us questions like, “What can my bank do to sustain itself, be profitable, and fulfill its mission?” Or, “In the current economic environment, what is the right size and business model for sustainability?” Believe it or not, we don’t have all the answers to these questions.

But we do have recommendations for how community banks can prepare to put themselves in the best possible position for success. Although some of you have heard this message before, it bears repeating – we highly recommend that your bank conduct strategic planning as a means to identify who you are, what your strengths and weaknesses are, what you can realistically accomplish, and what success should look like for your institution. And honestly, we are not asking our banks to do anything more than we do ourselves. The OCC’s senior executives recently completed a comprehensive strategic planning process of our own and the OCC’s strategic plan for the next five years was recently posted to our Web site.

Strategic planning can help define how you want to position your business and service activities, identify your best opportunities, and provide guidance when you need to make hard choices about the unknown and uncontrollable. The future is always uncertain but depending on what you do today, strategic planning can help rationalize your decisions. The critical aspects of this process – thinking, assessing, vetting, planning, executing, and measuring – are about increasing the odds of success. In the post-Great Recession and Dodd-Frank operating environment, your ability to sustain your mandate and to exist profitably, will require some difficult trade-offs.

In the most straightforward narrative, your strategic planning process and execution should help find answers to the following questions: "Where are we now? Where do we want to be? How do we get there? How do we measure our progress? And, what adjustments are necessary to meet our goals?"

A variety of analytical tools are available to help you with both quantitative and qualitative assessments of your company. Some are simple, others are more complex. So it is important to select the ones that make sense for your organization. And I want to stress how important it is to rely on more than one assessment tool so that you get the most complete understanding of the strengths and weaknesses of your institution.

The OCC has also developed some tools to help OCC supervised community banks with this process. Our BankNet web service lets them compare the performance of their institution with a peer group they select. This benchmarking exercise can help our institutions identify potential competitive advantages they may have, as well as highlighting opportunities for improvement. BankNet also contains tools that allow banks to stress test their commercial real estate portfolios. In addition, I would direct you to a guide we've posted online titled, "A Common Sense Approach to Community Banking." This guide addresses strategic planning and the equally important topics of capital planning and enterprise risk management. Also, we will soon post a strategic planning presentation on BankNet. And, of course, we welcome any comments our banks have on how we might assist you further in the strategic planning process.

The Common Sense booklet that I just mentioned provides an overview of a very important tool that our banks can take advantage of – the Risk Assessment System that we use to guide our exam teams. The Risk Assessment System is designed to identify and measure current and prospective risks by establishing a common framework to evaluate eight different categories of risk. To some extent, these risks are present in all institutions and they range from credit and interest rate risk to strategic and reputation risk. Our Risk Assessment System can also be used to help illustrate to your directors both the risk posed by, and the risk management impact of, current and projected business decisions.

Those are some of the tools for conducting a strategic assessment of your institution, but there are some risks and opportunities that we believe should be in all of your sights. One opportunity I have in mind may address the ongoing challenge community banks face with higher operating costs relative to assets in comparison to your larger competitors.

There are a number of basic recurring operational requirements for banks that lend themselves to more cost efficient execution, such as, compliance, audit, and appraisal reviews. Re-thinking historical operating paradigms can lead to creative solutions such as cost sharing. The OCC is open to ideas about collaborative approaches for sharing operations, and we have seen that such consortiums already exist with credit unions and small business enterprises.

When it comes to strategic risks, competitive pressures, and operational risks that we are seeing across the industry, I’d like to point you to the OCC’s Semiannual Risk Perspective. Last spring, we identified a number of the key risks that community banks were facing, including higher strategic risk as banks adapt their business models to sluggish economic growth, the low interest rate environment, and competitive pressures. Strategic risk remains a top concern for the OCC as banks continue to search for yield, noninterest revenue, market niches, and how best to trim costs. If your strategic plan calls for a new or expanded product, service, or business line, the OCC has guidance to help you understand our expectations as you take this step. And our supervisory staff can serve as a resource to you, as they understand the local economy, operating conditions, and risks in your bank's market and can discuss with you the risk management and other regulatory considerations as you evaluate your bank's options.

As you plan for the future, and assess your current operational risks, I would be remiss if I did not mention the cybersecurity issues confronting the industry and the need to identify, assess, and mitigate these risks in light of the increasing volume and sophistication of cyber threats. It would be a mistake to assume that community banks, including minority depository institutions, are immune to this threat. As Comptroller, I'm particularly worried that as larger banks get better at defending against these threats, hackers and other cyber criminals will shift their attention to smaller institutions which may provide points of access into the system. We already have seen some examples of this occurring.

Recently, we invited the CEOs and CFOs of all of our nationally chartered minority institutions' to attend specifically designed training sessions on cybersecurity. We hope that you will take advantage of this training so that you can better assess the risks posed to your institution and strengthen your cybersecurity preparedness.

And finally, an essential aspect of strategic planning involves evaluating whether your current staff and leadership are the right fit to lead your bank into the future. It is important to critically evaluate if the folks that got the bank to "here" are the best ones to get you "there." Bank management often assumes that the current team is the right team, or that the right talent is unaffordable or not available to them in their markets. Talent management is essential to your long-term survival, because all too often good strategic plans fail due to poor execution.

Once you have a plan, you need to ensure that the top of the organization has clearly articulated its support. The Board and executive management really need to "walk the talk" otherwise, there will not be buy-in on the front line, where it matters the most. And of course, you need to measure and monitor progress and ensure there is accountability. Revisit and revise the plan when needed, especially if new regulations or technological innovations have caused a seismic shift in the industry. And make sure that your capital plan remains aligned with your strategic plan. We've seen a few instances where institutions have increased lending but haven't increased their capital – or their loan loss reserves – at the same time.

I have covered some important considerations for your strategic planning process, but I mentioned the need to make hard choices. One of the most important strategic assessments each MDI has to make is whether you should remain focused on your historical mandate to address the financial needs of the underserved, and whether to do so exclusively, directly, or indirectly.

As you refresh your strategic plan or begin developing one, it is essential to recognize what makes your institution unique, and to identify opportunities that you have access to as mission-oriented institutions. Longstanding ties to a core constituency may provide MDIs with an inherent competitive advantage, but how to leverage that connection can sometimes be elusive. Because MDIs operate in a wide variety of economic environments, this decision will be strongly influenced by your ability to profitably operate in the markets your institution serves, and will shape every other aspect of your strategic plan.

Fulfilling your mission in underserved communities clearly has its altruistic rewards; however, it can also bring financial rewards. As you develop a plan for attracting new sources of capital, you may want to consider becoming a certified Community Development Financial Institution, or CDFI. The U.S. Department of the Treasury, through its CDFI Fund, provides CDFI certification, which recognizes specialized financial institutions that serve low-income communities with an official designation.

There are a number of advantages for MDIs that secure CDFI certification. This certification opens up access to financial and technical assistance from the CDFI Fund through programs such as the Bank Enterprise Award program and Financial Assistance program. Some MDIs that have CDFI certification have found that this designation increases their ability to raise capital from other sources, such as majority-owned banks, foundations, and government agencies at all levels. In fact, the Bank Enterprise Award program incentivizes majority-owned institutions to provide equity investments, equity-like loans, loans, deposits, or technical assistance to MDIs that have CDFI certification. A majority-owned institution may also invest in an MDI with CDFI certification through the Public Welfare Investment authority and may receive consideration for that investment under the Community Reinvestment Act.

CDFI certification can also help MDIs get into new lines of business. For example, a CDFI-certified institution is automatically qualified as a community development entity, which is a pre-requisite to access the New Markets Tax Credit Program. This can pave the way to solid partnerships with larger banks that are tax credit equity investors.

Also, under certain conditions, mortgages originated by a CDFI may not be subject to the civil liability provisions of the ability-to-repay rule that was issued earlier this year by the Consumer Financial Protection Bureau -- even if the CDFI's mortgage program does not comply with the specified underwriting requirements of the qualified mortgage regulation.

I would like to close by saying that the OCC is here to help our MDIs in all of these areas. If you have a "new" idea, find out from your OCC representative if some other bank has tried something comparable or is aware of something similar in the marketplace. You should take full advantage of your portfolio manager outside of the examination process. You can and should contact him or her when you need guidance on a matter or when a significant issue arises at your institution. A Community Affairs Officer is assigned to each MDI to provide assistance with community development matters. Further, we recently added a Community Relations and Minority Affairs Manager to provide additional support on matters affecting minority depository institutions. I also recommend that you take a look at the web resources that our Community Affairs Department and External Outreach and Minority Affairs Department offer on providing financial services to underserved markets.

I want to thank you for inviting me here today, and I'd be happy to answer a few questions.