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**TESTIMONY OF**  
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**OFFICE OF THE COMPTROLLER OF THE CURRENCY**  
**before the**  
**COMMITTEE ON FINANCIAL SERVICES**  
**UNITED STATES HOUSE OF REPRESENTATIVES**

**March 23, 2009**

Statement Required by 12 U.S.C. § 250:

The views expressed herein are those of the Office of the Comptroller of the Currency and do not necessarily represent the views of the President.

## **Introduction**

Chairman Frank, Ranking Member Bachus, and members of the Committee, my name is Toney Bland and I am the Deputy Comptroller for the Office of the Comptroller of the Currency's Northeastern District. I appreciate the opportunity to appear before the Committee to discuss the availability of credit for small and midsize businesses in Massachusetts. In addition to responding to the Committee's inquiry, I am also here to listen and hear other viewpoints on this important topic.

I have been a National Bank Examiner with the OCC for twenty-eight years, and have served in a variety of positions in the field and in our Washington D.C. Headquarters. For almost my entire career, I have been involved in the direct supervision of community and midsize national banks. In my present capacity, I am responsible for the oversight of nationally chartered community banks in the District of Columbia and fourteen states, including Massachusetts. To put our regulatory role in Massachusetts in perspective, OCC supervises a relatively small portion of the banks headquartered in the state. There are ten nationally chartered community banks headquartered in Massachusetts, holding aggregate assets of roughly \$2.3 billion. In addition, however, several large national banks supervised by the OCC do a significant volume of business in Massachusetts, but are headquartered in other states. By comparison, 165 thrifts and state chartered banks with assets of over \$450 billion are headquartered in Massachusetts.

## **Lending to Creditworthy Small and Midsize Businesses**

The OCC fully recognizes the importance of small and midsize businesses to the overall health and vitality of Massachusetts and the U.S. economy. As Secretary of the Treasury Geithner stated last week when he announced another component of the administration's Financial Stability Plan – the Small Business and Community Lending Initiative, "Small businesses are the engine of America's dynamism." The OCC fully supports the Administration's initiatives to expand credit availability and begin the process of financial recovery. We believe these initiatives will have a positive impact on banks' ability and willingness to lend.

The OCC's core mission is to ensure that national banks remain safe and sound and meet the credit needs of their communities and customers. In carrying out our mission, we strive to ensure that banks have the systems and capital in place to support their lending activities. A critical part of our job is determining when potential risk exposures or weaknesses in risk management practices require corrective action by bankers. Knowing when to make these calls requires judgment and a balanced supervisory approach. Taking action too quickly or harshly can impede economic growth and access to credit; waiting too long or not requiring appropriate controls can lead to excessive risks that could impair a bank's ongoing ability to lend and its overall financial condition. The OCC strives to get this balance right through strong, thoughtful and consistent supervision and clear two-way communication with the banks we supervise.

Senior Deputy Comptroller for Bank Supervision Policy and Chief National Bank Examiner, Timothy W. Long, will testify before this Committee later this week on the OCC's national role in ensuring that banks remain safe and sound and meet the credit

needs of their communities and customers. Mr. Long will describe how, across the OCC, we strive to get this balance right.

However, the subject of today's hearing is more specific – the availability of credit to small and midsize businesses here in Massachusetts. To put my remarks into context, it is important to point out that, just like much of the United States, Massachusetts is presently facing serious economic challenges. The Massachusetts economy entered into recession in June of last year as deterioration in the state's housing market and the contracting national economy suppressed employment and industrial production. There have been significant employment reductions in Massachusetts in construction, wholesale and retail trade, information technology and the financial services sector. Payrolls are even taking a hit in Massachusetts' significant education sector which historically has been one of the most stable and consistent sources of growth for the region. Although still below the national level, the state's overall unemployment rate increased to 7.8% in February, up from 7.4% in January. The area is also witnessing worsening local commercial property conditions, with increasing vacancies expected across most property types. And finally, consumer loan delinquency rates in the state are increasing due to declining home prices and the deteriorating labor market. This widespread contraction of economic activity is expected to continue over the coming year.

Many Massachusetts firms have responded to current conditions by running at less than full capacity and, as a result, may experience pressure on profits for some time. We recognize that the vast majority of these small businesses are still fully viable, continue to produce goods and services and still need access to credit. Not surprisingly,

however, the uncertainty surrounding the future of economic conditions in Massachusetts is in some instances restraining loan demand from these small and midsize business borrowers. Likewise, it is not uncommon or unexpected that during recessionary times, banks may be more cautious in the level of credit risk they assume and more selective in the loans they choose to make. However, despite these difficult circumstances, examiners are observing increased levels of lending in OCC supervised community banks in Massachusetts. And, in fact, all of these national banks have strategic plans for growth in 2009.

According to the Small Business Administration (SBA) Office of Advocacy, Massachusetts's 595,959 small businesses (those with fewer than 500 employees) represent 98.0% of the state's employers and 48.3% of its private-sector employment. These companies provide economic opportunities to diverse groups of people and bring innovative products and services to the marketplace. As bank regulators, we recognize the important role that credit availability plays in the viability of these small companies. We share the goal of ensuring banks meet the credit needs of their small and midsize business customers, and have taken steps to see that this happens. Through the *Interagency Statement on Meeting the Needs of Creditworthy Borrowers* issued in November of 2008, all the federal regulatory agencies reiterated our view that, at this critical time, it is important that all banking organizations meet the needs of creditworthy borrowers. The OCC is reinforcing the message of the interagency statement with national banks through our examination process. In addition, our ability to monitor small business lending will be enhanced by steps we are taking to obtain more frequent

reporting of small business lending data. Bank regulators are currently in the process of revising the quarterly Report of Condition to provide this information.

One way banks can reduce the credit risk in loans to small and midsize businesses in this environment is to utilize federal and state programs that are designed to make credit more accessible and reduce lenders' credit exposure. The SBA loan guarantee program is one of the best known of these programs. In evaluating the underwriting and quality of small business loans, OCC views government guarantees or support provided through other programs positively as effective mitigants of credit risk. In fact, guidance provided to our examiners in the *Comptroller's Handbook for Rating Credit Risk* specifically states that those portions of credits having a government guarantee are usually assigned a "pass" rating. This standard is applied uniformly by our examiners in Massachusetts and across the country.

National banks actively participate in government guarantee programs for small business lending. For example, according to the SBA's Website, nine of the ten nationally chartered community banks in Massachusetts have originated SBA guaranteed loans, and seven large national banks doing business in Massachusetts are designated as SBA Preferred Lenders.

### **Community Reinvestment Act**

Beyond our safety and soundness examination activities, OCC encourages lending to small and midsize businesses in a variety of other ways. Among these are our evaluations of national banks' performance under the Community Reinvestment Act (CRA), our extensive Community Affairs activities and our formal outreach programs.

The CRA encourages each insured financial institution to help meet the credit needs of the community in which it operates. The number and dollar volume of loans to small businesses, particularly those with annual revenues of less than \$1 million, are important considerations in the OCC's evaluation of how well an institution is meeting local credit needs and in the assignment of its public CRA rating. OCC's CRA examination process ensures that a national bank's lending to small and midsize businesses is carefully assessed and subject to public scrutiny, and that these activities have a direct influence on the institution's CRA rating. The bank's knowledge that it will receive positive CRA consideration creates additional incentive to responsibly lend to creditworthy small business borrowers.

### **Community Affairs and Outreach Activities**

OCC's Community Affairs Department is instrumental in providing information and resources to our examiners, bankers, industry associations and community groups. This OCC function is comprised of staff located in our Washington, D.C. headquarters, as well as Community Affairs Officers located in ten major metropolitan areas across the country, including Boston. These individuals play an active role in agency initiatives to promote existing programs and innovative ideas for advancing small business lending.

The OCC's community affairs activities and publications are specifically developed to increase examiner, banker and community group awareness of programs that promote lending to small businesses. Recent newsletters, informational publications, conferences and teleseminars have highlighted various aspects of small bank lending opportunities and incentives:

- OCC and the other bank regulatory agencies regularly convene seminars for financial institutions to promote bank involvement in CRA activities, including small business lending. During January and February 2009, OCC, the other bank regulatory agencies and SBA held eleven seminars in various locations in the Northeast focused exclusively on small business issues. The OCC has additional programs planned throughout the rest of this year.
- In October 2008, the OCC released the Fall 2008 edition of the *Community Development Investments* newsletter which illustrated various ways multi-bank community development corporations have collaborated to provide financing to small businesses. This newsletter highlighted recently enacted legislative changes to the “Part 24” public welfare investment authority of national banks which will encourage increased bank investment in community development finance activities. We are particularly appreciative of Chairman Frank’s strong leadership in connection with the passage of this important legislation.
- Over the past three years, the OCC has developed two *Community Development Insights* reports which serve as primers for banks considering participation in the SBA 7(a) or 504 Certified Development Corporation loan programs. After the release of these reports, OCC held national informational telephone seminars which drew a combined 3,000 listeners. We intend to update both of these reports in the next few months to reflect the changes included in the American Recovery and Reinvestment Act of 2009. Following release of the updated reports, we plan to hold an additional telephone seminar highlighting

the changes. We will also publicize the SBA program changes through our ongoing CRA outreach to bankers at training seminars and conferences.

- OCC's public Website also houses a wealth of information on small business lending on its Small Business Resource Guide Webpage.

And finally, OCC management and examiners regularly conduct outreach meetings and participate in industry and interagency forums with bank directors, chief executive officers, and senior credit officers to promote sound lending, including loans to small and midsize businesses.

### **Conclusion**

The OCC recognizes the important roles that credit availability and prudent lending to small businesses play in our nation's economy, and we share the Committee's goal of ensuring that banks continue to meet the credit needs of their customers. We recognize that banks are operating in an economic environment that continues to pose significant challenges to them and their customers. However, we have and will continue to support and encourage lending to small and midsize businesses – in Massachusetts and across the country – through our supervisory activities, the CRA process, guidance to bankers, small business related programs and publications and ongoing outreach efforts.