

Office of the Comptroller of the Currency
Minority Depository Institutions Advisory Committee
March 5, 2013 Meeting Minutes

The Minority Depository Institutions Advisory Committee (Committee) was convened for a meeting at 8:00 a.m. on March 5, 2013 at the Office of the Comptroller of the Currency (OCC), Constitution Center, Washington, D.C.

In accordance with Federal Advisory Committee Act, 5 U.S.C. App 2, and the regulations implementing the Act at 41 C.F.R. Part 102-3, the meeting was open to the public from 8:30 a.m. to 11:45 a.m., and from 12:45 p.m. to 2:30 p.m.

Committee Members present:

Jeffrey Cheung, President and Chief Executive Officer, Gateway Bank Federal Savings Bank, Oakland, California; Guillermo Diaz-Rousselot, President, Continental National Bank of Miami, Miami, Florida; Susan Faulkner, Consumer and Small Business Products Executive, Bank of America, Charlotte, North Carolina; John Hou, Chief Executive Officer and President, Asian Pacific National Bank, San Gabriel, California; Preston Pinkett III, President and Chief Executive Officer, City National Bank of New Jersey, Newark, New Jersey; Joe Quiroga, President, Texas National Bank, Mercedes, Texas; and Norman J. Williams, Chairman and Chief Executive Officer, Illinois-Service Federal Savings and Loan Association, Chicago, Illinois.

Staff from the OCC present:

Comptroller of the Currency Thomas J. Curry, Assistant Deputy Comptroller Francis Alleman, Community Affairs Officer Francis Baffour, Senior Counsel Charlotte Bahin, Senior Advisor to the Senior Deputy Comptroller for Midsize and Community Bank Supervision and Designated Federal Official Beverly Cole, Senior Advisor for Outreach and Minority Affairs Glenda Cross, Deputy Comptroller for Thrift Supervision Donna Deale, National Bank Examiner and Industry Analyst Ralph DeLeon, Special Counsel Jennifer Dickey, Assistant Deputy Comptroller Tara French, Director for Banking Relations Gregory (Greg) Golembe, Senior Deputy Comptroller for Midsize and Community Bank Supervision Jennifer Kelly, Special Counsel Kristin Merritt, Director for Congressional Liaison Carrie Moore, Senior Deputy Comptroller and Chief of Staff Paul Nash, Deputy Comptroller for Economic and Policy Analysis David Nebhut, Assistant Deputy Comptroller Julie Pleimling, Community Development Lending Manager William (Bill) Reeves, Director for Community Affairs Ted Wartell, and Deputy Comptroller for Community Affairs Barry Wides.

Staff from Department of Treasury present:

Donna Gambrell, Director of the Community Development Financial Institutions Fund
Wanda Rogers, Deputy Commissioner Financial Management Services

Public Observers

Rodney Evans, U.S. Small Business Administration
Grady Hedgespeth, U.S. Small Business Administration
Laura Friel, MinBanc Foundation

8 a.m. – Private Administrative Session

This portion of the meeting was used to address administrative matters.

8:30 a.m. – Public Meeting

Beverly Cole, OCC Senior Advisor to the Senior Deputy Comptroller for Midsize and Community Bank Supervision and the Committee's Designated Federal Official, declared the meeting open and introduced Thomas J. Curry, Comptroller of the Currency. Comptroller Curry thanked the Committee members for their willingness to serve and expressed his appreciation for the opportunity to engage in a question and answer forum. He conveyed that the OCC was not only engaging in this meeting because of statutory requirements, but also because it is part of the agency's mission to reach out to minority depository institutions (MDI) and recognize the importance of having a diverse banking system with a vibrant minority representation.

The Comptroller recognized that MDIs have faced significant challenges – not only in working through the Great Recession, but because the MDIs' communities were harder hit, and the OCC wants to help the MDIs recover. He indicated that today's meeting would address a variety of topics, including capital and change in control concerns. The Comptroller then introduced Jennifer Kelly, Senior Deputy Comptroller for Midsize and Community Bank Supervision, affirming that both he and Ms. Kelly want to help and both fully support the MDI role and mission. He also introduced Glenda Cross, who serves as the OCC's Senior Advisor for Outreach and Minority Affairs, and Chief of Staff Paul Nash, who heads the agency's outreach efforts. Comptroller Curry addressed five OCC objectives for MDIs: preserve the number of MDIs; preserve their minority character; provide technical assistance; encourage new minority institutions; and, provide training to minority institutions' staff.

Ms. Cole then asked the Committee members to introduce themselves, and the members provided their backgrounds and a description of their institutions. The members represent institutions that have been in existence between 23 and 93 years, and are all serving significant minority communities across the United States.

8:55 a.m. Performance and Risks at Minority Owned Institutions.

Ms. Cole introduced David Nebhut, OCC Deputy Comptroller for Economic and Policy Analysis, who presented *Performance and Risks at Minority Owned Institutions*. Mr. Nebhut's presentation highlighted that two thirds of MDIs are located in just six states, and that overall, MDI profitability recovery is nearly complete and capital is at a record high, but real estate credit issues linger. He also highlighted that success of MDI business strategies will determine their long-term health, and that the total number of MDIs has stabilized this year after declining since 2008. Mr. Nebhut indicated that the MDIs' financial profile is very much like the rest of the banking industry, and their aggregate profitability has returned to pre-crisis levels as fewer firms post losses. MDIs' profits reflect lower loan loss provisions and flat expenses, while their revenue is slowly recovering from the 2008 financial crisis. Also, their noncurrent loan ratio is dropping from the peak in 2009, while their net interest margin has shown steady improvement since then. Mr. Nebhut stated that MDIs are poised for growth with strong capital levels. Their loan mix, like small banks in general, has become predominantly focused on commercial real estate lending. Comptroller Curry responded to a question regarding the long-term viability of MDIs, that the OCC will not be a barrier to MDIs, as long as they continue to serve their community needs, and operate in a safe and sound capacity. Committee members provided comments about their challenges in being small banks that still need to operate profitably while paying significant costs to maintain regulatory compliance. Committee members also questioned whether there is a minimum size that any bank should be in order to operate profitably, and Mr. Nebhut indicated that there is no expected minimum size, but that all bank boards of directors need to provide management with their vision and the tools to execute that vision. Comptroller Curry also emphasized that the OCC stands ready to assist MDIs with technical assistance and guidance to meet their objectives.

10:05 a.m. Supervision Panel

OCC's Senior Deputy Comptroller for Midsize and Community Bank Supervision Jennifer Kelly and Assistant Deputy Comptroller Francis Alleman, the Supervision Panel representatives, provided the Committee with information regarding the OCC's local supervisory office role, and the agency's desire to maintain effective communication as part of the supervisory process. Ms. Kelly stated that the agency continues to reinforce the importance of communication to examiners and that OCC has a number of very good resources and we make those resources available to bankers. Mr. Alleman addressed the supervisory office practices in matching its portfolio managers to suit individual institutions. He discussed that OCC has subject matter experts that can help, and the agency – and the Comptroller himself – stands behind the commitment to help MDIs. The OCC and its localized supervisory offices conduct outreach on hot topics, credit training, Bank Secrecy Act compliance, and consumer compliance regulations. OCC also offers Directors Workshops, which have proven highly effective, to which many committee members agreed.

Mr. Alleman also addressed that supervisory offices will work with board members individually should the need arise, and if MDI management needs access to OCC senior management, we want to accommodate that. OCC will make our legal staff available if needed, but most important, institutions need to establish a good working relationship with their assigned Assistant Deputy Comptrollers (ADCs). ADCs monitor institutions' performance and condition throughout the year and can be a good source for discussion of strategic initiatives. A committee member indicated that MDI board members can benefit from these types of discussions as well. Another committee member stated that OCC's sharing of observed best practices has been helpful and suggested that expanded training in areas like IT and Compliance would benefit MDIs, as CEOs and other members of the board of directors don't always have sufficient expertise in those areas.

Committee members also discussed the benefits of being regulated by the OCC, and emphasized the continuing need to strive for good communication and positive feedback as well as the emphasis on corrective actions. Further committee member comments on communication included a request for OCC to provide guidance on CFPB rules that are or will be published, and OCC assistance on MDI and small community bank compliance in meeting new mortgage rules by the CFPB. Comptroller Curry and Senior Deputy Comptroller Kelly both agreed it was something the agency should consider. The final comments made by committee members addressed the possibility that MDIs could partner with large banks that have the same goals to serve minority communities, and there was consensus that the institutions should look into this further.

11:05 a.m. Community Development Financial Institutions Fund

Ms. Cole introduced Donna Gambrell, Director of the Community Development Financial Institutions Fund at the Department of Treasury. Ms. Gambrell introduced the CDFI program and explained that CDFIs are community-based, specialized financial institutions that serve low-income people or work in economically distressed communities. There are now close to 1,000 CDFIs, with at least one in every state. They include banks, thrifts and credit unions, as well as nonprofit entities and non-depository institutions such as loan and venture capital funds. CDFIs have awarded over \$1.7 billion in funds and include dollar matching and private sector investment. Ms. Gambrell encouraged the committee members to become certified and discussed the application process, and some members who are already CDFIs provided feedback on their own experiences. Committee members indicated it was a good opportunity to work with local government, and enables entities to work across government. Comptroller Curry encouraged members to be part of CDFI.

11:30 am OCC Director for Congressional Liaison, Carrie Moore

Beverly Cole introduced the OCC's Director for Congressional Liaison, Carrie Moore. Ms. Moore explained that the role of her office is to serve as the communications vehicle between OCC and Capitol Hill. Her office is responsible for facilitating interaction between congressional staff

and the OCC, and she coordinates witness and testimony preparation for some 10 – 15 congressional hearings each year. Ms. Moore's office also provides technical assistance to congressional members and staff, responds to congressional inquiries and coordinates with other financial regulators on congressional and legislative matters. Ms. Moore indicated that with the new Congress there is no clear agenda yet, although there continues to be strong emphasis on implementing the Dodd Frank Act. She expressed her interest in working with MDIs as a resource, and encouraged the members to contact her if there are issues that they are concerned about.

11:45 p.m. Adjournment for Lunch

12:45 pm The Honorable Maxine Waters – Keynote Speaker

Comptroller Curry introduced Congresswoman Maxine Waters, Member of the U.S. House of Representatives for the 43rd Congressional District. Congresswoman Waters is serving her twelfth term in the House, and is the ranking member of the House Committee on Financial Services. Congresswoman Waters thanked the Comptroller for his leadership role with MDIs, and low and moderate income communities. She gave a special thanks to two members of the committee from her home state of California, Mr. John Hou and Mr. Jeffrey Chung, and recognized all of the MDIAC members. Congresswoman Waters stated that throughout her career she has been an advocate for minority institutions. She discussed that Dodd-Frank was enacted to address the financial crisis of 2008, and specified that Section 367 of the Act ensures the preservation of minority institutions and their character. She indicated that she was troubled that prior to this change, only one agency, the Office of Thrift Supervision, was required to work to preserve minority institutions. She indicated that she continues to hear stories from small and minority owned institutions and the messages are mixed.

Congresswoman Waters discussed the OCC's role in fulfilling the mandate of Section 367 and discussed the OCC findings that MDIs had weathered the recession worse than others. She also noted the bright spot that MDIs are now realizing positive income results. Congresswoman Waters acknowledged the concerns MDIs have about the implementation of Basel III and its impact on their institutions. She also acknowledged their concerns about the Consumer Financial Protection Bureau, but stated that under the leadership of Director Cordray, the MDIs might find benefits for small institutions. Congresswoman Waters stated she and her colleagues recognize the burden of the additional recordkeeping for residential mortgage lending, but they believe the benefits will far outweigh the costs. Congresswoman Waters stated that she is very, very worried about minority institutions, that it is extremely important to help MDIs remain viable and she is extremely concerned about their access to capital. She stated that we cannot afford to lose MDIs, or our communities will suffer. She explained that she herself as a single mother years ago, after being turned down at other institutions, received her first mortgage from a minority institution.

The congresswoman answered some questions from committee members, and acknowledged that the FDIC's definition of minority owned institutions, which includes foreign subsidiaries, undermines the ability to focus on MDIs. Another committee member thanked Congresswoman Waters for her hard work, stating that MDIs have benefited from her passion. She indicated that she will continue to go to the agency heads, and when they go to Capitol Hill to testify, she will use her five minutes to focus on MDIs.

1:15pm Discussion on Future Meetings

Ms. Cole opened the meeting to discuss and receive input on the content of future meetings of the MDIAC. Committee members again reiterated that their institutions' viability is a concern, and MDIs need technical assistance. A member indicated that if MDIs originate residential loans and sell them in the secondary market, it works against preservation of the communities they serve. A member stated that it feels like everyone has been bailed out except small banks, citing as an example the very long time it took for Treasury to address mutual-owned thrifts as beneficiaries of TARP. A member also indicated concerns about accounting practices and their impact.

In addressing future meetings, a member indicated that as MDIs discuss their needs and business model threats, there should be representatives from other entities in the room. He gave two examples: if the committee is discussing small business loans, it would be useful to have representatives from the Small Business Administration attend; and, if the committee discusses assistance it may seek from large banks, it would be useful to invite potential large bank partners. Another member indicated that MDIs need to have interagency cooperation, and other financial regulators should be included.

A member stated that it was good that the OCC has opened a dialogue, and the committee appreciates that the OCC listened. He stated that it is good to hear experiences from other institutions. There was additional discussion regarding how large banks can assist MDIs, and the OCC's Barry Wides, Deputy Comptroller for Community Affairs, shared a brochure addressing large bank assistance to MDIs and women owned institutions. Senior Deputy Comptroller Jennifer Kelly indicated that the purpose of including a large bank representative on the committee was to explore potential opportunities for partnerships between large banks and MDIs. Members discussed other topics, including New Markets Tax Credit, bond funding, and the desire to have OCC establish a peer group for MDIs.

Comptroller Curry offered his concluding remarks, and closed with the commitment that the OCC "may have a statutory obligation [to preserve MDIs], but it is part of our mission, too. "

2:15 p.m. Public Observers

Designated Federal Official Beverly Cole acknowledged the public observers in attendance: Grady Hedgespeth and Rodney Evans of the Small Business Administration (SBA). Mr. Hedgespeth is the Director of the Office of Economic Opportunity at SBA, and he indicated his

office focuses on bringing together all resources . Mr. Evans is the Lead Coordinator for MDI, and he discussed the work SBA is doing to assist MDI, and said new products such as the Small Loan Advantage for loans under \$350 thousand, is a product that assists underserved communities and can be approved in ten minutes. Laura Friel from Minbanc Foundation (a 501 c 3) was also a public observer, and she introduced herself and explained her organization's mission to provide increased access to financial services for the minority banking community. In that regard Minbanc has awarded over \$500 thousand in professional education grants to minority owned banks to send their employees to high-level, bank focused training.

2:30 p.m. Adjourned

Ms. Cole adjourned the meeting at 2:30 p.m.

I hereby certify that, to the best of my knowledge, the foregoing minutes are accurate and complete.

Beverly F. Cole
Designated Federal Official