North Carolina Office of the Commissioner of Banks

NEWS RELEASE

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COMMISSIONER OF BANKS

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N.C. Commissioner of Banks calls for policy changes and operating methods in banking to promote economic recovery

RALEIGH—N.C. Commissioner of Banks Joseph A. Smith, Jr., tonight called for changes in financial policy and operating methods in banking in order to better serve the public interest and to promote economic recovery, as he addressed the banking industry and its regulators at the 2010 Banking Institute in Charlotte, N.C.

"How are the activities of stakeholders and thought leaders in banking law and policy related to the health of the industry and the welfare of the nation?" asked Commissioner Smith. "As important as the structure of the industry and the agencies that supervise it is…whether what we do serves the public interest is more important."

In order to promote recovery and sustain economic growth over the long term, banks must increase business lending, particularly to small businesses; help restructure real estate finance; and help consumers save, Commissioner Smith said. "These are tall orders, but necessary for the good of the industry and the nation."

The Commissioner's key points to achieving financial reform include:

- **Increasing small business lending.** North Carolina businesses employing less than 100 people account for 90% of all businesses operating in the state, 45% of the non-governmental workforce and 45% of state domestic product. The importance of adequately financing existing small businesses and supporting the creation of new ones is crucial to a return to health of our economy. Under Governor Perdue's leadership, the State is working to address both the risk and the administrative cost of small business lending. Commissioner Smith is involved in an effort led by new Commissioner of Small Business, Scott Daugherty, to organize and focus the State's small business education, support and financing resources, so that small business owners will be fully prepared to seek credit and small business lenders fully prepared to extend it and to take advantage of SBA and other governmental support efficiently and effectively.

- **Restructuring real estate finance.** Banks should be central to the reinvention of the residential mortgage market, which needs to be fixed in order to aid recovery. In many markets, there is an inventory of unsold homes and a "shadow inventory" of foreclosed homes that has to be cleared in order for those markets to return to health. Also, expanded mortgage lending can help the healing process both for banks and the markets they serve. In addition to home mortgages, the commercial real estate market has experienced a substantial reduction in values that has had a severe and damaging impact on banks, REITs and institutional investors. Banks must raise capital and restructure their commercial real estate portfolios to reflect realistic current values. Once healthy balance sheets are restored, banks should provide the financing of viable commercial projects on terms that reflect the "new normal" valuations in the relevant markets, the risks and the costs of capital. The Commissioner hopes that will lead to a rebirth of the secondary market in commercial real estate loans**.**

- **Helping consumers save.** EITC filings accounted for 20% of all tax returns filed in North Carolina in 2006. EITC is a good proxy for working poor families, the segment of our population that is unbanked or under-banked, which includes the vast majority of subprime mortgage borrowers and the users of "alternative financial services." Their financial wellbeing affects their families, employers and communities. The Commissioner stressed the importance of establishing bank accounts for all citizens who wish to be "financial citizens." Access to the payment system is the first step to the accumulation of wealth in a sustainable way, including credit when the customer is ready for it. He also stressed both the social and economic benefits, and moral imperatives for banks to provide access to basic services to help address the savings needs of customers for retirement and other goals that ultimately will help reduce poverty and prevent the imposition of an expensive and sad burden on our children and grandchildren.

The Commissioner said that in order to implement these changes, the following is required:

- Banks must reduce their reliance on large and profitable construction and development loans that have comprised between 10 and 20% of their loan portfolios and from consumer fees as the main component of non-interest income. The economic and regulatory "new normal" for them will require a heightened reliance on individual and business credit and asset management relationships that will be smaller and less profitable.

- Regulators must cease trying to correct a perceived lack of rigor during the boom by tightening up during the bust, if banks are to have time to work through their problems, and should remove obstacles to the injection of new and needed capital into the industry, meaning unreasonably high standards for potential private equity investors and the imposition of regulatory capital requirements so stringent as to make even reasonable economic returns to investors impossible.

- Non-profits and consumer advocates should drop the view that access to credit and the payment system should come at little or no cost, either in dollars or conduct, to low and moderate income folks. Reducing or eliminating economic returns to banks and their investors will reduce the number of banks offering needed services or, in the worst case, the number of banks generally.

All stakeholders, including regulators, need to rethink their roles and focus on the big picture, said Commissioner Smith. "Each of us has to give something up to get what we all want: a healthy industry, economic recovery and sustainable long term economic growth."

The Commissioner's speech may be found at:
http://www.nccob.org/NCCOB/Researchers/CommissionersPage/.

The UNC School of Law's Center for Banking and Finance sponsored the 2010 Banking Institute, a continuing legal education program for bankers and their lawyers that focuses on important issues in banking and finance. The Center for Banking and Finance was created to recognize and further the role of banking and finance to the North Carolina economy as well as the leadership role played by North Carolina-based financial institutions in the continuing evolution of the financial services industry.

NCCOB regulates state-chartered banks, thrifts, savings and loans, trust companies, and more than 600 mortgage lenders/servicers/brokers and 6,000 loan officers, as well as numerous consumer finance companies, check-cashers, and other financial services. NCCOB is funded by industry fees and assessments and not taxpayer dollars.

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