Statement of
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Comptroller of the Currency
before the
Committee on Financial Services
of the
U.S. House of Representatives
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Chairman Frank, Ranking Member Bachus, and members of the Committee, I appreciate this opportunity to provide the OCC's perspective on recent events in the credit and mortgage markets. As you know, we are the primary supervisor for the very largest commercial banks that play critical roles in virtually all aspects of today's capital markets, including the credit markets for mortgages, leveraged loans, and asset-backed commercial paper that have recently received so much attention. The OCC maintains teams of examiners on-site at each of these institutions to monitor their activities. More broadly, over the last twenty years national banks across the country have become very substantial participants in residential mortgage markets, where they originate, hold, sell, buy, service, and securitize most types of mortgages. These include subprime mortgages, but let me emphasize that national banks have proportionally been less involved in that market, originating less than 10 percent of all subprime mortgages in 2006, and have experienced default rates that are significantly lower than the national average.

Given the large aggregate credit exposure of national banks, the recent volatility in the credit markets has clearly been a concern for both the OCC and the banks we supervise. These challenging market conditions affect all market participants, including not just the largest national banks that participate actively in capital markets, but also the many mid-size and community national banks that engage in mortgage activities across the country.

Let me be very clear, however, that the worst problems we have seen in the markets – insufficient liquidity resulting in substantial declines in capital and sometimes in failure – have occurred <u>outside</u> the commercial banking sector. <u>The national banking system remains safe and sound.</u> Unlike many non-bank lenders, national banks generally have strong levels of capital, stable sources of liquidity, and well diversified lines of business, all of which have allowed them to weather adverse market conditions. As a result, national banks remain active in major markets and continue to extend credit to corporate and retail customers, including mortgage credit.

With respect to general market conditions, I am encouraged by the recent actions to restore liquidity that have been undertaken by the Federal Reserve, other central banks, and various market players, including some major national banks. Nevertheless, the situation remains fluid, and it may take some time until markets fully stabilize. We are therefore continuing to watch conditions very closely and talking regularly with other financial regulators to address issues that may arise.

While recent market conditions have certainly been painful, and may continue to be so for some time, we believe they are likely to cause some positive changes in the longer term as markets reevaluate and re-price risk. Part of today's problems in credit markets resulted from underwriting standards that had relaxed too much – whether in subprime loans or leveraged lending, to pick two examples – which was at least partly the result of investor willingness to assume greater risk to achieve higher yields. In both cases, market participants are now demanding changes in the form of more conservatism. While legitimate concerns remain about the pendulum swinging too far and too suddenly in the opposite direction, we remain hopeful that markets will stabilize at an equilibrium where lending standards are more rational, and pricing more accurately reflects risk.

Such a positive outcome would apply in the future to loans that are yet to be made. Unfortunately, the same cannot be said for many loans that have already been made – and in particular, for many homeowners holding subprime mortgages. For those Americans who may be facing unmanageable mortgage obligations, recent events are far more serious than a simple market correction. They may instead result in foreclosure and all its potentially devastating effects on families and communities. The OCC recognizes the need to do all we can to reduce the inevitability of that outcome. We have taken concrete steps to encourage both lenders and borrowers to respond to these situations in ways that minimize the likelihood of foreclosure while preserving safety and soundness. Just yesterday, the banking agencies jointly released a statement encouraging lenders and servicers to work with borrowers to take appropriate steps to avoid foreclosure even where loans have been securitized. With the prospect of significantly increasing foreclosures looming on the horizon, we are fully committed to working with all interested parties to help address the many significant issues that could arise.