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IV. *Looking Ahead*

To meet demands on OCC resources from large, highly complex national banks and from a nationwide network of offices serving community banks, the OCC must set bank supervision priorities that maximize efficiency in using and allocating resources. Attracting and retaining qualified new employees, developing and maintaining OCC staff expertise, embracing and supporting the OCC's diversity initiatives, and enhancing the OCC's leadership skills will continue to be priorities for the agency.

Large national banks will remain at the leading edge of developing new banking products and services, requiring that the OCC be at the forefront of the supervisory community in developing and maintaining expertise in assessing such products and determining associated risks. The OCC and national banks must interact effectively with one another, with other federal regulators, and with international regulators. Concerns about regulatory burden, especially among community bankers, will accentuate the need to ensure that the OCC's policies and expectations for its lines of business are balanced, clear, and appropriately implemented. BSA/AML, consumer disclosures, and Home Mortgage Disclosure Act reporting will continue to require OCC resources and responses.

The OCC will be operating in a new legislative environment in FY 2007, with leadership changes in the Congress, including in the two committees with oversight of the agency. OCC officials also will be watching for the Supreme Court's decision in *Watters v. Wachovia*, a case that involves the extent to which states may exercise authority over national bank mortgage lending activities conducted in operating subsidiaries.

To continue to strengthen its workforce, the agency plans to hire 70 entry-level bank examiners in early FY 2007. They will begin on-the-job training and join field offices by mid-year.

The agency will maintain its focus on internal information security as its end-to-end security review unfolds, and OCC officials evaluate findings and implement improvements. The agency will also continue to focus on assisting consumers, as the hours of operation of its Customer Assistance Group further expand for answering questions and receiving complaints from customers of national banks.

Uncertainties in the financial and commodities markets and in the global political landscape are likely to continue and may result in a more volatile operating environment for the

banking industry. Continued loosening of standards for credit underwriting and pricing, and the increased involvement of hedge funds in syndicated bank loans, heighten concerns about credit quality and may escalate problem credits and losses in the event of unfavorable market developments. Slowdowns in housing, construction, and real estate development may adversely affect banks' balance sheets and earnings streams. Many banks and over-leveraged consumers remain vulnerable if interest rates rise. Pressures on net interest margins are likely to continue. Merger and acquisition activity has fostered a growing concentration of banking assets in the largest national banks and reduced the number of major dealers in key money market and derivatives markets.

Risks facing the banking industry and the OCC are increasingly interdependent, cutting across traditional disciplines and business lines. Operational and compliance risks are becoming more prominent, and traditional distinctions between credit and capital markets activities and risk management tools are eroding. Corporate governance, accounting, compliance, and customer information security continue to be high-visibility issues for the banking industry and for large, publicly traded banks in particular, accentuating the need for strong corporate governance, accounting transparency, internal controls, and audit and compliance programs.

The rapid pace of financial innovation and growing concentrations—both within individual bank's portfolios and across industry segments—pose additional challenges and require improved risk management and information systems. Quantitative risk measurement systems will continue to become more prominent in banks' risk management processes.

The Comptroller, the Executive Committee, and other agency officials will continue to monitor these risks closely in FY 2007 and to develop and refine strategies for the agency's workforce to address them through supervisory and regulatory programs of onsite supervision, timely examination and policy guidance, and balanced regulatory actions. The OCC also will work with other international, federal, and state supervisors to respond to the myriad of cross-cutting issues that face the financial services industry.

The OCC will continue its efforts to ensure fair access to financial services and fair treatment of bank customers through its consumer compliance supervisory activities, community development programs, and outreach efforts.