STATEMENT OF

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Of the
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Chairman Shelby, Ranking Member Sarbanes, and members of the Committee, on behalf of the OCC, I appreciate the opportunity to be here this morning to discuss unnecessary regulatory burden and its debilitating impact on our nation's banking institutions. I also want to express particular appreciation to Senator Crapo for his commitment and dedication to tackling this very real problem.

Unnecessary burden exacts a heavy price on banks, bank customers, and our economy. For our nation's community banks, unnecessary burden can actually imperil their competitive viability.

My written testimony covers in detail some of the initiatives being pursued by the Federal banking agencies to identify and reduce burden on our nation's banks.

One major initiative is the EGRPRA process that is being so ably led by OTS Director John Reich. This three-year effort is drawing to a close and will result in a report to Congress later this year.

My written testimony also recognizes that, in certain areas, burden relief cannot be achieved through the regulatory process alone, but requires action by Congress. My testimony discusses in detail several of the OCC's priority legislative items.

This morning, I would like to briefly highlight three areas:

First, we all need to look for ways to reduce the cost and improve the effectiveness of consumer disclosure requirements. Today, our system imposes massive disclosure requirements and costs on our nation's financial institutions. But little is known about whether these are necessary costs that yield commensurate benefits for consumers.

We believe that it is possible to provide the information that consumers need and want in a concise, streamlined – and understandable – form. But that requires us to change how we go about establishing those disclosure requirements.

The Federal banking agencies have undertaken an important initiative by employing *consumer testing* as part of an integral part of an interagency project to simplify GLBA privacy notices. Through consumer focus groups and testing, *consumers* have been asked about what they most want to know about the treatment of their personal information, and what style of disclosure is most effective in communicating useful information to them.

This project has the potential to be a win-win for consumers and financial institutions and to lay the foundation for other, similar initiatives.

Second, it is important to seek out ways to ease burden on our community banks. Our proposed legislative amendments include two provisions that I would note here. Both of these amendments may enhance the ability of community national banks to take advantage of pass-through tax treatment and eliminate double taxation – that is, where the same earnings are taxed both at the corporate level as corporate income and at the shareholder level as dividends.

One amendment would expand the availability of Subchapter S treatment for national banks by allowing directors of national banks to purchase subordinated debt instead of capital

stock to satisfy the directors' qualifying shares requirements in national banking law. This may allow more national banks to meet the Subchapter S shareholder limits.

Another amendment would clarify the OCC's authority to permit a national bank to organize in an alternative business form, such as a limited liability company, which may be eligible for pass-through tax treatment.

A third item that has the potential to provide relief for a meaningful number of national banks is an increase in the asset threshold from $250 million to $1 billion to permit more national banks to qualify to be examined on an 18-month rather than an annual cycle. Under current law, banks that have $250 million or less in total assets and that satisfy certain other strict standards – such as being well capitalized, well managed, and having high supervisory ratings – may be examined on an 18-month cycle rather than a 12-month cycle.

Increasing the asset threshold to $1 billion (but not changing any of the other qualifying criteria) would ease the examination burden and the associated examination costs for approximately 340 community national banks.

While we believe that increasing the threshold to $1 billion provides relief without endangering safety and soundness, we note that an increase to $500 million, which also has been suggested for the Committee's consideration, would still be an important step.

In conclusion, Mr. Chairman, we very much appreciate the opportunity to continue to work with you, Committee members, and staff on the important initiatives under consideration to reduce unnecessary regulatory burden.

I would be happy to answer any questions that you may have.