

Comptroller's Viewpoint



I am pleased to report that FY 2003 was a year of growth and success for the national banking system. Continued record earnings were used in part to strengthen bank capital, which was already at record levels. Most major income categories hit historical peaks. Deposits increased, too, as consumers reacted to the weak performance of equity markets by placing funds in the banking system. This increase in deposits, in turn, fueled continued growth in bank assets.

Macroeconomic weaknesses did create some credit quality issues for national banks, particularly in the corporate lending area.

But with the rise in corporate earnings, the worst part of the credit quality now appears to be behind us, and asset quality for national banks saw significant improvement last year.

Overall, the national banking system today is safe, sound, and competitive—and the outlook is for further improvement as the economic picture brightens, as most analysts forecast.

2003 also saw improvements in the Office of the Comptroller of the Currency's fiscal and organizational health. Revenue growth was strong, reflecting large increases in national bank assets and net additions to the system through merger, conversion, and de novo charters. Meanwhile, OCC managers continued to demonstrate impressive budgetary and staffing discipline: at year's end, the agency was staffed below its FY 2002 level and below its FY 2003 target.

We took important steps this year to ensure that the OCC was structured to make optimum use of its human and material resources in light of the changes that have taken place in the banking industry and in the way the OCC performs its supervisory responsibilities. We announced the results of our District Structure Study and began to implement many of its key recommendations, including the consolidation of the previous six district offices into four locations, with Kansas City and San Francisco being absorbed into a new Denver district office.

When the results of the District Structure Study were announced, I also announced that the OCC would undertake a parallel study of the functions of the headquarters office. In 2003, we organized a working group, which by year's end, had completed its investigations and prepared recommendations for consideration by the executive committee. By this time next year, I expect that many changes will have taken place to improve headquarters' ability to serve the current and prospective needs of the OCC.

Some key legal and regulatory initiatives continued—and some new initiatives were launched—to ensure that the national bank charter remains fully competitive in the financial marketplace, and that the rights of national bank consumers are protected against unfair and abusive practices.

The OCC defines predatory lending as the aggressive marketing of credit to borrowers who cannot afford it on the terms being offered—typically, on the basis of the liquidation value of the collateral. The OCC issued two advisory letters to national banks, aimed at ensuring that neither they nor their subsidiaries engage in lending that might be considered predatory, and that their lending complies with safety and soundness standards and all applicable consumer protection laws.

A number of states sought to impose their own anti-predatory lending laws on national banks in 2003. In response to an appeal by two national banks and after reviewing public comment, the OCC concluded that a Georgia law that imposed severe restrictions on all lenders operating within the state, did not apply to national banks and their subsidiaries. In issuing this preemption determination, the OCC ruled that the Georgia law interfered with national banks' ability to exercise permissible federal powers and was thus in conflict with federal law.

Although the year saw considerable progress toward completion of a new Basel Capital Accord, the task of developing capital rules that will apply to all internationally active banks proved more complicated than anticipated. The OCC is working with the Basel Committee to develop a conceptually strong framework and ensure the integrity of our U.S. rulemaking process. I am optimistic that the spirit of compromise, cooperation, and commitment will bring us even closer to the end of the long road to Basel II in the coming year.

A handwritten signature in black ink that reads "John D. Hawke, Jr." The signature is written in a cursive, flowing style.

John D. Hawke, Jr.
Comptroller of the Currency
November 7, 2003