Comptroller's Viewpoint

I was sworn in as the 29th Comptroller of the Currency on August 4, 2005, and assumed leadership of a proud organization with a long tradition of excellence in bank supervision. I look forward to building on the initiatives that were carried out by my distinguished predecessors during fiscal year (FY) 2005.

The safety and soundness of the national banking system must always be a fundamental priority of the OCC. In FY 2005, national banks compiled record earnings and posted other measures of strength. Capital grew to historic highs. This is especially good news in light of the challenges facing the banking system as it enters the later phases of the credit cycle — a time that customarily brings increased competition and pressure on loan volume and earnings.

As Comptroller, I am committed to maintaining a strong supervisory presence in our approximately 1,900 national banks. That is down slightly from last year's numbers. National bank assets, however, stand at nearly $6 trillion — a significant increase over FY 2004. Those statistical changes underscore both the long-term structural consolidation of the banking industry and its overall growth — two secular trends that continued in FY 2005.

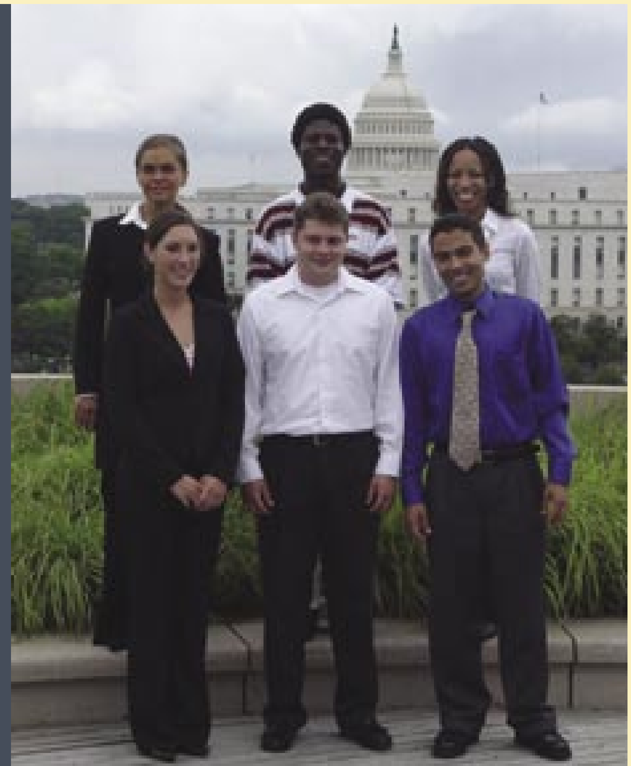
Regulatory capital issues were front-and-center in FY 2005. The OCC has been committed to strengthening the international capital framework to make it more risk sensitive through the Basel II effort. The April release of the Basel Committee's fourth Quantitative Impact Statement — QIS-4 — raised new concerns about the Basel II framework, and as FY 2005 came to close, the OCC and the other U.S. banking agencies announced a revised implementation plan that will enable us to address these concerns.

Spurred by reports from OCC examiners about rising credit risk — typical for this phase of the credit cycle — we took a number of steps to identify potential areas of weakness and to strengthen our supervisory oversight of areas that presented elevated safety and soundness concerns. Specifically, the OCC issued guidance, or participated in the issuance of guidance, on such products as home equity lending, overdraft protection programs, predatory residential mortgage lending, and more.

The products I've just mentioned illustrate that banking today is a diverse business, an important component of which is serving retail customers. They also demonstrate that a bank's record on compliance and customer service can have serious safety and soundness consequences. Assuring fair access and fair treatment of bank customers are significant OCC responsibilities to which the agency devoted major resources and effort in FY 2005. It will continue to absorb our attention in the coming months.

The OCC's Customer Assistance Group (CAG) is a vital component of the OCC's efforts in this area. In FY 2005, CAG opened 73,519 cases involving consumer complaints, and

We have long recognized that the OCC is only as strong as its people. In FY 2005 we upgraded our efforts to attract and retain a high quality workforce. The agency's demographics require no less; over the next five years, more than 25 percent of current OCC employees will be eligible to retire.



closed cases resulted in the payment of more than $6.3 million in disputed fees and other charges to customers of national banks.

Bank Secrecy Act enforcement provided further evidence of the convergence of compliance and safety and soundness. Several OCC-supervised institutions were subject to enforcement actions arising from violations of the Bank Secrecy Act. In several cases, violations resulted in large monetary and administrative penalties. These actions sent a strong message to banks that heightened regulatory scrutiny of their Bank Secrecy Act and anti-money laundering (BSA/AML) activities are facts of life in the post-9/11 world, and that banks will be expected to establish and maintain BSA/AML systems and controls commensurate with their risk exposure.

While it is vital to our national security that banks and other financial institutions have effective BSA/AML programs in place, it is equally important that we maintain a fair and balanced approach in this area. To that end, we took steps throughout the year both to clarify our BSA/AML goals and to achieve greater consistency in our supervisory guidance to banks and examiners. A major step in that direction came with the issuance, under the auspices of the Federal Financial Institutions Examination Council (FFIEC), of a Bank Secrecy Act/Anti-Money Laundering Examination Manual. The OCC also participated in an ambitious outreach program that included nationwide conference calls and meetings around the country, so that bankers and others could have their BSA/AML questions answered and our supervisory standards explained to them. More than 24,000 people, mostly bankers, participated in this program.

The agency continued to be sensitive to the impact of its actions on the industry it supervises — and alert to opportunities to ease that impact. We have been especially concerned about the burden of regulatory compliance for our community banks — smaller institutions that are least likely to have the specialized resources to deal with rising compliance costs and responsibilities.

With these concerns in mind, we adopted new CRA regulations in FY 2005. A key change was the creation of a new category of Intermediate Small Banks, which will be subject to reduced data collection and reporting requirements. By refining our approach, we were able to provide some regulatory relief for banks, while ensuring that the basic purpose of the law — to meet the needs of communities — continued to be served.

We also are committed to conducting OCC's operations efficiently and with the utmost integrity. The agency is in strong financial health. Continuing efforts to strengthen our financial systems produced an unqualified audit opinion, with no material weaknesses, from our independent auditors, and the achievement of important milestones for prompt payment and collection of obligations.

We have long recognized that the OCC is only as strong as its people. In FY 2005 we upgraded our efforts to attract and retain a high

With that in mind, we continued a recruitment campaign that placed 96 entry-level bank examiners into permanent field office positions.

OCC Offices

quality workforce. The agency's demographics require no less; over the next five years, more than 25 percent of current OCC employees will be eligible to retire.

With that in mind, we continued a recruitment campaign that placed 96 entry-level bank examiners into permanent field office positions. We also hired another 100 new examiners, and began to train them for placement. Our efforts to make the OCC a more attractive employer — both by improving compensation and benefits and by building a more congenial workplace — were recognized when the OCC was named as one of the top 10 places to work among 143 comparable agencies in the federal government in a survey conducted by the Partnership for Public Service and American University's Institute for the Study of Public Policy Implementation.

This recognition is a tribute to the quality of the OCC staff and its commitment to public service — a commitment that I see every day.

The past year offered a dramatic reminder of the banking system's importance to the American people. The devastation of several major hurricanes left millions of Americans in need of emergency financial services to help them obtain the basic necessities of life and begin the rebuilding process. Despite considerable personal hardship, OCC personnel living in the disaster areas worked closely with national banks and other regulators to facilitate the delivery of cash, loans, and other forms of relief to those who needed them most. Their performance in this time of crisis was truly exemplary.

Each of us rests on the shoulders of others. When the 28th Comptroller of the Currency, John D. Hawke, Jr., left office on October 13, 2004, the OCC's chief counsel and first senior deputy, Julie L. Williams, assumed the duties of acting Comptroller for almost 10 months. Thus, most of the activities and accomplishments described above occurred during her tenure. She deserves a large share of the credit for the successes the Office achieved during this period.

John C. Dugan

Comptroller of the Currency

October 27, 2005