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Bank Supervision in a Time of Challenge

Weathering the Downturn

The volatility of the financial markets and the unprecedented nature of the events that shaped the environment for banks in 2008 posed challenges for the OCC. The OCC anticipated many of the problems the industry faced before they occurred—and dealt with them once they arrived.

The OCC sounded early public warnings in guidance and ongoing supervision about risk layering, payment shock, and declining underwriting standards for nontraditional mortgages and home equity lending. Many of the steps the agency took responded directly to early feedback from the agency's field staff, including:

- Higher supervisory standards for subprime mortgage underwriting. As a result, national banks

originated less than 10 percent of all subprime loans in 2006, the peak year for such lending, and those they did originate were generally of higher quality than those originated elsewhere.

- Rigorous horizontal reviews of bank loan portfolios across the country, starting in 2004, to better assess the performance of CRE, a lending area in which many community banks were developing concentrations. The OCC pushed for the CRE guidance that was issued in 2006 over industry opposition. The guidance described expectations for heightened risk management practices for institutions with concentrations in CRE loans.

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Community Bank Supervision: *Assistant Deputy Comptrollers Mobilize OCC Resources To Protect Safety and Soundness*

Community banks play a vital role in the economic health of America’s towns and cities, and the bulk of the OCC’s supervisory resources are devoted to those banks.

Some 1,400 examiners work full-time on community bank supervision. They represent 68 percent of the agency’s 2,000-plus person exam force. Their work is coordinated through a national network of 49 field offices and 24 satellite offices that are located in almost every state in the country, overseen by four district offices in New York, Dallas, Chicago, and Denver. By contrast, the OCC’s large and midsize banks are supervised by teams of resident examiners assigned full-time to individual banks.

For community bank examiners especially, teamwork is crucial. While each member of the examination team focuses on his or her area of assigned responsibility—such as capital, asset quality, or compliance—examiners are also keeping an eye on the bigger picture, assessing the institution’s overall safety and soundness. When a bank’s ability to remain solvent is called into question, experts in the Special Supervision Division in Washington, D.C., are there to develop and implement rehabilitation or resolution strategies.

The weakening economy led to a rising number of problem banks among the community bank population in 2008, mostly related to the deterioration of commercial real estate markets. The OCC’s response was rapid and systematic. Community banks were divided into three tiers, with the first tier comprising banks with the greatest degree of risk. Examinations of CRE risk at Tier I banks began immediately; examination of Tier II banks was under way at year’s end, with progressively fewer problems uncovered as these examinations progressed. To ensure consistency among the examiners who were involved in this effort, the OCC convened two conference calls, the first in April and the second in October, and provided written guidance on relevant topics.

Assistant Deputy Comptrollers, who manage the OCC’s field offices and are responsible for the supervision of a portfolio of community banks, play a key role in assuring that cooperation between local examination teams, OCC district offices, and headquarters staff proceeds smoothly.

With more than 29 years at the OCC, James Calhoun, an Assistant Deputy Comptroller (ADC) based in Pittsburgh, understands the importance of close working relationships among supervisory personnel, especially in challenging economic times. With experience as an analyst in Special Supervision and an EIC of problem banks, Calhoun has the perspective of a veteran who has been through several turns of the economic cycle. He also knows that the iron test of an examiner’s skill is communicating his or her findings in a constructive way to the banker. “From the bankers’ standpoint, it’s all about ensuring clarity,” Calhoun explains. “The best way I have found to do that is to take an issue and frame it in terms of how it might affect their bank’s profitability, stakeholders, and reputation.”

In challenging economic times, the need for “open, honest, and frequent” supervisory communication is greater than ever, notes Omaha ADC Troy Thornton, a 23-year OCC veteran. In 2008, Thornton increased the frequency of his meetings with bank boards and made sure that banks in his portfolio were kept well informed of supervisory expectations through quarterly letters and periodic outreach meetings. For banks under stress, supervisory action taken in a timely manner can make a big difference.

“Among the things I look for during exams are behaviors that, if they continue, can lead to problems,” says Calhoun. “We want to get the bank’s board of directors to understand that these behaviors can pose more risk unless they are changed or appropriately managed. Real-life examples or ‘war stories’ are a highly effective way to illustrate possibly adverse outcomes.”

Calhoun adds that while examiners have to respect the authority of bank managers, there is also a time to be direct. “Bankers and regulators are a team with the best interest of the bank and its customers in mind,” Calhoun explains, “and it becomes even more important in today’s times that we act as a team. You have to be open to questions and expect pushback, but if management is not performing satisfactorily, you need to make that clear to the board as soon as you can. That’s what we get paid to do, to make that call.”

Vital Facts

Community National Banks	1,502
National Bank Examiners Dedicated to Community Bank Supervision	1,414
Examination Frequency	No less than each 18 months
OCC Field Locations	77

Large Bank Supervision: *Examiners-in-Charge of the Most Complex Financial Institutions*

The banks supervised by the OCC include some of the largest and most sophisticated financial institutions in the world—institutions with trillions of dollars of assets. They offer a wide array of financial services, engage in millions of transactions every day, and play an enormously important role in the national and global economy.

To supervise institutions that operate on this scale, the OCC deploys teams of resident examiners who work full-time, year-round at each of the banks in the Large Bank program. More than 460 examiners are deployed at the 17 largest banking companies in the program.

This approach allows examiners to acquire a close understanding of the bank's risk-taking and risk management. With that knowledge, the OCC can identify the most significant risks and then determine whether a bank has the systems and controls it needs to measure, monitor, and control those risks. The OCC performs appropriate validation of banks' risk management through transaction testing. Concerns are then communicated directly to senior management, making it possible for corrective action to be achieved in a timely and effective manner.

The foundation of the OCC's Large Bank supervision is the EIC, who, in close collaboration with headquarters in Washington, D.C., is responsible for developing the supervisory strategy for the institution and implementing that strategy on site.

Kim Scherer, the EIC at UnionBanCal Corporation in San Francisco, sees herself as having dual roles: as the person with ultimate responsibility for the bank's supervision and as the manager of the OCC's on-site staff at the bank. "While most of my staff of 15 does the supervisory work and examination activity relevant to Union Bank, it is my job to put it into overall perspective and view risk 'from the top of the house.'"

Scott J. Wilson, an EIC at Capital One Financial Corporation in McLean, Virginia, agrees: "You are both a national bank examiner responsible for the safety and soundness of a large financial institution and a manager trying to ensure that you have a professional and well-motivated workforce that feels empowered to do its job. I think it is critical that the Examiner-in-Charge have strong communication skills and the ability to build relationships with people."

Investing in the growth and development of the staff is a critical function of the job, according to Tim Greenway, the EIC at Bank of America in Charlotte,

North Carolina. Another crucial function is accurately assessing and communicating the risk in the assigned bank while securing remedial action, should it be necessary, from bank management, he says.

Being an EIC requires a high degree of flexibility. Supervisory strategies must sometimes be adjusted on the fly to reflect an institution's changing risk profile. "A strong Examiner-in-Charge must be very cognizant of the external environment and the impact that market events and the 'Street' can have on the condition and perception of the financial institution that the OCC supervises," says Wilson.

And the OCC requires that EICs be prepared to move on after five years at the same institution. "This 'term limit' ensures that we do not get 'too close' to the bank," explains Wilson. "It also allows a fresh set of eyes to supervise an institution after a certain period of time."

Even in less tumultuous economic times, the EIC's life is varied and fluid. Greenway says that "because I work in a mega-bank that is active in many markets and always exploring new products, every day is unpredictable."

Scherer may find herself meeting with the chief executive officer or other executive-level bank managers to stay abreast of key issues surrounding the company; meeting with her staff to share supervisory insights; reviewing, editing, or preparing written supervisory correspondence to bank management; and attending briefings related to her institution.

Having a permanent presence makes a huge difference for both the examiners and the banks. "We are in the bank on a daily basis to assess the condition of the bank and communicate with the bank through informal and formal channels," Wilson says. "This allows us to share knowledge and perspective across large banks and the OCC, and with other regulators and bankers."

"This is a job in which we never stop learning," Greenway notes. "If the OCC is to remain a highly respected financial institutions' regulator, we must all pass what we learn on to those who follow us."

Vital Facts

Large Banking Companies	17
Asset Range	\$49 billion to \$1.9 trillion
National Bank Examiners Dedicated to Large Bank Supervision	467
Examination Frequency	Continuous

- Identifying and flagging, through targeted examinations and examiner surveys, the trend of declining underwriting standards and the difficulty increasingly encountered by large national banks in selling some corporate loans to investors.
- *Development of a new mortgage metrics database.* An unprecedented effort accomplished in record time, the quarterly *OCC and OTS Mortgage Metrics Report* provides the best available information on over 60 percent of the mortgages serviced in the United States. As Comptroller Dugan notes, “We now know a lot more than we once did about trends in delinquency, modification, and foreclosure with respect to prime, subprime, and Alt-A mortgages, and we’ve begun to use that data in a variety of ways to support our supervision.” In addition, the OCC has begun to develop similar metrics for home equity loans and is planning to do the same with credit card lending and syndicated loans.

- *Tracking Shared National Credits (SNC), large syndicated loans held by multiple banks.* While participating in the review of more than 8,000 credit facilities, with commitments totaling \$2.8 trillion, the OCC contributed to a project to modernize the collection and analysis of SNC data and to improve the program’s efficiency and effectiveness.

Internally, the OCC’s market disruption data-collection procedures shifted into high gear in 2008, producing timely and critical information from institutions all over the country. Some of the market problems were new and complex—like those raised by collateralized debt obligations, structured investment vehicles, and asset-backed commercial paper conduits—and the agency’s specialists, economists, and policy experts have dissected them for use in adjusting regulatory guidance and supervisory strategies.

Perhaps most important, OCC examiners took

steps to ensure that banks were more realistic about recognizing delinquent loans and losses, that they built loan loss reserves and raised capital when necessary, and that they took tangible actions to improve risk management.

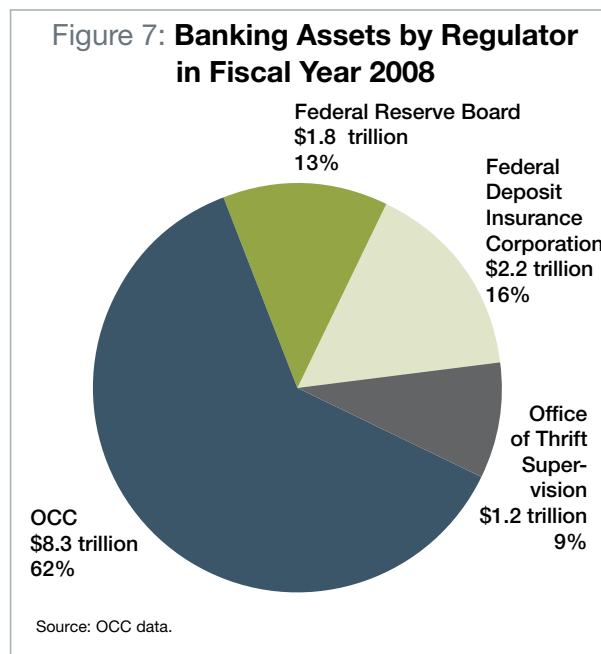
While large banks struggled with the fallout from the precipitous decline in the housing market, many community institutions were challenged by concentrations in commercial real estate. OCC examiners worked with national banks to manage those risks.

In the 17 largest national banking companies, where the OCC maintains a continuous presence through staffs of resident examiners (see “*Large Bank Supervision: Examiners-in-Charge of the Most Complex Financial Institutions*” on page 13), particular attention was paid to the banks most affected by the mortgage market disruption.

Examiners monitored capital, liquidity, and contingency plans for these national banks, and carefully assessed risks to capital and liquidity from off-balance-sheet vehicles and commitments. One focus was bank programs that continued to purchase assets originated by other firms. Another focus was bank portfolios that were vulnerable to further downgrades in the ratings of bond insurers or to deterioration in the

condition of significant borrowers. Examiners determined whether the susceptible banks needed to improve liquidity and raise capital, and they evaluated management plans to achieve those goals. Examiners closely monitored banks’ exposures to significant counterparties in derivatives markets.

Special attention was paid to contingency funding plans of banks weakened by the market disruptions. Were plans current and based on realistic balance-sheet and market behaviors? Did they take into account any off-balance-sheet funding challenges? Examiners made sure that each plan’s projections considered worst-case scenarios, such as a bank undergoing a serious liquidity problem or its bonds



being downgraded below investment grade. Banks that relied heavily on securitization received extra scrutiny. In one sign of strength, large national banks raised approximately \$125 billion in new capital in fiscal year 2008.

In community banks, which the OCC supervises through offices located across the country (see “Community Bank Supervision: Assistant Deputy Comptrollers Mobilize OCC Resources To Protect Safety and Soundness” on page 12), OCC examiners focused on making sure that those institutions had risk management systems equal to their risk profiles and that they had the expertise and the resources to manage the risks involved in their business lines.

Rising concentrations of commercial real estate loans have long been a subject of OCC supervisory concern. As Figure 8 shows, CRE loans at midsize and community national banks have doubled over the past 10 years, to 200 percent of capital overall; at some national banks, the increase was several times that. About one in four community banks under OCC supervision have CRE-related concentrations exceeding one or both of the thresholds defined by the interagency guidance issued in December 2006. These concentrations presented considerable risk, particularly in geographic areas that have experienced exceptional volatility in home prices.

Beginning late in 2007, for each community bank that exceeded one or both of those thresholds, OCC district examination staff prepared summary information that identified the bank’s exposures,

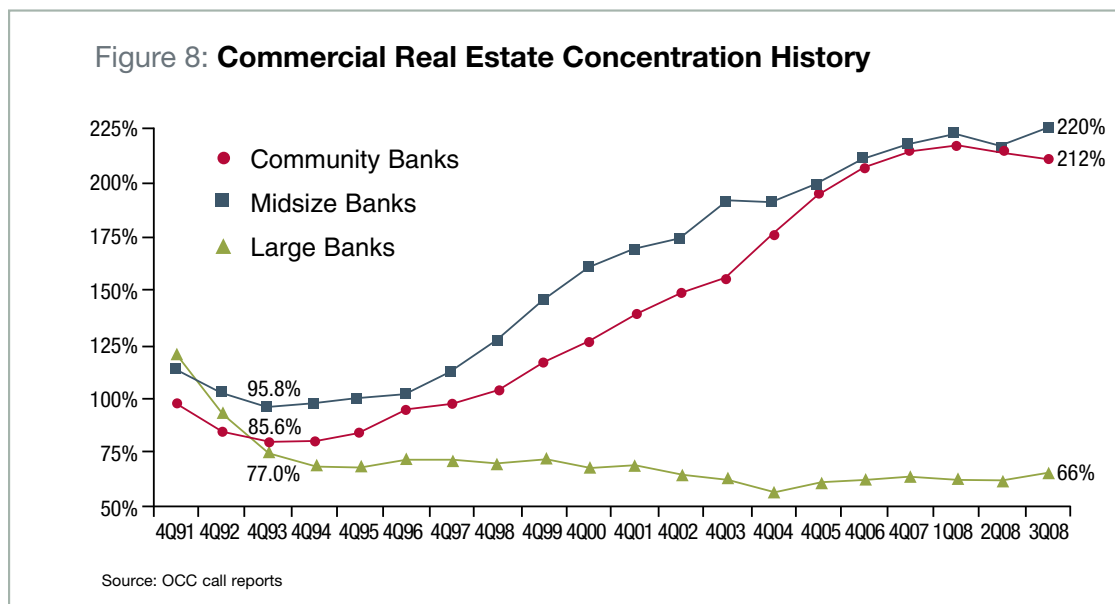
recent and current supervisory activities, and examiners’ assessment of management’s ability to manage the bank’s CRE exposures in the current environment. This information was reviewed and discussed with OCC management to identify those banks believed to have the highest potential risk and to ensure the appropriateness of planned supervisory activities. Asset quality reviews targeting these banks’ CRE portfolios are under way. These reviews enable the OCC to more accurately quantify the level of risk in national banks, and determine how well it is being managed. This assessment is critical to determining what, if any, remedial action is appropriate for each bank.

Other Areas of Concern

Leveraged loans. Leveraged loans, whose borrowers have high levels of debt compared with equity, were the subject of targeted examinations in our largest syndication banks. Dislocations that occurred in the credit markets during the fiscal year delayed completion of long-term financing for some leveraged loans that banks had originated with the intent to sell (that is, to syndicate) to investors. As a result, a number of large national banks retained a higher-than-usual volume of leveraged loans on their balance sheets.

In fiscal year 2008, the OCC’s Large Bank Supervision Department conducted leveraged lending targeted reviews at the largest syndication banks, with a focus on syndicated pipeline

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OCC Responds to Rising Tide of Mortgage Foreclosures

Perhaps no single issue defined the nation's domestic agenda in fiscal year 2008 more than the dramatic increase in mortgage foreclosures. About 1.3 million foreclosures were initiated in 2007, more than twice the average rate for the first half of the decade.

The effect of foreclosures extends beyond the individual homeowner to the neighborhood in which the foreclosure occurs. "Foreclosed properties are not just empty houses," Comptroller Dugan told the National Association of Affordable Lenders in February. "The absence of homeowners—and the gloomy sight of abandoned, deteriorating properties—can depress entire communities."

To help deal with the foreclosure crisis, the OCC joined with other federal regulators, as well as with lenders, elected officials, and nonprofit organizations, in promoting a wide range of programs designed to stabilize communities and allow homeowners to remain in their homes.

In testimony before the U.S. House of Representatives' Committee on Financial Services in April, Comptroller Dugan said that the proposed Federal Housing Administration Housing Stabilization and Homeownership Retention Act of 2008 would provide borrowers and lenders with an alternative to the costly process of foreclosure. "By keeping more borrowers in their homes," Comptroller Dugan said, "the widespread use of such a program would also help prevent further reductions in the prices of houses financed by national banks." Use of such a program, he pointed out, would more generally make the mortgages less risky by mitigating the downward pressure on house prices caused by the foreclosures that would be avoided.

Under the program, titled "HOPE for Homeowners," if a borrower met certain criteria, lenders could agree

to reduce the mortgage amount to a level the borrower could afford and could offer to refinance the original loan into a new Federal Housing Administration-insured mortgage. Accepting the loss under this voluntary arrangement could be less costly to mortgage holders than foreclosures. Homeowners would remain in their homes, and the potential risk to the government of guaranteeing the refinanced mortgages would be more acceptable than "the prospect of widespread foreclosures and all their related costs," Comptroller Dugan said. The proposed program was incorporated into the Housing and Economic Recovery Act of 2008 passed on July 30.

Because the threat of foreclosure has extended well beyond the low-income neighborhoods where subprime mortgages have been predominant and into more affluent neighborhoods, Comptroller Dugan told the Association of Affordable Lenders in February that proposed changes to 12 CFR 24 (public welfare investment authority) would restore its original scope to cover "not just low- and moderate-income areas, but also middle-income areas in need of reinvestment and revitalization." Those changes were also included in the Housing and Economic Recovery Act.

Turning policy into action, the OCC issued a consumer advisory about scams that purport to "rescue" homeowners from foreclosure but lead instead to those homeowners potentially losing their homes or the equity in their home. In addition, the OCC appointed a Community Affairs Officer specializing in community stabilization to meet with bankers, community-based organizations, and public officials across the country to find solutions to the problems communities face because of increased levels of home mortgage defaults and foreclosures.

management, stress testing, and limit setting. The OCC issued the "Leveraged Lending" booklet in the *Comptroller's Handbook*, which consolidates and supplements existing guidance to bankers and examiners on the risks associated with leveraged lending and the risk management systems and controls needed to mitigate those risks.

Home equity loans. Aggregate outstanding lines of home equity loans at national banks have doubled since 2002. National banks account for about \$500

billion, or roughly half, of the market for home equity loans. As housing prices fell, borrowers became increasingly leveraged and the percentage of past due home equity loans increased.

Examiners made sure that banks with concentrations of home equity loans managed their risks appropriately; some banks had to increase loss reserves, write down loans, or raise capital.

Maintaining adequate liquidity, loan loss reserves, and capital. Prompt recognition of losses

and maintenance of strong loan loss reserves and capital are critical during periods of economic stress. Ensuring that national banks maintain adequate loan loss reserves and capital was a point of emphasis during fiscal year 2008 bank examinations. Similarly, the OCC continued to evaluate the adequacy of banks' liquidity positions and liquidity risk management processes, especially at institutions with significant concentrations in the loan or liability portfolios.

In light of market and economic conditions, national banks made substantial increases to their loan loss reserves during 2008. They bolstered capital levels by reducing dividends and raising more than \$100 billion in new capital from outside investors. So, despite the substantial increase in total assets, in part the result of loans coming back on the books of banks, capital ratios remained near the levels of a year ago, and 99 percent of all national banks met or exceeded the "well-capitalized" regulatory capital requirement.

Problem Banks

The goal of OCC supervision is to identify and correct potential problems at an early stage, before they adversely affect the safety and soundness of the banking system or the viability of any individual bank. For example, we include provisions in certain enforcement actions that require the bank to develop and implement a plan to sell, merge, or liquidate, if required minimum capital levels cannot be achieved. These provisions have resulted in banks seeking buyers or merger partners at an earlier stage, before their problems have eroded capital to the point where the bank is no longer attractive to potential purchasers. In addition to avoiding a bank failure, these options do not adversely affect depositors and customers and return some value to the bank's shareholders. This approach can be especially successful when the economy is strong, and healthy financial institutions are looking for growth and acquisition opportunities.

As a bank reaches the problem stage, the OCC focuses its efforts on developing a bank-specific plan that takes into consideration the ability and willingness of management and the board to correct deficiencies in a timely manner and return the bank to a safe and sound condition. The OCC's efforts, coupled with the commitment of bank management, often result in a successful rehabilitation. Sometimes

the situation is such that the OCC requires the sale, merger, or liquidation of the bank, consistent with the least-cost resolution provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991. As previously noted, during fiscal year 2008, the OCC appointed the FDIC as receiver of five failed national banks.

In the current economic environment, the number of problem banks has increased and the resolution of problem banks has become more challenging. One serious challenge is that, as the number of banks requiring capital has grown, the interest in acquiring these institutions has softened. Some problem banks have asset quality problems of a depth and nature that makes them unattractive to potential purchasers. Many problem banks are heavily dependent on non-core funding, yet once their asset quality and capital deteriorate, they are restricted by regulation in the rates they may offer on those deposits.

Improving Risk Management

The OCC was an active participant on the President's Working Group on Financial Markets, the Senior Supervisors Group, and the Financial Stability Forum, providing insight and information that helped shape the recommendations that came from those high-level organizations on enhancing banks' risk management practices. In broad terms, these recommendations called on banks to:

- Ensure the independence of their risk management functions.
- Better manage the pipeline risk associated with originate-to-distribute lending and securitization.
- Rely more on due diligence and less on credit ratings when investing in complex structured products.
- More fully evaluate the reputation and residual risks arising from the off-balance-sheet ownership of conduits (which some large banks used to hold collateralized debt obligations) and asset management businesses.
- Enhance transparency, disclosure, and valuation practices, especially for off-balance-sheet activities.
- Improve stress-testing and capital planning processes. (These processes should incorporate off-balance-sheet activities and be appropriately forward-looking.)

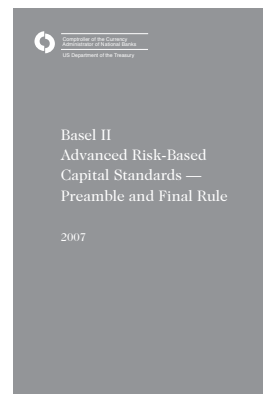
The OCC works closely with other domestic and international agencies to develop a consistent and effective response to the turmoil in global financial markets. For example, the agencies are working together to address the need for more sophisticated liquidity risk management practices and systems to replace those whose simple premise was that loans are funded by deposits. The agencies also are focused on helping banks improve the identification and management of off-balance-sheet exposures and risk concentrations and develop metrics for aggregating risks to particular counterparties. The OCC, primarily through its Large Bank Supervision program, is ensuring that banks' risk management practices incorporate these recommendations.

The OCC's efforts have included working with the Basel Committee on Bank Supervision to issue updated global principles for sound liquidity risk management and supervision. The agency has worked with the Federal Reserve Bank of New York and other key global financial regulators to strengthen the operational performance and infrastructure of the over-the-counter derivatives market.

Using lessons learned from the recent turmoil, the OCC has recommended strengthening the Basel II capital framework. For example, higher capital requirements will be proposed for resecuritizations, such as collateralized debt obligations.

The most successful banks in the future will be those that can move quickly to coordinate their risk

management frameworks with their shifting risk profiles. These institutions will have the information systems and transparency to communicate the different aspects of that coordination to regulators, depositors, shareholders, and the public. The OCC continues to do all it can to see that as many national banks as possible fit this paradigm.



Foreclosure Prevention

The OCC encourages national banks to work constructively with borrowers who may face difficulties meeting their mortgage obligations. The OCC supports various private and public sector initiatives and programs that seek to assist these borrowers, including those initiated by the American Securitization Forum and HOPE NOW Alliance, as well as activities pursuant to the Housing and Economic Recovery Act of 2008.

As banks work with borrowers, examiners emphasize the need to construct loan modifications that give borrowers a reasonable prospect of performing under the new terms. Simply shifting a borrower from one unaffordable mortgage to another serves neither the borrower's nor the bank's interest. Through the OCC's ongoing supervision and fair lending processes, the agency will continue to pursue any evidence of unfair, deceptive, or unlawful discriminatory lending practices.

Identity Theft and Accuracy of Consumer Reporting Information

The OCC works closely with the other federal financial regulators and the Federal Trade Commission to implement provisions of the Fair and Accurate Credit Transactions Act of 2003. The act enhances the ability of consumers to combat identity theft, to increase the accuracy of consumer reports, and to exercise greater control over the type and amount of certain



At Financial Literacy Day activities on Capitol Hill, Deputy Comptroller Barry Wides discusses the OCC's efforts to educate and support consumers of financial services.

marketing solicitations they receive. The November 2007 rulemakings include:

- *Final rules on identity theft “red flags.”* The new rules require each financial institution or creditor that holds any consumer account, or other account for which there is a reasonably foreseeable risk of identity theft, to develop and implement an identity theft prevention program for combating identity theft in connection with new and existing accounts.
- *Proposed rules and guidelines for ensuring the accuracy and integrity of information* furnished to consumer reporting agencies. The proposed rules would specify when an entity would be required to investigate a consumer’s claim that certain consumer report information is inaccurate.
- *Final rules requiring credit and debit card issuers to develop policies and procedures* to assess the validity of a request for a change of address that is followed closely by a request for an additional or replacement card. The agencies issued final rules requiring users of consumer reports to develop reasonable policies and procedures to apply when a consumer reporting agency sends them a notice of an address discrepancy.
- *Final rules that allow consumers to “opt out”* before a financial institution uses information provided by an affiliated company to make certain marketing solicitations about its products and services.

Expanded Public Welfare Investment Authority

Recognizing the important role that national banks play in the economic vitality of low- and moderate-income communities, the OCC actively sought legislation to expand the industry’s public welfare investment authority. In August 2008, shortly after the Housing and Economic Recovery Act of 2008 was passed and signed into law, the OCC issued an interim final rule that implements a provision of the law that amended national banks’ authority to make Part 24 public welfare investments pursuant to 12 USC 24 (Eleventh). The interim final rule authorizes a national bank and its subsidiaries to make public welfare investments directly or indirectly if the investments primarily benefit low- and moderate-income persons, low- and



Working with nonprofit community partners, national banks bring a range of financial services to previously underserved communities.

moderate-income areas, or other areas targeted by a governmental entity for redevelopment, or if the investment would receive Community Reinvestment Act consideration as a “qualified investment.” The rule gives national banks new authority to support low- and moderate-income communities, communities affected by foreclosures and targeted for revitalization, designated disaster areas, and underserved rural communities.

Working with Other Regulators

The dynamic and global nature of today’s financial services industry presents issues that cut across regulatory and legal boundaries. Banks, securities firms, and insurance firms are active participants in the credit and capital markets and are often counterparties to each other’s transactions; electronic payment systems span the globe; and national banks have offices and customers in countries throughout the world.

The OCC works with the other federal banking agencies (Federal Reserve Board, FDIC, Office of Thrift Supervision, and National Credit Union Administration) to coordinate supervisory policies, regulations, and regulatory reporting requirements, and to conduct examiner training on issues that cut across the U.S. banking system. Together, the agencies respond to emerging risks and issues facing the industry. They coordinate their examination and supervisory activities for institutions that are subject to multiple regulators and, as appropriate, conduct joint examinations when an activity is conducted across legal entities. Joint supervisory programs



Comptroller Dugan looks on as Howard Pitkin, Banking Commissioner of Connecticut, signs a Memorandum of Understanding on exchanging consumer complaint information.

include the agencies' examination program for multiregional data processors and the Shared National Credit Program.

The OCC also works with state regulators and other federal regulators on matters of mutual interest. Among these regulators are the Securities and Exchange Commission on various securities, brokerage, and accounting and disclosure issues; the Federal Trade Commission on various consumer protection and privacy issues; and the Public Accounting Oversight Board. The OCC has agreements with 49 state insurance departments, the District of Columbia, and Puerto Rico to share insurance-related supervision information and with 42 states and Puerto Rico to share consumer complaint information. (See *"OCC Presses Other Regulators for a Unified and Simpler Consumer Complaint Process"* on page 28.)

The OCC is a member of the administration's Financial and Banking Information Infrastructure Committee and works with that committee, the Department of Homeland Security, and other federal agencies to combat money laundering and terrorist financing activities and to enhance the resiliency of the nation's financial sector to catastrophic events.

The globalization of the financial and banking markets have accentuated the OCC's need to work with financial supervisors around the world. This

coordination is conducted in formal supervisory groups, such as the Basel Committee and the Joint Forum of banking, securities, and insurance regulators, by the Financial Action Task Force, and through direct bilateral meetings and agreements with individual foreign bank regulators. The OCC also provides technical assistance and classroom training to foreign supervisors across the globe to help them strengthen their domestic supervisory programs.

OCC Supervises Surge in International Activities by National Banks

While most banks in the national banking system have no direct international exposure, the largest ones conduct business across a broad range of countries. These are truly global institutions, not just banks that operate in a few overseas locations. OCC-supervised banks had \$1.8 trillion of foreign exposure on their books at the end of the second quarter, not to mention substantial additional off-balance-sheet exposure. Although most of the exposure is to developed countries, emerging market exposure has grown rapidly.

Some of the institutions the OCC supervises are under foreign ownership. The OCC supervises 29 national bank and trust companies that are foreign-owned, with more than \$550 billion in assets. The agency also supervises the activities of federally licensed branches and agencies of foreign banks. As of 2008, there were 49 of these from more than 20 countries with combined assets of about \$190 billion.

The cross-border nature of the institutions is a prime driver of the OCC's international focus. But at an operational level, to be an effective supervisor in a global financial system, we maintain extensive relationships with our colleagues throughout the international supervisory community. This includes informal meetings to exchange views on key issues, to collaborate, to compare practices, and to share relevant information. At other times, interaction is more formal, through structured bilateral meetings and through joint work with our colleagues in the Department of the Treasury.

The OCC has an office in London that has operated out of the U.S. Embassy since 1974 and is



dedicated to evaluating key risks present in national banks' European operations. When complex or stressful supervisory situations arise, there is no adequate substitute for the personal and professional working relationships established through these channels.

The OCC promotes effective supervision through its participation in a number of regional and global supervisory groups. Through the Joint Forum, which is chaired by Comptroller Dugan, supervisors from the banking, insurance, and securities sectors of 13 major countries address issues and offer guidance that is frequently used by supervisors in individual countries.

For example, the Joint Forum's paper *Credit Risk Transfer—Developments from 2005 to 2007*, released July 2008, focuses on complex financial instruments that are widely used to transfer credit risk. In 2008, the Joint Forum also issued papers on risk concentrations and customer suitability in the retail sale of financial products and services.

As a member of the Basel Committee on Banking Supervision, the OCC joins supervisors from 12 other countries in initiatives to increase the long-term resilience of the international banking system. The year saw significant progress in implementing the Basel II capital framework, which provides a more risk-sensitive and comprehensive approach to capital adequacy and sets new standards for supervisory review and public disclosures relating to risk. In December 2007, the U.S. banking agencies issued a final rule implementing the advanced measurement approaches of the framework, under which banks, in certain circumstances, may develop their own empirical models for quantifying operational risk, and, in July 2008, published a notice of proposed rulemaking on the standardized approach, which relies on external evaluations.

Closer to home, the Comptroller created the

International Banking Supervision Department in April and named Deputy Comptroller Delora Ng Jee as head of the group. "International banking issues have grown increasingly important to the OCC and the national banking system," Mr. Dugan said, "and I felt strongly that we needed to create a new group to focus on our supervisory work in this area."

Jee, who joined the OCC in 1978, brings a wealth of relevant experience to her new position, including previous responsibility for supervising large banks owned by foreign banking organizations.

She is responsible for consolidating, coordinating, and extending key international supervisory activities of the OCC, including essential elements of the agency's Federal Branches and Agencies Program, which had previously been conducted by Midsize/Community Bank Supervision's Northeastern District. This new International Banking Supervision Department enhances the OCC's supervision of international banking activities through tighter integration with Large Bank Supervision, which supervises institutions that conduct business across a broad range of countries.

"There is tremendous interest from foreign home and host regulators about the U.S. supervisors' response to the current market turmoil," Jee points out. "International Banking Supervision's ties to bank supervision have enabled the OCC to communicate more effectively with foreign supervisors."

This new department serves as the primary point of contact for international banking supervisors and as a clearinghouse for requests to the OCC for supervisory information, bilateral meetings, and participation in international working groups.



Delora Ng Jee, the Deputy Comptroller for International Banking Supervision, explains OCC policy to a visiting group of international bankers.

International Banking Supervision collaborates intensively with other OCC divisions, because legal, economics, policy, and examination staff members continue to play active roles in the international activities of the agency.

As Comptroller Dugan has observed, “With global financial markets, a bank regulatory agency can’t be effective if it focuses narrowly on domestic concerns. National borders are increasingly irrelevant to some of the most important issues we face, and effective policymaking has to take that into account.”

Functional Specialists Bring Technical Expertise to Bank Supervision

As national banks develop new and complex products and services, the OCC increasingly relies on the specialized expertise of examiners and analysts in such areas as capital markets, commercial and retail lending activities, information technology, asset management, and compliance. These specialists develop supervisory policies, provide guidance to examiners and the industry, and evaluate new products and services and the risks associated with them. Their work often requires close coordination with other regulators, lawmakers, and industry groups, assessing the impact of changes in legislation or accounting guidelines on national banks as well as the overall industry.

Bank Information Technology specialists evaluate technology and bank information system functions in national banks and their technology service providers. The OCC has more than 90 Bank Information Technology specialists, most with industry certifications in information technology auditing, information security, or business continuity. National Bank Examiner Carter Messick, a Lead Information Technology Expert in Midsize Bank Supervision, says that banks have adopted new

technologies to improve their infrastructure, broaden their product offerings, and expand their services. “Bankers and customers take the availability and performance of bank technology for granted,” he notes, “but Bank Information Technology specialists and the bank information technology professionals understand the critical role technology plays.”

Messick says that national banks have faced a number of challenges during the past year, particularly in information security, as criminals continued to level multilayered attacks on banks, retailers, and customers to perpetuate sophisticated fraud schemes. At the same time, Messick explains, industry financial concerns impose limits on spending for technology staff and controls. The OCC reminds bankers that failures in technology or technology-related controls can jeopardize a bank’s safety and soundness or its ability to comply with laws and regulations. “Bank Information Technology specialists must champion technology issues when supervising banks and collaborate with other examiners to ensure that bankers are managing and controlling technology-related risk consistently regardless of the economic cycle.”

Messick believes that his ability to communicate effectively with bankers and examiners is critical. “Bank Information Technology examiners cannot function effectively as pure technicians;



Bank Supervision School instructors pool their experience as examiners to develop realistic training scenarios.

we have to understand the business impact our technical issues may raise. We also need a broad understanding of bank operations and the ability to communicate technical issues in safety and soundness or regulatory compliance terms.”

Commercial and Retail Credit Risk Policy specialists develop and interpret policies to promote strong credit risk management and ensure safe and sound banking practices. They stay abreast of banking activities and industry developments to ensure that the policies are timely, practical, and effective.

“We support field examiners and the industry by providing interpretations of policy, writing guidance and handbooks, training examiners, participating in on-site examinations, and conducting industry outreach meetings,” says National Bank Examiner Johnna Cook, a Commercial Credit specialist.

“We support executive management and the Comptroller by providing technical expertise and research for congressional testimony. We also prepare briefing documents in support of the Comptroller’s many national and international supervisory activities.”

Kevin Russell, a Retail Credit specialist and national bank examiner, adds, “We routinely analyze industry performance and highlight potential risk issues.

We work extensively with all supervisory lines of business on lending reviews and inquiries, monitoring lending risks and concentrations, and we work jointly with other areas to address accounting, legal, and capital issues.”

Cook and Russell agree that the past year presented many challenges, particularly in keeping abreast of emerging risks that could affect safe and sound banking practices. “The volume of issues and the velocity at which they were presented have required strong organizational, analytical, and technical skills,” explains Cook. And for the foreseeable future, she adds, they will have to hone those skills even more. “We will be further challenged to maintain a balanced approach in dealing with economically stressed conditions.”

Compliance specialists like national bank examiner Paul Utterback make sure that the

OCC’s supervisory policies effectively promote consumer protection and compliance with anti-money laundering laws. In addition to preparing guidance, examination procedures, and answers to frequently asked questions, Utterback serves as a contact to answer questions from examiners and industry sources about consumer protection laws and regulations. By participating in OCC Web and telephone seminars and speaking at trade association conferences, he provides examiners and the industry with a better understanding of compliance issues.

Consumer specialists rely on good technical and analytical skills. “Many of the consumer protection regulatory and statutory provisions are very detailed and need clarification at times,” says Utterback. “As a Compliance specialist, part of my job is to review the facts and apply and interpret the law or regulation correctly.”

Changing regulations makes the job of a Compliance specialist extremely challenging. “The number of consumer protection laws and regulations continues to increase

and evolve to afford consumers with enhanced protections,” he adds. “As a Compliance specialist, you have to really enjoy change.”



National Bank Examiner Karen Tucker and Director of Community and Consumer Law Michael Bylsma discuss compliance policy with participants around the country. OCC teleconferences served more than 3,000 listeners in fiscal year 2008.

Economic and Financial Analysis Supports the OCC’s Work

The Global Banking and Financial Analysis Department houses a team of economists who analyze potential risks to the national banking system and share this critical information with national bank examiners. The economists also participate, as needed, in bank examinations.

The team was heavily involved in helping examiners assess portfolio risks from exposures to commercial real estate and provided several large banks with tools to establish priorities for more intensive review. Economists joined examiners on

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New Mortgage Metrics Report Increases Visibility of Mortgage Loan Data

In June 2008, the OCC took on the challenge of making key aspects of national bank mortgage lending more transparent to regulators and the public by publishing the first quarterly *OCC Mortgage Metrics Report*.

The publication is part of the OCC's intensified focus on mortgage supervision. It is a product of the OCC's realization that the substantial amount of mortgage data previously collected from banks did not provide the level of detail necessary to fully understand mortgage performance and rising foreclosures.

"The OCC seized the opportunity to improve the way mortgage performance is measured, producing better information for supervision of our banks and better information for policymakers, other regulators, market participants, and the public," Comptroller Dugan said upon unveiling the report at the American Securitization Forum.

The initial report analyzed more than 23 million mortgage loans held or serviced by the nine national banks with the largest mortgage portfolios from October 2007 through March 2008. The loans had a value of more than \$3.8 trillion. That volume represented more than 90 percent of all mortgages serviced by national banks and approximately 40 percent of all mortgages across the nation.

The OCC used loan-level data and standardized terms and definitions that allow deeper analysis and better comparisons over time. With regard to the value of standardized reporting, Comptroller Dugan said, "The more we can use standardized metrics across the board, the better we can measure, monitor, and manage mortgage risk."

In September, the OCC, along with the Office of Thrift Supervision (OTS), produced the *OCC and OTS Mortgage Metrics Report*, which expanded the standardized reporting approach by combining mortgage loan data serviced by national banks with data from thrifts regulated by the OTS. The report covered January through June 2008 and presented data on loan performance, delinquencies, and foreclosures from the 14 national banks and thrifts with the largest mortgage portfolios. During that period, these lenders made up 60 percent of the overall mortgage industry and combined to hold or service 34 million loans worth \$6.1 trillion.

"By combining national bank and thrift data," Comptroller Dugan said, "we are able to present a more

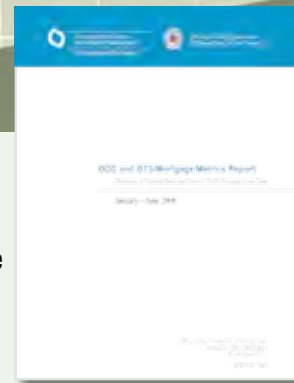
complete picture of the practices and state of the federally regulated mortgage lending industry."

The most significant findings from the second quarter report include:

- Total monthly loss mitigation actions reached more than 90,000 in June, with new loan modifications accounting for 46 percent of those actions. New loan modifications increased by more than 80 percent from January to June 2008 and, on a quarterly basis, increased by 56 percent from the first to second quarter. By comparison, new payment plans grew only 8 percent from January to June 2008, and increased just more than 2.7 percent from the first to second quarter.
- New loss mitigation actions (loan modifications and payment plans) relative to new foreclosures averaged more than 87 percent during the second quarter, about 12 percentage points higher than during the first quarter.
- More than nine out of 10 mortgages remained current. However, credit quality declined during the first two quarters across all risk categories.
- There were increases in early stage delinquencies (30-59 days past due) and seriously delinquent mortgages (60 or more days past due plus loans to bankrupt borrowers who are 30 or more days past due).

The agencies will produce the report quarterly and have shared their standardized terms and definitions with the Department of the Treasury and with the HOPE NOW Alliance to promote standard data collection and analysis industry-wide.

In addition to providing important information to the public, the data gathered in the *OCC and OTS Mortgage Metrics Report* support the supervision of national bank and thrift mortgage practices. The report provides an additional tool to help examiners assess emerging trends, identify anomalies, compare federally regulated mortgage lenders with the rest of the industry, evaluate asset quality and loan loss reserve needs, and evaluate the effectiveness of loss mitigation actions.



horizontal reviews of banks with high concentrations of commercial real estate and provided an assessment of potential problem assets. A horizontal review is an examination across a portfolio of banks with similar characteristics. These tools and economic assessments are designed to support the examination process and ultimately to support targeted discussions with bank staff.

Their analyses aren't just limited to market conditions in the United States. "The banking industry that we supervise is increasingly international, either directly or indirectly," Nancy Wentzler, the Deputy Comptroller for Global Banking and Financial Analysis, explains. "You might have very large banks with international exposures, but you also have banks in Iowa that are lending to agricultural companies that may be hit hard by sudden shifts in international agricultural markets. We are a global marketplace, so our analysis must recognize those influences even on seemingly small, local markets."

Indeed, the appetite for economic analysis has grown tremendously in the past year. "There's a lot of interest, internationally, in finding out how supervisors can do better. I think we'll learn a lot from each other as we assess the events of the last 12 months."

In the meantime, the department is working on a series of "dashboards" that display the major economic and financial drivers for the major business lines—commercial, retail, international, commodity. "We're asking what indicators we should be watching—those factors that are key influences on activity in each area—to assess the potential risks under alternative economic paths," says Wentzler, who equates the dashboards to the control panel in an airplane's cockpit. "You can't put everything on there. You have limited room and limited ability to interpret, but you have to know if you have gas, if the wheels are up or down, and if the wings are level."

"Same goes for these economic dashboards. You have to limit them to 10 charts or indicators, so we can focus on the most important features and make timely decisions based on that information. No one has the time to read 100 pages of economic data. We have to be focused and timely in our analytical efforts, and dashboards provide that discipline."

The idea is to make these dashboards accessible on the OCC's intranet, so everybody in the agency can look, she explains. "You can log on each morning and know what's going on in the retail market, the credit market, the housing market." This tool also will aid in tracking the economic development that affects the banks the OCC regulates.

Risk Analysis Division Bolsters OCC Supervision

Complex, trillion-dollar financial institutions rely increasingly on statistical analysis and sophisticated mathematical models to help run their businesses. To evaluate the effectiveness of those models—and help national bank examiners make sense of them—the OCC relies on a team of mathematicians and economists in its Risk Analysis Division.

The Risk Analysis Division evaluates the broad range of risk modeling used in the industry and advises examiners and bankers on best and standard practices. Examples of supervisory reviews benefiting from economists' participation are retail credit risk reviews, in which models are used for credit rating and scoring; interest rate risk reviews, which rely on asset-liability models; and examinations of derivative dealers, which use trading-risk models. The economists advise policymakers on issues that require quantitative analysis, including issues related to Basel II capital requirements. Examinations related to implementation of the Basel framework are an area of increasing emphasis for the division.

Roughly one-third of the professionals in the Risk Analysis Division are fair lending modeling experts. They use data from the Home Mortgage Disclosure Act as well as a bank's internal loan data to develop statistical models that test for potential unlawful discrimination by comparing information from large numbers of files. The results assist OCC fair lending examiners in their assessment of the risks of unlawful behavior involving overt discrimination, underwriting and pricing discrimination, steering, and discriminatory redlining and marketing.

Compliance Policy Helps Banks and Examiners Stay on Top of Changing Regulations

The Compliance Policy Department helps define and implement OCC policies as they relate to consumer protection and anti-money laundering laws. The department is responsible for developing written examination procedures, preparing guidance to the banking industry and to OCC examiners, and analyzing data required under the Home Mortgage Disclosure Act (HMDA) and the Bank Secrecy Act (BSA). OCC examiners evaluate bank compliance and, when weaknesses are noted, take corrective action.

Because regulations do change, one of Compliance Policy's most important functions is training other OCC staff in classroom settings and in virtual workshops that allow examiners to share knowledge with their peers around the country. Compliance Policy works closely with OCC legal staff in interpreting the supervisory impact of often-complex compliance laws and regulations.

Compliance Policy's employees are also involved in outreach to the industry, speaking at trade association meetings and educational forums. They partner with the OCC's Banking Relations division in telephone seminars, where they can explain regulatory changes to bank compliance officers and discuss how the OCC will implement those changes.

Changing regulations is just one of many compliance challenges facing banks, says Ann Jaedicke, the OCC's Deputy Comptroller for Compliance Policy. Large banks that conduct millions of consumer transactions from thousands of branches around the country face large compliance risks and responsibilities. For smaller banks with perhaps a few dozen employees, the main challenge is often that the compliance officer may have many additional duties and still have to stay current with dozens of changing government regulations.

Jaedicke relies on her staff of experienced examiners—many with 25 years or more experience—to

provide the judgment needed to deal with difficult compliance issues. The Community Reinvestment Act (CRA) is a good example. "It's not easy to figure out if the banks have done enough to serve a community's credit needs. How much is enough? Or to determine which bank's businesses are more susceptible to money laundering. Or to determine if a particular practice by a bank is unfair or deceptive. These are not easy decisions." OCC's Community Affairs Officers, who are part of the Chief Counsel's office, have regional and local expertise on community and consumer organizations and issues and provide technical support to Compliance examiners on such matters as CRA assessment area delineation, community development and investments, and other aspects of CRA compliance.

For Jaedicke, these are "issues that are large in scale, and many deal directly with the everyday lives of people. There's a real human element to compliance work—anyone with a credit card or a mortgage loan feels the effects of what we do."

Fair Lending, Fair Treatment, and Fair Access Are Key Priorities

The OCC deployed a broad range of resources to ensure national bank compliance with fair lending, consumer protection, and CRA requirements. That kind of commitment, as Comptroller Dugan noted in a July speech to OCC Compliance specialists, is particularly important in challenging times, because

no bank, struggling or otherwise, can afford to assume the additional reputation and compliance risk that can be associated with potential compliance lapses.

Compliance complacency is most likely to arise when bank management is preoccupied with safety and soundness issues. Yet bankers cannot rest on a past record of success. They must be as attentive to their compliance responsibilities in difficult times as they are when the pressure of events eases.

To ensure that banks meet these responsibilities, the OCC



Comptroller Dugan addresses the OCC's 2008 Fair Lending Conference.

assesses and monitors compliance risk in each of the institutions under its supervision. Examiners can call on the OCC's economics team, which supplies statistical analysis that can aid in targeting portfolios that may have higher potential for fair lending problems. OCC Community Affairs Officers, located throughout the country, provide examination support on CRA requirements and compliance.

To underscore the OCC's commitment to fair lending supervision and advance the state-of-the-art in fair lending risk modeling, the agency's Economics Department sponsored a fair lending conference in New Orleans that brought econometric specialists, bankers, and regulators together in an effort to improve identification of fair lending issues that may require supervisory attention.

Another key compliance resource is the OCC's Office of the Ombudsman. The Ombudsman and staff serve not only as an outlet for bank consumer complaints and for resolving supervisory disputes between examiners and bankers; they are also a valuable supervisory resource, helping to identify consumer compliance issues at their earliest stages. This information can become a crucial resource to the OCC in developing risk-based supervisory strategies for national bank compliance examinations. (See *"Office of the Ombudsman Ensures Fair, Expedient Resolution of Complaints"* on page 38.)

Ultimately, the OCC believes compliance is inseparable from safety and soundness. But compliance is also vital in its own right. Especially when consumer confidence in the financial services industry is being tested by events, it's critical that banks demonstrate their commitment to fair play, fair lending, and fair treatment for all consumers. The OCC's compliance program is there to provide further support to public confidence.



Attorney Provides Counsel, Expertise to Supervisory Team

Payment transactions in our economy are increasingly processed through automated systems with complex network rules and contractual relationships. If not properly controlled, transactions conducted through these mechanisms can pose significant risk to banks and counterparties. To monitor and respond to developments in connection with these automated systems, the OCC established a Payments System Working Group in 1994. Special Counsel Jonathan Fink represents the OCC's Law Department on that working group.

For Fink, who works in the Bank Activities and Structure Division, it's been an opportunity to add a new specialization to an already impressive list of practice areas that include problem bank resolutions, lending limits, affiliate and insider transactions, "golden parachute" payments, and uniform commercial code issues. He also serves as a mentor to less experienced OCC attorneys—a side of his job that he says "gives me as much satisfaction as anything else I do."

His work on payments systems requires him to be expert and up-to-date on developments in the law, technology, and banking. Payment systems are not only susceptible to hardware and software failures but also to fraud, malicious damage, user error, and other operational risks. As evidenced by several recent cases—one involving criminal interception of credit card data and another of a national bank accepting fraudulent checks generated by a processor for telemarketers—such risks can lead to enormous harm to merchants, consumers, and the financial institutions that serve them.

Fink and his colleagues in the working group have addressed those issues through several key pieces of supervisory guidance, which elaborate on the operational and other risks that can arise in connection with payments system and funds transfer activities. The guidance also spells out the safeguards national banks should put in place to manage those risks to protect themselves and their customers.

But Fink recognizes that it is not enough to release supervisory guidance and hope for the best. With others, he works hard to explain that guidance in presentations to both banker and examiner audiences. “I’ve also been out in the field with the examiners, in the banks, helping them to identify problems. And, at the same, taking part in our exams has helped enrich my own understanding of payments-system practices—and malpractices.” Although technology keeps advancing and it takes continued effort to stay ahead of those who would misuse the systems, the agency’s comprehensive, hands-on approach to payments-system risk management seems to be working: the agency’s automated clearinghouse (ACH) risk management guidance has caused banks to tighten their risk management and internal controls.

The OCC’s risk-based approach to supervision also extends to the Office of the Chief Counsel, and, in a time of financial turmoil, attorneys like Fink find themselves devoting larger chunks of their time to problem bank issues: preparing legal analyses, supporting administrative actions, contributing to supervisory strategy, and helping to evaluate a troubled bank’s prospects. “At a time like this, we all have to be prepared to do whatever the situation demands of us,” he says. Fink brings a breadth and depth of experience that makes him an invaluable OCC resource.

OCC Presses Other Regulators for a Unified and Simpler Consumer Complaint Process

Consumer complaints about lenders and depository institutions made national news in fiscal year 2008. One of the most common sources of consumer frustration related to the difficulty of identifying and reaching the right regulator of a particular bank, thrift, or credit union.

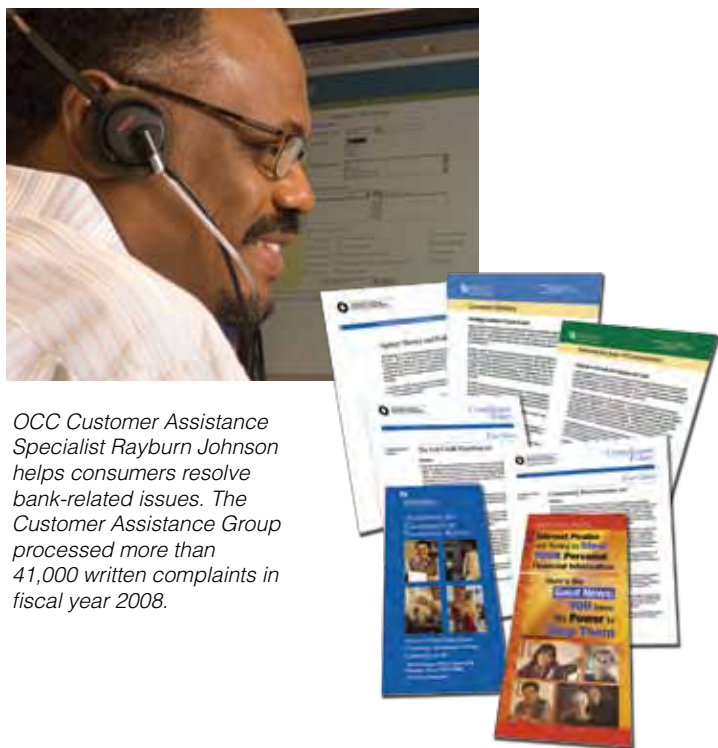
Federal agencies, including the OCC, agree that the best way for consumers to resolve their concerns is to contact their banks directly, but the agencies also recognize that individual customers cannot always reach fair or satisfactory resolutions on their own.

“When direct contact with the bank does not resolve an issue, figuring out where to turn next may be very challenging. The OCC believes this burden should not fall upon the consumer,” OCC Chief of Staff and Public Affairs John G. Walsh says. “It is incumbent upon federal banking agencies to make improvements in these areas to better serve consumers.”

As Comptroller Dugan has said in testimony to members of the Committee on Financial Services of the U.S. House of Representatives, “Frankly, our comprehensive approach to consumer protection—integrating guidance, supervision, enforcement, and complaint resolution—is not well understood.”

Throughout the year, the OCC continued the process of simplifying customer assistance and increasing public awareness. The agency’s efforts involved working with state and federal regulators and making its own customer assistance group more accessible to customers of national banks.

In August 2008, the OCC reached a significant milestone in state and federal collaboration by signing the latest of 42 memorandums of understanding with state banking regulators. The memorandums establish a formal basis for sharing complaint information among regulators while also protecting confidential customer information. Further easing the burden of sharing complaint information, the OCC is promoting use of its new



OCC Customer Assistance Specialist Rayburn Johnson helps consumers resolve bank-related issues. The Customer Assistance Group processed more than 41,000 written complaints in fiscal year 2008.

Web-based system, Complaint Referral Express. Among the first states to take advantage of the system are California, Colorado, Florida, New York, and Texas. The system allows the OCC and other regulators to exchange complaint information electronically, thus eliminating the time-consuming and costly process of mailing and faxing.

Through the Federal Financial Institutions Examination Council, the OCC also continues to work with federal regulators on making the consumer assistance process more streamlined and consumer-friendly. The council has been working on proposals to create a toll-free number to assist customers of all federally regulated banks, thrifts, and credit unions; to develop a joint Web site to allow bank customers to look up a bank's regulator more easily; and to conduct a campaign to increase public awareness of federal customer assistance programs.

Because the national banking system touches so many lives, the OCC recognizes the importance of working independently as well. The agency's Public Affairs Department continues to produce and distribute public service items to local newspapers and radio stations around the country to educate consumers about banking regulatory issues and to promote awareness of OCC customer assistance products and services, such as HelpWithMyBank.gov and the toll-free customer assistance number, 800-613-6743.

Since launching our public service campaigns, articles and radio spots have run nearly 8,000 times in 41 states and covered such topics as gift cards, foreclosure prevention, debt-elimination scams, and promotion of the agency's customer assistance process and consumer Web site. These public service announcements, which provide important information to America's financial consumers, have been seen or heard by a potential audience of more than 900 million people. The effort contributed to the increasing popularity of HelpWithMyBank.gov. During an average month in fiscal year 2008, the site received more than 28,000 visits from people looking for answers to basic banking questions and information about how to contact a bank's regulator.

In June 2008, the National Association of Consumer Agency Administrators recognized the OCC for its educational outreach efforts and outstanding Web site.

OCC Steps Up Efforts To Support Minority Banks

The OCC remains committed to preserving the health of minority banks and recognizes them as key contributors to the economic viability of minority and low-income communities. This commitment links directly to the OCC's objective of ensuring that national bank customers receive fair and equal access to financial services. It's a commitment that's been evident in the agency's minority bank initiatives that have evolved over the years.

Responding to valuable feedback from chief executive officers of minority banks and an analysis



Public Affairs specialist Stephanie Powell's work with minority bankers underscores the OCC's commitment to this important sector of the banking system.

of data from a recent survey, the OCC in fiscal year 2008 revised its policy, initiated new activities, and modified previous efforts regarding minority banks.

For example, the OCC issued an updated Policy Statement on Minority-Owned National Banks to reaffirm its support for this banking sector. Comptroller Dugan says the OCC took this step in part to "take account of changes in the business environment in which minority national banks operate. But I also wanted to reissue the statement to reaffirm my own commitment—and that of the OCC—to minority institutions. These banks provide vital services to minority communities, and the OCC

is strongly committed to supporting them.”

To keep minority banks up-to-date on agency policies, guidelines, and activities, the OCC’s Senior Advisor for External Outreach and Minority Affairs, part of the agency’s Public Affairs Department, launched *OCC Highlights*, an e-mail newsletter with regulatory and legislative matters of interest to minority financial institutions. The OCC sends the newsletter to national and other minority banks and posts it on the agency’s Web site, along with a feedback mechanism to help the agency determine whether its online resources are meeting minority bankers’ needs.

However, online resources cannot serve as substitutes for face-to-face communication. So when two agency executives assumed new responsibilities that included working closely with minority national banks, the appointees participated in meetings and roundtables with minority bank chief executive officers. Such interaction—initiated by the Senior Deputy Comptroller for Midsize/Community Bank Supervision and the Ombudsman—won the agency considerable praise among its minority bank constituents. “Mere words cannot adequately express how appreciative I am of OCC representatives’ professionalism and willingness to provide assistance when needed,” Commonwealth National Bank Chairman Michael Pierce says.

Feedback from surveys and roundtable discussions with minority bank chief executive officers also revealed this banking sector’s diversity. Taking into account differences among these banks, Midsize/Community Bank Supervision staff members have encouraged Assistant Deputy Comptrollers and portfolio managers to develop and implement supervisory strategies tailored to meet the technical assistance needs of every national community bank.

To learn more about the diversity and commonalities among minority banks, the OCC participates in interagency efforts, such as the Interagency Minority Depository Institutions National Conference, which the OCC cohosted for a third consecutive year. In 2008, Comptroller Dugan served on a regulatory panel, and other OCC experts served on panels that addressed such topics as measuring and monitoring risk exposures and restructuring debt.

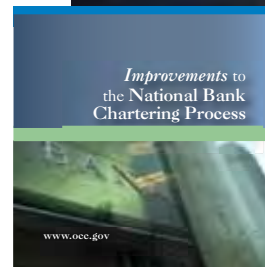
OCC Improves the National Bank Chartering Process

The OCC has a longstanding commitment to a vibrant national community bank program, so it was a matter of concern that only 15 percent of newly chartered community banks chose the national bank charter over the last 10 years. To understand why so few new community banks have chosen the national charter, Comptroller Dugan in 2007 created a de novo (or new) bank charter working group. He charged this group with identifying the considerations most relevant to bank organizers making charter decisions, as well as determining any impediments to obtaining a national bank charter.

The working group’s recommendations led the OCC in 2008 to simplify and enhance the chartering process, which now features decreased application costs, increased assistance prior to formal filing, better communications, fewer impediments to raising capital, and greater efficiency.

These changes are consistent with the OCC’s goals of improving operations and reducing unnecessary regulatory burden. National bank officers and directors have ready access to a significant package of OCC resources and professional staff, including bank chartering and related corporate specialists, seasoned examiners and their senior managers, and legal staff. While the bank chartering process continues to evolve, one thing remains constant: the OCC’s high-quality, professional supervision across the nation.

Application costs and processing delays have been reduced. The OCC has suspended licensing application fees for those seeking national bank



charters as well as for other licensing transactions, such as business combinations. Many of these changes significantly reduce the overall cost of obtaining a national bank charter. At the bank organizers' request, the OCC can begin personal background checks earlier in the process to help avoid delays later on. Draft applications and business plans can be submitted for preliminary review and feedback.

More assistance is provided prior to filing.

When an organizing group contacts the OCC about becoming a national bank, agency staff members organize an exploratory meeting to explain the charter process, offer technical assistance, and discuss options to address the unique features of the group's proposal. Bank charter experts are available to travel to the organizers for exploratory and pre-filing meetings. On request, these experts review draft applications, business plans, and other pertinent documents and respond as needed with feedback. District licensing staff members work with organizers, answer questions, and provide reports on application status. Organizers meet key OCC personnel who in turn maintain close contact with FDIC officials regarding the bank's insurance

application. The examiners who will provide supervision once the bank is chartered may meet with the organizers as well.

Impediments to raising capital have been reduced. The OCC has expedited its review of bank securities offering materials. No fidelity insurance is required for raising capital if the escrow agent has insurance or is bonded, and audited financial statements are no longer required at the in-organization phase. From now on, only national banks with 500 or more shareholders will be required to file reports under the provisions of the Securities Exchange Act. Previously the threshold was 300.

Greater efficiencies have been achieved. The OCC has streamlined policies and procedures to focus on safety and soundness issues and the overall viability of the proposal. The OCC's special legal lending limit rules expanding lending opportunities are now available to new national banks. The actions of district offices are better coordinated with those of OCC headquarters. More than ever before, the OCC and its examining staff stand behind a commitment to a robust system of national community banks.