

Remarks by
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Comptroller of the Currency
before the

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Hello! Greetings from Basel, Switzerland, which is where I'll be by the time you see this. Since I couldn't be with you physically, I'm delighted to be with you virtually, and grateful to David Hayes and Terry Jorde for all they've done to make it possible.

Let me add it's been a real pleasure to work with Cam Fine, who provides such strong leadership for the ICBA in Washington.

Independent banking is at the heart of the OCC's mission and it's an important reason why I'll be in Basel this week. Ninety percent of the banks the OCC supervises hold under \$1 billion in assets, and 40 percent hold under \$100 million. We are keenly focused on your safety and soundness, your ability to compete successfully, and your capacity to serve your customers and communities.

If we needed an example of what this industry stands for, Hurricane Katrina provided it. The past six months have brought to light case after case of unselfish dedication of bankers working around the clock to assist in the rescue and rebuilding of

people's lives. Watching you in action during my recent trip to the Gulf Coast made me proud to be associated with this great industry.

America needs strong community banks that are there to help people achieve their life's dreams, in good times and bad.

I am also mindful of the fact that bank regulation can be a two-edged sword. Prudent regulation is essential to the industry's safety and soundness. But we have to be careful that the sheer volume of our regulations doesn't overwhelm you, stifling initiative and chipping away at your ability to compete. Preserving that balance is a challenge I take very seriously.

One way to preserve that balance is to be clear and consistent about what we expect from you. Now, "clarity" and "consistency" aren't words that have been used too often to describe our Bank Secrecy Act policies. In the past, you've heard different things from different people about your BSA obligations, and I know that sometimes caused frustration.

But with our new uniform exam procedures, I believe we've taken a big step forward. With all the relevant guidance gathered together in one place, there will be less room for misunderstanding by bankers and examiners. That doesn't mean examiners will be following a rigid "checklist approach" to BSA exams, or that there won't be any room for examiner discretion. Effective supervision always requires good supervisory

judgment. It does mean, however, that you can expect steady, even supervision as you work to build and maintain a reasonable BSA program -- a program equal both to the challenges of the post-9/11 world and the specific risks of your bank.

Achieving regulatory balance also demands creativity. Can we scale back some regulations to reflect the relative risks posed by community banks and the resources available to them? I'm thinking now of the approach we took in the new CRA regulations, with its new class of intermediate-small banks and significantly reduced data collection and reporting requirements. This could be an example with more widespread application, and I'd like to see more of it.

In striving toward regulatory balance, your safety and soundness always comes first. So you can count on us to be on guard against trends that could threaten your ability to continue serving your customers and communities.

Commercial real estate is one of those trends. We all remember what happened 20 years ago, when commercial real estate concentrations got out of hand. None of us wants to see that happen again.

Our new guidance is designed to ensure that it doesn't. I've heard it suggested that this guidance would force major changes on community banks. But I'm confident that, for the vast majority of you, the impact should be minimal. Let me emphasize that we are not imposing limits on your commercial real estate portfolio. What we are saying is

that, if your holdings exceed the concentration thresholds, you should have control systems equal to that risk.

Let me shift gears and say a few words about regulatory capital, which is why I'm here in Switzerland instead of being with all of you. The work that we're doing on the Basel Committee to strengthen the international capital framework is a matter of great importance to all banks -- community banks included. Yet I know that many of you have questions and concerns about the Basel II process as well as the Basel 1A standard that is now in the design stage in the U.S. for non-Basel II banks. Basel 1A reflects the importance we attach to maintaining not only the safety and soundness of community banks, but their competitiveness as well.

I want community banks to have the benefits of a more risk-sensitive approach to capital without having to contend with the cost and complexity of Basel II. And I believe that the Basel 1A framework, with its additional risk-weight categories, expanded use of external credit ratings, and other techniques, will help accomplish those goals. Please be assured that your views on Basel matter very much to us. We want to hear from you, so please share your thoughts.

Finally, I believe that our effectiveness as regulators depends to a considerable degree on the quality of our communications. We at the OCC take pride in our extensive banker outreach program, which conducts hundreds of meetings and events around the country with bankers and directors; gives us a presence at major trade organization

meetings and conferences; brings bankers groups to our headquarters from all over the country; and allows my senior staff and me to get out and talk to you about the issues that concern you.

That's why I was so delighted to have the opportunity to speak to you today, if only by video and for a few short minutes.

I can tell you this: if we didn't have the ICBA to serve as a crucial sounding board and source of feedback and insight, we'd have to invent it. Fortunately, we do have you, and, as regulators and partners in the effort to build a vibrant banking system, we are much better as a result.

Thanks again. I look forward to seeing you in person very soon.

*NOTE: The video of this speech is available at
http://www.occ.gov/dugan_icba_mar06.htm
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