

## Comptroller's Viewpoint

I am pleased to report that the fiscal year ending September 30, 2004 was another successful year for the national banking system. The system's earnings continued to be strong. Just as important, credit quality was good and improving – improving dramatically in some instances. Only in a few categories of consumer loans have we seen some slippage in asset quality, which the OCC continues to monitor carefully.

Most analysts believe that the economic expansion will continue. If this assumption proves accurate, given current trends, national banks should experience continued strength and profitability.

The national bank charter has never been stronger. It is a matter of great pride for the OCC that most of the country's largest banks, as well as nearly 2,000 mid-sized and community banks, operate under the national charter, reflecting not only its strength, but also the very high regard in which the OCC is held by the banking community.

FY 2004 was a year that saw a number of major OCC regulatory and supervisory initiatives come to fruition.

In January, the OCC issued two final rules on national bank preemption and visitorial powers. The first rule codified a series of court decisions and OCC interpretations regarding the types of state laws that apply to national banks. The second rule clarified the scope of the OCC's visitorial authority under federal law. These rules responded to numerous questions the OCC had received about the extent to which state



laws apply to national banks and the authority of state or other agencies to examine or take action against national banks.

The new rules also included a tough new standard designed to keep predatory lending out of national banks. Under our new rule, which applies to all consumer lending activities, lenders may not make loans that rely upon the foreclosure value

of the collateral for repayment. This restriction will prevent national bank lenders from extending credit with an eye toward seizing a borrower's home.

The OCC took other aggressive action in FY 2004 to protect national bank consumers. We issued guidance to national banks citing specific credit card practices that we view as unacceptable because they may constitute unfair or deceptive acts or practices, or could otherwise expose a bank to compliance and reputation risk. These included failure to disclose the circumstances under which the issuer might unilaterally increase the cost of credit to the cardholder; marketing programs that promote credit limits that are seldom granted; and the use of promotional rates in solicitations without clear disclosures about the restrictions on the applicability and

continuation of those rates. We also took action on behalf of consumers against specific banks that engaged in unfair or abusive practices, requiring some banks to set aside millions of dollars for restitution to consumers who were victimized.

Some of the OCC's most important achievements occurred in the international arena. In last year's "Comptroller's Viewpoint," I wrote – referring to the work of the Basel Committee on Banking Supervision – of my optimism "that the spirit of compromise, cooperation, and commitment will bring us even closer to the end of the long road to Basel II in the coming year." That hope was fulfilled in June with the release of the new capital framework. Although there is an enormous amount of work to be done in order to prepare for the scheduled year-end 2007 implementation date, I am confident that the spirit of cooperation that helped make Basel II possible will also enable us to achieve a new era in risk management – with its positive implications for financial stability – across the world's banking system.

The linkage between financial and political stability has never been closer than it is today, and this linkage is being tested in the ongoing war against terrorism. At a time of great national challenge, all Americans are being asked to do their part, and I'm proud to acknowledge the contribution of the team of OCC examiners who volunteered to spend the better part of last year on the ground in Iraq, assisting local officials to develop and establish an independent and professional bank supervision department. Their work will materially assist the Iraqi people in achieving the goal of a democratic and prosperous society.

A major focus of the war on terrorism has been to identify and choke off the sources of terrorist financing. The OCC has played a major role in that effort through its Bank Secrecy Act compliance program, which seeks to ensure that national banks have strong systems and controls in place to prevent and detect money laundering and terrorist financing. Overall, this program has been effective. In FY 2004, however, deficiencies in the OCC's BSA supervision of the Riggs National Bank came to light, prompting a number of remedial steps to improve our BSA and anti-money laundering supervision. We are also stepping up our cooperation with other federal bank supervisory and law enforcement agencies to ensure that our nation's financial institutions do not become vehicles for illicit activities.

The OCC's reputation rests on the superb quality of its people – the most talented and dedicated people I have known in my nearly 17 years of government service. It has been my goal to ensure that this agency continues to attract the best and the brightest, and continues to be viewed as one of the premier agencies of our entire government.

On October 13, my term of office as the 28<sup>th</sup> Comptroller of the Currency comes to an end. For more than 140 years, the OCC has been serving the American people and the national banking system with great distinction. I consider myself extremely fortunate to have had the opportunity to lead the agency during this important period in its distinguished history.



**John D. Hawke, Jr.**  
Comptroller of the Currency

October 13, 2004