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OCC Expresses Concern About Any Actions  
That Put Downward Pressure on Bank Reserves

WASHINGTON -- The Office of the Comptroller of the Currency said today that it is concerned about any action that might have the effect, even if unintended, of applying general downward pressures on bank reserves.

Testifying before the House Banking Subcommittee on Financial Institutions and Consumer Credit, Wayne Rushton, senior deputy comptroller for bank supervision policy, said "national banks, as a group, are not materially over- or under-reserved."

"Loan losses that exhausted a bank's reserve, and ultimately wiped out equity capital, have been the primary cause of almost all bank failures," Mr. Rushton said. "For that reason, it is critical that any external actions that could have the effect of causing banks to lower their reserves receive close scrutiny."

"The OCC does not believe there is a widespread problem with excessive loan loss reserves," Mr. Rushton said. "Bank examiners and public accountants who regularly review financial institutions' reserves have not reported such problems." Mr. Rushton told the subcommittee that if the OCC finds a bank to be significantly over- or under-reserved or to lack adequate documentation, the agency requires it to take corrective action.

Mr. Rushton called on the banking agencies and the SEC to await the results of talks with the Federal Accounting Standards Board and the American Institute of Certified Public Accountants about the details of accounting standards for loan losses before taking any action. And then, he said, the action must be concerted.

Mr. Rushton said that banks generally should not make fundamental changes to their processes for determining loan loss reserve adequacy until guidance from the organizations reviewing the issue is ready.

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The OCC charters, regulates and examines approximately 2,500 national banks and 61 federal branches and agencies of foreign banks in the United States, accounting for 59 percent of the nation's banking assets. Its mission is to ensure a safe, sound and competitive national banking system that supports the citizens, communities and economy of the United States.