



NEWS RELEASE

Comptroller of the Currency
Administrator of National Banks

NR 2004-30

FOR IMMEDIATE RELEASE
April 20, 2004

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Comptroller Hawke Tells Senate Banking Committee That National Banking System is in Strong Condition

WASHINGTON – By virtually every measure, the national banking system is in strong condition, Comptroller of the Currency John D. Hawke, Jr. said in testimony today before the Senate Banking Committee.

Earnings are at healthy levels and total loans grew by 7.8 and 7.6 percent in 2002 and 2003 respectively. “These are truly impressive numbers when one considers that, at a comparable point in the last economic cycle, total loans held by national banks were in the midst of a prolonged decline,” Mr. Hawke said.

The Comptroller noted that there are still elements of uncertainty in today’s economic environment. An increase in interest rates could dampen demand for loans backed by commercial and residential real estate and the current high level of liquidity in the system could fall rapidly if the relative yield on other investments rises.

“Yet I am optimistic about the ability of the banking system to overcome these challenges, just as it overcame the challenges of the recent recession,” he said. In part, that’s because of the dramatic improvement in the tools, techniques, and processes available to financial institutions to manage such risks. A second reason for optimism is the OCC’s approach to supervision.

“Our risk-based approach involves supervisory policies and processes that tailor OCC oversight to the key characteristics of each bank,” Mr. Hawke said. “This results in a customized approach that reflects each bank’s underlying risk characteristics. It also provides an effective means for the OCC to allocate resources and to communicate with senior management about areas in need of attention.”

In response to the growing divergence in the complexity and scope of operations between large and small banks, the OCC operates a separate supervisory program for the 24 largest national banks. Each bank in that program is staffed by a resident examiner-in-charge and an on-site team of examiners.

“Whether attached to the Community and Mid-Size or Large Bank program, OCC examiners are supported by an extensive team of analysts, accountants, economists, and attorneys in our district and headquarters offices, who monitor industry, market, and economic

trends, provide technical expertise, and develop analytical tools and models to support our examination functions,” Mr. Hawke said.

“This depth of talent assures that the OCC is able to adjust to emerging risks and issues that may arise at individual institutions, within business segments or across the banking industry as a whole,” he added.

The Comptroller also told the panel that a number of important substantive issues in the Basel II capital process have not yet been resolved and that a number of steps, including conducting a new Quantitative Impact Study, must still be taken before any new capital structure can be implemented.

“Clearly it will be a major – if not impossible – challenge to get all this done in time to meet the current implementing date of year-end 2006,” he added.

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The OCC charters, regulates and examines approximately 2,000 national banks and 51 federal branches of foreign banks in the U.S., accounting for more than 56 percent of the nation’s banking assets. Its mission is to ensure a safe and sound and competitive national banking system that supports the citizens, communities and economy of the United States.