

**Statement of
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Office of the Comptroller of the Currency
before the
Financial Institutions and Consumer Credit Subcommittee
Committee on Financial Services
August 16, 2011**

Chairman Capito and members of the Subcommittee, I appreciate this opportunity to discuss the OCC's supervision of community banks and the steps that we take to ensure that our supervision is balanced, fair, and consistent with OCC policies. My district supervises more than 650 federally-chartered community banks and thrifts, including 45 national banks and thrifts in Georgia. I have been involved in the direct supervision of community banks for most of my career, so I have a deep appreciation for the challenges that those bankers face.

Community banks play a crucial role in providing consumers and small businesses with essential financial services and credit that is critical to economic growth and job creation. Our goal is to ensure that these banks have the strength and capacity to meet these credit needs. I understand that some bankers believe they are receiving mixed messages from regulators about the need to make loans to creditworthy customers, and I appreciate this opportunity to address these issues.

The OCC's policies encourage banks to make loans to creditworthy borrowers and to work constructively with borrowers. We have mechanisms to help ensure that our examiners apply these policies in a consistent and balanced manner. We alert our examiners to new policy issuances via weekly updates. When warranted, we supplement

these issuances with targeted supervisory memos that provide additional direction for implementing them on a consistent basis. We reinforce these messages through periodic national teleconferences and meetings at our local field offices.

We have quality assurance processes to ensure our examiners are applying our guidance consistently. Every report of examination is reviewed and signed off by an appropriate OCC manager before it is finalized. Additional levels of review occur when enforcement actions are involved. We also apply them to a sample of banks to help ensure that policies are applied consistently.

Our formal quality assurance process assesses the effectiveness of our supervision and compliance with OCC policies through quarterly, randomly selected reviews of the supervisory record.

While our bank supervision policies and procedures establish a consistent framework and expectations, our examiners tailor their supervision of each bank to its individual risk profile and business model. Our front line managers, who are located in local communities, are given considerable decision-making authority, reflecting their “on-the-ground” knowledge of the institutions they supervise.

To support our local examiners, we have district analysts who monitor and provide information on local markets and conditions. This information allows us to tailor our supervisory activities to unique challenges being faced within local economies and business sectors.

We also have an extensive outreach program with state trade associations and meetings with our state and federal regulatory counterparts to share information and discuss issues.

OCC examiners assess the quality of a bank's loan portfolio during each examination cycle. The goal of our reviews is to confirm the accuracy of bank management's own assessments of credit quality.

If a borrower's ability to repay a loan becomes impaired, we expect the bank to classify the loan to recognize the increased risk. To provide consistency in the examination process, the OCC and other banking agencies use a uniform risk scale to identify problem credits. Consistent with GAAP, the Call Report requires that a loan be put on nonaccrual status when payment in full of principal or interest is not expected,

In making these decisions, each loan must be evaluated based on its own structure, terms and the borrower's ability to repay under reasonable repayment terms.

A loan is not classified simply because a borrower is based in a certain geographic region, operates in a certain industry, or because the current market value of the underlying collateral has declined.

Our supervision strives to ensure that problems are identified and addressed at an early stage, before they threaten a bank's viability. When these efforts are not successful and the bank is not viable, we work closely with the FDIC to effect early and least cost resolution of the bank.

The OCC's supervisory philosophy is to have open and frequent communication with the banks we supervise. While I believe that OCC examiners are striking the right balance in their decisions, my management team and I encourage any banker that has concerns about a particular examination finding to raise those concerns with his or her examination team, supervisory office, or with me or the OCC's independent Ombudsman.

Thank you and I'd be happy to answer questions you may have.