Remarks by
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I've come to San Francisco to talk to you this morning about a subject with ser implications for the banking business: the snail darter. You may recall the snail d as the little fish -- three inches long when fully grown -- that earned a place on t endangered species list and the national agenda a few years back when construction projects on the Tennessee River were halted to protect the darter's dwindling habita

I mention this because of a magazine headline I recall from those days. It ask question: "what do community banks and the snail darter have in common?" Here's how would respond: If the snail darter's prospects are as bright today as those of our community banks, then conservationists can rest easy.

In fact, the latest reports from Tennessee are reassuring. There's talk of rem the fish from the endangered list. Yet, even if the river were to grow thick with sn darters, I suspect the impression would persist in the outside world that this was a species in trouble -- just as some continue to wring their hands about the future of community banks. Perception can be slow in catching up to reality.

The reality is that by nearly every measure we use to evaluate financial institutions, community banks have never been healthier. Consolidation throughout t banking industry makes the headlines, but the small print reveals that new banks are being created at a healthy rate. More than 600 new banks have been chartered in the last five years.

Many of these, in fact, are the consequence of megamergers. It frequently occu that experienced bankers who have been "separated" in large combinations will organi groups to seek new charters in the very communities affected by the mergers. Clearl a great many bankers and investors think it's a great idea to own a small bank.

And, judging by the way community banks have performed, one can see why. Last year, community banks as a group had the best return on assets of all commercial ban Compared to megabanks, they had higher capital ratios, better return on equity, and less earnings volatility, due in part to rising non-interest income. Community banks have also registered impressive gains in efficiency, thanks to technological innovations, streamlined operations, outsourcing, alliances with other community ban and staff productivity improvements. And all the evidence suggests that you've gain these efficiencies without compromising customer service.

Obviously, community banks are doing many things right. You're not only suppor local economies in the way community banks always have, but you're also doing someth less tangible but no less vital: promoting the values of thrift and industry and mut self-help. The things you stand for are as important as anything you do for your customers.

Community banks fill a critical role in our economy, and nowhere more so than i small business market. Nobody today would challenge the proposition that small busi crucial to America's economic health. Small firms produce two-thirds of all new job percent of the private gross domestic product, and twice as many product innovations employee as larger firms.

For some reason, the fact is often overlooked that community banks are small businesses themselves -- making the same vital economic contributions as any other s business. But they are also a financial lifeline to the rest of the small business It's a natural partnership -- after all, who understands the small business person's problems better than another small business person? That relationship can make the difference in determining whether creditworthy small businesses get the funding they The close relationship community bankers have with their customers gives them critic information for pricing and lending decisions.

And for the smallest of small businesses, community banks are often not only th choice, but the only choice for loans and other financial services. Consider this: community banks represent only about four percent of the assets of all lenders to sm businesses.But they make 12 percent of all small business loans and 20 percent of sm business loans under $100,000. Clearly, community banks make a disproportionately g contribution to the well being of small business in our country.

For that reason -- and a host of others -- community banks are also vitally important to the OCC. The vast majority of the banks we supervise -- more than 2000 of the 2500 banks we're responsible for -- have assets under $1 billion. Moreov more than 1300 examiners out of our total examination force of 1900 -- 68 percent - assigned to community bank supervision.

However, judging from what I sometimes hear, there seems to be a perception tha OCC is less interested in the needs of community banks than of large banks, most of have always operated under OCC supervision. If such a perception exists, we need to dispel it. It is simply not supported by the facts.

On the contrary, not only do we have a major commitment of resources to communi banks, but I believe that our community banks have found OCC supervision to be suppo of their own business strategies and objectives and conducive to their success. For 136 years, the OCC has sought to provide the highest quality supervision in the worl -- supervision sensitive to the needs of not only large banks, but small banks as we Encouraging and supporting small banks -- by recognizing their strengths and needs -- is an important part of our mission and our tradition.

The OCC's approach to community bank supervision has evolved in response to the experiences of many years. It's based on a judicious combination of on- and off-site activity conducted by locally-based examiners and front-line supervisors who know th lay of the land in the communities where our banks operate. It's backed by the strength and depth of a national organization of professionals dedicated exclusively to the interests of a safe, sound, and competitive banking system.

To emphasize our concerns for community banks, we recently reorganized our supervisory operations into two "lines of business" -- community and mid-sized banks on the one hand, and large banks on the other -- so that we can better meet the unique needs of both. We now have six district offices and 58 field offices dedicated to the supervision of smaller banks, while supervision of the very largest banks has been centralized in Washington.

Our district Deputy Comptrollers and their staffs -- attorneys, analysts, licen experts, and examiners alike -- are committed to providing top-quality and timely se That includes frequent outreach with community bankers, rapid turn-around in process corporate applications and responding to inquiries, and minimizing the burden of our policies. In each of our districts, we also have experts in the areas of credit, compliance, capital markets, BIS, asset management, community reinvestment and devel and fraud -- all available to assist you and respond to questions you may have.

Our basic approach to community bank supervision embodies what we call "portfol management." Each OCC examiner is assigned a portfolio of institutions for which he she has ongoing responsibility. This approach is designed to provide a high degree of supervisory continuity and to ensure that examiners bring the necessary understan of each bank's special circumstances to all supervisory activities.

On-site examinations of community banks are conducted on a 12- to 18-month cycl using procedures developed especially for community banks. These procedures take a risk-focused approach that allows for streamlined, efficient examinations. We focus on practices and outcomes -- an approach designed to get examiners in and out of the bank as quickly as possible with the information that both the examiners and bankers need in their work.

But OCC communication with community bankers doesn't stop between examinations Our practice is for the portfolio manager to use call report data and other informat to keep up with the bank's progress on a quarterly basis. Portfolio managers also contact bank management between exams to address current trends and topics, to follow up on issues identified during quarterly reviews or previous examinations, to discuss the bank's future plans, and to share best practices -- that is, what you peers are doing that's worthy of emulation. This way, the examiner stays in regular contact with the banks in his or her portfolio, assists bankers in addressing nettlesome issues early on, and prevents little problems from developing into big ones.

While I'm on the subject, let me say a few words about our examiners. I've dea with them for many years; I've talked with a great many bankers about their quality and performance; and over the last four months I've come to know a great many of them personally. In my view, OCC examiners are second to none. They are dedicated and hard-working, they have the most sophisticated technological tools at their disposal, and they receive the most advanced continuing education in the business. Hundreds of them have achieved industry certifications -- in accounting, financial planning, information systems, regulatory compliance, financial analysis, or fraud detection. Thus, they bring not only great experience, but a high level of expertise to their work.

Standing at the ready behind each of our examiners is also a wealth of technica expertise -- not only in our district offices, as I described a few minutes ago, but in our headquarters, as well. In addition to our district experts, our supervision policy unit in Washington develops cutting-edge guidance on emerging ris on new products, and on in-depth examination procedures for specific banking activities and risks. Already this year, we have issued guidance on agricultural credit and subprime lending -- two subjects of concern to many community bankers.

In addition, every day, our legal department does battle in defense of your right to operatein a free and fair marketplace -- with a very high success rate, I might add -- while our staff of professional economists carefully monitors developments throughout the nation and around the globe to identify trends and events that can affect you and your business. I believe our community banks have the best of two worlds: they have expert and highly responsive examiners at the local level, who know their needs and challenges; and, backing up the local portfolio managers, they have the resources of a strong national organization providing support, coordination, and effective representation of their interests.

Even before I was sworn in as Comptroller, I had in mind that an early focus on the needs of community banks would have to be a top priority if I were to assume this office. Last summer I raised the subject with Ken Guenther, who has been a friend and a colleague for over 20 years, since our days together at the Federal Reserve, and who regularly keeps me informed on your concerns. When the invitation came to address you today, I saw it as an opportunity to talk to the community banke of America about the OCC's commitment to their interests.

To that end, I'm announcing today a series of steps we'll be taking immediately and in the coming months designed to improve the quality of the service we deliver t community banks. These actions fall into three broad categories: outreach, informati resources, and regulatory review.

As I mentioned earlier, regular and open communication between examiners and bankers is already an important element in the OCC's overall approach to community b supervision. In recent years, we have expanded channels of communication to include meetings between bankers and the Comptroller, and between OCC groups working on spec issues and the affected elements of the banking industry.

For example, we recently formed an Agricultural Working Group, in part to serve an intermediary between the OCC and agricultural bankers. The outreach activities i districts have been extensive and varied, including not only forums and seminars for bankers and bank directors, but one-on-one meetings, as well. We have put on progra such topics as credit underwriting and administration, interest rate risk management liquidity planning, Y2K contingency planning, general economic conditions, complianc fraud detection, current legal issues, internal controls, and capital markets.

These programs are tailored by our district and field offices to the needs of t banks they work with. The feedback we have received has been highly enthusiastic. Bankers tell us that these sessions are educational and informative, and help to cre good working relationship between examiners and their banks. They also promote the exchange of views on relevant supervisory issues, and help to ensure that industry i is obtained before we adopt or revise relevant supervisory policies.

I intend to expand these efforts in order to assure that we are being fully responsive to the needs of our banks. To that end, I've asked our district Deputy Comptrollers to invite community bankers to take part in a series of round table mee to begin in the third quarter of this year. I will personally participate in as man these as I can. I want to hear directly from you about what we're doing well and wh could be doing better. With that feedback, we can take the necessary steps to stren even further our outreach program and to make our community bank supervision even be

The second broad category of new activity is information technology. The OCC i committed to using modern information technology to improve the examination process community banks stay safe, sound, and competitive. We see technology as offering a ease regulatory burdens and to bring useful information and services to community ba we will be exploring how we can share these resources with you.

For example, many community bankers tell us that they would like to be able to their performance with that of other banks they see as comparable. We're working on available to our community banks, at no cost, a simple and user-friendly Internet-ba system that will enable them instantaneously to design their own peer groups and ret relevant performance data. Using that system, they will be able to compare their ow performance with the banks they believe are most relevant for them. This is just th in a series of enhancements to our information systems that we will be delivering -- your examiner and over the Internet -- in the coming months.

The third undertaking I'm announcing today is a community bank-focused review o regulations and the way they impact community banks. Banking law, of course, is fre complex, and the regulations that grow out of those laws -- individually and cumulat can be particularly onerous for community banks, whose resources, understandably, ar considerably less than those of large banks that maintain extensive compliance staff

Going forward, in all of our rule making, we will first do an internal analysis the way in which any proposed new rule would affect community banks -- a community b impact analysis, if you will. Then, when we publish a proposal for comment, we wil request specific advice from the public on the likely impact of our proposals on com banks.

We are already working at identifying specific regulations that might be change give community banks new opportunities for profit and growth without jeopardizing th safety and soundness. For example, we will soon codify recent interpretive rulings permitting community banks to avail themselves of reverse stock splits in order to r the number of their shareholders, so as to allow them to take advantage of Subchapte status.

I look forward to hearing from you with additional suggestions on areas where our rules could be modified or streamlined to lift unnecessary burdens on community I've heard several areas mentioned already, such as the complexities of capital calc and the need for flexibility in corporate procedures.

We have also heard complaints about competitive disparities caused by national lending limits. This is a subject we need to study more fully, and to that end we w be soliciting comment on how we might provide greater flexibility in that area. I am hear what you have to say about that and other issues.

The initiatives I have just described represent a down payment on a promise I a making to you here and now: to do everything in our power while I am Comptroller to that OCC supervision is responsive to your needs as community bankers. And responsi includes being sensitive in Washington to the way we communicate with you.

For example, we and the other banking agencies send out scores of communication banks every month -- circulars, bulletins, notices, advisories, alerts, and so on -- of which are addressed to the Chief Executive Officer. They frequently say that "se management" should do thus and so, or assure this or that. We tend to forget that i great many community banks, there may be only 15 or 20 employees, and that the CEO i all the bank has in the way of "senior management." One CEO of a small national ban recently calculated that during 1998 his bank received some 336 such communications. He had to read each one personally to determine whether or not it conveyed informati relevant to his bank.

There's a lesson here. The OCC and the other banking agencies communicate a lot of important information in this fashion, but we have to be sensitive to the burdens we place on small banks, which don't have vast legal or compliance staffs to screen, analyze, and develop responses to the materials we routinely send out.

As tangible evidence of our commitment to responsiveness, I am announcing today the creation of a new high level position in the office of our Senior Deputy Comptroller for Bank Supervision Operations -- a Director of Community Bank Activiti whose responsibility it will be to help coordinate our efforts to reduce burdens and our supervision even more useful for community banks. The director will assist in identifying community bank issues and help propose courses of action for the agency, will be responsible for assuring that our district Deputy Comptrollers are getting t support they need in their outreach efforts to community banks.

The new director will also head a standing working group having broad represent of those components of the OCC involved with issues that may be relevant to communit It's important to keep in mind that community-based institutions operate today in a and national marketplace. Although your orientation may be local, distant events co to affect the climate in which you do business. The working group will also allow u promote wider dissemination of best practices and lessons learned across our distric

Needless to say, we can't alleviate all of the concerns of community banks. In cases, action by Congress is needed. We operate under a legal framework that is in respects outdated and in others simply unfair in its treatment of banks. For exampl you know, the environment in which banks and other financial service providers opera fiercely competitive. Yet, every day in the marketplace you face stiff competition f credit unions, which act a lot like banks, but don't pay taxes on their earnings. W Congress may be reluctant to address this issue, we cannot afford to simply let it f away. The competitive inequity that favors credit unions at the expense of small ba must be addressed.

We also hear from many small banks that they are under liquidity pressures toda and that these pressures may have an impact on their ability to continue to serve t credit needs of small businesses. Expanding access for community banks to the resou of the Federal Home Loan Bank System would help to relieve such pressures, and I am pleased to say that the Administration has supported doing just that as part of a broader legislative reform of the Home Loan Bank System.

Notwithstanding the many challenges you face, I believe that you -- the independent community bankers of America -- can approach the 21st century with great confidence. Certainly there will be change and challenge. But your primary stock i trade -- your familiarity with the needs of your customers, your responsiveness, and your personal service -- will never go out of style. Preserve the essential qualiti of adaptability and responsiveness that have been your hallmark for decades, and it' your competitors who may become the snail darters of the future.
Thank you.