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OCC's New Large Bank Supervision Handbook  
Will Guide Exams of Institutions Resulting From Mega-Mergers

WASHINGTON, D.C. -- A new version of the OCC's Large Bank Supervision handbook issued today will help examiners develop more detailed and meaningful risk profiles of the nation's biggest national banks.

"This manual will give our field examiners improved tools to evaluate risk at large and complex institutions, including those that would be created in the recently-announced mega-mergers'," said acting Comptroller of the Currency Julie L. Williams.

"By expanding our supervision-by-risk approach, and instituting more verification and testing procedures, the manual will also help us in our efforts to deal with slippage in credit underwriting standards at national banks," Ms. Williams added. "The degree of slippage we are seeing in loan terms and pricing is serious, and we are concentrating more examiner resources on credit risk at banks."

Supervision by risk, which has been the cornerstone of the OCC's examination philosophy since 1995, focuses examiner resources on those activities most likely to result in losses at banks. It also helps examiners identify and deal with bank problems before they become entrenched.

The manual, which is aimed at the 80 national banks with assets of more than \$1 billion, applies supervision by risk to all aspects of the supervisory process so that risks are properly assessed and evaluated across the entire organization, regardless of its size, complexity or geographic reach.

The supervisory framework described in the manual includes three key elements:

Core knowledge. Examiners are required to obtain in-depth knowledge of the bank, including its management, risk profile, strengths and weaknesses, supervisory history, markets, products and activities, as well as the economic environment in which the bank operates and a comparison with peer banks.

Core Assessment. Examiners must make a minimum set of judgments about each bank. For example, in every large bank, examiners must evaluate changes in underwriting standards and the impact of legislative, regulatory and technological changes. In addition, examiners will assess each of the nine risk-areas facing a bank (credit, interest rate, liquidity, price, foreign currency translation, transaction, compliance, strategic and reputation risk), plus each of the six elements in the

CAMELS rating system -- capital, asset quality, management, earnings, liquidity, and sensitivity to market risk.

Optional procedures. These include additional detailed guidance in a variety of banking areas that allow examiners to give special attention to specific activities or products as warranted. The additional guidance is contained in specialized OCC handbooks on such topics as allowance for loan and lease losses, loan portfolio management, credit card lending, commercial real estate and construction lending, interest rate risk, financial derivatives, and a host of compliance and other safety and soundness topics.

"The OCC's new standards will facilitate consistent risk assessments across geographic lines and products regardless of the diversity or complexity of the financial institution," Ms. Williams said. "The optional procedures give our examiners the flexibility to adapt to special circumstances at an individual bank."

Ms. Williams also noted that the manual provides guidance for examiners on evaluating risks that arise from nonbank activities within the banking organization and for evaluating the level of risk in the company as a whole, including risks arising in holding company affiliates. In order to fully implement supervision by risk, she said, examiners must establish the risk profile of the consolidated company.

"The consolidated approach recognizes that risks at an individual bank may be mitigated or increased in the company as a whole because of nonbank activities," she said. "Consolidated risk assessments should be a fundamental part of managing -- and supervising -- the bank."

Under the OCC's supervision by risk approach, bank examiners do not attempt to prohibit risk-taking, but rather attempt to ensure that banks understand and control the levels and types of risk they assume.

"As an organization grows larger, more diverse and complex, risk management must keep pace," Ms. Williams said. "If it doesn't, the OCC will direct bank management to take corrective action. Furthermore, every bank must maintain capital that is in line with the risks that it is taking and its ability to manage those risks."

The companion Community Bank Supervision handbook for examining banks with less than \$1 billion will be published later this summer. "Together, these two handbooks will emphasize the OCC's priorities of strong risk management by banks and effective supervision of the key risks facing banks as essential for the long-term health of the national banking system," Ms. Williams said.

Large Bank Supervision, part of the Comptroller's Handbook

series, will be distributed this week to national banks, OCC examiners and subscribers to the OCC handbook series. To obtain copies of Large Bank Supervision, send a written request along with a check for \$15 per copy to the Office of the Comptroller of the Currency, P.O. Box 70004, Chicago, IL 70673-0004.

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The OCC charters, regulates and examines approximately 2,600 national banks and 62 federal branches and agencies of foreign banks in the United States, accounting for 58 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.