

Statement of
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BEFORE THE
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT
COMMITTEE ON FINANCIAL SERVICES
U. S. HOUSE OF REPRESENTATIVES
February 1, 2012

Chairman Capito, Ranking Member Maloney, and members of the Subcommittee, I appreciate the opportunity to appear before you to discuss the OCC's perspectives on H.R. 3461.

As the Senior Deputy Comptroller for Midsize and Community Bank Supervision, I serve as the senior OCC official responsible for community bank supervision. The OCC supervises approximately 1,700 national banks and federal savings associations with assets under \$1 billion. These community-focused institutions play a crucial role in providing essential financial services to consumers and small businesses in communities across the nation as well as supplying the credit that is critical to economic growth and job creation.

The bill contains measures directed at three basic concerns: 1) assuring banks have access to a fair and independent appeals process if they disagree with a bank regulator's supervisory determinations; 2) clarifying or revising standards for

classification of loans and placing loans in nonaccrual status; and 3) achieving timely examinations and communication of examination results.

My managers and I hold numerous outreach sessions and meetings with bankers to listen and respond to their concerns and questions, and we have heard many of the same concerns that you have about the challenges bankers face. We seek to ensure that OCC's examinations are fair and timely, and that the OCC is fulfilling its mission of ensuring the safety and soundness of national banks and federal thrifts by identifying problems at the earliest possible stage and holding institutions accountable for taking timely and effective corrective actions. While we understand and support the broader objectives of the bill, we believe it could impede our ability to deal with troubled institutions on a timely basis and would undermine Congress's clear direction that bank regulators identify and promptly address unsafe and unsound practices and that insured depository institutions report their financial condition in accordance with generally accepted accounting principles, commonly known as GAAP.

The OCC fully supports providing bankers with a fair and independent process for appealing supervisory determinations and we believe our current appeals process, run by our Ombudsman, does just that. The bill's approach to accomplishing that objective would involve creating a new federal bureaucracy at the FFIEC and risks disrupting appropriate and necessary supervisory activities by bank regulators. We believe there are better alternatives – without those downsides – that would accomplish the objectives of H.R. 3461. We would be happy to work with the Subcommittee to frame out an alternative approach.

We also have significant concerns that the standards for nonaccrual loans in the bill could result in revenue recognition that is inconsistent with GAAP. FDICIA established that banks must follow GAAP, or standards that are no less stringent than GAAP, in reporting their financial condition. Congress put this requirement in place in response to the savings and loan crisis, where non-GAAP regulatory accounting masked the deteriorating financial condition of institutions until it became so serious that a massive bailout was needed. The bill would weaken this important standard.

As I have previously testified before this Subcommittee, the integrity of financial reporting and regulatory capital is vital to identifying and correcting weaknesses before they threaten a bank's ability to continue to meet the needs of its customers and the communities it serves. As we have seen during the most recent crisis, it is also essential that supervisors have the ability to direct banks to hold capital commensurate with their risk profile. The bill would, in certain instances, tie the hands of regulators when they believe a bank's risk profile requires more capital.

Finally, we agree that completing and communicating our examination findings on a timely basis are essential if we expect bankers to correct deficiencies identified by examiners. Clarifying expectations regarding examination timing and communication can be a positive step, but flexibility is needed when an exam may not be finished, or results not yet communicated, for good reasons, such as when significant policy issues need further deliberation before a conclusion is reached.

My written testimony discusses the OCC's perspectives and concerns with the proposed legislation in greater detail. I would be pleased to respond to any questions you have about my testimony or other matters relating to H.R. 3461. As I conclude, I would

like to reiterate the OCC's willingness to work with the Subcommittee to explore alternative approaches that would achieve goals we share, without raising the types of concerns I have identified.

Thank you.