

**Remarks by
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Thank you. It's always a pleasure to appear before an audience of community banks, and it's especially nice when the audience includes so many independent directors. Outside directors play a vital role in the success of a financial institution, and I suspect that many people outside the industry don't fully appreciate the magnitude of your responsibilities or the extent of your contribution to a well-functioning financial system.

At the OCC, we devote a good deal of time and resources to the support of community bank directors. For example, we sponsor a series of workshops on subjects ranging from Mastering the Basics to Credit Risk. And if you'll allow me to make just one commercial announcement today, I would encourage those of you who are associated with a federal thrift or national bank to attend one of these workshops if you haven't already. You'll find information about them on our Web site at www.occ.gov. You'll also find a wide range of reference materials on our Web site that I think you'll find very useful. They range from our examination manuals, which provide extensive information about various risk and risk management issues, to our *Director's Book*, which provides an overview of our supervisory approach and your roles and duties as a director.

I can tell you that the OCC is not the only agency with an interest in director responsibilities. Last Thursday, I appeared in London before a special commission that was established by Parliament to consider changes to the banking system in the United Kingdom. The Parliamentary Commission on Banking Standards was set up in the wake

of the LIBOR pricing scandal to consider a range of issues, from the professional standards and culture of the U.K. banking system to the lessons that can be learned about corporate governance, transparency, and conflicts of interest. Not surprisingly, a major focus of the Commission's work is director responsibilities and accountability, and that is the subject I was asked to discuss in my appearance before the panel.

The basic question they are asking is whether they can improve their legal and regulatory framework to make it easier to hold directors accountable. Specifically, they were considering whether to make changes in the types of sanctions – regulatory, civil, and criminal – that can be applied to directors.

That's important, but it's also important that we take a balanced approach. Directors play a vital role in the governance of the institutions they serve, and it is extremely important that banks of all sizes are able to recruit and retain the best people to serve on their boards. As supervisors, it is our job to hold directors accountable when we find problems involving the governance of the institution. But we have to be fair and reasonable in our approach. If high-caliber men and women are going to continue to be willing to serve as directors at banks and thrifts, they need to know that regulators will be reasonable. More than that, they need to know that we will be supportive of directors who give their best to these jobs.

With that in mind, I also talked to the Parliamentary Commission about how the OCC serves as a resource for bank and thrift directors. In addition to the workshops and handbooks, our Assistant Deputy Comptrollers, portfolio managers, and subject matter experts are ready, willing, and able to provide advice and technical expertise, or to just serve as a sounding board for a director who is trying to think through an issue. If you

wonder what questions you should be asking management, or how best to approach the task of developing your institution's strategic direction or capital plan, we can help. If you're a director of a federal bank or thrift, just reach out and ask.

We provide this kind of support for banks of all sizes, but I think it's especially important for directors of community banks. This is a challenging time for the banking industry, and that's especially the case for smaller banks that lack the resources or the geographic diversification that help larger institutions through difficult times.

And yes, these are difficult times. We may have weathered the worst of the financial crisis, but there are plenty of challenges ahead that stem from the weak economy. Our most recent *Semiannual Risk Perspective*, which was published last month, cites three broad themes that categorize risks to bank and thrifts, and they illustrate just how weak the economic environment continues to be.

The first has to do with the potential for banks and thrifts to take on inappropriate types of risks in the search for profits in a slow economy. That's only natural. When high-quality borrowers are hard to find, it's very tempting for financial institutions to loosen underwriting standards or move into new product lines or unfamiliar markets. It's a concern for us, and our examiners will be paying close attention.

The second theme is related. It involves the challenge to revenue growth in a slow economy. Loan demand is low, and so are interest rates. Consequently, as assets roll off the balance sheet, they will be replaced by lower-yielding instruments, and it will be hard to re-price liabilities any lower than they already are.

The third area of concern is the housing sector. While we're seeing improvement in commercial real estate, problem assets remain high by historical standards, and CRE

portfolios are vulnerable to any new economic stresses that might materialize.

Commercial real estate is a bread and butter product for community banks, but it is also a product that fueled the high rate of community bank failures in recent years, so our examiners will be looking closely at CRE concentrations.

That's just a thumbnail of what's in the full report, so if you haven't seen it, I would encourage you to go to our Web site and check out the current Semiannual Risk Perspective. It not only will provide insight into what your examiner is likely to be looking for, but it will give you a guidebook to help understand the risks your institutions face.

The Semiannual Risk Perspective is aimed at financial institutions broadly, but I think it will prove particularly useful to smaller institutions that don't have access to the same kinds of resources large banks have to identify and monitor risk. It is our hope that it will be one more tool that community banks can use to meet challenges and prosper.

And it's important to all of us that community institutions succeed.

Small banks and thrifts are the lifeblood of communities across the U.S., not just because you provide financial services to families, small businesses, and local governments, but because you participate in the civic life of your community. You serve on hospital boards, lead charitable organizations, and make a multitude of other contributions that improve the quality of life in communities across the country.

As important as you are to your communities, you're equally important to the OCC. We are very much a community bank regulator. Three quarters of our examiners and the preponderant share of our resources are devoted to community banks. We have field offices in more than 60 cities across the country, each headed by an Assistant

Deputy Comptroller who is not just empowered to make decisions locally, but is expected to make decisions locally. As a national organization, we have very significant resources that can be deployed in support of the local field office, but we believe strongly that decision-making has to be exercised locally.

That only makes sense. After all, just as each institution is different, with its own business strategy and its own market considerations – each area of the country is different. It would make no sense for a group of people in Washington D.C., however smart or well-intentioned they might be – to try to make decisions about a bank in the state of Washington. Our ADCs, portfolio managers, and the more than 1,700 examiners who live and work in communities across the country, are best positioned to make judgments about local markets and the institutions that serve those markets.

We at the OCC think the future is bright for community banks and thrifts that approach their business in a disciplined and strategic way, and we will do everything possible to support the small institutions that are so important to the economic well-being of communities across America. In fact, we plan to publish a new booklet in the coming weeks that we hope will be especially useful to smaller institutions.

This new publication, which we have titled “A Common Sense Approach to Community Banking,” is intended to provide a clear and concise overview of the fundamental practices that distinguish community institutions that flourish through all kinds of economic cycles from those that just get by or – worse – that ultimately cannot survive as an independent institution. We highlight in particular three time-tested concepts that all financial institutions should understand and apply to their business.

- First, accurately identify and monitor risks to the institution.

- Second, map out a vision and business plan that includes sufficient capital support.
- And third, understand how the supervisory process works and how to extract helpful information from that process.

On the first concept, OCC examiners use a tool we call the Risk Assessment System to help guide exams. But it is also a useful tool that bankers can employ to identify and manage risks in their institution. It establishes a common framework to assess eight categories of risk that are present in all institutions to some extent, from credit and interest rate risk to strategic and reputation risk. I won't try to run through the entire model, but I will make one point about risk assessment. No one system works for all community banks. Each institution should develop a risk assessment system tailored to its own specific needs and circumstances. You may find it very useful to start with our risk assessment system, but the degree of sophistication in the system you use should be determined by your size, your complexity, and the extent of your geographic diversity.

Again, these are issues that federal banks and thrifts can look to the OCC for support. Every community national bank or thrift has a portfolio manager, who serves as the point of contact between the bank and the OCC. The portfolio manager is typically an experienced, commissioned examiner who carries a great deal of responsibility for communicating directly with your bank throughout the examination process to ensure that conclusions, analysis, and feedback are appropriately delivered and received. Through this dialogue, the portfolio manager develops an understanding of your bank's activities that guides the OCC's supervisory strategy. The portfolio manager is a resource

who understands the local economy and the operating conditions and risks in your bank's market.

The portfolio manager is also a knowledgeable individual who can discuss recently implemented or proposed regulations, trends in current examination findings, or other current topics. If your bank is contemplating a new product or service, the portfolio manager can be a good source of information when conducting due diligence. Because of their ready access to OCC specialists, portfolio managers can enlist additional assistance to benefit your bank. Outside directors, in particular, who have questions or are interested in obtaining other perspectives should consider your OCC portfolio manager as a resource. Whatever the issue, the portfolio manager should be able to provide your bank an independent perspective worthy of consideration.

So, please keep an eye out for our common sense guide – I think you'll find it very helpful. And yes, I know that's the second commercial I've done, and I promised only one at the outset of these remarks when I pitched our director workshops.

But our goal is to use the supervisory system not only to keep federal banks and thrifts safe and sound, but to help them flourish so that they can meet the needs of families and businesses and the American economy. At the OCC, we are building a portfolio of tools and resources for community banks to do just that.

Thank you. I'm looking forward to hearing your questions.