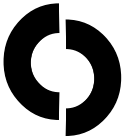

NEWS RELEASE

Comptroller of the Currency
Administrator of National Banks

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Remarks by
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Comptroller of the Currency
Before the
Stonier Graduate School of Banking
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It's a pleasure to welcome the first incoming class of the Stonier Graduate School at its new home here at Georgetown. This is the third campus to house Stonier since it was founded back in 1935 on the Rutgers University campus, and I'm proud to say that the Office of the Comptroller of the Currency was present at the creation -- and ever since. Over the years, dozens of our most able employees have come to Stonier both as students and faculty, and they have invariably been enriched by the experience. The OCC is committed to building on this historic relationship and supporting the School's important work in the years ahead.

As you probably know, the school is named after its founder, Dr. Harold Stonier, perhaps the most distinguished educator of his day in the fields of business and finance. It was Dr. Stonier who established the business school at his alma mater, the University of Southern California, during the 1920s. But the good doctor grew increasingly weary of academe. No ivory tower intellectual, he believed that for education to have real value, it had to be practical,

and there was apparently too much abstraction -- and not enough application -- for Stonier's taste on the USC campus back in the twenties.

So he left to become education director of the American Institute of Banking in 1927, and then, a decade later, executive director of the American Bankers Association. That happy marriage lasted twenty years. And perhaps the highlight of his tenure at ABA was the creation of the graduate school of banking that today bears his name.

The school was founded on the proposition that if bankers were to enjoy the same status as other professionals, they needed specialized formal training. The goal was not only to deepen their mastery of banking fundamentals, but also to encourage the exchange of ideas with other practitioners on the pressing issues of the day -- and not just the purely vocational ones.

Creative thinking was in short supply in the banking business during the 1930s. Demoralized by the Great Depression and extensive new regulatory restrictions, many bankers had a hard time rousing themselves to come to work each day -- and an even harder time believing in themselves and in the importance of what they were doing for a living. It might have been the least opportune moment to launch a graduate school of banking. But never was one more needed to promote the intellectual stimulation and fraternal pride then so sorely missing from most bankers' lives.

So Stonier forged ahead, and the ABA, with its long record of support for professional education, backed him all the way. He saw the graduate school as an agent of change that would eventually lead to better days. And he was right. In the classroom and in after-hours skull sessions, plans began to take shape to revive the industry, nurture its creative spirit, and free it from excessive dependence on government. Many of the leaders who were responsible for

restoring the industry to its position of influence and prestige in subsequent decades drew ideas and inspiration from their experiences as Stonier students.

The school's general goals today are much the same as they were during those early crisis years. The current curriculum reflects the same strong emphasis on sound basic banking practice that was there at its inception. Courses in credit risk management, asset/liability management, and regulatory compliance were essential parts of the core curriculum half a century ago, as they are today. But, faithful to Dr. Stonier's passion for perspective and innovation and for pushing the boundaries, the curriculum has not only kept up with the rapid changes that have occurred in financial practice in recent years, but has moved to the cutting edge of new financial products and services, new customer demands, and new technologies. Among the courses from which you'll choose are offerings in derivatives, international trade finance, and retail delivery of insurance services. It should be next to impossible to walk out the door with a Stonier diploma and not have an advanced understanding of the challenges and opportunities that await the banking industry as it moves into the 21st century.

But I believe that the underlying philosophy of the Stonier curriculum -- this balanced blending of old and new, of vision and verity -- is every bit as important as any specific element of it to the future of this industry. And that's what I'd like to discuss with you this evening.

The recent history of the banking business can be seen as an ongoing search for balance and stability. I'm not referring to the rigid, low-growth, cartel-like stability of a generation ago. Those days are gone -- and not lamented. Rather, I'm speaking here about the industry's quest for a middle ground between boom and bust -- for a way of avoiding alternating and often disastrous excesses of caution and risk. It hasn't been easy, partly because bankers today probably have less control over the larger economic forces that affect them than at any time in

the past. It used to be that commercial bankers served as prudential counterweight, responsible for increasing credit during slack times and putting on the brakes when the economy threatens to overheat. As you know, central bankers and governments now perform that critical function.

It was not that long ago when bankers were responsible for setting standards and writing many of the rules that the rest of the business community lived by. They don't do much of that anymore. Competition and the diffusion of financial power have eroded the industry's dominance -- and its moral authority. But bankers still play a critical role in the economy, and they still have compelling responsibilities to their customers and shareholders. Bankers may not be as free as they once were to impose their standards on others, but they cannot afford to stop applying those standards to themselves -- even if that involves walking away from dubious deals, or steering clear of activities that may pose undue reputation risk, or entering new fields without first acquiring the necessary managerial expertise.

Self-denial takes discipline, and discipline takes reinforcement. It requires concerted effort -- by attitude-shapers in the financial media, by those who provide professional education, and by senior management -- to ensure that the industry keeps a close watch on the fundamentals of safe and sound banking while it is also looking --and thinking -- ahead.

We regulators have an important role to play in this effort. I would be less than honest if I didn't acknowledge that at times in the past we have been have been part of the problem. We, too, have occasionally been guilty of the sin of inconstancy -- of blinking at unpleasant facts, of allowing problems to linger a bit too long, and then, necessarily, of acting abruptly against troubled institutions.

We would like to think that those days are behind us -- that we have learned from our mistakes and have taken the steps required to correct them. We have resolved to bite the bullet

when necessary -- and to compel banks to do likewise -- in addressing issues that we believe threaten the safety and soundness of individual institutions and the banking system as a whole. When we spot weaknesses in credit underwriting, internal controls, compliance management, or any other critical phase of a bank's operations, we are demanding prompt remedial action. We are drilling into bank portfolios and downgrading assets where appropriate. But we are also working with banks to achieve positive outcomes.

We're strengthening our early warning systems, coupling the power of modern technology with the formidable expertise of our staff. We're making use of the stature of the Comptroller's office to remind bankers, publicly and behind the scenes, not to allow enthusiasm and short term considerations to override sound banking fundamentals and good common sense. And we're carefully monitoring industry trends -- again, drawing on sophisticated computer models and other technological innovations -- so that we can spot negative developments as well as provide positive reinforcement when the industry takes constructive steps to correct present or potential shortcomings.

In other words, we are determined to respond to problems in graduated, timely, and tempered ways, so that we can avoid the need for more drastic action later on.

We are encouraged to see the industry's leaders proceeding down a parallel track. Many bankers are harnessing innovation, especially in technology, to the fundamentals of safe, sound, and balanced banking.

Tremendous breakthroughs have been achieved in the area of risk identification and management. Bankers no longer have to rely on instinct and guesswork to figure out the nature and extent of the risk they confront. Risk management has evolved into a specialized science, with tools and terminology all its own. Computer models can detect small changes in customers'

risk profiles, collateral values, asset-liability matches, portfolio shifts, and lots more. With this information, bankers are able to make incremental operational adjustments to meet corporate goals for risk tolerance in pricing, credit availability, portfolio allocation, and so forth. Indeed, in recent months the industry has demonstrated an impressive dexterity in adjusting loan underwriting standards to reflect changes in the economic environment and their customers' prospects. By tightening the strings ever so slightly today, bankers are ensuring that the pain of massive credit curtailment can be avoided in the future.

The new risk management tools represent an important contribution to a safe and sound banking system. But they are no panacea. Such advanced tools and techniques are a complement to -- and must never become a substitute for -- a risk management program solidly grounded in an understanding of the nature of risk, the forms its takes, and how to control it. That's what I mean by a balanced blend of vision and verity.

Let me put it another way, in another context. Because banking is such an information-intensive business, bankers -- contrary to their reputation for conservatism and aversion to change -- have always been among the earliest adopters of information technology. It's not surprising that the first industry to extensively embrace computers, back in the 1950s, should also be a pioneer in the delivery of its products and services over ATMs, telephone lines, and the Internet.

But especially in dealing with technology, it's crucial not to lose sight of the distinction between means and ends. Banking is a service business. And innovation, no matter how original, adds value to a financial institution only to the extent that it aids in the effort to provide excellent service. No matter what niche in the marketplace a bank seeks to fill, customer service has to come first. Everything else ranks a distant second.

Last year's controversy over proposed federal anti-money laundering regulations had at least one unfortunate side effect: it turned an imperative into an epithet. In fact, it's every banker's responsibility -- perhaps their foremost responsibility -- to get to know their customers: their strengths and limitations, their goals and aspirations. That understanding is the foundation of outstanding service and lifelong customer relationships. Good bankers know what kinds of products and services to offer customers -- and, sometimes just as important, what not to offer them. No one benefits in the long run from a loan that can't be repaid or an investment that doesn't meet the customer's needs.

Determining just what those needs are is a job that can best be accomplished, again, by drawing upon both traditional and modern techniques. Certainly there is no substitute for the kind of person-to-person interaction that defined banking relationships in the old days. Personal service is what many customers are looking for in a bank, and they'll go -- and stay -- where they get it. Most customers appreciate being known by their first names and having a single point of contact to which they can turn to get answers to their questions or to resolve a problem.

But modern information systems also give bankers unprecedented power to collect, sort, analyze, and apply data about existing -- and potential -- customers. Used properly, this information can be a boon to banks and consumers alike. It gives bankers insight into the characteristics of their customers, information that enables bankers to customize their service offerings to each customer's individual needs. These days, it's almost impossible to be a good financial services provider without continuing to invest in technology and up-to-date automated systems, because that's what today's customers have come to expect: easy access to their funds and to account information, a wide variety of financial options, and enough information to make rational choices from among them.

But if personal financial information is misused or abused -- and it's eminently susceptible to both -- it can be profoundly disruptive to customer relationships and a bank's reputation.

The Know Your Customer controversy and the ongoing debate over the privacy provisions of the Gramm-Leach-Bliley Act showed how strong public sensitivities are on this subject. Clearly, consumers expect their personal information to be handled in a way that does not compromise its confidentiality. They do want to determine for themselves whether information about them is to be shared with affiliates of the bank or outside firms. They expect transactions to be processed neutrally and nonjudgmentally by their banks. They do not expect their banks to serve as agents of government surveillance. And they have expressed these feelings in unambiguous terms to lawmakers and regulators all across the country.

But we have to be careful not to draw the wrong conclusions from the privacy controversy. I do not believe that customers are registering any general opposition to the electronic delivery of financial services. They expect effective safeguards against the misuse of personal information, but they don't expect bankers to return to the stubby pencil days. To the contrary, as I've already suggested, banking technology has been embraced by the general public with considerable enthusiasm. Internet banking has been somewhat slower to get off the ground, but I detect little resistance to the idea per se. Most people seem to have an open mind about on-line banking, but regard it as a work in progress, with a number of practical issues that remain to be ironed out. Once these problems are resolved, I believe the future of limited Internet banking is bright -- although it will never entirely supplant person-to-person, brick-and-mortar banking. Here, too, a balanced approach to the delivery of financial services, combining traditional and novel approaches, will almost certainly prevail. A high level of customer service requires an advanced

technological base. But it also requires the personal touch. That's true today, and I believe it will be just as true in the future.

What consumers are demanding in regard to privacy, instead, is simply that bankers continue to live by what has long been a fundamental tenet of their business: that the information that consumers entrust to bankers will be held in confidence. This expectation is a foundation stone of the banking business, and no one has a stronger interest than bankers themselves to assure that customers' expectations of confidentiality are realized.

Although the differences between banking and other forms of economic enterprises have narrowed, banking still retains unique characteristics of a public trust. Balancing public and private responsibilities has always been this industry's special charge. It still is today.

The program you're about to begin offers the tools you need to meet those responsibilities. As I said at the outset, Dr. Stonier's whole career as an educator and industry leader was built around the idea that it was what one did with one's learning that counted. If you embrace the spirit as well as the substance of what the program offers and apply what you've learned to the critical decisions that you -- and the industry -- face, then I'm confident that Stonier's legacy -- and the future of this profession -- are secure

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The OCC charters, regulates and examines approximately 2,400 national banks and 58 federal branches of foreign banks in the U.S., accounting for more than 57 percent of the nation's banking assets. Its mission is to ensure a safe and sound and competitive national banking system that supports the citizens, communities and economy of the United States.