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Comptroller of the Currency
Administrator of National Banks

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Comptroller Hawke Tells Bankers That Regulators Must Respond In Measured and Predictable Way to Credit Problems

SCOTTSDALE, AZ -- Comptroller of the Currency John D. Hawke, Jr. said today that the OCC learned from the experience of the late 1980s and early 1990s how important it is to maintain a supervisory approach that is both carefully measured and predictable.

“Since becoming Comptroller, I’ve emphasized how imperative it is that we fashion a carefully calibrated response to changes we see taking place in the banks we supervise,” Mr. Hawke said in a speech during the annual meeting of California Bankers Association.

“But that doesn’t mean sitting by silently as conditions deteriorate,” he added. “It means addressing problems as we see them developing -- incrementally -- while we still may be able to do something about them -- and doing so consistently and in a measured way.”

Mr. Hawke said banks play a critically important role in our economy, as providers of the credit and liquidity that are necessary for economic growth.

“It is my conviction that bank supervisors must stay focused on their primary responsibility during times of economic stress to assure the health of the banking system -- and if they don’t, they run the risk of contributing to even greater problems in the economy,” he said.

“The greatest contribution we as bank supervisors can make to the maintenance of a healthy economy is to work with our banks to help preserve their ability and capacity to extend credit to creditworthy borrowers,” he added.

The Comptroller told the California bankers that while such key indicators as capital levels and earnings are strong, there is little doubt that the industry will be tested in the coming months. Liquidity and credit quality are two particular areas of concern, he added, noting that banks throughout the country have grown increasingly reliant on wholesale funding.

Surveys by both the OCC and the Federal Reserve show that credit is tightening in many parts of the country, he said, but that seems to be more the result of prudent risk selection in a slowing economy than any fundamental impairment in the ability of banks to lend.

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In the current environment, bankers should renew their focus on the fundamentals of risk identification and risk management, paying particularly close attention to the adequacy of loan loss reserves, as well as loan workout capabilities. Bankers should also evaluate the reliability of management information systems and portfolio risk management capabilities, he said.

The Comptroller said banks can expect considerable support from the OCC as they deal with a more challenging environment.

"At the OCC, we have quite literally spent the last ten years preparing -- and helping national banks to prepare -- for the same circumstances we face today," Mr. Hawke said. Careful analysis has shown that sectoral and geographic concentrations ranked high among the causes of the problems of the late 1980s and early 1990s, as did an overreliance on volatile net interest income.

"With that lesson in mind, we have worked to bring about the regulatory changes necessary for banks to diversify their product lines and their market areas, and to develop more predictable sources of fee income," Mr. Hawke said.

"We have defended the industry's right to charge reasonable fees for these services, and to compete on equal terms with nonbanks in the financial services marketplace," he added. "And we have argued forcefully that banks should be free to rely on their judgment and expertise in setting loan loss ratios at levels that they, and we, believe is prudent, given the increased credit risk in the banking system today."

The Comptroller said supervisors must be more vigilant than ever today, since banks may try to maintain high returns and preserve market share by going further out on the risk spectrum.

"To be sure, we must always be cautious not to overreact, for we have learned how repressive supervision -- or at least the fear of repressive supervision -- runs the risk of causing bankers to retreat even from good credits," Mr. Hawke said. "But we have also learned that we can pay a high price for forbearance and inaction.

"The balanced approach so strongly recommended by recent experience, which we at the OCC are committed to, requires that examiners do their jobs consistently, objectively, and impartially, without bending their standards to accommodate a shifting economy," he added. "Only in that way can we help to assure that our banks will maintain the capacity to make good loans in bad times."

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