Statement Of

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Chairman Frank, Ranking Member Bachus, and members of the Committee, my name is Tim Long. I am the Senior Deputy Comptroller for Bank Supervision Policy at the OCC. I appreciate this opportunity to discuss the OCC's role in ensuring banks remain safe and sound, while at the same time meet the credit needs of their communities and customers.

The last few months have underscored the importance of credit availability and prudent lending to our nation's economy. Recent actions to provide facilities and programs to help banks strengthen their balance sheets and restore liquidity to various credit segments are important steps in restoring our banking system and we support these initiatives.

Nonetheless, the current economic environment poses significant challenges to banks and their loan customers that we and bankers must address.

As a bank examiner for nearly thirty years, I have experienced first hand the importance of the dynamics between bankers and examiners during periods of market and credit stress. One of the most important lessons I've learned is the need to effectively communicate with bankers about the problems facing their institutions and how we expect them to confront those problems without exacerbating the situation. Delay or denial about conditions – by bankers or regulators – is not an effective strategy and only makes things worse.

Against that backdrop, here are some facts that bankers and regulators are facing today. First, asset quality in many bank loan portfolios is deteriorating. Non-performing loan levels are increasing. Borrowers who could afford a loan when the economy was expanding are now having problems repaying their loans. Increased levels of non-performing loans will likely persist for some time before they work through the banking system. Second, bankers have, appropriately, become more selective in their underwriting criteria for some types of loans. Where markets are over lent or borrowers over leveraged, this is both prudent and appropriate. Third, loan demand and loan growth have slowed. This is normal in a recession: consumers cut back on spending, businesses cut back on capital expenditures. What is profoundly different in this cycle has been the complete shut down of the securitization markets. Restoring these markets is a critical part of stabilizing and revitalizing our financial system.

Despite these obstacles, banks *are* making loans to credit worthy borrowers. The bankers I talk with are committed to meeting the credit needs of their communities and they recognize the critical role they play in the well-being of our economy. Simply put, banks have to lend money to make money.

The OCC's mission is to ensure that national banks meet these needs in a safe and sound manner. This requires a balance: supervise too lightly, and some banks will make unsafe loans that can ultimately cause them to fail; supervise too strictly, and some banks will become too conservative and not make loans to creditworthy borrowers. We strive to get this balance right through strong and consistent supervision. In the 80's we waited too long to warn the industry about excesses building up in the system, which resulted in bankers and regulators slamming on the brakes once the economy turned down. Because of this lesson, we've taken a series of actions, starting as early as 2003, to alert bankers to the risks we were seeing and to direct them, when needed, to take corrective actions.

Today, our message to bankers is straightforward: make loans that you believe will be repaid; don't make loans that are unlikely to be repaid; and work constructively with borrowers who may be facing difficulties with their obligations, but recognize repayment problems in loans when you see them. Contrary to some press reports, our examiners are not telling bankers which loans to approve and which to deny. Rather, our message to examiners is this: take a balanced approach in your supervision; communicate concerns and expectations clearly and consistently; provide bankers reasonable time to document and correct credit risk management weaknesses, but don't hesitate to require corrective action when needed.

It is important to keep in mind that it is normal for our banks to experience an increase in problem loan levels during economic downturns. This should not preclude bankers from working with borrowers to restructure or modify loans so that foreclosure is avoided wherever possible. When a workout is not feasible and the bank is unlikely to be repaid, examiners will direct bankers to have adequate reserves and capital to absorb their loan losses. Finally, the reality is that some community banks are so overextended in relation to capital and reserves that management needs to reduce the bank's exposures and concentrations to ensure the long-term viability of the bank. In all of these cases, our goal is to work constructively with bankers so that they can have the financial strength to meet the credit needs of their communities and borrowers.

Thank you. I'll be happy to answer questions you may have.