

Statement of
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before the

U.S. House of Representatives
Subcommittee on Banking and Financial Services
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Madam Chairwoman and members of the Subcommittee, I appreciate this opportunity to discuss the Committee's continuing effort to reduce regulatory burdens on the banking industry. I commend you for your leadership in crafting legislation that builds on prior successful efforts to provide prudent and effective regulatory relief for the banking industry.

Effective bank supervision necessarily imposes a degree of regulatory burden to maintain the safety and soundness of the industry, ensure that the credit needs of the public are served, and protect the interests of banking customers. However, it is our mutual responsibility to identify and eliminate unnecessary regulatory and supervisory burden. Excess burden makes banking unnecessarily more costly, inhibits the ability of banks to serve their customers, and thereby saps the long term safety and soundness of the banking system.

Since 1993, the Office of the Comptroller of the Currency has undertaken three major initiatives aimed at reducing unnecessary regulatory burden and improving the efficiency of bank supervision. First, we undertook our Regulation Review Program. This involved reviewing all of the OCC's rules and eliminating or revising provisions that did not contribute significantly to maintaining the safety and soundness of national banks, facilitating equitable access to banking services for all customers, or accomplishing the OCC's other statutory responsibilities. We completed our Regulation Review Program in December 1996.

But we did not stop there. During 1997, we conducted an evaluation of the results of our work with bankers, private sector banking lawyers, community organization representatives, and our own examiners and supervisory staff. Those who participated noted a reduction in regulatory burden and no discernible negative impact on the safety and soundness of the industry or in the ability of national banks to address community needs and consumer issues.

A second initiative aimed at reducing burden and promoting efficiency has been the OCC's implementation of a Supervision by Risk supervisory approach. This approach directs our examination resources more efficiently by focusing examiners on those issues facing a bank that have the greatest effect on current and emergent risks in a particular institution. Examiners then form an overall conclusion about the institution's risk profile which

serves as the basis upon which they structure supervisory plans and actions.

This enables the OCC to proactively monitor areas of concern in the operations of particular banks, mobilize supervisory resources where they are most needed, and take the necessary steps to contain risk before it affects the overall safety and soundness of each institution.

Our third major initiative has been a reduction in direct regulatory costs. After reviewing our assessments and corporate fees, we reduced charges for national banks to more closely reflect the actual costs of supervision. The total reduction in fees and assessments instituted by the OCC between 1995 and 1997 saves national banks roughly \$88 million annually.

Congress can be proud of the leadership it has shown over the last five years in the effort to reduce unnecessary burdens for the banking industry, while not compromising either the safety and soundness or the community and customer responsibilities of banks. And there are still opportunities to do more. The OCC therefore supports the Subcommittee's current efforts to provide regulatory relief and promote economic efficiency in the banking industry.

Madam Chairwoman, my written statement and attachments provide comments on specific provisions in the draft bill. At this time, however, I would like to briefly comment on just a few of these provisions.

Section 102 of the draft bill removes the statutory prohibitions that prevent banks from offering interest-bearing NOW accounts to businesses and paying interest on demand deposits. This provision is in accord with the recommendations of a 1996 interagency report, in which the federal banking regulatory agencies concluded that the elimination of these statutory prohibitions would promote competition and efficiency in the banking industry. We do have some concerns about the timing of these changes, however, and recommend that some transition period should be provided for banks to make the necessary adjustments in their funding sources and pricing and services, without disrupting their ongoing efforts to prepare for the Year 2000 millennium date change.

We are pleased to note that section 201 of the draft bill would enable banks to streamline and modernize their corporate governance. By permitting the OCC to allow a national bank to have more than 25 directors, section 201 would give banks more flexibility in determining the composition of its board. Given the consolidations occurring throughout the industry today, this change will enable banks -- large and small -- to accommodate broader representation from the localities and regions served by the combined bank.

We also support the Bank Examination Report Protection Act contained in sections 501 and 502 of the draft bill. These sections will help protect confidential supervisory information and promote the cooperative exchange of information between banks and their examiners while preserving a process, including judicial review, by which third parties may seek access to supervisory information.

Finally, let me note two concerns with the draft bill. The first centers on section 310. This section would exclude mergers between subsidiary banks of the same bank holding company from the current filing and approval requirements of the Bank Merger Act.

The OCC agrees with the goal of streamlining the process of merging bank subsidiaries of the same holding company. However, we do not support this amendment because it would impede the ability of the regulatory agency responsible for the supervision of the resulting bank to review the transaction for safety and soundness, and would unnecessarily reduce the role of the public in the affiliate bank merger process, and hamper effective review of community-oriented issues, including compliance with CRA.

For example, as drafted, section 310 would make it possible for some transactions -- a combination that did not involve an acquisition of an additional bank or a merger with another holding company -- to escape convenience and needs analysis, public notice, and CRA review altogether.

The second concern I would note is with section 103, which would transfer to the Financing Corporation -- FICO -- certain funds that would otherwise be part of the BIF or SAIF. In view of the evolving international economic trends, the Year 2000 challenge faced by the banking and thrift industries, and concerns about credit quality recently expressed by each of the bank regulators, we do not support diverting income away from the insurance funds.

In conclusion, let me say that the OCC remains committed to the reduction of unnecessary regulatory and supervisory burden. We believe this can be done constructively, without compromising either the safety and soundness or the community and consumer responsibilities of insured depository institutions. We applaud the Subcommittee for its efforts, and support an overwhelming majority of the provisions in the draft bill.