



NEWS RELEASE

Comptroller of the Currency
Administrator of National Banks

NR 2001- 57

FOR IMMEDIATE RELEASE
June 20, 2001

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Comptroller Hawke Cites Industry Trends that Give Cause for Concern, But Tells Congress that Banks Are Well Prepared for Tough Times

WASHINGTON -- Comptroller of the Currency John D. Hawke, Jr. told a Senate panel today that while banks are far better prepared to deal with a slowing economy than they were at the onset of the last economic downturn in 1990, there are trends in the industry that give cause for concern.

Since 1997, he said, the OCC has expressed concern that loan underwriting standards have slipped as banks faced competitive pressures to maintain earnings in the face of greater competition for high-quality credits, particularly from nonbank lenders. In some cases credit risk management practices did not keep pace with changes in standards.

“We now are beginning to see the consequences of those market and operational strategies in a rising number of problem loans,” he said in testimony before the Senate Committee on Banking, Housing and Urban Affairs. An interagency review of syndicated loans will likely show a rise in problem credits for the third straight year, the Comptroller said.

However, Mr. Hawke told the panel that national banks have responded in a positive way to a series of initiatives the OCC has taken in the area of credit quality.

“Bankers are adjusting both their risk selection and underwriting practices,” he said in testimony before the Senate Committee on Banking, Housing and Urban Affairs. “Credit spreads are wider, recent credit transactions are better underwritten than they were as little as twelve months ago, and speculative grade and highly leveraged financing activity has slowed in both the bank and public credit markets.”

The Comptroller told the Senate panel that it is vital that regulators deal with credit problems as soon as they arise. The OCC, he added, began responding to deteriorating credit underwriting standards in 1997 with a series of increasingly firm steps.

“By responding when we first detect weak banking practices, supervisors can avoid the need to take more stringent actions during times of economic weakness,” Mr. Hawke said. “Supervisors are most effective when they take early and carefully calibrated steps that target potential industry excesses and failures in risk management.”

When banks address problems early, he added, they are better able to weather economic downturns and are in a position to contribute to economic recovery.

Mr. Hawke told the Senate committee that national banks are reporting strong earnings with returns of \$15.20 for each \$100 in equity -- a level well above the \$11.50 banks were earning just prior to the slowdown that began in 1990.

Asset quality is also much better he said. The ratio of noncurrent loans to total loans is only 1.3 percent, compared to 3.3 percent at the beginning of 1990. And national banks today hold equity capital of 8.9 percent, compared to 6 percent in the first quarter of 1990.

In addition, greater diversification of income sources has not only improved the quality of bank earnings, but has given the industry a greater capacity to weather difficult economic times, Mr. Hawke said.

The Comptroller said that, as economic conditions weaken, the OCC will continue to follow a careful, but firm approach to addressing weak practices and increased risks.

“In this regard, we are constantly mindful that the alternative approach of silent forbearance can allow problems to fester and deepen to the point where sound remedial action is no longer possible--a lesson that all bank supervisors learned painfully in the late 1980s and early 1990s,” he said.

“I can assure you that the OCC will remain vigilant in our efforts to continually improve the risk management of national banks and thereby maintain a viable, healthy industry to support our economy,” Mr. Hawke added.

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The OCC charters, regulates and examines approximately 2,200 national banks and 56 federal branches of foreign banks in the U.S., accounting for more than 55 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.

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