

Remarks by
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I'm very happy to join you -- and very happy that you could join us. On the eve of the Memorial Day weekend, a traditional time to count the blessings of our free society and pay tribute to those who fought to preserve and protect it, I am delighted to be here with you.

It is a great time -- and a challenging time -- to be an American, and it's a great time -- and a challenging time -- to be a banker in America. When it comes to community bankers like you, we at the OCC recognize the hurdles you face today -- competition coming from all directions, the burdens of more and more regulation, the expenses of new technology -- I could go on and on. But I believe that, with the resources of the OCC dedicated to supervision of your banks, and the national bank charter as the foundation for your business, you could not be better positioned to successfully meet those challenges.

I'm not here to give a stump speech -- and since you are all national bankers -- I'm not trying to "market" the national bank charter to you, but I do believe that, for national bankers, being part of the national banking system is more valuable than ever before. Here's why.

One of the reasons why a national bank charter has never been more relevant -- or more in demand -- is on display at this meeting. It's the *people* who work for the OCC -- people whose dedication and supervisory expertise are second to none. It's not just that they are *experienced*. They are *experts* in your business and the issues you face. And that expertise is available to *you*, as national bankers.

And I'm not just talking about our national bank examiners. If you have a question on a legal issue or corporate matter, you can call your OCC district office, talk to one of our legal or licensing specialists and get the best guidance available. Or, if you need help developing your community development and CRA programs, OCC community affairs officers are available in each of our districts to provide individualized consultations.

And it's not just the people who have joined me at today's meeting. We have dozens of experts in fields ranging across the banking and financial spectrum -- people who know the banking business inside and out, people with the most advanced degrees and certifications available, some with years of industry experience before they came to

the OCC. These are people who know the issues faced by banks of all types and sizes; experts who supervise some of the largest and most complex banking organizations in the world; experts who understand the issues and challenges facing community bankers. All these are resources available to *you*.

Our Washington headquarters staff also stays in close contact with bankers throughout the country to understand the issues affecting your business. That's one of the reasons why our senior Washington D.C.-based staff is here today – to hear from you. It's a two-way street. We not only talk *to* community bankers; we listen to what *you* have to say. Keeping our ears to the ground is crucial, not only in providing effective supervision, but in learning about best practices, emerging market opportunities, existing and emerging risks, and particular trends in the financial services industry. This is information that we can then pass along to others – to community bankers like you.

But let me be very clear about one point before I go on: OCC examiners and other experts are not here to tell you only what you want to hear. We are in a position to provide valuable advice and counsel to improve your operations, but we won't hesitate to tell you when you are off base and when you need to shape up. And we expect that you will respond positively and promptly when we deliver our messages. *Our* goals for your bank should be *your* goals: safety and soundness and integrity in all your operations, which translates into a sound and successful banking business.

The combination of what we call “local presence; national perspective” enables us to add value to the solution of individual bank issues *and* effectively tackle systemic issues that affect multiple national banks.

Let me offer some examples of how this combination works. An overwhelming percentage of the decisions that affect your examination and the supervision of your banks are made by your examiner-in-charge or your assistant deputy comptroller, who operate from our local field offices. But sometimes an issue is more than an individual bank or local matter. Sometimes it involves an issue or market development that affects banks regionally, or even nationally. In such a case, we would want to ensure that our examiners have the latest, best perspective that OCC experts could provide, so that local examiners can factor that information into their supervisory communications and actions. You heard this morning, for example, about our perspectives on interest rate risk trends and liquidity risk issues.

And sometimes an issue can assume a national significance, or it involves complex facets that require oversight to assure that OCC's policies are being applied consistently. A timely example is BSA. The issues here have been so volatile, and the sensitivities and consequences for bankers so significant, that we concluded that additional levels of review should be adopted to ensure that we were absolutely consistent in the standards we applied to determine whether or not to take BSA-based enforcement actions.

Our policy is that any citation of a bank for a BSA violation must be reviewed and approved at the highest levels of the OCC. We have put in place a process for all proposed citations of BSA violations to be considered not only by a district Supervision Review Committee, but also by our Washington Supervision Review Committee, which then reports directly to our Senior Deputy Comptrollers for Bank Supervision. Depending on the size and type of bank involved, the final decision on citing a BSA violation rests with the Senior Deputy Comptroller for Large Banks or the Senior Deputy Comptroller for Mid-Size/Community Banks, each of whom brings a wealth of supervisory experience and a broad perspective on BSA issues to these decisions.

Our experience as community bank supervisors also makes us keenly aware of the burden of regulation shouldered by community banks. We see it and hear about it every day from national bankers and our national presence means we are directly involved in the debates in Washington D.C. about how to do something about it.

We have also been advocates on the national stage of measures designed to make regulation more efficient, *and* less costly, less intrusive, less complex, and less demanding on you and your resources. We know that the resources you expend working to meet government compliance and paperwork requirements is time and effort unavailable for you to do what you do best – serving your customers and communities. When we hear these concerns from you, we can translate your issues into proposals for reform.

For example, when we heard from community bankers that higher state legal lending limits were placing them at a competitive disadvantage, we introduced a new regulatory program, recently expanded and extended, that raised those limits. I know that this was a matter of particular interest for Illinois national banks, and I hope that it has helped you to better serve your customers.

We have also implemented more efficient ways of dealing with *us* – for example, in filing corporate applications. With our E-Corp system, available on National BankNet, most applications can be submitted electronically – and processed more expeditiously than ever before.

And sometimes the changes we would like to see require changes to the law. Our efforts to highlight the need to reform the regime of consumer compliance disclosures are a prime example of this.

Do you feel enlightened by the disclosures that you get? Do you think that the stacks of paper, pamphlets and reams of disclosures that your customers get are helpful to them?

Many bankers tell me that they have trouble deciphering the disclosures that accompany their own loan and credit card statements. If bankers don't get it, what are the chances that average consumers are going to be able to make sense of the blizzard of information coming at them?

Now, you may be thinking to yourself – okay... but what is in this for my *bank*? My answer is: Plenty. Shorter, focused consumer disclosures can meaningfully reduce your regulatory burden. Just think of what it costs to prepare and deliver all those consumer disclosures that get thrown out because your customers don't find them useful.

Your costs are reduced if one sheet of paper can take the place of a stack. And if you run a non-complex business, why shouldn't you be subject to non-complex compliance requirements, with non-complex disclosure requirements to go with them? The time you spend on compliance matters and the money you spend on lawyers and consultants navigating through complicated requirements could be redirected to better serving your customers and improving returns to your stockholders.

That's why I have spoken out repeatedly in favor of a new approach to consumer compliance disclosures – an approach that should be based on input from consumers to determine the kind of information they really need and want and what those disclosure forms should look like – all to ensure that every dollar spent on disclosures is a dollar *effectively* spent.

Another subject where we will weigh in on issues of importance to community banks is the Basel II capital framework being developed by U.S. and foreign bank supervisors. There are many who think of Basel II as a large-bank issue, and it's true that the so-called "mandatory" Basel II banks are large banks and most of the banks that will "opt-in" to a Basel II approach to determining capital adequacy will undoubtedly be larger institutions. But the approach of Basel II for bigger banks raises important concerns of competitive equity and regulatory burden for community and mid-size banks that will *not* be covered by the Basel II capital rules.

That's why we are now engaged in a simultaneous effort to update and revise the risk-based capital rules that will apply to the non-Basel II banks. In that effort, we will be very aware of the potential competitive implications of different capital rules for different types of banks, and we also will be very sensitive not to go overboard and create an overly complicated new set of capital rules for the non-Basel II world.

The OCC strives to deliver "value-added supervision." When I use that term, I'm not simply talking about straight talk from examiners whose years of training and experience provide invaluable advice and direction about what you need to do to be a better banking business. I'm not just talking about a fair and balanced application of laws and regulations. And I'm not just talking about our role in finding solutions to the sources of unnecessary regulatory burden. It's all of those things together, and more. To us, "adding value" means a supervisory and regulatory approach that makes your institution sounder – in the broadest sense of that term – than it would have been without us.

Our outreach programs also contribute to this effort. Many bankers, with so much on your plates, don't always have the time to gather the information you need on your

own. Our goal is to help bring that key information to you. We do that in a variety of formats. How many of you have attended one of our telephone seminars? If you have, then you know that they are a cost-effective way of obtaining up-to-the-minute guidance on a wide range of supervisory issues. We've had them on topics like Bank Secrecy Act and anti-money laundering compliance, credit risk issues, corporate governance concerns, and you can count on seeing more of them, on topics that are timely.

How many of you have attended an OCC district regular outreach meeting? If you have, then you know that we hold them frequently – not only for CEOs, but also for officers at virtually every level of national banking companies, from directors to compliance and loan officers on down. We also initiated a series of workshops designed exclusively for outside directors of community national banks, and we now offer workshops on risk assessment, credit risk and compliance risk at locations throughout the United States.

We also make valuable information available via the Web, over our National BankNet site, which offers a host of informational tools. For example, we recently unveiled a commercial real estate stress test model on BankNet for community and midsize banks, which has proved extremely popular. Additional risk management tools are in the pipeline and will be introduced in the coming months.

Finally, I would be remiss if I talked about the value of being a national bank today and didn't highlight the legal framework under which national banks operate – a framework that enables national banks to compete effectively and efficiently and to evolve their business to grow with their customers' needs in today's fluid and competitive marketplace. In a nutshell, a national bank charter is an outstanding vehicle for conducting a banking and financial services business.

Obviously federal preemption, much in the news these days, is an important characteristic of the charter, one that has important practical consequences for the efficiency of your operations. As important is the framework of how national banks are permitted to operate. That framework is a spacious framework, designed to accommodate change. The OCC is unique among federal bank regulators in having the authority – recognized by the U.S. Supreme Court – to determine whether a new product or service is part of, or incidental to, the business of banking – concepts that are constantly evolving.

Moreover, national banks have the ability to develop and offer new products and services through a variety of structures: an operating subsidiary, a financial subsidiary, a bank service company, a joint venture, and other types of investments, as well as through the bank directly. We recognize that not only will the content of the business of banking evolve over time, but the means by which that business is conducted must be permitted to evolve as well.

In closing, I return to my opening theme. Times are challenging for community bankers – we recognize that. But as you face those challenges, there is no better time than now to be a member of the national banking system. We never forget that when it

comes to your bank charter, you have a choice. Our promise to you, in return, is that with a national charter, you will get expert, fair and balanced supervision, and an efficient and constructive approach to regulation of the banking business.

Thank you all for joining us. It's been a pleasure visiting with you.