Meeting Minutes
Comptroller of the Currency
February 19, 2013

Speaker: Kayleigh Farrington – National Bank Examiner
(SDSU alumni 2003)

History
- Established in 1863 under President Lincoln as part of the National Currency Act/ National Bank Act
- Regulates national banks
- Comptroller is appointed by President for a 5-year term
- Self-sufficient agency within US Department of Treasury
  - Not tax-appropriate
- Financial Institution & Regulatory Agencies (Institution - Regulator)
  - National Bank – OCC
  - State Bank / Fed Member – FRB/DFI
  - State Bank / Nonmember – FDIC / DFI
  - Credit Union – NCUA / DFI
  - Bank Holding Company – FRB
  - Savings Bank – OTS
- We have almost 3,000 employees nationwide
- OCC Regulatory Authority
  - In regulating national banks, the OCC has the power to:
    - Examine national banks
    - Process applications for new charters, branches, capital, or other changes
    - Take actions against banks not complying with laws and regulations or engaging in unsafe and unsound practices
    - Issue rules and regulations governing bank activities
    - Remove officers and directors, negotiate agreement to change banking practices, and issue cease and desist orders as well as civil money penalties
  - Who we regulate
    - All national Banks, some credit ard banks, and information technology service providers
    - Supervision delegated to 2 groups: Large Banks, and Mid-Size community banks
Most names you’ll know are Bank of America, Wells Fargo, Union Bank, and Chase

- **Bank Regulation**
  - Think of the OCC as the “health department” of the banking industry
  - Examiners are not “auditors” We examine the bank.
    - Financial statements are great. But we simply just make sure it is unqualified opinion

- **Safety & Soundness Examinations**
  - Examines Assign Ratings –Scale of 1-5
    - Composite rating for overall Bank
    - CAMELS! Ratings for key areas (Camels??)
      - Capital
      - Asset quality
      - Management
      - Earnings
      - Liquidity
      - Sensitivity to market risk
      - Information Technology
    - We give the above a Composite Rating

- **Capital Adequacy**
  - Min capital established by law and regulation
  - Dictate activities in which a bank can engage, volume of loans, borrowings, etc
  - Capital Ratios
  - TARP – Under Bush administration (Troubled Asset Relief Program)

- **Asset Quality**
  - Volume of Problem Assets
    - Criticized Assets -
    - Classified Assets – rated substandard or loss
  - Concentrations of Risk
  - Credit Administration Practices
    - Can the borrowers repay?
    - Underwriting issues
  - Allowance for Loan & Lease Losses
    - It is a complete estimate on the balance statement for the future credit loss made by management
  - Hot topic right now:
    - Mortgage Loans – could be settling down
    - Investments
    - Foreclosure settlement
  - Banks have 200% worth of problem assets???

- **Management**
- Competency of Management
  - Expertise in Relation to Risks
  - Safe and Sound Practices
  - ALC – Asset Liability Committee
  - Appropriate Policies, procedures, controls
  - Compliance with Laws
- Quality of Board Oversight
  - Earnings
    - Quantity and Quality of Earnings
    - Growth- historical and planned
    - Dividend Practices
    - Budget
  - Liquidity
    - Sufficiency & Mix of Funding Sources
    - Ability to Meet Expected Needs
      - Unexpected funding needs are important too
    - Cost of Liquidity (eg: Cost of a house or a car)
      - If you are having problems, then you are going to be paying more for liquidity
  - Sensitivity to Market Risk (Interest rates)
    - Primarily interest rate risk for most community banks
    - Risk to earnings and capital from changes in market rates
    - Most banks are making very little money right now (note)
    - Earnings at Risk
    - Economic Value of Equity
  - Information Technology
    - Management of technology resources
    - Availability of Information
    - Integrity of information
  - Composite Rating
    - 1 = Sound in every aspect
    - 2= Fundamentally sound. Moderate weaknesses easy to correct
    - 3= more weaknesses that are of supervisory concern, needs improvement
    - 4= serious problems, unsafe and unsound condition
    - 5= failure is highly probable
    - Had a few 3,4,5s a few years ago, but most are either 1 or 2
  - Problem Banks
    - Generally, if a bank is rated 3 or worse, the OCC will take action to address the problems.
    - The OCC has the power to:
• Take administrative actions against banks and bankers that engage in unsafe or unsound practices or that do not comply with laws
• Assess monetary penalties against banks or bankers
• Remove officers, directors, and employees and prohibit them from future involvement in the business of banking.

  ▪ Administrative Actions
    ▪ Informal Actions
      ▪ Commitment Letter
      ▪ Memorandum of Understanding
    ▪ Formal Actions – public documents
      ▪ Formal Agreement
      ▪ Consent Order
      ▪ Cease & Desist Order

  ▪ Risk Assessment
    ▪ Credit Risk, Interest Rate risk, Liquidity Risk
    ▪ Price Risk
    ▪ Foreign Exchange Risk, Transaction Risk, Compliance Risk, Strategic Risk, Reputation Risk

  ▪ Working for the OCC
    ▪ OCC hires twice a year around September and February for January and June start dates
      • Will start resuming hire process for next September.
    ▪ Placed on a training team for 6-8 months: here you will learn the fundamentals of bank examining.
      • Do you know the basics of reading the financial statements?
    ▪ Start participating on bank exams immediately

  ▪ Hiring Process
    ▪ Initial knowledge and writing tests
      • Some economics, some accounting, some finance problems
    ▪ First interview is a phone interview
    ▪ Second Interview: is at a district Headquarters in Denver, CO with OCC management

  ▪ Training Team
    ▪ Start on a training team, 1 National Bank Examiner, 1 Associate, and 4-5 trainees.
    ▪ Approx. 8 banks on the training team to learn about bank operations, audit and internal controls
    ▪ Travel to bank on Monday morning
    ▪ Work with the rest of the exam team, usually 5-7 examiners working together in the board room
    ▪ Hold meetings with management, complete your analysis, and present your findings and rating recommendations at exit meeting.
Post training Team

- After your 6-8 month on TT, go to assigned field office which could be in a different location that your TT field office
- Participate on exams at your field office; will now look at Asset Quality, Compliance, and IT.

Ongoing training

- OCC is committed to training employees
- Pre-commissioned examiners take several OCC-provided classes to prepare them for the Uniform Commission Examination
- Will pay for CPA exams! We need CPAs!!!

Uniform Commission Exam – difficult!!

Long-Term Career

- Lateral changes in different roles

Benefits

- Every other Friday off
- All national holidays
- Start accruing annual and sick leave immediately (4 hours pp)
- 401k, Roth 401k, TSP
- Medical dental, and vision
- Life insurance
- Flexible health care spending account