

Press Releases

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OTS 00-11 - Recent Bank Failures Teach Us Lessons, Says OTS's Seidman

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Contact: William Fulwider

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Recent Bank Failures Teach Us Lessons, Says OTS's Seidman

WASHINGTON, D.C., Feb. 8, 2000 - People learn from failures, and federal banking regulators are no different. Testifying with other regulators before the House Banking Committee Tuesday on bank failures, Director Ellen Seidman of the Office of Thrift Supervision (OTS) asserted, "There are important lessons to be learned from the recent failures, as well as from institutions that have required our supervisory attention to prevent failures."

Noting that only one thrift has failed since 1996, Oceanmark Bank in 1999, Ms. Seidman warned that today's record economy "is exactly when intense competition can lead to poor underwriting and pricing that does not cover risk - two primary ingredients in bank failures. The challenge to effective supervision, as well as to detection of fraud, is in many ways the greatest when a booming economy enables an institution to earn profits that can hide structural flaws."

She cited seven lessons learned from the failures:

- The importance of agencies working together effectively to identify and deal with emerging risks - It's a lesson brought home by the Y2K success and OTS's work on thrift holding company applications.
- The need for effective internal controls and reliable books and records - This is especially true in an era of unprecedented profitability and intense competition where the temptation is to cut corners.
- A world of changing risks requires changing supervisory strategies - Regulators need to supplement regular exams with more frequent field visits and enhanced off-site monitoring when institutions enter higher-risk activities such as sub-prime lending.
- Supervision must follow the business - As outsourcing grows, examiners need to understand what is being done, be able to pursue effective exam strategy and have the authority to intervene when there are problems.
- The need to recognize and minimize potential accounting distortions - "As regulators who ultimately need to rely on economic capital to prevent or cushion a failure, we have to understand where the potential distortions are, and we have to deal with them."
- Examiners must never be intimidated - "Intimidating examiners has no place in our system; indeed it is a sure sign that the institution is having problems and is trying to hide them."

- Regulators must be supervisors, as well as examiners - "We don't just take a look and find out what's happening. We analyze and evaluate it. If we think there are excessive risks, we have an escalating program of supervisory strategies to do something about it."

With regard to interagency cooperation, Ms. Seidman asserted that her active participation as a director of the FDIC and a member of its audit committee "makes for a better FDIC - and a better OTS." Noting also that most of the interaction between OTS and the FDIC occurs in the field, she added, "Our philosophy is straight-forward: we value the FDIC. Not only do we honor requests by the FDIC to join us on examinations, but also we reach out to invite the FDIC in when we sense a supervisory problem may be developing. It is a good relationship that works well, and while incremental improvements are always desirable and possible, there is no need for statutory change," she said.

Focusing on OTS's approach to supervision, Ms. Seidman said, "Because of the still-overwhelming proportion of thrift assets held in mortgages, we emphasize quarterly monitoring and supervision of interest rate risk in addition to the more traditional credit, capital, earnings, operations and management risks."

She said 91 percent of the institutions OTS regulates file quarterly data on their on- and off-balance sheet assets and liabilities, which are then analyzed by OTS and reported back to the institutions to help them understand and manage the interest rate risk they are taking.

Oral Statement - <http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2000-11a.pdf>

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The Office of Thrift Supervision (OTS), an office of the U.S. Treasury, regulates and supervises the nation's thrift industry. OTS's mission is to ensure the safety and soundness of thrift institutions and to support their role as home mortgage lenders and providers of other community credit and financial services. For copies of news releases or other documents visit the OTS web page at www.ots.treas.gov.