

Statement of John D. Hawke, Jr.
Comptroller of the Currency
before the
Committee on Banking and Financial Services
U.S. House of Representatives
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Mr. Chairman, Ranking Member LaFalce and members of the Committee, I appreciate the opportunity to be with you today. With your permission, I ask that my entire prepared statement, which responds to the questions you raised in your invitation letter, be included in the record. Before I begin my remarks this morning, I want to commend your strong leadership and commitment to address Year 2000-related issues. I would also like to specifically thank Chairman Leach for agreeing to speak at the interagency Summit on Contingency Planning & Customer Awareness that the OCC is co-hosting this Thursday.

This morning I would like to discuss the overall progress national banks have made in making their systems Year 2000 ready, and the important role the banking industry and the government play in maintaining public confidence.

For the past two years, jointly with our FFIEC colleagues, the OCC has engaged in a comprehensive program to address the challenges presented by the coming Year 2000 date change. That program includes providing detailed policy guidance to banks, conducting at least three rounds of onsite examinations at each institution, implementing enforcement programs to deal with deficiencies, and reaching out to bankers and the public to let them know what they should do to prepare themselves.

At the OCC, we have assembled a unique, comprehensive database and constructed analytic tools that enable us to monitor closely where national banks stand, and this has enabled us to target quickly and effectively our attention on banks that require closer scrutiny. This database contains the results of quarterly surveys of our examiners regarding the Year 2000 preparedness of the national banks they supervise, using an extensive data sheet designed with the assistance of the Gartner Group. We are able to systematically monitor, not just national banks' overall Year 2000 ratings, but also the status of specific activities and elements of their Year 2000 preparations. One important

way in which we use this information is to ensure the accuracy and consistency of the ratings our examiners assign individual banks.

The vast majority of national banks are making good progress towards being Year 2000 compliant by the June 30 FFIEC target date. In fact, as of March 31, 1999, 96 percent of national banks were rated satisfactory. Through our examinations we have found that a number of national banks have experienced problems in meeting some of the interim target dates set by FFIEC. This we expected would occur. We also anticipate that a small number of national banks may not be able to meet the June 30, 1999, timetable.

However, as we have stressed in our regular reports to Congress, Year 2000 preparedness is a dynamic process and the ratings assigned to individual banks at one stage of the remediation process could change, particularly as that process moves into the testing phase. It is important to understand that most problems banks have encountered during the testing phase are not serious, and to a great extent they have been able to resolve them quickly. Moreover, it is also important to keep in mind that while the June 30, 1999 target is an important one, the FFIEC chose this date to ensure that there would still be sufficient time remaining in the year to deal with problems coming out of the testing phase.

Now, let me turn to the critical question of maintaining public confidence. Maintaining close communications between banks and their customers is central and essential to achieving this goal. We are asking banks to keep their customers up-to-date about the progress they are making towards bringing their systems into compliance. We believe the best way they can do that is through consistent disclosure of their efforts, and working with local business leaders and media to provide balanced information on Year 2000 issues. For its part, the OCC is participating in FFIEC educational efforts, and will be working to supplement those efforts through outreach at the local and regional level.

In conclusion, given the large number and complexity of systems involved, as well as a host of external considerations, some problems are bound to occur, but overall, the banking industry has made admirable progress in getting ready for the century date change. The OCC and the banking industry are doing everything we can practically do to minimize disruption and to anticipate and deal effectively with problems that occur. With all of us working together, I am confident we will achieve this goal.