Remarks by

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Thank you, Maggie. I'd like to thank all of you for being here with us today for this important conference that focuses squarely on issues involving mutual institutions of all charter types, and I'd like to thank the FDIC for joining with us to sponsor this event. Federal mutual savings associations are very important to the OCC, and, in fact, we have just issued new guidance that discusses the structural and operational ways in which mutual institutions are different from stock-owned banks and thrifts. Because of those distinctions, the guidance provides, for example, that examiners should compare mutuals to other mutual institutions in evaluating financial ratios and trends – and not try to equate them with stock-owned banks and thrifts. I think that just makes good sense.

My own relationship with the mutual industry goes back a long ways, as some of you probably know. I began my career as a regulator in Massachusetts, which I like to think of as being in the heart of mutual territory. It was there, in Massachusetts, that I became familiar with mutuals, and first gained an appreciation for the importance of diversity in our financial system. As Commissioner, I supervised institutions with a number of different charter types, of varying sizes and operating strategies.

Today, as Comptroller of the Currency, that appreciation for diversity has deepened. The OCC regulates the nation's largest financial institutions, but we also regulate the smallest – the community banks and thrifts, including mutual thrifts – that are the backbone of the American financial system.

What I've seen in my years as a regulator is that no one institution – even the very large banks that offer a variety of products and services – can adequately serve all of our nation's financial needs. Community banks extend credit to farms and families and local businesses in towns and cities across America, and they serve their customers and markets in a way that large banks just can't match. They are small enough to be able to know their customers, and they work with them in good times and bad. But they are large enough to provide the services communities need.

In this mix of financial providers, mutuals play a very significant role. So, I'm glad to be able to report to you that the state of mutual federal savings associations is strong and sound. We shared a presentation on financial performance and mutual trends at the OCC's Mutual Savings Association Advisory Committee meeting yesterday, and you'll find copies of that report here, as well as on our Web site.

Looking at some of the indicators that are most important to those of us at the OCC, such as asset quality and capital, mutual thrifts are doing well. Historically, mutuals have had higher capital levels and today's results are no exception. For example, the median Tier 1 leverage ratio for mutuals was 12.73 percent at the end of the first quarter this year, 180 basis points better than the average ratio for stock-owned institutions. And mutuals also did better on measures of classified assets and non-current loans. However, as you all know, mutuals wishing to grow or expand business offerings confront challenges not faced by stock institutions that can readily raise capital.

The challenge that I would like to talk about today is that the laws and regulations that govern federal thrifts make it difficult for you to adapt your business strategies to changing economic and business environments. My question is simple: why must an institution change its charter in order to modify its business plan? Charter conversion is expensive and time consuming, and for small thrifts, it is prohibitively expensive. Business strategies change over time. What worked well for a given institution in 1975, for example, isn't necessarily appropriate to today's business environment. And, it may well turn out that what works today won't be suited to business conditions and markets ten years from now. Federal thrifts ought to be able to adapt their business strategy to current conditions without changing charters at each turn.

I'd like for us to consider a new approach that wouldn't require a charter change for thrifts that want to move from a business model based on mortgage lending to one that places more emphasis on a mix of business loans and consumer credit. In my view, the charter should be flexible enough to accommodate either strategy, which is precisely what we did in Massachusetts. In Massachusetts, we made powers and investment authorities, as well as the supervisory requirements, the same or comparable regardless of charters, and we allowed thrifts and banks to exercise those powers while retaining their own corporate structure.

If Congress were to authorize a similar system at the federal level, a federal savings association that diversifies beyond a mortgage focus would continue to maintain a federal charter and would continue to have the OCC as its regulator.

I'm not suggesting we shouldn't continue to have both savings associations and banks in this arrangement. It is simply a more streamlined way to provide flexibility to those institutions that wish to change their business. Every institution wants to brand itself, and your choice of charter is part of that process. You should be able to exercise new powers while retaining the charter. But some of the restrictions federal thrifts operate under severely limit their activities and are ripe for modification. I'm thinking in particular about the qualified thrift lender, or QTL, test and the restrictions on commercial and consumer lending.

The QTL is a particularly good example of a legal requirement that needs updating. Federal thrifts play an important role in the nation's mortgage markets, and that will still be the case long after I've ceased to be a regulator. But there are so many willing participants in this market that we no longer need to require every savings association to devote a fixed percentage of its balance sheet to the business.

Congress created the QTL test years ago, at a time when mortgage lending was a simple business with few product offerings and relatively stable interest rates. Today, that business is more complex and there are many more lenders anxious to support homeownership. The problem for federal savings associations is that in years when mortgage demand is low, they are hamstrung by the QTL test. That leaves few options, and many federal thrifts are likely to turn to other means of compliance, such as mortgage-backed securities, which carry interest rate and other types of risk.

I don't see a problem with expanding the existing ability of federal thrifts to engage in commercial lending. The fact is, our examiners evaluate commercial lending at every institution we supervise, and it's our job to blow the whistle early in the game if problems arise. Most federal savings associations already engage in some level of commercial lending, so they aren't starting from scratch. The same logic applies to other types of consumer lending.

And as would be the case with any change in strategic direction, either for a national bank or a federal thrift, the OCC would work with the institution's management to ensure that the new business plan is implemented in a safe and sound manner.

These changes will all require legislation to implement, and there will be a number of important issues to consider. For example, we need to consider transition periods that would minimize disruptions. One way to approach that would be to build in the same kind of transition periods that now apply to charter conversions.

There are other ideas under discussion in Washington, including a proposal to create a mutual national bank charter. I know this proposal is aimed at eliminating activity restrictions while maintaining mutual organization, but again, I don't think it should be necessary to go through the expense of changing charters in order to change a business strategy.

The model I've discussed worked well in Massachusetts, and I have every confidence it will work well on the national level for federally-chartered thrifts. It's one of the ideas that I hope you'll give some thought to during this meeting and in the months to come.

Thank you again for giving me this time to talk with you. I'm looking forward to hearing your thoughts and taking your questions.