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**TESTIMONY OF**  
**JOHN D. HAWKE, JR.**  
**COMPTROLLER OF THE CURRENCY**  
**Before the**  
**COMMITTEE ON BANKING AND FINANCIAL SERVICES**  
**of the**  
**U. S. HOUSE OF REPRESENTATIVES**  
**February 8, 2000**

Statement required by 12 U.S.C. § 250:

The views expressed herein are those of the Office of the Comptroller of the Currency and do not necessarily represent the views of the President.

## **Introduction**

Mr. Chairman and members of the Committee, I appreciate this opportunity to participate in today's hearing. The Office of the Comptroller of the Currency (OCC) believes that this hearing, and other efforts to review the circumstances surrounding recent bank failures, serve an important role in helping to improve the bank supervisory process.

In my testimony today, I will discuss the three national bank failures that occurred in 1999 and our estimates for bank failures in 2000. I will also highlight supervisory initiatives undertaken by the OCC and the other banking agencies to address emerging risks in the banking system. Finally, I will discuss our examination policies and practices regarding coordination with the Federal Deposit Insurance Corporation (FDIC) and provide our comments on H.R. 3374, the "FDIC Examination Enhancement and Insurance Fund Protection Act."

## **National Banks' Ability to Weather an Economic Downturn**

Before I discuss these matters, however, I would like to respond to the Committee's requests that we assess how the national banking industry would withstand an economic downturn, and that we contrast the industry's current condition with its condition during the period leading up to our last national recession, which began in 1990.

During the ten years that preceded that recession, the banking system suffered a degree of disruption that had not been seen in the United States since the Great Depression. Significant portions of the banking industry were hurt by the financial and economic turbulence of the 1980s. Banks took substantial losses on their commercial loan portfolios, particularly on their real estate, energy, and agriculture loans. Hundreds of banks failed as a result, severely depleting the FDIC's insurance fund.

Although the banking industry was slow to recover from many of these problems, improvements in supervisory and regulatory processes, increased sophistication in risk management practices, and sustained economic growth have allowed the banking industry to rebound and to prosper. For example, in 1991, Congress enacted the Federal Deposit Insurance Corporation Improvement Act (FDICIA), which significantly revised many aspects of bank regulation. FDICIA placed greater emphasis on the maintenance of high levels of bank capital and called for prompt supervisory intervention when bank capital levels fall below pre-specified thresholds.

Thus, although I believe it is appropriate to understand and analyze the causes of bank failures in 1999, we should do so within the context of the overall fundamental strength of the banking system today. National banks now are in a far better financial position to weather an economic downturn than they were a decade ago. Banks have obviously benefited from the economic recovery that began in the early 1990s and the expansion that is still ongoing today.

Compared with the period leading up to the last recession, inflation and interest rates are lower, bank capital and earnings are at record high levels, and risk management practices are better. In addition, most quantitative measures of credit quality are stronger now than they were a decade ago.

Today, banks are also generally more diversified in their product offerings and in their geographic coverage than they were a decade ago. In short, while every bank failure can be a blow to the community it serves, and should be studied carefully, improvements in regulations, in bank supervision, and in the economy as a whole have reduced the number of bank failures to very low levels.

We do not regard the three national bank failures that occurred during 1999 as foreshadowing a much larger number of failures in 2000. The OCC currently has identified 13 banks as “critical banks,” with a total of 144 banks identified as problem banks, up from 121 at year-end 1998. The 13 critical banks are less than 1 percent of all national banks, and they hold only a tiny fraction of the assets of all national banks. Based on the current state of the national banking system and the consensus outlook for the economy, we do not expect a significant increase in bank failures in 2000.

### **Causes of National Bank Failures in 1999**

Despite the overall healthy condition of the banking industry, we remain vigilant in our supervision of national banks. Currently, a number of risks concern us. Generally, banks now rely more on expensive, and typically more volatile, non-core deposits. The loan loss reserves within the banking industry are at a generational low and recent loan loss provisions have not kept pace with loan growth. Loan underwriting standards, which banks tightened dramatically in the early 1990s, have again slipped. Further, while chargeoffs remain low, we are closely watching banks’ loan portfolios for signals of future deterioration of credit quality. Intense competitive pressures--both from banks and from non-banks--are leading banks to reach for revenue by taking on more risks and cutting expensive, but essential, control mechanisms.

The OCC is committed to identify and address risks at the earliest possible stages, when supervisory actions are most effective. As highlighted earlier, the number of banks receiving special supervisory attention by the OCC, beyond those on the critical list, has increased over the past year. Many of these institutions are receiving this increased attention because of their higher risk profile or deficiencies in their risk management, not because they are financially impaired. As I will discuss in more detail later in my testimony, the OCC has already undertaken, and has underway, a number of direct actions to deal with the pressures I discussed above and to further enhance our ability to identify and deal with risks in the banking industry at the earliest possible stages.

Pressures such as those I discussed earlier contributed to the three national bank failures in 1999, the first failures of national banks in over three years. In fact, history has shown that problem banks typically have weak management and controls. Two of these failed banks demonstrated poor lending and/or credit underwriting practices and one became heavily dependent on securitizing subprime loans. At two banks, there was apparent fraud on the part of insiders, indicating inadequate attention to internal controls and ineffective audits. In viewing the entire population of recent bank failures, both state and national, fraud appears to have played a significant role in the most costly bank failures.

Let me now move to a discussion of the specifics of the three bank failures in 1999. These banks were Peoples National Bank of Commerce in Miami, Florida; East Texas National Bank in Marshall, Texas; and First National Bank of Keystone in Keystone, West Virginia.

**Peoples National Bank of Commerce, Miami, Florida** was closed on September 10, 1999. The bank had \$37.6 million in assets and was located in Liberty City, one of Dade County's largest minority communities. The bank failed because of poor lending practices, particularly in its management of risks in the purchase of automobile loans originated by dealers; improper record keeping and accounting; an ineffective board; and frequent turnover in management and key staff. Although the bank did lend to some customers with poor credit histories or no credit histories, it was not primarily engaged in widespread subprime lending, nor was the bank involved in securitizations. The OCC placed a cease and desist order on the bank in 1997. After two recapitalizations by the bank's owners, the bank became critically undercapitalized for the third and final time in June 1999 as a result of continuing losses. At the time of closing, the FDIC estimated that the failure would cost the Bank Insurance Fund approximately \$2.2 million.

**East Texas National Bank of Marshall, Texas** was closed on July 9, 1999. The bank had \$125 million in assets. This bank failed because of poor credit underwriting and loan administration practices, apparent fraudulent activities, and inadequate supervision by the board of directors. East Texas National Bank was not involved in subprime lending or asset securitization.

The board of East Texas National Bank failed to exercise sufficient supervision over the operations and management of the bank, failed to correct violations of the legal lending limits, and failed to establish policies or procedures to prevent such violations from recurring. The bank failed to maintain adequate internal audit and loan review systems, and, to a large extent, had no external audit or loan review. As a result of this lack of controls, the president was able to combine interest and overdrafts into new notes. He also consistently failed to obtain adequate credit information or collateral documentation on loans that he supervised. When the bank did engage external audit and external loan review, the president apparently concealed the results of those reviews from the board. In August 1998, following an examination that disclosed these problems, the OCC placed a cease-and-desist order on the bank that, in part, prohibited the president from having any lending authority or supervising the lending function.

The president was removed from his position in February 1999 after the board discovered that he had violated the cease-and-desist order by exceeding the institution's legal lending limit. Following his departure, it was discovered that he had apparently changed the due dates and maturity dates on notes that would otherwise have been delinquent on the bank's books and records, thereby hiding the borrower's inability to repay. He also appears to have granted loans to nominee borrowers in order to extend additional credit to entities that already had loans in excess of the bank's legal lending limit. Loan losses recognized during the first quarter of 1999, and the resulting loan loss charge, depleted the bank's capital. At the time of closing, the FDIC estimated that the failure would cost the Bank Insurance Fund \$6.2 million.

**First National Bank of Keystone, Keystone, West Virginia** was closed on September 1, 1999. The bank's books showed \$1.1 billion in assets at the time of closure. Keystone's business was centered in originating and securitizing subprime, high-loan-to-value home equity loans. The cause of the bank's failure was capital insolvency resulting from apparent fraud. The OCC

discovered, through direct verification with the bank's loan servicers, that \$515 million in loans being carried on the bank's books were not owned by the bank. When these assets were charged off as a loss, the bank was rendered insolvent. The FDIC estimates that the failure could cost the Bank Insurance Fund \$750 million.

On November 10, 1999, a federal grand jury in the Southern District of West Virginia returned an indictment against two of the officials of the bank and its mortgage subsidiary, charging that these officials conspired to corruptly obstruct the examination of the bank by the OCC and the FDIC in violation of 18 U.S.C. § 371 (conspiracy) and 18 U.S.C. § 1517 (obstruction of an examination of a financial institution). These cases are currently set for trial in April. In addition, investigations into the circumstances underlying the bank's failure are ongoing. Because of the indictment and pending trial, the U.S. Attorney's office has requested that we not discuss publicly matters relating to the failure of Keystone. In light of this request, I would respectfully ask that if the Committee seeks details relating to Keystone, we provide that information in executive session or in private briefings, consistent with the U.S. Attorney's request.

The OCC has learned several lessons from these failures. These include the need for greater emphasis on effective audit and internal controls; the need to improve our training of examiners to identify the warning signs of fraud; and the need to press forcefully for information we deem necessary when confronted by a recalcitrant management. We have also learned more about the risks in subprime lending and the complexities of asset securitization and residual valuations. We are incorporating these lessons into many of our supervisory practices and procedures.

### **OCC Initiatives to Address Emerging Risks**

Fraudulent activities, poor risk management practices for subprime and high-loan-to-value lending and asset securitization, and ineffective audits were important factors in the three national bank failures of 1999. The Committee has expressed an interest in the supervisory initiatives that address some of these activities and in any other proposals that we believe could reduce risks in banks and, therefore, losses to the FDIC insurance funds.

#### Fraudulent Practices

Fraudulent management practices contributed to several recent bank failures. By its very nature, fraud is difficult to detect. Nonetheless, it is imperative that examiners and auditors maintain a vigilant lookout for the possibility of fraud. The First National Bank of Keystone and East Texas National Bank episodes underscore our concerns in this regard.

The OCC is taking a number of steps to increase our ability to detect fraud and to build on our past initiatives, such as the establishment of a special fraud unit in 1997. This unit, together with our enforcement and compliance division and our special supervision division, is the focal point for the OCC's fraud investigations. The specialists in this unit already are active in educating examiners and bankers on fraud prevention and detection, coordinating fraud

examination activities and working with other regulators and law enforcement on anti-fraud efforts.

We are increasing our emphasis on fraud detection. Last month, we issued guidance to examiners addressing situations in which banks refuse to provide the OCC with access to staff or bank documents, or otherwise attempt to obstruct the OCC's examination process. We also are establishing a comprehensive database of verification procedures. These procedures will assist examiners in verifying assets, evaluating the reliability of financial records, and testing internal controls. Also, the OCC has been encouraging and supporting our employees to pursue the training necessary to become Certified Fraud Specialists. Special training has been developed to aid our examiners in fraud detection, identifying problem banks, and in testifying in law enforcement proceedings.

### Subprime Lending

The term "subprime" lending describes credit that is extended to borrowers exhibiting higher delinquency or default risk characteristics than those of traditional bank borrowers. Borrowers within these categories represent a broad range of risk, but typically include those with blemished or unproven credit performance, repayment problems resulting from an adverse event such as job loss or medical emergency, or a history of mismanaging their finances and debt obligations.

In order to assess national bank involvement in subprime lending practices, the OCC in 1998 conducted a series of examinations designed to evaluate the risk management practices that national banks employ in this area. These examinations uncovered a number of serious weaknesses in the business and control processes used to manage the risks associated with subprime lending activities. The deficiencies were most pronounced in two types of banks: those that purposefully engaged in subprime lending activities but lacked an adequate understanding of the risks involved, and those that unwittingly entered the market by relaxing underwriting standards or loosening credit-grading criteria.

In response to bank involvement in subprime lending and the weaknesses we identified in some bank programs, the OCC took the lead in drafting new interagency guidance for bankers and examiners on subprime lending. That interagency guidance, issued in March 1999, discusses the credit and other risks of subprime lending and establishes uniform risk management expectations for depository institutions that engage in subprime lending. This guidance also highlights subprime loan securitization issues. In light of some of the identified weaknesses, the guidance directs banks to take a conservative approach when developing assumptions and capitalizing future income flows from subprime lending pools. The projected cash flows used in the initial valuation and required periodic impairment analyses must be realistic and all assumptions must be well supported. OCC Bulletin 99-15 (Subprime Lending, April 5, 1999) provides further guidance to bankers and specific examination procedures for examiners to use at national banks that engage in this activity.

## High-Loan-to-Value Lending

A high-loan-to-value (LTV) residential real estate loan is any loan, line of credit, or combination of credits secured by liens on or interests in owner-occupied one- to four-family residential property that equals or exceeds 90 percent of the real estate's appraised value, unless the loan has appropriate credit support.

In response to the recent growth in the volume of high LTV loans at some depository institutions, the OCC took the lead in drafting the "Interagency Guidance on High LTV Residential Real Estate Lending," issued October 9, 1999. That guidance alerts bankers to the credit risks associated with such loans. It also clarifies that high LTV residential real estate loans are subject to the agencies' uniform rules and guidelines on real estate lending. These rules establish an aggregate bank limit for this type of lending.

## Asset Securitization

Asset securitization is the process whereby loans and other receivables are pooled and interests in the pool are sold through underwriters in the form of "asset backed" securities. From the perspective of credit originators, this market facilitates the transfer of some of the risks of ownership to parties more willing or able to manage them. By doing so, originators can access the funding markets at debt ratings higher than their overall corporate ratings, which generally gives them access to broader funding sources at more favorable rates. Further, by removing the assets and supporting debt from their balance sheets, they are able to save some of the costs of on-balance-sheet financing and to better manage potential asset-liability mismatches and credit concentrations. Asset securitization can be a valuable tool for banks to manage their balance sheets and to more efficiently meet customer needs. In fact, many large commercial banks have been prudently using asset securitization as an alternative method for funding assets, improving financial performance, and generating fee income for a number of years. However, the activity is appropriate only when properly managed.

As of December 31, 1999, there were 29 community national banks and 20 large national banks actively involved in securitizations. Collectively, these banks represent less than 2 percent of all national banks—although the large banks obviously represent a significant portion of the assets of the national banking system.

In 1997 we published the "Asset Securitization" section of the *Comptroller's Handbook*, providing detailed guidance on securitization structures and the systems and controls needed to manage this activity. Subsequent to this publication, our examiners noted that some banks had risk management systems or internal control infrastructures that were not sufficient to support the institutions' securitization activities.

In response, last fall, the OCC took the lead in drafting the "Interagency Guidance on Asset Securitization," which was subsequently issued on December 14, 1999. This guidance describes the range of securitization activities being conducted by depository institutions and presents recent findings of weakness in risk management practices. The guidance also reiterates

and expands on existing supervisory statements that the agencies consider appropriate for engaging in this activity.

One area of emphasis in the December guidance is the valuation of residual interests that may be created in securitization activities. Under current accounting rules, institutions may recognize an immediate gain (or loss) when they sell or securitize assets. In a typical securitization, the institution sells assets and retains an interest in future cash flows relating to those assets. Such retained interests are recognized as an asset on the bank's books and measured based on their fair value. This results in recognition of a gain by the bank at the point of sale, even though the cash flows will not occur until some future period. This recorded gain has an immediate impact upon the institution's capital level. Because of this, any weakness in the valuation or marketability of the retained interest can have an adverse effect on the bank's capital and safety and soundness. This is of particular concern for institutions that securitize high yielding assets with long durations, because of the more dramatic potential shifts in values associated with such assets. Serious problems can arise for institutions that distribute these earnings as dividends or other payments and then incur a downward valuation requiring a charge-off of part or all of the retained interests.

Our examinations have disclosed weaknesses in the methods used by some banks to value their retained interests—particularly where quoted market prices are not available. In the latter cases, banks are tempted to use assumptions resulting in a high valuation of the retained interest (such as low loss severity factors, low market discount rates, low default rates, and low prepayment rates). This has the effect of inflating earnings and capital and delaying the recognition of losses. Liberal and unsubstantiated assumptions can result in material inaccuracies in financial statements, substantial write-downs of retained interests, and, if interests represent an excessive concentration of the institution's capital, the demise of the sponsoring institution.

In response to these concerns, the December 1999 interagency guidance directs examiners to classify as a loss any residual interest where bank management cannot provide objective and verifiable support for their valuation methodology and assumptions. Those assets will also be disallowed for regulatory capital purposes.

The agencies are also considering potential changes to their risk-based capital regulations to better address the risks associated with subprime lending and residual interests from securitizations. In addition, the agencies are considering changes to depository institutions' quarterly call reports to collect greater information on subprime and securitization activities. The multidisciplinary nature of asset securitization also has prompted the OCC to form its own Asset Securitization Working Group to help ensure that all issues related to securitization activities in national banks are addressed in a consistent and timely manner.

## Audit

The OCC believes that effective internal and external audit programs are essential to managing risk and maintaining safety and soundness within the banking industry; they are also the best defense against fraud. It seems clear that some of the bank failures of 1999 are

traceable, at least in part, to deficiencies in the audit functions of the banks. Effective and independent audit functions should give reasonable assurance of timely detection of weaknesses and deficiencies and their root causes.

The OCC is very concerned that the integrity, independence, and thoroughness of some external auditors have been weakened in recent years. We believe this is due to the cost and competitive pressures facing the accounting industry and some shifting in emphasis from bank auditing to bank consulting. We highlighted our concerns in our recent response to the Public Oversight Board's Panel on Audit Effectiveness survey. A copy of that response is attached to my testimony.

To emphasize our concerns, the OCC, along with the other bank and thrift regulators, have issued two interagency policy statements over the last two years reiterating the importance of a strong audit function: "The Interagency Policy Statement on the Internal Audit Function and Its Outsourcing" and the "Policy Statement on External Auditing Programs of Banks and Savings Associations." These statements highlight director and senior management responsibilities and provide guidance on effective audit programs.

In 1999, as part of our ongoing quality assurance program, we conducted a supervisory study of selected large and mid-size banks to assess the effectiveness of OCC supervision of banks' internal audit functions over the past 2 years. The study was designed to identify areas where OCC audit supervision needed strengthening and to surface innovative and helpful practices that could be shared with other examiners. Many of the findings and recommendations from that study have been incorporated into a revised audit booklet, "Internal and External Audits," which will be part of the *Comptroller's Handbook*. This booklet will help examiners and bankers assess the quality and effectiveness of internal and external audit functions. The booklet incorporates and expands upon the recently issued interagency policy statements. We anticipate publishing and distributing the booklet early in the second quarter.

In addition, one of the OCC's objectives in 2000 is to assess the adequacy and effectiveness of audit and internal control programs at national banks. This initiative will include training, examinations, and quality assurance for large, mid-sized and community banks. We will also implement additional audit-related examination procedures for use in all community banks. We anticipate that these initiatives will be completed by April 2000.

Upon completion of the training, all subsequent examinations will include a focused assessment of internal audit and controls. The OCC's quality assurance unit will assess the quality of audit and internal control examinations by coordinating a targeted review of these examinations. Findings from the quality assurance reviews will be used to fine tune our examination processes to assure quality supervision of audit and internal controls.

### **Other Initiatives to Address Supervisory Risks**

In addition to these efforts, we have also undertaken a number of other initiatives to address risk and reduce the losses to the FDIC insurance funds. The OCC established a National Risk Committee in 1996. The purpose of that group is to identify and analyze potential

significant risks to the national banking system, and make recommendations to OCC senior management as to appropriate supervisory responses. The group meets every two weeks to discuss various issues and, every six weeks, it makes a detailed presentation to our Executive Committee on current economic conditions and key trends in the banking industry. These presentations highlight emerging risks and identify economic factors that could have an adverse effect on the industry's performance. A synopsis of these trends, their implications for banks, and areas that may require closer supervisory attention is sent to all examiners after each presentation and is maintained on the OCC intranet web site.

We also developed and will soon implement a series of computer-based analytical tools that OCC field and headquarters staff and management can use to identify banks that exhibit increasingly high-risk characteristics that potentially warrant additional supervisory attention. Finally, to complement these early warning tools, we also have developed comprehensive guidance for examiners to assist them in identifying and resolving problem banks in the most timely and effective manner. This guidance is currently under senior-level review in the agency and should be issued this spring.

### **Coordination with the FDIC**

Your invitation letter requested that we describe the OCC's policies and practices regarding coordination with the FDIC when it requests to exercise its special examination authority with respect to national banks.<sup>1</sup> The OCC has a long history of working effectively with the FDIC and recognizes that agency's responsibilities as the deposit insurer for the nation's banks and its role as the receiver for failed insured banks. Consequently, the OCC and FDIC have historically shared supervisory information, and cooperated and coordinated our examination activities. OCC supervisory personnel communicate regularly with their counterparts at the FDIC and we hold periodic meetings with the FDIC to discuss general trends as well as specific bank information. In problem bank situations, such as First National Bank of Keystone, such communication can occur almost daily.

In the early 1980s, as the number of problem banks increased, the OCC established with the FDIC a program to invite the FDIC to participate in examinations of 4- and 5-rated national banks and in selected examinations of other community banks. This program built upon the already existing programs under which the two agencies shared information derived from bank examinations and other supervisory activities. Since that time the FDIC has participated in hundreds of OCC examinations.

Since 1995 alone, the FDIC has requested to participate in 59 OCC examinations, including some of banks with CAMELS ratings of 2 or 3. During this time, the OCC offered the FDIC the opportunity to participate in every OCC examination for which it requested participation. While the FDIC's request to participate in the 1998 examination of First National Bank of Keystone was initially denied by OCC staff, that decision was reversed before the examination took place, and FDIC examiners participated in the 1998 examination and the subsequent examination, just as they did in prior examinations of that bank. It should be noted that no delay in the examination resulted from the reversal of the initial decision.

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<sup>1</sup> 12 U.S.C. § 1820 (b)(3) authorizes the FDIC to conduct a "special examination" of a national bank when the Board of Directors deems such examination necessary to determine the condition of the bank for insurance purposes.

To ensure that our coordination and cooperation with the FDIC remains productive, I have stressed to my staff the importance of keeping the FDIC fully informed about serious concerns that we may have about any national bank and of maintaining mutually supportive working relationships between our two agencies at all levels. We have just reiterated to our supervisory staff the desirability of inviting FDIC participation in our examinations when deterioration in a bank's condition gives rise to concerns about the potential impact of that particular institution on the deposit insurance fund, even if the FDIC has made no request for participation. Further, I have rescinded all delegations to disapprove FDIC requests to participate in OCC examinations. That authority resides only with me.

### **Comments on H.R. 3374**

Finally, your invitation letter requests our comments on H.R. 3374, which would amend section 10(b)(3) of the Federal Deposit Insurance Act (12 U.S.C. § 1820(b)(3)) by transferring authority to authorize a FDIC special examination to determine the condition of a depository institution for insurance purposes from the Board of Directors of the FDIC to the Chairperson of the Board of Directors. The proposed bill would also require the Federal banking agencies to establish procedures for providing the FDIC with access to such additional information as may be needed by the agency for insurance purposes.

I recognize that the FDIC has a legitimate need for information to carry out its mandates and, as the primary regulator of national banks, the OCC has an obligation to provide that information. Having said this, however, it is important to strike the proper balance between the role of the primary supervisor and the FDIC's role as insurer. The FDIC's backup examination authority has historically been viewed as authority to be exercised to obtain information in connection with banks in which there is some demonstrable concern about a threat to the insurance fund. It was not intended to duplicate the role of the primary supervisor, or to result in additional examination burdens, and potentially inconsistent supervisory messages to the bank or thrift in question.

The clear intent of H.R. 3374 is to make the OCC and FDIC examination coordination smoother and efficient, and I believe this objective has already been achieved without the need for legislative changes. Further, we are aware of no other instance in which Congress has imposed such a special rule relating to FDIC governance, and we believe that in those rare cases where an issue of backup examination is presented, the entire FDIC Board of Directors should participate in the decision. Since the Board meets regularly, and can call telephonic meetings on moments' notice, it would appear that authorization of an FDIC special examination can occur in a timely fashion under the current laws. I believe a Board discussion of the issues surrounding an institution's condition that may necessitate a FDIC special examination would be useful to staff and provide guidance as to how they should proceed. I hasten to add, however, that there should be little or no occasion for such issues to reach the Board level, since we fully recognize the appropriateness of involving the FDIC in an early stage in any bank whose deteriorating condition raises concerns of importance to the FDIC.

## **Conclusion**

In summary, the number of national bank failures in 1999 was relatively small, but in one case the failure was quite costly to the FDIC fund. In all three cases, we believe the failures can be attributed to poor management, diminished internal controls that allowed fraud to occur, and poor underwriting decisions. We do not believe these failures present systemic implications, and they do not foretell a large number of failures during 2000. However, these failures do illustrate risks about which we are concerned. The OCC has taken many steps to address these issues, and we are committed to working with the other agencies to better understand and control risks in the banking industry.