Examiner
SPOTLIGHT

Wayne Rushton

Recruited in 1965, **WAYNE RUSHTON** was one of the first examiners required to have a college degree. He found that the OCC rewarded diligence, courage, and technical know-how, and he quickly developed a sixth sense for banks with hidden problems. One of those was the National Bank of Georgia, owned by Bert Lance, Director of the Office of Management and Budget under President Jimmy Carter. Lance left that office after Rushton and OCC colleagues uncovered questionable use of the bank's assets.

Rushton helped establish the OCC's Multinational Banking Program and became one of its earliest deputy comptrollers. Under Comptroller Eugene Ludwig, Rushton became the Senior Deputy Comptroller for Bank Supervision Policy.

On September 11, 2001, Rushton was with Comptroller John Hawke and other senior staff in Dallas. They had already boarded a plane back to Washington, D.C., when air traffic was grounded. Returning to their conference, they watched the events unfold. To get home, the team rented the last available van in Dallas, and drove the entire 23 hours, stopping at many Waffle House restaurants on the journey.

A career marked by high-level cases and breakthroughs in supervisory policy and execution culminated in Rushton's appointment as Chief National Bank Examiner.

When he retired in 2008 after 43 years of OCC service, Rushton was given a wall-size Waffle House menu.

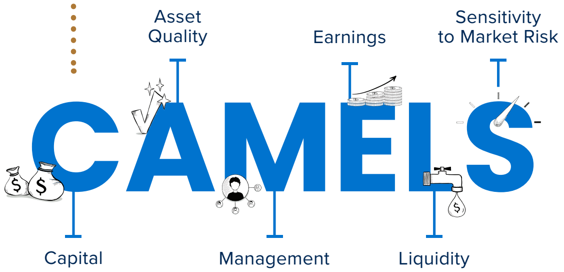
> *"We've been doing bank supervision longer and better than anyone, and we know it. That's what makes our people special. We stick together when times are tough, personally and professionally, better than people realize."*
>
> ***WAYNE RUSHTON****, retired Chief National Bank Examiner*

1990–1999

In the 1990s the OCC formalized a system of risk-based supervision that explicitly tied oversight to the type and degree of risk presented by each national bank.

This was a sea change from previous supervision practices. Supervision by risk focuses on evaluating risk, identifying material and emerging problems, and making sure individual banks act before any problems compromise safety and soundness. Supervision by risk is responsive to changing risks at each institution and sensitive to evolving market conditions and regulatory changes.

In 1996 the uniform ratings system added a sixth risk category to the CAMEL acronym established in 1979 with *sensitivity* to market risk. There are also component ratings assigned for the specialty areas of Information technology, Trust, Consumer Compliance, and the CRA—also known as ITCC.



Examiners communicate a bank's ratings in the Report of Examination. Evaluations of the component areas take into consideration the bank's size and sophistication, the nature and complexity of its activities, and its risk profile.

Banking operations were becoming more complex, increasingly deviating from the traditional loan and deposit-taking model. This complexity posed new risks and required shifts in capital standards and reporting requirements.

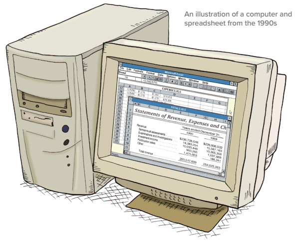
President Bill Clinton signs the Financial Services Modernization Act of 1999, known as the Gramm–Leach–Bliley Act, on November 12, 1999. (Courtesy of the William J. Clinton Library)

New laws, like the Riegle–Neal Interstate Banking and Branching Efficiency Act of 1994 and the Financial Services Modernization Act of 1999, gave banks a level of autonomy not seen since the 1930s and created more responsibility for examiners. For instance, interstate bank mergers required extra scrutiny: who would be in charge of the resulting institution and what was management doing to marry the cultures of the two banks?

The very act of examining itself had changed dramatically. By the 1990s, computers had taken over—ringing a death knell for adding machines that examiners used to "run the tape" and verify every number in the examination report.

When discussing being among the first examiners recruited with computer skills in 1989, Rafael DeLeon, retired Director for Banking Relations, said:

> *"I got pulled onto a lot of assignments because I knew how to use that contraption."*



An illustration of a computer and spreadsheet from the 1990s

Unlike safety and soundness reports, where ratings are highly confidential, CRA performance evaluations are public. In 1995, the OCC began publicly publishing CRA performance evaluations. Before 1995, people had to go the bank or branch and ask to see the bank's public file to read the evaluation.

UNOFFICIAL RULES
of Bank Examining

- **Be skeptical** with a healthy sense of curiosity. If it doesn't look or sound right, ask questions.
- **Trust but verify.** Start from a position of trust but follow up.
- **Supervision by risk** means looking into a lot of areas without completing a full review. Dig into it if it doesn't appear correct.
- **Where there is smoke, there is fire.** Don't settle for identifying the red flags; look for the root cause of the problems to come up with a lasting solution.
- **Let the facts speak.** Stick to interagency definitions and use handbook booklets for guidance.
- **Draw your own conclusions.** Don't worry about what previous people did.
- **Don't swim alone.** Don't go into tough meetings with management alone.
- **None of us is as smart as all of us.** Use your examination team, lead experts, and leadership.
- **No surprises.** Don't surprise bankers at the exit meeting, don't surprise leadership in the exam report, and don't surprise each other.

Examiners use OCC credentials to identify themselves as OCC employees. Credentials convey the authority of the bearer to conduct official business or perform official duties on behalf of the OCC. The gold shield was phased out in 2022 and replaced with ID card credentials.

2000–2011

Examiner SPOTLIGHT

Kris and Joe Kiefer

On the morning of September 11, 2001, **KRIS KIEFER** was meeting with several information technology examiners in the OCC's midtown Manhattan district office. The 39th floor of the W.R. Grace building gave a clear view of the World Trade Center. Before 9/11, the twin towers recalled a happy memory as she and her husband, **JOE KIEFER,** were engaged to be married at the Windows on the World restaurant atop the North Tower.

"That day … was gorgeous," the retired district Deputy Comptroller recalled. "It was a perfect day." Then the group watched a plane fly into the north tower. As she and the others in the office watched, both towers collapsed.

Joe Kiefer normally worked two blocks away from the towers as an OCC examiner for retail credit and mortgages. On September 11, however, he was on assignment in Delaware.

Once realization hit and the city shut down, Kris Kiefer joined other OCC employees in midtown and walked to Penn Station to get home. "On the street, you could see people covered in ash," she said. "From the train, you could see the smoke rising from the towers; the whole train was silent."

The two worked from the Edison, N.J., field office, not returning to Manhattan for a few weeks. When they did, Joe Kiefer worked in midtown to avoid the overwhelming smells and debris that permeated downtown.

Because of 9/11, they decided not to commute on the same trains together—just in case of another attack.

The terrorist attacks of September 11, 2001, brought a renewed focus on the federal banking system's international exposures. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 enacted sweeping reforms that toughened provisions to the Bank Secrecy Act and added additional compliance responsibilities to bank supervision. OCC guidance helped examiners and bankers highlight the importance of managing risks associated with foreign third-party service providers.

Yet behind the scenes, trouble was brewing again. In the low interest rate environment, lenders were offering subprime and nontraditional loans, which relied less on strict underwriting standards.

Making the situation more difficult for examiners was the unbundling of traditional banking services that masked new, financially engineered assets. This new environment created a challenging situation for examiners to understand how these complicated obligations affected a bank's risk exposures.

OCC examiners sounded public warnings about these developments and pointed to rising concentrations of real estate lending in several spaces of the banking environment. Despite these warnings, the real estate market collapsed, crippling the economy from 2007 through 2008.

2008 **FINANCIAL CRISIS**

To assist consumers adversely affected by the financial crisis, the OCC promoted constructive workout arrangements between lenders and homeowners. Throughout the market turmoil, OCC examiners encouraged national banks to work with delinquent borrowers to restructure problem loans, giving them more time and flexibility to resolve their obligations.

Home prices nationwide declined by **31.7%** between 2006 and 2012.

The market share of subprime originations fell from **23.5%** in 2006 to **0.2%** in 2009.

The number of unemployed workers went from **7.1 million** in 2007 to **14.3 million** in 2009.

Subprime mortgage originations fell from **$600 billion** in 2006 to **$4 billion** in 2009.

The unemployment rate more than doubled from **4.6%** in 2007 to **9.6%** in 2010.

In response to this financial crisis, the OCC played an important role to help stabilize the banking system, restore the flow of credit, help victims of the financial crisis, and rebuild trust in the federal banking system by enhancing the quality of supervision.

Examiners analyzed bank applications for the Troubled Asset Relief Program and developed a better understanding of the difficulty many banks faced in accessing liquid funds during the crisis. They also improved their insight into the complex financial instruments banks held, many hidden in off-balance-sheet vehicles that clouded an institution's exposures to risk.

In July 2010, President Barack Obama signed into law the Dodd–Frank Wall Street Reform and Consumer Protection Act, which were intended to better protect consumers and taxpayers in response to the financial activities that caused the 2007–2008 crisis.

Dodd–Frank transferred most functions of the OTS to the OCC. This added responsibility for the supervision of federal savings associations, or "thrifts," to the agency, but also brought with it the talent and expertise of former OTS employees to the OCC.

Through this transfer, the OCC adopted the OTS's advisory committees focusing on minority depository institutions (MDI) and mutual savings associations.

These committees enabled the OCC to gain additional perspectives on the unique challenges and needs these important institutions face.

For Hub Thompson, Assistant Deputy Comptroller for Community Bank Supervision in Fort Worth, Texas, the reshaped focus on MDIs was rewarding. "They've struggled for talent, capital, and continuity," he said. "It hurts to close them because you feel you've lost an opportunity to serve their communities. It's a real positive on the agency that we've tried to find them support, expertise, and business opportunities."

> *"Our financial system only works—our market is only free—when there are clear rules and basic safeguards that prevent abuse, that check excess, that ensure that it is more profitable to play by the rules than to game the system."*
>
> *PRESIDENT BARACK OBAMA*
> *July 21, 2010*

Comptroller John C. Dugan congratulating President Barack Obama, who had just signed the Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010 into law.

EXAMINERS PROVIDE **FINANCIAL LITERACY OUTREACH**

Senior Deputy Comptroller for Bank Supervision Policy Grovetta Gardineer taught students about money management at the Junior Achievement Finance Park in Landover, Md., during an OCC Financial Literacy Month event.

Most National Bank Examiners are assigned to help supervise the nation's community banks. But their commitment to those communities often goes well beyond the balance sheets of the banks they work with.

For Naomie Belony, a New York-based examiner in 2010, community service was an opportunity to become a role model to young people interested in financial careers.

"I myself went to an inner-city school," she said. "I had no idea I could be a banker or examiner. Maybe I can inspire my students that it's possible for them, too."

When Erik Rayford was an examiner in the OCC's Central District, he counseled high school students as part of a National Academy of Finance public service program.

"One student told me about her ambition to start a bank," he said. "I helped find her a job at the local credit union."