Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

July 8, 2010

The President
The White House
Washington, DC 20500

Dear Mr. President:

For almost five years, through two Administrations and under three Secretaries of the Treasury, I have had the great honor of serving as the 29th Comptroller of the Currency. My term will soon come to an end, and it is my intention to leave office on August 14, 2010.

The Office of the Comptroller of the Currency (OCC) is the oldest regulatory agency in the federal government, having been established during the Administration of President Lincoln, in 1863. Its mission is straightforward and vitally important: to regulate and supervise nationally chartered banks to ensure both their safety and soundness and their compliance with laws enacted to protect bank customers. The national banking system consists of over 1,500 community and mid-size banks and federal branches operating in all parts of the country, as well as our very largest banks. Together they hold over 60 percent of the nation's banking and thrift assets.

During my term of service, the worst financial crisis since the Great Depression has critically tested the OCC's mission. Although the crisis began outside the banking system, it eventually spread to our country's largest banks, most of which are supervised by the OCC. The ensuing severe recession sharply increased credit losses in nearly all banks, including those with national charters. Of the 251 banks that have failed since the beginning of 2008, 42 were national banks, and other national banks received extraordinary government assistance to survive or stabilize. During the darkest days of the crisis nearly two years ago, the very viability of the banking system seemed in question.

Today, as I prepare to take my leave, I am pleased to report that the condition of the national banking system is much, much improved. Thanks in part to the transparency and confidence provided by the stress tests proposed by your Treasury Department and implemented by the federal banking regulators, including the OCC, all of the largest national banks have been able to raise substantial amounts of capital from private markets, and nearly all have fully repaid government capital investments. While credit losses remain elevated, credit trends are clearly improving in a number of areas. Profitability, capital ratios, and loan loss reserve levels have also improved. The number of projected failures of community banks, including national banks, has finally begun to decrease, although problems in the commercial real estate sector continue to pose significant challenges for these institutions.

It now seems very likely that the cost of national banks that have failed and are projected to fail from the crisis and recession – which has accounted for approximately 12 percent of deposit insurance losses thus far – will be absorbed by the industry-financed federal deposit insurance fund without taxpayer assistance. It seems equally likely that the government will earn a substantial profit from the extraordinary assistance it has temporarily provided to national banks through capital investments, asset guarantees, debt guarantees, and other federal programs – as has already been the case thus far.

In short, while the financial system continues to face significant challenges, national banks have stabilized, confidence has improved markedly, and institutions are now in a much stronger position to help fund economic recovery.

This resilience of the national banking system is partly the result of the unstinting efforts of the men and women of the OCC. Their exclusive focus on supervision; their abundant talent, expertise, and judgment; and their dedication to their jobs and the OCC's mission have all served the nation exceptionally well during this intensely stressful period. I have been deeply fortunate to have been able to rely on them during my term of service.

I am also very pleased that the landmark financial services reform legislation proposed by your Administration, which Congress is in the final stages of considering, preserves and expands the OCC's role as a dedicated prudential supervisor of federally chartered banks and thrifts. That exclusive supervisory focus will serve the nation well in the future when the banking system is tested once again, as it surely will be.

Finally, I take great pride in a number of the policy, supervisory, regulatory, and personnel initiatives taken by the OCC during my term, including:

- Our crisis management with respect to our most distressed institutions to help prevent failure, restore confidence, facilitate mergers with healthier companies, attract capital, and, when necessary, resolve those that failed in the least disruptive manner to their communities;

- Our early guidance and supervisory action on risky nontraditional mortgages such as "payment option" loans, which helped protect both consumers and national banks from the severe losses that these loans subsequently generated;

- Our key supervisory contribution to the successful industry-wide stress tests;

- Our leadership in the effort to mitigate the effects of community bank concentrations in commercial real estate lending – where, frankly, more needs to be done;

- Our insistence that credit card companies establish reasonable minimum monthly principal and interest payments for their customers;

- Our consistent advocacy for improved accounting for loan loss reserves to make provisioning practices more forward-looking and less pro-cyclical;

- Our successful litigation efforts to preserve key attributes of the national bank charter from conflicting state rules;

- Our active participation throughout the crisis with our international colleagues on the Basel Committee on Bank Supervision, the Joint Forum, and the Financial Stability Board, on a range of critical policy and supervisory issues;

- Our ground-breaking data collection efforts with respect to residential mortgages and mortgage modifications, leading to our quarterly Mortgage Metrics reports;

- Our renewed commitment to stronger underwriting standards for mortgages, home equity loans, leveraged loans, securitized assets, and many other types of credit;

- The substantial improvements made, in cooperation with state regulators, to our first-rate system for handling consumer complaints;

- Our sustained commitment to recruiting and training excellent new examiners and other staff;

- The expansion of our highly successful program to integrate PhD economists into our supervision of complex financial products; and

- Our successful effort to expand the ability of national banks to make public welfare investments.

In sum, it has been the very highest privilege to serve our nation as Comptroller of the Currency.

Sincerely,

John C. Dugan

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Comptroller of the Currency

cc: Secretary Timothy F. Geithner