Statement of

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before the

Committee on Financial Services

Subcommittee on Financial Institutions and Consumer Credit

U. S. House of Representatives

January 21, 2010

Chairman Gutierrez, Ranking Member Hensarling, and members of the Subcommittee, my name is Jennifer Kelly. I am the Senior Deputy Comptroller for Midsize and Community Bank Supervision at the Office of the Comptroller of the Currency. I appreciate the opportunity to describe the OCC's role in the supervision of national banks and in the resolution of severely troubled banks.

The primary mission of the OCC is to ensure that national banks remain safe and sound, comply with applicable laws and support the needs of their customers through fair access to credit and financial products. We recognize the important role that credit availability and prudent lending play in our nation's economy, particularly in the current environment. However, banks cannot support their communities unless they operate in a safe and sound manner and have sufficient capital to support lending to creditworthy borrowers.

Even in today's strained economy, most national banks are in sound condition and have the capacity to weather the current economic environment. Some, however, are experiencing

significant difficulties. While most banks that develop problems are restored to a safe and sound condition, some are not. When a bank cannot be rehabilitated, the OCC has a statutory responsibility – as do the other Federal Banking agencies – to work with the FDIC to minimize both the cost to the Deposit Insurance Fund and disruption to the bank's customers.

With regard to the FBOP banks, the circumstances and events surrounding their failure were unique and extremely complex. My written testimony provides a detailed account of OCC's actions and decisions that I will briefly summarize for you.

FBOP was a financial holding company that owned six national banks and three state banks, with combined assets of approximately $19 billion and operations in California, Illinois, Arizona, and Texas.

The FBOP banks were an interrelated enterprise with business strategies largely determined on a corporate-wide basis. Beginning in late 2007, FBOP made several strategic decisions that exposed its banks to elevated risk and ultimately led to their failure. Specifically, the company invested heavily in the stock of Fannie Mae and Freddie Mac, as well as the securities of Washington Mutual Bank and other financial sector firms. And at the same time, as the credit and real estate markets began to deteriorate, FBOP embarked on a strategy of aggressive loan growth. This was a business model that had proven very successful for the organization during previous market downturns.

In the third quarter of 2008, the GSEs were placed into conservatorship, and shortly thereafter WAMU failed. The loss to FBOP as a result of these two events represented 63% of the consolidated banks' Tier 1 capital. Over the course of the following fourteen months the OCC worked closely with FBOP as it pursued a variety of plans for obtaining the capital it desperately needed. These options included attracting new outside investors, applying for TARP

capital, and selling one or more of the banks in the group. Despite intensive efforts, FBOP was not able to reach any definitive agreement to recapitalize the banks.

FBOP's inability to raise new capital, coupled with the rapidly deteriorating condition of all six national banks triggered regulatory requirements under Prompt Corrective Action. Two of the FBOP banks became critically undercapitalized on July 30, 2009, requiring that they be placed into receivership within ninety days. We also determined that deterioration of two of the other national banks had reached the point where it was necessary to close them as well. Park National Bank and Citizens National Bank were in a somewhat different status. Their condition was seriously deteriorating but at that time it was not clear that there were grounds to close them.

On October 30, 2009, the OCC and the states of Illinois and Texas placed seven of the nine FBOP banks into receivership. Then, under its cross guarantee authority, the FDIC presented the two remaining national banks with orders to immediately pay assessments equal to the anticipated losses to the Deposit Insurance Fund. Since this cross guarantee liability greatly exceeded their capital, Park and Citizens became overwhelmingly insolvent. On that basis, the OCC appointed the FDIC as receiver for both banks.

The OCC's decisions to place FBOP's national banks into receivership were made only after thorough internal deliberation, extensive efforts to work toward a solution with FBOP management, and close consultation with the FDIC. Our actions were consistent with not only the requirements of Prompt Corrective Action, but also with the statutory framework Congress put in place to resolve the failure of banks at the least cost to the Deposit Insurance Fund.

Again, I appreciate the opportunity to appear before the Subcommittee today and look forward to your questions.