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**Statement of the Shadow Financial Regulatory Committee**

on

**Comptrollers' Proposed Pilot Program Permitting  
Increased Lending Limits for Community Banks**

December 4, 2000

The Office of the Comptroller of the Currency (OCC) has announced a three-year pilot program to permit well-capitalized and well-managed community nationally-chartered banks to have higher lending limits to a single borrower if they are chartered in states where the state chartering authorities permit higher limits. The increase would apply only to loans to small business and residential mortgage borrowers. The proposal reflects primarily the competitive pressure on the Comptroller to dissuade small, nationally chartered banks from switching to state bank charters.

The Committee has previously warned that the way the OCC is financed – entirely through fees unlike the FDIC and the Federal Reserve – leads to greater efforts to maintain membership at potential cost to safety and soundness objectives (Statement 161, May 8, 2000). Because excessive loan concentration to a single borrower has been a major source of failure for small banks, the Committee is uncomfortable with the proposal.

In its statement on Deposit Insurance Reform (December 4, 2000), the Committee suggests that insured banks may be grouped by supervisory category for the purpose of assessing insurance losses, in order to induce and focus industry monitoring of supervisory actions that might affect the risk of failure. Under such an arrangement, the OCC's pilot program might be more appropriate.

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