

Embargoed until presented on
April 16, 2010



Statement of

Lawrence D. Carter
National Examiner, Office of Thrift Supervision

regarding

Wall Street and the Financial Crisis: The Role of Bank Regulators

before the

Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
United States Senate

April 16, 2010

Office of Thrift Supervision
Department of the Treasury
1700 G Street, N.W.
Washington, DC 20552
202-906-6288

Statement required by 12 U.S.C. 250: The views expressed herein are those of the Office of Thrift Supervision and do not necessarily represent those of the President.

**Opening Statement of Lawrence D. Carter
National Examiner, Office of Thrift Supervision
Washington, D.C., April 16, 2010**

Good morning Chairman Levin, Ranking Member Coburn, and distinguished members of the Subcommittee. Thank you for the opportunity to testify on matters concerning the supervision of Washington Mutual Bank, known more widely as “WaMu”, headquartered in Seattle, Washington.

I am presently a National Examiner for the Office of Thrift Supervision, or “OTS”. I would like to tell you a little about my background so that you understand how my experience underlies my testimony today.

My college education includes an associate degree in business administration from Northern Virginia Community College, which I received, magna cum laude, in 1980. I then moved to California and obtained a bachelor of science degree in economics from the University of California at Riverside in 1983. In 1987, I graduated from California State University, Los Angeles, with an MBA, specializing in finance.

While in graduate school I worked in private industry, including a stint with the Trust Company of the West, or “TCW”. At TCW I was involved in investment account management for pension fund clients. After receiving my MBA in mid-1987, I went to work for the Federal Home Loan Bank of San Francisco, where I originally worked as a supervisory analyst. Shortly thereafter, in 1989, I became an examiner for the OTS,

when the examination functions of the Federal Home Loan Bank Board were transferred to that organization as part of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

I have served in lead examination roles for many years at many large and small savings institutions, some of which were troubled. I also served in support roles, performing in all the “CAMELS” areas of the exam, capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk. I have supervised on-site staffs of 70 or more examiners, including the generalist safety and soundness examiners, compliance examiners, information technology or “IT” examiners, accountants, capital markets examiners, and Washington-based quantitative specialists well-versed in the emerging Basel requirements. Throughout my career I worked closely and effectively with my counterparts from the FDIC, the Office of the Comptroller of the Currency, the Federal Reserve, and state regulators.

It should be noted that, with few exceptions, OTS examiners do not work exclusively examining a single savings institution, but will be involved with a number of different institutions over the course of a year. Examinations of small banks, as you might guess, take considerably less examination resources than do large institutions, such as WaMu.

From 1999 through 2002, I was the “loan portfolio manager” on the annual WaMu examinations. The loan portfolio manager is responsible for overseeing the Asset

Quality, or “A” component in CAMELS. In this role, I implemented a statistical sampling process for our review of WaMu’s homogeneous loan portfolios, which included the home loan portfolio, and I oversaw the more judgmental sampling and loan review activities for other types of loans in multiple geographic locations. From 2003 through 2006, I was the dedicated Examiner-in-Charge (EIC) for WaMu. As EIC for WaMu, I was responsible for exam scoping and planning prior to our examinations or field visits, overseeing the work of all examiners and managing communication of findings during the examination process, and then preparing the examination report and leading “exit” meetings with management and the board of directors after the end of an examination. Of course, I performed these responsibilities under the guidance and oversight of my superiors, both within the region and in Washington, D.C., as well as with the support of numerous senior examiners and specialists. Late in my tenure as EIC, I worked to develop our continuous examination process for WaMu, tailored from the large bank supervision programs of the OCC and the Federal Reserve.

As EIC at WaMu, I supervised an experienced team of examiners and supervisory professionals that thoroughly analyzed the issues and challenges concerning this very large financial institution. I worked closely with region and Washington office staff to resolve complex policy issues as they arose. Our role on the examination was to identify risks and regulatory issues, discuss those risks and issues with senior OTS management, and then require appropriate corrective actions by WaMu management to address those risks and issues in a manner that promoted the safe and sound operation of the institution.

Two years after I ended my term as EIC at WaMu, the institution failed. I should note that I have no special personal insight into the final days of WaMu, but I would be pleased to share with the Subcommittee my observations and experiences gained from my 23 years of regulating savings institutions, and answer any of your questions.