

**Remarks**

**By**

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Good morning, it's a pleasure to be here today. I'm very proud to have been invited here to Seattle to speak with you—the bankers dedicated to serving the banking needs of the members of our armed forces. In preparing for this speech, I reflected on the fact that this is a strong, active group that was created to serve just one percent of banking customers.

What could it be that motivates business men and women to focus such effort and resources to serve just one percent of a market? I think the answer to that question is obvious to everyone in this room. The one percent that we are talking about is a very special group—they are the men and women who have chosen to defend our country. Members of our military sacrifice much to protect the liberties we enjoy, and that service creates unique needs for them and their families. Often those needs involve special consideration regarding credit, access to funds, and specific protections afforded to them by the law. You understand these unique needs and banking challenges better than anyone, and I applaud you for being dedicated to such important customers.

Today, I want to share a bit of my perspective on the current banking environment and risks that we see percolating through the system and then talk about a few particular concerns as they pertain to the needs of America's military community. Before I dive into those topics, let

me set the field by giving you a quick overview of the OCC—where it came from and where it’s at today.

In 1863, President Lincoln created the Office of the Comptroller of the Currency to organize and administer a system of nationally chartered banks and a uniform national currency. He did so out of the need to finance the Civil War and to create a national currency and banking system that would gain public confidence, circulate currency more freely with less risk, and provide the economic ammunition to fuel both our country’s expansion and a stronger sense of American nationalism.

All in all—those seem to be fairly modest goals.

Fast forward 150 years, the OCC no longer has a role in currency despite our name, but we are still very much about ensuring the United States has a safe and sound banking system that can support our economy and meet the credit and banking needs of communities across the country.

The modern OCC charters, regulates, and supervises all national banks and federal savings associations as well as the federal branches and agencies of foreign banks. When I use the term “banks” from this point forward, please understand that I’m referring collectively to all of the institutions the our agency is responsible for, whether they hold a bank or thrift charter.

The OCC ensures regulated institutions operate in a safe and sound manner and comply with laws requiring fair treatment of their customers’ fair access to credit and financial products. We are an organization of more than 3,800 people. The vast majority of them are bank examiners assigned to 93 field offices spread across the country and they spend the majority of their time working in the banks they supervise.

Of the 8,000 or so banks operating throughout the country, the OCC supervises 1,930 of them. These banks collectively have assets totaling \$9.8 trillion — about 71 percent of all the commercial bank assets in the country. Much of that is concentrated in the largest banks. In fact, nearly 1,700 of the banks that we supervise have less than \$1 billion in assets.

What kind of products and services do national banks and thrifts provide? They service more than 31 million first-lien mortgages which represent about 60 percent of the mortgages in the country and they issue about two-thirds of the credit cards. They provide many of the savings and checking accounts that people across the country depend on every day. And they provide a significant share of the commercial financing that fuels main street businesses.

That's a lot of responsibility, and I'm sure it is obvious to everyone in this room that any disruption to this important infrastructure can have far reaching effects on local communities and the broader economy. So let me shift gears and talk about the condition of the banking system and the risks we see today.

Banks, as you know all too well, are operating in a very difficult environment. We are still dealing with a slow recovery, very narrow interest rate margins, and an evolving regulatory environment, not to understate the latter. To help increase awareness and understanding of the risks facing the banking system, the OCC is now publishing a *Semiannual Risk Perspective*. The first edition was released in June. This report assesses current and emerging threats to the safety and soundness of national banks and federal savings associations. It is available on our Web site at [occ.gov](http://occ.gov).

As a report that focuses on risks and threats to our banks, it is not all sunshine and rainbows. So before I discuss a few of the risks highlighted by the report let me stress that

America's banking system is safe and sound and conditions are improving. The vast majority of our banks have satisfactory ratings, the number of 4 and 5 rated banks has stabilized, and the aggregate number of Matters Requiring Attention cited in our Reports of Exam are declining. Capital and liquidity levels have been strengthened significantly, the level of non-performing assets continues to decline, and net income is improving across banks of all sizes.

That's all good news, but there are still significant headwinds related to the aftereffects of the recent economic cycle and challenges to revenue growth in this post recession, slow-growth economy. When we look more closely at the risks facing national banks and federal savings associations, there are some key differences based on where a bank falls in the size spectrum.

Large banks continue to see profitability challenges from legal, operational, and reputational costs related to residential mortgage servicing deficiencies and persistently high levels of credit stress in those loan portfolios. They also face fundamental changes in their business models that are dampening revenue growth, including shifts in the roles of trading, securitization, and consumer fee income. Large banks are also dealing with significant challenges in the realm of information security as criminals aggressively test bank controls and monitoring abilities and they face greater concerns related to international economic conditions. While actual exposures to troubled countries in Europe are relatively small compared with bank capital levels, markets remain sensitive to sovereign debt issues, potential contagion effects of counterparty risks, and the economic impact of austerity measures.

Meanwhile, community banks are dealing with a somewhat different set of risks. They face more challenges in adapting to the evolution of the industry's operating and regulatory environments than their larger counterparts, despite being much more nimble in other ways. Their main concern is defining and implementing a strategy that will allow a smaller bank to

thrive in the face of lingering credit stress, historically low margins, competitive pressures from larger banks, and uncertainty about future regulatory changes.

In the aftermath of the recent financial crisis, banks of all sizes are dealing with a broad and far-reaching regulatory response designed to strengthen the resiliency of the financial sector and to implement legislative mandates, which are significant, both domestically and internationally. The new rules, standards, and supervisory tools have helped to strengthen our banking system, filled regulatory gaps, and addressed many of the weaknesses in our system that existed in the months and years leading up to the financial crisis. At the same time, the regulatory response has created unique burden and challenges for banks. The impact on larger banks has been widely discussed in the press; but the impact of new restrictions and compliance costs is also a significant concern for smaller banks. Recent laws, including the Dodd-Frank Act, impose a range of new requirements on retail lines of businesses that are “bread-and-butter” for many community banks. Regardless of how well community banks adapt to these reforms in the long-term, these new requirements will raise costs and possibly reduce revenue for community institutions in the near- and mid-term.

The immediate effects will differ from bank to bank, depending on their mix of activities. In the longer term, we expect to see banks adjust their business models in a variety of ways. Some will exit businesses where they find that associated regulatory costs are simply too high to sustain profitability, or they will decide how much of the added costs can, or should, be passed along to customers. Others will focus on providing products and services to the least risky customers as a way to manage their regulatory costs. Some will elect to concentrate more heavily in niche businesses that increase revenues but also heighten their risk profiles. While we

know there will be a process of adaptation, we cannot predict how these choices will affect either individual institutions or the future profile of community banking at this stage.

With that background in mind, let me shift gears to a couple of topics that commonly arise in the context of providing banking services to members of the Armed Forces—those are overdraft protection and the Servicemembers Civil Relief Act (SCRA).

Overdraft protection programs have evolved and expanded quite a bit since the federal banking agencies issued interagency guidance in 2005 and those changes have increased the associated operational, reputational, compliance, and credit risks. In response to that trend, the OCC developed updated guidance that was issued for comment in 2011. The proposed guidance addressed both consumer protection and safety and soundness concerns that we had identified as systemic issues through our exam work in individual banks. The proposed guidance clarified what our supervisory expectations were for appropriate management of overdraft protection programs.

We received over 14,000 comments in response to that proposal – a clear sign of how important this product has become for many banks. As part of our effort to evaluate those comments relative to our proposed guidance, we are engaged in active discussions with other federal banking agencies and the CFPB to determine the best way to move forward in creating an appropriate regulatory framework for overdraft protection programs.

SCRA is another area of regulatory focus that has been in the news recently. In late July, the OCC took action against Capital One based on SCRA violations. That action, which was coordinated with the Department of Justice, requires the bank to correct deficiencies in its SCRA compliance program. It also requires the bank to engage an independent firm to identify all

servicemembers eligible for SCRA benefits, determine which ones were financially harmed by the bank's SCRA compliance deficiencies and then make restitution to those customers.

But Capital One is not the only bank that has faced compliance issues related to SCRA. As part of our comprehensive enforcement actions to address deficiencies in foreclosure and mortgage servicing, we are requiring 12 of the largest mortgage servicers to conduct a comprehensive review of foreclosures that were in process at any point in 2009 or 2010. The scope of that review specifically includes 100 percent of foreclosures that may have been subject to SCRA protections. Where issues are found and foreclosures proceeded in violation of SCRA, we are directing the servicers to rescind the foreclosure where possible and pay \$15,000. Where rescission is impossible, we are directing banks to pay \$125,000 plus equity to the borrower. Those reviews are still underway.

SCRA compliance is an area that you will see OCC examiners giving more attention to in the future. At the end of July, the Government Accountability Office published a report identifying ways federal banking regulators and other government agencies could improve SCRA compliance. Recommendations included more frequent testing of mortgage and foreclosure files during exams and improved information sharing among the agencies to identify issues sooner. The OCC accepted these recommendations and is working to update guidelines used by examiners to ensure that a sufficiently thorough review of SCRA compliance is conducted during each supervisory cycle for the banks that service mortgages.

The OCC also continues to play an active role in the Federal Financial Institutions Examination Council that develops joint industry guidance and promotes information sharing among the member agencies. Through that interagency process, regulators have taken additional steps to ensure mortgage servicers consider the unique needs of military members. Those in the

room who have served in the armed forces know that you go where you are needed and that can mean moving on short notice. That's why in June, the OCC joined other federal regulators in issuing guidance to mortgage servicers that warned against practices that could mislead or otherwise cause harm to military homeowners with permanent change of station orders.

Such practices include:

- failing to provide clear information about available assistance,
- asking homeowners with PCS orders to waive SCRA rights,
- advising them to skip payments to qualify for assistance, or
- failing to provide timely communication or a reasonable means to verify the status of a request.

If the agencies determine that a servicer has engaged in any acts or practices that are unfair, deceptive, or abusive, or that otherwise violate federal consumer financial laws and regulations, they will take appropriate supervisory and enforcement actions to address the harm to consumers.

I've covered a lot of ground in a relatively short period of time—a little about what the OCC is, the condition of national banks and thrifts and the risks facing them today and, finally some concerns that pertain to your particular customer base. In closing, I want to reiterate that OCC appreciates the fact that the institutions you represent have chosen to make serving America's military part of their missions. The OCC is committed to doing what we can to help you effectively meet the needs of this unique population of customers. I appreciate having this opportunity to speak with you and look forward to your questions and to continuing to work with you in the future.

Thank you.