Remarks by

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Thank you. I'm pleased to be here at what I am told is the first conference of consumer compliance specialists that the banking agencies have held in at least 15 years. True, it took two tries to make this one happen, but when Hurricane Sandy hit the east coast, we really didn't have any choice but to cancel. However, we're here now, and we have a great program. I have to admit, though, that I did wonder why it's been so long between conferences. Just in case the answer is, "Because the speeches at the last one went on and on," I'll try to keep this short and to the point.

In the spirit of brevity, I'll limit my remarks to four broad points. The first involves recognizing – and thanking – each and every one of you for the work you do, day in and day out. You are all on the front lines of some of the toughest issues in all of bank supervision. From the Servicemembers Civil Relief Act to the Community Reinvestment Act, and from Fair Lending to Truth in Lending, you are the ones that make the system work for the average person.

Those of you from the Consumer Financial Protection Bureau are wrestling with the challenges of developing regulations and programs to help customers of financial institutions, as well as supervising consumer compliance activities at large banks and thrifts. And perhaps the greatest challenge you have is supervising companies that played a very significant role in creating the financial crisis, but have largely escaped oversight up until now – the mortgage companies and brokers, and other lenders that make up the so-called shadow banking system.

But while the CFPB will play an important role in consumer protection and consumer compliance supervision, no one should forget just how much work remains for the prudential regulators. Those of you here from the OCC, the FDIC, the Federal Reserve and the NCUA still have responsibility for a number of important areas of compliance supervision for all banks, such as the Flood Disaster Protection Act. And you are responsible for examining all areas of consumer compliance for institutions with $10 billion or less in assets, which is to say, the vast majority of the banks and thrifts in the United States. Even at the OCC, which has responsibility for most of the nation's large institutions, the preponderant share of the institutions we supervise are community banks and thrifts. So compliance supervision will continue to be a major business line at all of the regulatory agencies.

My second point flows from that thought. The issues you work with not only involve compliance risk, but they also impact reputation risk. We are just now emerging from the shadow of the worst financial crisis since the Great Depression. In the darkest days of the crisis, when financial institutions were consumed by issues of solvency and liquidity, I suspect some of you may have wondered if your work was taking a back seat to safety and soundness concerns – and, for that matter, whether compliance had become a secondary priority at the institutions you supervise.

If that was the case, and I hope it was not, it should be clear by now that examining for compliance with consumer laws and regulations is every bit as important as examining credit portfolios or trading books. No matter what else is going on, we simply can't let the industry – or our respective agencies – take our eyes off compliance. As we look back at the financial crisis, we can see that safety and soundness worries had barely begun to recede before compliance issues moved to the forefront. Think about the Bank Secrecy Act or foreclosure processing or credit cards.

For that matter, think about flood insurance. I know that flood insurance sometimes seems mundane, and I know that its rigid CMPs are sometimes painful to implement – <u>until the storm hits</u>. Flooded homeowners will certainly ask why a lender, who requires property insurance that is typically paid from the escrow they collect, didn't ensure that a house in a flood plain was also covered by flood insurance. We only have to look at the damage that was inflicted by Hurricane Sandy to understand why compliance with this program can't be left for later. When you see families who've lost everything they had because of flooding, you know this part of the job is important.

My third point has to do with how we work together in addressing compliance supervision, and in particular how the banking agencies and the new consumer bureau are working together.

As Dodd-Frank was written, and as we've seen through its implementation, there are areas of overlap for the banking agencies and the CFPB, and there are other areas where it may not always be clear where safety and soundness concerns stop and consumer protection begins. In a larger sense, of course, safety and soundness depends critically upon fair treatment of consumers. Once a financial institution loses the confidence and trust of its customers, it has placed its future in jeopardy. And once it is lost, confidence can be very hard to win back.

In the area of overlapping supervisory responsibilities, one example that springs to mind involves credit cards. Credit card activities in the large banks will be examined by both the OCC and CFPB, with the OCC focusing on risk to the institution and the Bureau looking at risk to the consumer. This is an area where coordinated exams make sense, but where the issues we identify and the approach we take to supervision and enforcement may well differ. I think what's important here is that we work together, always asking ourselves how best to make the system work for bank customers.

While the credit card issue involves coordination of separate responsibilities in a straightforward way, some of the divisions of responsibility in Dodd-Frank are less easy to understand and may require even greater care in communications and coordination. I'm thinking of fair lending, for example, as an area where we will definitely need to work together. We all recognize the significant similarities and overlap between the Equal Credit Opportunity Act, or ECOA, and the Fair Housing Act. Dodd-Frank transferred rulemaking authority for the ECOA, to the CFPB, while authority under the Fair Housing Act is retained by HUD. It also transferred supervisory authority for compliance with ECOA to the CFPB for banks with assets greater than $10 billion, yet the supervisory authority to enforce the Fair Housing Act did not transfer.

Before Dodd-Frank, ECOA exams were the principal means we had of ensuring that banks also complied with the Fair Housing Act, and we made referrals as necessary to HUD and DOJ when we found violations of the Fair Housing Act in our ECOA exams. After Dodd-Frank, we don't have the legal authority to conduct ECOA examinations at the larger banks. Let me assure you, however, that even though there has been a change in our supervisory authority in the fair lending area for the larger banks, we won't ignore evidence of discrimination. If we receive information or a complaint alleging a Fair Housing Act violation at a larger bank, we will notify HUD and DOJ as appropriate. These allegations, as well as results from CFPB ECOA examinations, are all factors considered by the banking regulatory agencies when evaluating bank performance with the Community Reinvestment Act. Again, the key point is that the public good requires us to work together and to share information regularly and routinely.

In these areas, I think of the OCC – and the other bank regulatory agencies – as the general practitioner, and the CFPB as the specialist. I know that's an imperfect analogy, but it does illustrate how we can forge a good working relationship and why that relationship matters. The banking agencies have responsibility for the entire bank or thrift, and we worry about every aspect of it, including compliance with consumer protection laws. I believe that our examinations can help inform the Bureau's supervisory work, and that the Bureau's insights can help us do our job.

And of course, in the area of prescribing rules and regulations, we have even greater reason to work together. Without question, consumer protection requirements affect safety and soundness. Done well, they should have a positive effect on the bank's health, but here I think the banking agency's knowledge of the whole institution can be a powerful force for ensuring that they work in a way that promotes safety and soundness while ensuring fair treatment for consumers as well as reasonable access to financial services. So the consultative process is a very important one.

Finally, the last point I want to make involves the need to stay abreast of changing practices and changing technology. The Internet is the most obvious example, but it's not the only one. Think about the development of new payment systems, some of which exist outside the banking and thrift industries. PayPal has become a familiar payment mechanism for many of us, especially when we make a purchase on the Internet, and you see more and more people every day paying for coffee at Starbucks by flashing their Smartphone at a scanner. In fact, a bank account today can consist of nothing more than a plastic card that is capable of receiving paychecks, paying bills, and storing money.

All of these innovations add to consumer convenience, but some of them also bring compliance risk. For those of you who examine banks or thrifts for compliance with the Bank Secrecy Act, for example, the new payment system options present a variety of challenges. How do we track illicit money when it can be loaded onto cards and moved over the Internet?

Moreover, as mobile banking products proliferate along with the use of smart phones, risk is being introduced into the system because the phones are subject to viruses and malware and cannot be safeguarded physically, while messages between banks and customers may not be encrypted or may remain in memory even after they've ostensibly been deleted.

Given these challenges, cases of unauthorized account use will be difficult to resolve so, at a minimum, banks will have to provide disclosures that emphasize potential risk or develop new risk management procedures. Those might include transaction limits for mobile banking, encryption, and authentication measures such as PINs or passwords, for the customer's mobile phone.

I could go on, but I think those examples make the point. Technology is making the world of compliance supervision ever more complicated, and you, the men and women on the front lines, will have to work hard to stay on top of these emerging risks. That's why it's so important that we recruit the best and the brightest of our people into the ranks of compliance supervision and support conferences like this one to facilitate sharing of experiences and knowledge to improve our supervision. These issues are only going to get more complex and more difficult, and we need compliance examiners, like you, who have the brains and the education and the drive to stay on top of them.

Thank you. I'd be happy to take some questions.