Statement of

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Chairman Brown, Ranking Member Corker, and members of the Subcommittee, I appreciate the opportunity to discuss the OCC's perspectives on lessons learned from the financial crisis and our ensuing approach to bank supervision. While not covered in my remarks this morning, pursuant to the Subcommittee's request, my written statement also provides an update on the current state of small business and real estate lending, mortgage servicing, and trading lines of business.

The financial crisis underscored the importance of prudent underwriting practices, strong risk management systems, diversified funding sources, adequate loan loss reserves, and strong capital cushions. It also highlighted the need for supervisors to develop better tools to evaluate and address emerging risks across the system. The OCC has taken action to strengthen our supervision and the practices of the banks we supervise in each of these areas.

A primary driver of the financial crisis was the progressive slippage in underwriting practices that occurred as banks responded to competitive pressures from the shadow banking system. We closely monitor national bank underwriting and have directed banks not to

compromise their underwriting standards due to competitive or other pressures. As well, we have strengthened our analytical tools to help monitor for slippage in loan quality so that we can intervene at an earlier stage. This includes granular, loan level data on major credit portfolios that we are collecting from the largest national banks that allows us to conduct forward-looking analyses under varying economic scenarios.

The financial crisis also highlighted that risk management is, and must be, more than simply a collection of policies, procedures, limits, and models. Effective risk management requires a strong corporate culture and corporate risk governance. This culture must be set, embraced, and enforced by the bank's board of directors and its senior management and it must permeate all of the bank's activities. This is a point of emphasis in all of our meetings with senior management teams and directors of large, midsize and community banks.

We have updated our Risk Assessment system that we use as part of our examinations at each national bank to reflect and incorporate lessons learned from the financial crisis and have directed examiners to be more forward-looking when they assess and assign these risk assessments.

Given the importance and role that large national banks play in the financial stability of the US, we have made clear that these firms should not operate without strong risk management and audit functions – anything less will not be sufficient. Further, we are directing large banks to incorporate robust, enterprise-wide stress testing as part of their ongoing risk management.

We are also working with smaller banks to improve their ability to assess potential concentrations in key portfolios, most notably commercial real estate, so they can address potential problems before they occur.

To improve our ability to identify emerging systemic risks, we established a Financial Markets Group to monitor and gather market intelligence, and we developed a system of early indicators that signal build up of risks of within the system. Under this system, warning signals across a number of measures will trigger a more formal review and assessment of the risks and the need for supervisory response.

The OCC has worked with supervisors across the globe to enhance and strengthen capital and liquidity standards. These efforts culminated in Basel III. These reforms tighten the definition of what counts as regulatory capital; expand the types of risk captured within the regulatory capital framework; increase overall capital requirements; establish an international leverage ratio, and introduce global minimum liquidity standards for large banks. The OCC has also been a vocal advocate with the accounting standard setters to revise the current accounting model for loan loss reserves to make them more forward-looking.

In closing, the financial crisis exposed fundamental weaknesses in risk management and supervisory practices across the financial industry and supervisory community. The OCC has taken numerous steps to enhance its supervision programs. As we implement these changes and those mandated by the Dodd-Frank Act, we are cognizant of the need to tailor our expectations to the scope and complexity of each bank's activities. We must also avoid wringing all the risk out of the banking system. Banks' fundamental role is risk intermediation, and financial innovation and expansion of credit are important drivers of our economy. Banks must be able to respond to customer and investor demand for new and innovative products and services. In this respect, our overarching goal and mission remains the same – to assure that banks conduct their activities with integrity and in a safe and sound manner and that our supervision remains balanced and fair. Thank you and I'd be happy to answer any questions you may have.