Remarks by

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Thank you, it's a pleasure to be here with you today. I always enjoy opportunities to get out of Washington to talk to bankers, and more importantly to hear from bankers about your concerns. I do know what some of those concerns are, and I'll do my best to address some of them in my opening remarks, including Basel III, which I know is on your minds. But I want to leave plenty of time for questions as well as any comments you may have on the various regulatory matters ahead of us, so I'll keep these remarks relatively brief.

Let me start with the economic landscape. The past six years have been difficult for community banks and thrifts everywhere, but the Florida economy has been one of the nation's most difficult to navigate. While it's slowly improving, I don't have to tell you that it remains weaker than the national average, with unemployment more than half a percent higher than for the nation as a whole.

As a regulator, I'm particularly concerned about the state of the housing and mortgage markets here. More than 15 percent of the mortgages in the state were past due as of June 30, compared to 6.3 percent nationwide, and 37 percent of mortgages in the state were underwater, twice the level of the rest of the country.

A similar story emerges with commercial real estate. While real estate markets are recovering slowly, they remain soft. The high level of distressed and underwater properties has held commercial prices down to a level that is below the national average.

There are bright spots, to be sure. Miami in particular is benefitting from the surge in business and leisure travel. Rental rates are increasing, most notably for retail, warehouse and apartment properties, and Miami's exposure to international business, trade and travel is a major plus. We are hopeful that the rest of the state will soon enjoy a meaningful surge in economic activity as well, but the reality is we still have a long road ahead of us to get back to where we were before the crisis.

So, we are mindful, as we consider new regulations implementing the Dodd-Frank Act and enhanced capital standards, that community banks and thrifts are dealing with challenges on many fronts, and we will be particularly sensitive to the compliance burden that all new rules impose as we proceed.

Dodd-Frank included a number of provisions that I think many in the industry thought would not apply to community institutions, and it has been somewhat disconcerting for many of you to find that was not the case. One such issue involved credit ratings. It's very hard to argue with the intent of the law, which was to prevent financial institutions from relying on credit ratings without any due diligence of their own. But that provision had a particularly severe impact on community institutions that legislators may not have foreseen.

For example, we have always used credit ratings at the OCC as a means of defining permissible investments for national banks. I have no doubt that large financial institutions, with access to resources that are not available to community institutions, can analyze a multitude of securities without having to fall back on ratings. But smaller banks and thrifts don't have units devoted to that kind of credit and risk analysis.

So in developing the rules to implement that part of Dodd-Frank, we tried to provide multiple examples of approaches community institutions could take to determine whether a security met the definition of a permissible investment. We believe that approach helps strike a reasonable balance between achieving the safety and soundness objectives of Dodd-Frank while minimizing, to the extent possible, the compliance burden for small banks and thrifts.

Likewise, I know that many community institutions have questions about the new Consumer Financial Protection Bureau. That's only natural with an agency that is so new. While financial institutions with less than $10 billion in assets are not supervised for compliance purposes by the new agency, the CFPB will be writing rules and regulations in the area of consumer policy that will affect all institutions regardless of size.

I can tell you that we at the OCC are developing a productive working relationship with the new Bureau to help ensure that its policy decisions have the benefit of the safety and soundness perspective we gain through prudential supervision of the entire bank or thrift. I meet regularly with Director Cordray, and the staff of the two agencies are working productively on a number of issues. I think that's just good government – multiple agencies charged with different responsibilities for the same institutions working cooperatively to make sure new policies make sense, and I hope it will result in policies and practices that benefit both consumers and our nation's financial institutions.

Now let me turn back to the issue I mentioned at the outset, the three notices of proposed rulemaking we published with the Fed and the FDIC in June. I was at the annual convention of the American Bankers Association just last week, and I had an opportunity to chat with a number of community bankers. You won't be surprised to hear that Basel was a subject at the top of nearly everyone's minds. I believe the conversations we had fall into the category of what diplomats refer to as "candid exchanges." In any event, those conversations are still fresh on my mind, so let me offer some of my thoughts on this subject.

First, it's important that the capital rules achieve the right balance between safety and soundness and regulatory burden. In the world of capital, safety and soundness means that there is enough capital of good quality and that more is charged where there is more risk. We don't want to inadvertently incent excessive risk-taking. But at the same time, we are aware that we should not ask community banks to analyze and track every conceivable risk down to the last penny. Carried too far, the costs of regulatory burden can outweigh the benefits of finer calibrations of risk and capital. We're hoping that the comment letters that many of you provided will help us achieve the right balance.

Some have suggested that we should simply exempt smaller institutions from these rules entirely. After all, community banks and thrifts didn't cause the crisis, so why should they be forced to make such significant changes to their capital structure in the wake of the crisis? That's a reasonable question. But we need to keep in mind that over 400 community banks and thrifts have failed since 2008, and ultimately, they failed because they didn't have enough capital for the risks they took.

That's why the first of these NPRs proposes to raise both the quality and quantity of capital. Doing so would address one of the key lessons of the financial crisis – that institutions not only must have adequate capital, but that the capital they hold be capable of absorbing losses.

As an aside, it's unfortunate that the agencies and the press have termed this the Basel III NPR, because that name feeds the notion that we are importing standards invented in Basel and imposing them on community banks and thrifts here in the U.S.

I believe some of the Basel standards are appropriate for banking institutions of all sizes and levels of complexity, and they belong in our rulemaking. For example, isn't it prudent policy to exclude from regulatory capital those instruments that cannot be trusted to be there when they are most needed to absorb losses – no matter where the idea originated? So too is the idea of a capital conservation buffer: if a bank or thrift gets close to its minimum capital ratios for whatever reason, shouldn't it be thinking about limiting bonuses and dividend distributions?

But there are several elements of the Basel standards that we don't believe are appropriate for community banks and thrifts, and our proposed rules reflect that. For example, the counter-cyclical buffer is a Basel III idea that applies only to large banks. Of course, all of the advanced approaches provisions don't apply. And many aspects of the first two of the June capital NPRs won't affect individual institutions if, for example, they do not book mortgage servicing rights or hold minority interests in other financial institutions.

One issue where we have received many comments is the treatment of accumulated other comprehensive income or "AOCI." Many of you have expressed concern that unrecognized losses and gains in available-for-sale portfolios will create unnecessary and even unmanageable capital volatility if they flow through into the regulatory capital numbers.

We recognize that the extra volatility that such an AOCI pass though would cause could be expensive and difficult to manage – a source of significant regulatory burden – especially to banking institutions, including mutual thrifts, that do not regularly access the short term capital markets. Based on comments we have received on AOCI, I can promise you that we will be taking a very serious look at what our options are to address this conundrum.

Another issue in this proposed rule that we'll be giving a close look involves commercial real estate and residential mortgages. We do recognize that some aspects of the provisions pertaining to mortgages could impose a serious burden on community banks and thrifts, particularly when applied to existing mortgages or if phased in too quickly. Here again, it is vital that we strike the right balance, because we know mortgages were a major source of trouble in the crisis and we should work to minimize the risk that, in the future, they destabilize our financial system again. I could go on, but I think those examples illustrate how hard we are working to craft rules that minimize burden while ensuring true safety and soundness for our banks.

I assure you, that as we read your comments and continue work on this regulation, we will do everything we can to achieve that balance.

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