Remarks by

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Thank you. It's a pleasure to be here in Boston with bank and thrift executives for what is my first public speech as Acting Comptroller. It's sometimes hard for me to believe that I've been in this position for only two months, given all that I've been involved in during that time, from decisions on a new capital framework in the Basel Committee, to the rollout of the first Dodd-Frank rules by the FDIC board, to Congressional testimony and the inaugural meeting of the Financial Stability Oversight Council.

All of those activities are emblematic of the pace of events in the financial services industry. We are taking a number of very big steps in response to the financial crisis even as we work to put a prolonged and very severe recession behind us. I know that the economic environment and the response to the financial crisis created enormous stresses for community banks and thrifts, but as I will discuss in more detail later in these remarks, I am optimistic about the outlook for community banking in America.

This is a time of transition for all of us. For the ABA, it seems like the end of an era, with Ed Yingling's announced plans to move on. Those of us who have known Ed over the years – and I've known him since my days on the Senate Banking Committee staff during the last financial crisis – are wondering how the banking industry will get along without him. To me, he has been an indispensible voice for the industry in challenging times, and one of Washington's keenest political minds. Ed, good luck with your next endeavor.

We have a similar transition underway at the OCC. John Dugan finished his five-year term as Comptroller and left the agency in August. I have the honor of serving as Acting Comptroller during a period when we must maintain our supervisory focus on a banking system still recovering from the financial crisis while we tackle the gargantuan task of implementing the many and varied requirements of Dodd-Frank. Whomever President Obama appoints as the next Comptroller, I can assure you that he or she will have a full plate, and I hope to leave the table set and the house in good order.

It is impossible to think about the future of banking without considering the implications of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Dodd-Frank is truly a watershed event that touches upon almost every aspect of financial services regulation. At the OCC, we have at least 65 separate projects underway to address various aspects of the new law that affect us, either separately or on an interagency basis. The Federal Reserve, the FDIC, the SEC, the CFTC, and the Department of Treasury all have additional projects underway that will have a major impact on the industry.

And that doesn't count the new agencies that are being created, the Financial Stability Oversight Council, or FSOC, and the new Bureau of Consumer Financial Protection. FSOC isn't really an agency but a forum for bringing together supervisory agencies to consider emerging risks to the entire financial system – it's sort of a souped-up version of the President's Working Group which brought together financial regulators for periodic meetings after the 1987 market crash. But it has a broad mission that could have an enormous impact upon the way government agencies identify and manage risk in the banking system. I say “may,” because while I expect its impact will be far-reaching, the FSOC has only just had its first meeting, and so, like many other things, we’ll have to wait and see.

Likewise, the Administration is just in the process now of standing up the new consumer bureau. The bureau has a broad mandate, and it will have the budget to scale up to a very significant size, so it has the potential to dramatically reshape the way financial institutions interact with their customers. Again, however, we are still in the formative months of this new agency’s life.

The OCC is actively participating in the early work being done for both FSOC, of which the OCC is a member, and the consumer bureau. I attended the first meeting of FSOC, and OCC staff will be providing direct support for its work.

Under the law, we will also be expected to transfer certain functions and staff to the consumer bureau, and I expect that the agency will be particularly interested in our examination function, since that is very hard to create from scratch. I’ve already met with Elizabeth Warren, who is serving as a Special Advisor with responsibilities for getting the agency up and running, and my sense is that the pace of activity will be ramping up soon.

One of the important changes these two new agencies can help bring about is the extension of financial oversight beyond the banking and thrift industries and into some of the dark corners of the financial sector that previously have gone unregulated and unsupervised. Some of the worst excesses at the root of the financial crisis can be laid at the feet of unregulated companies that churned out poorly underwritten mortgages during the housing boom – often with little regard to a borrower's ability to repay – and the investment firms that securitized those mortgages.

Under Dodd-Frank, the consumer bureau is charged with responsibility for setting rules for all lenders – not just regulated banks and thrifts – and with actively supervising the nonbank lenders that previously flew under the radar. That won't be an easy task. Simply identifying the mortgage brokers and mortgage banking firms, not to mention pay day lenders and check cashers, around the country will be a huge challenge. There is no central registry or even a requirement to register as a financial services provider.

Banks and thrifts are easy to find: because they are chartered, we know how many there are, where they are located, and who supervises them. When there are financial problems, Congress, the media and the public "round up the usual suspects" and that always includes "banks" and their regulators. When solutions are proposed, even if the goal is to apply them across the financial system, they are added to existing banking law and the burden across the system increases.

It will no doubt require some vigilance to ensure that the new consumer bureau doesn't fall into this same pattern and focus the lion's share of its attention on the regulated banks and thrifts that are easy to find. I am reassured on this point because in our first meeting, Professor Warren made clear that the new agency will ensure that its supervision and standards are applied equally to lenders of all kinds.

Another problem from the last financial crisis that is addressed by Dodd-Frank is the too-big-to-fail issue. It is a fact that when smaller depository institutions got into financial difficulty, they were simply closed. When very large institutions got into difficulty, the path to resolution was not as clear. Without authority to intervene, Lehman was allowed to fail. WAMU failed, but at no cost to the insurance fund. Other large institutions entered into mergers with TARP support; and Fannie Mae, Freddie Mac, and AIG were simply saved by Uncle Sam. In each case, the government intervention was intended to avert further damage to an already weakened financial system.

I can't honestly say whether we've put too-big-to-fail behind us. We won't really know until the next crisis. I hope that will be a long time in coming but, with apologies to Santayana, those who study financial history know we are doomed to repeat it.

I was still working on the Senate Banking Committee staff the last time we tried to address too-big-to-fail, and we came up with the present system requiring essentially a consensus among the key supervisors, Treasury, and the White House before a large depository institution could be supported. In fact, the authority was stretched a good deal farther during the crisis to provide support to the entire banking system. But that system proved inadequate for the challenges we faced in 2008, when systemic risk appeared in a range of systemically important non-banks that could neither be assisted nor closed in an orderly fashion.

Dodd-Frank provides a much stronger set of tools, and I am hopeful that they will prove equal to the task should we ever again experience a major financial crisis. A critical tool is the new resolution authority given to the FDIC, which provides an orderly alternative to bailouts or Lehman-like bankruptcy proceedings.

Another is FSOC, which should help greatly, not only by identifying companies that pose systemic risk, but by bringing together the major financial regulators to address risk that affects the system as a whole.

For community banks and thrifts, the good news about Dodd-Frank is that Congress made a concerted effort to exempt smaller institutions in important ways from many provisions that would be burdensome. For example, smaller institutions are exempt from paying for the required increase in the DIF minimum reserve ratio, and smaller bank holding companies received grandfathering treatment that will allow them to continue to count equity investments such as TRUPs in Tier 1 capital. In addition, Congress made permanent the $250,000 deposit insurance coverage, which is particularly important to community banks and thrifts, and allowed depository institutions to pay interest on business checking accounts.

And it's noteworthy that institutions under $10 billion in assets will continue to be supervised by banking agencies in the area of consumer compliance, rather than by the new consumer bureau. That means community national banks and thrifts will deal with only one regulator at the bank level. For national banks and federally chartered thrifts, that regulator will be the OCC, and we have long experience and a deep understanding of community institutions.

But that doesn't mean small banks have been protected entirely from the weight of new regulation. The Dodd-Frank Act is an exceptionally large and complex piece of legislation, and there are bound to be unintended consequences. And the fact is, any new regulation affects small banks disproportionately, no matter how carefully it is crafted. While large institutions have whole departments dedicated to dealing with regulatory requirements, community banks are lucky to have a single unit – and sometimes a single individual – to ensure compliance. So even though Congress may try to carve out small institutions from certain requirements, the overall regulatory burden does increase for community banks and thrifts.

We at the OCC are very mindful of the disproportionate effect additional regulation can have on community banks and thrifts because the overwhelming majority of the banks we supervise are small institutions: nearly two-thirds have less than $250 million in assets. The majority of our examiners, the major share of our budget, and the bulk of our resources are devoted to community bank supervision. That balance will tip even further to the community bank side when the OTS is integrated into the OCC, since most of the thrifts that will come under OCC supervision are also community institutions. So even as we work with other agencies on writing the new rules and creating the new institutions coming out of the legislation, we will keep our supervision focused on the essentials of safety and soundness and fair access to financial services.

For the OCC, one of the most significant impacts of the legislation is the absorption of most of the responsibilities and staff from OTS. Two other agencies – the Federal Reserve and the FDIC – will pick up some responsibilities from OTS, but most functions and most staff will move to the OCC.

Before I discuss how we are approaching this transition, let me stress that the OTS is the thrift industry's sole regulator until the transfer date in July. We will be working closely with OTS during this period to ensure that our integration efforts and their on-going supervision continue in tandem. We will also be conducting extensive outreach to the industry to familiarize thrift executives with the OCC's supervisory processes and expectations prior to the transfer date. We believe that communication is vital if this transition is to proceed smoothly. I know you have questions, and I hope you will not hesitate to ask them – either at formal outreach sessions, or by simply picking up the phone to call us. If you stop by our booth in the exhibit hall, you can pick up a copy of a new brochure, "The OCC's Approach to Supervision," which is intended to provide a short introduction to our supervisory philosophy. You'll also have an opportunity to talk to OCC supervisory staff and get answers to your questions.

We are planning to integrate the supervision of thrifts into our Midsize/Community Bank Supervision Group, since the vast majority of them are of similar size to our community banks – less than $10 billion in assets. What you'll find at the OCC is that we tailor our supervision to the needs and individual circumstances of each institution. Our examiners are based around the country, near the institutions they supervise, and their managers are empowered to make most supervisory decisions locally, without the need to consult Washington. We like to talk about the OCC as an agency with a local presence and a national perspective, and that is precisely correct. Our examiners and the banks we supervise have all of the resources that a national agency can offer, but supervision is conducted locally.

The integration of OTS into the OCC is an enormous undertaking, and it will require everybody's best efforts to get it done with as little disruption to the industry and to the staff of our respective agencies as possible. That's our foremost goal. In that regard, I think the ABA's decision to appoint a task force to look at the OTS integration will prove very helpful, and believe me when I say that we are very open to your thoughts.

One major source of support in this new mission will come from the OTS staff who will transfer to the OCC. These are dedicated and highly professional men and women, and we are looking forward to welcoming them to the OCC. So, banks and thrifts can expect to see familiar faces after the transfer date along with some new faces as we integrate our staffs.

With all the change that's underway, I suspect many thrift executives are wondering about the future of their industry. I would ask that question more broadly, since I am sure many community bank CEOs are wondering about the future of their business as well. It seems that the world is becoming an increasingly difficult place for smaller institutions that lack the product diversity, the funding sources, the economies of scale, and yes, the capacity to deal with new regulations and legislative requirements that their large-bank counterparts have. This is an important question for the OCC as well, since as I said earlier, we are primarily a community bank regulator in terms of our commitment of resources.

I don't want to downplay the difficulties of the current economic environment for any national bank or thrift, but having said that, we are beginning to see some hopeful signs in the community bank sphere. The pace at which new problem institutions are being identified is slowing, and with the exception of commercial real estate – a big exception, to be sure – we have seen a decline in the charge-off rates across all loan categories. Moreover, we are seeing an increasing number of cases where seriously troubled community banks have been able to attract the capital they need to avoid receivership, which means the markets are seeing some green shoots as well.

These green shoots are one more indicator that there is clearly a role for community-based financial institutions in the US economy; there always has been, and I believe there always will be. In fact, in towns and cities across America, there are funding needs that would not be met without community banks and thrifts. So while we at the OCC have made plain our concerns about commercial real estate concentrations, we also recognize just how important that type of credit is to your communities. We understand how important community banks and thrifts are to small farmers and small businesses, as well as to families looking to buy homes or educate their children. The OCC's long experience in working with community banks will be of considerable benefit to you as the country struggles to move out of the recession, and as you cope with the new world of Dodd-Frank.

The OCC is an advocate for a safe and sound industry that treats customers fairly and that has the capacity to serve the needs of businesses and consumers. So, we will continue to push national banks on such issues as managing concentrations in commercial real estate, and we will work with the consumer bureau to try to ensure that it strikes an appropriate balance between consumer protection and safety and soundness. If we believe legislative changes are needed, we will not hesitate to seek fixes from Congress.

We definitely have a busy time ahead. From my own perspective, it's a great privilege to be able to serve in this position as we work on building a regulatory system that will do a better job of identifying risk, peering into the dark corners of the financial system, and developing tools to avert future financial crises. We look forward to working with you toward those goals.

Thank you.