Statement of

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Before the

Committee on Financial Services

United States House of Representatives

September 23, 2009

Chairman Frank, Ranking Member Bachus, and Members of the Committee, I appreciate this opportunity to continue discussing the Treasury Department's Proposal for regulatory reform.

As I testified in July, the OCC supports many elements of the Proposal, including the establishment of a council of financial regulators to identify and monitor systemic risk, and enhanced authority to resolve systemically significant financial firms.

We also believe it would be appropriate to extend consolidated supervision to all systemically significant financial firms. The Federal Reserve already plays this role for the largest bank holding companies. But during the financial crisis, the absence of a comparable supervisor for large securities and insurance firms proved to be an enormous problem. The Proposal would fill this gap by extending the Federal Reserve's holding company regulation to such firms, which we believe would be appropriate. However, one aspect of the proposal goes much too far, which is to grant broad new authority to the Federal Reserve to override the primary banking supervisor on standards, examination, and enforcement applicable to the <u>bank</u>. Such override power would alter our present working relationship with the Federal Reserve that works very well, and fundamentally undermine the authority and accountability of the banking supervisor.

We also support the imposition of more stringent capital and liquidity standards on systemically significant financial firms. This would help address their heightened risk to the system and mitigate the competitive advantage they could realize from being designated as systemically significant.

Similarly, the OCC supports the Proposal's call for more forward looking rules for loan loss provisioning, which is an issue I've spent a great deal of time working on as co-chairman of the Financial Stability Board's working group on provisioning. The current system unacceptably discourages banks from building reserves during good times, when they can most afford it, and requires them to make larger provisions for loan losses during downturns, when it weakens vulnerable banks and inhibits needed lending.

And we support the proposal to effectively merge the OTS into the OCC.

Finally, we support enhanced consumer financial protection standards, and believe that a dedicated consumer protection agency CFPA could help achieve that goal. However, we have significant concerns with the parts of the proposed CFPA that would consolidate all financial consumer protection rulewriting, examination, and enforcement in one agency – which would completely divorce these functions from safety and soundness regulation.

It makes sense to consolidate all consumer protection rulewriting in a single agency, with the rules applying to all financial providers of a product, both bank and nonbank. But we believe the rules must be uniform, and that banking supervisors must have meaningful input into formulating them. Unfortunately, the proposed CFPA falls short on both counts.

First, the rules would not be uniform because the Proposal would expressly authorize states to adopt <u>different</u> rules for all financial firms, including national banks, by repealing the federal preemption that has always allowed national banks to operate under uniform federal standards. This repeal of the uniform federal standards option is a radical change that will make it far more difficult and costly for national banks to provide financial services to consumers in different states having different rules – and these costs will ultimately be borne by the consumer. The change will also undermine the national banking charter and the dual banking system that has served us very well for nearly 150 years.

Second, the rules do not afford meaningful input from banking supervisors, even on real safety and soundness issues, because in the event of any disputes, the proposed CFPA would always win. The new agency needs to have a strong mechanism for ensuring meaningful bank supervisor input into CFPA rulemaking.

Finally, the banking agencies should continue to be responsible for examination and enforcement, not the CFPA. There are real benefits to an integrated approach to consumer compliance and safety and soundness exams, a process that has served us well over time.

Moreover, moving bank examination and enforcement functions to the CFPA would only distract it from its most important and daunting implementation challenge: establishing an effective enforcement regime for the "shadow banking system" of the tens of thousands of nonbank providers that are currently unregulated or lightly regulated, like nonbank mortgage brokers and originators. The CFPA's resources should be focused on this fundamental regulatory gap rather than on already regulated depository institutions.

Thank you.