Remarks by

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Good morning. It's a pleasure to be here with so many professionals dedicated to promoting fairness and inclusion in our banking system, by ensuring that this system works to meet the financial needs of <u>all</u> communities. Fair treatment is a core part of our agency's mission, on par with safety and soundness. Events like this one, where people from all parts of the compliance community can come together and share insights and new developments, are vital to ensuring that our financial services industry expands financial inclusion and serves the needs of consumers, businesses, and communities throughout the country.

So far, we've had a chance to hear speakers on some important topics, like the potential of fintech, the growing possibilities for community development investments, and the latest Community Reinvestment Act (CRA) guidance. I want to spend my time with you this morning discussing the role of a healthy culture at the institutions we regulate; our progress in establishing a dedicated Compliance and Community Affairs function at the OCC; and the impact these have on CRA performance and fair lending.

Since the last financial crisis, more and more people are recognizing the importance of culture. Comptroller of the Currency Thomas Curry made promoting healthy cultures at the banks the OCC oversees a priority early in his tenure, speaking at events across the country,[1] and he continues to make this a subject of conversation with bankers and regulators throughout the country.

As the industry and regulators searched for the causes of the meltdown, and for ways to prevent it from recurring, it became clear that the unsound and unfair practices that led to the crisis could not have become so pervasive without a culture that enabled and even encouraged them. As an antidote, measures like passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 demanded that financial institutions focus on consumer compliance.

Now, more than eight years after the crisis, some in the industry are asking when banking regulation is going to "get back to normal." The answer to that is, there's a new normal. Financial institutions can't go back to the way of doing things that caused the trouble in the first place. Dodd-Frank has underlined the importance of compliance, and industry and regulators alike must continue to sharpen our focus on it, because we have learned what happens when we take our eyes off the target.

Fairness and compliance are critical aspects of the OCC's mission and are interconnected with, and just as important as, safety and soundness. As the Comptroller noted recently, you cannot manage operational risk without an effective compliance program.[2] Compliance is not a box to be checked; it's central to effective bank operations and vital to assessing an institution's

[1] See Remarks before the Annual Conference of the Clearing House Association, November 21, 2014 (https://occ.gov/news-issuances/speeches/2014/pub-speech-2014-160.pdf).
[2] See Testimony of Thomas J. Curry, Comptroller of the Currency, before the Committee on Banking, Housing, and Urban Affairs, September 20, 2016 (https://occ.gov/news-issuances/news-releases/2016/nr-occ-2016-115a.pdf).

overall safety and soundness. Lapses in consumer compliance don't just harm consumers, they also create significant operational risks that can result in revenue losses and major reputational damage for the institution that allows those lapses to occur. Let's face it, it's bad business to allow practices that abuse customers to grow.

In a healthy institutional culture, compliance policy serves as an effective guidepost helping employees to behave responsibly, knowing that they will have the support and approval of their superiors and the organization as a whole. That tone has to be set by top management—the expectation that everyone, from senior executives on down, will conduct themselves in a way that will protect the consumer and bank.[3]

That's where you come in. We want to see banks fostering a culture of compliance that treats CRA and fair lending as central to the business of banking. We want to see compliance officers having a seat at the table and taking a larger role in their organizations to make executives aware of the need to meet CRA and fair lending requirements. Complaint management in these areas can be a gauge of an institution's compliance performance, and CRA specialists are in a unique position to observe trends and help correct course early, if necessary.

Building a compliance culture means that we need to view responsible lending to low- and moderate-income areas not as something we do simply because it is an expectation under the CRA, but because financial inclusion makes good business sense. One way to grow financial services in a sustainable way is to expand participation, and those opportunities exist in communities that are unserved or underserved today. An "Outstanding" CRA rating is a sign that, in a competitive market, your institution is looking ahead.

[3] See footnote 2.

The OCC also believes that strengthening an overall culture of compliance in the banking industry is best served by creating a specific structural focus on this issue and dedicating regulatory resources to it. That's why, in March, the Comptroller established the Compliance and Community Affairs business unit, or CCA, and named me as Senior Deputy Comptroller for this unit. CCA is focusing on enhancing the agency's ability to comprehensively identify and address compliance risk, issue timely guidance and procedures, and communicate effectively about emerging compliance issues. Overall, these changes are designed to strengthen the OCC's ability to provide effective supervision in the areas of consumer compliance, Bank Secrecy Act and anti-money laundering (BSA/AML), CRA, and fair lending.

Our new CCA structure combines Compliance Risk, our policy division which is led by Deputy Comptroller Donna Murphy; Compliance Supervision, led by Deputy Comptroller Beverly Cole; and Community Affairs, led by Deputy Comptroller Barry Wides. This new structure—with our seat at the OCC executive table—strengthens the OCC's ability to implement the lessons learned from the financial crisis; to promote the ongoing legal and regulatory changes fostering a financial system that better serves its customers; and to address the impact of technology on the way institutions manage their compliance and BSA/money laundering risk.

The Compliance Supervision division under CCA will apply a consistent risk-based approach across the agency's compliance supervision activities and to obtain a more comprehensive view of compliance risk for all OCC-supervised institutions. Through the Compliance Risk and Community Affairs divisions, CCA will improve policy development, examiner guidance, training, quality assurance, and outreach.

The implementation of CCA is a work in progress. As we build out the new structure, we are doing so with a number of goals firmly in mind. First and foremost, the OCC will continue to apply an integrated and risk-based approach to bank supervision. The Compliance Supervision unit will partner with safety and soundness supervision to implement comprehensive supervisory strategies for compliance examination activities. Compliance conclusions will continue to be combined with safety and soundness conclusions into one report of examination.

The CCA structure will maximize OCC resources to address the greatest compliance risks and support fair access to bank services. We will support local examiners with training, policy development, risk analytics, and examination tools. And our OCC Community Affairs Officers will continue to support community development efforts, by highlighting opportunities and by supplementing banks' efforts to identify the community development activities they're already undertaking in the normal course of business.

Turning specifically to CRA and fair lending, a key aspect of the new CCA structure is to sharpen our focus on these critical areas and the many important issues being discussed at this colloquium. First, within the Compliance Risk division—which is responsible for the development of policy, guidance, procedures, and examiner tools and training—we are creating a new Director position focused on existing and emerging risks in the areas of fair lending and CRA. This Director will support the development of consistent agency guidance, policies, and procedures relating to CRA and fair lending. CCA is also creating similarly focused positions within Compliance Supervision to enhance implementation and coordination of CRA and fair lending supervision. Working together, these CCA employees will bring a heightened focus to CRA and fair lending, increase our ability to recognize and address risk in these areas, and support our local examiners in CRA evaluations and fair lending examinations.

The creation of CCA, and the new focus and structure for our CRA and fair lending resources, will facilitate our communication with key stakeholders, and make coordinating with our fellow regulators in these areas more efficient and effective. One of the goals in establishing this new unit has been to make our priorities clear and consistent at all levels of the OCC. That goal also ties in with our increased focus on collaboration with other financial regulators; we are committed to sharing information and best practices and to working toward consistent supervisory expectations across the industry. We recognize that to encourage safe, sound, accessible and non-discriminatory banking, we need to not just set expectations, but to clearly communicate those expectations and support institutions in their efforts to meet them.

To that end, we, along with the Federal Reserve Board and the Federal Deposit Insurance Corporation, finalized in July the revised *Interagency Questions and Answers Regarding Community Reinvestment*. Our agencies solicited input from industry and community stakeholders, and the revised Q&As—together with the Q&A revisions from 2013—clarify some issues to help banks identify opportunities for CRA consideration. One important clarification expands consideration for some activities outside an institution’s immediate assessment area, if the activities benefit areas or individuals in a broader statewide or regional area that includes the institution’s assessment area. This and other clarifications in the Q&As expand the opportunities for banks to gain CRA consideration.

I think you are already seeing changes at the OCC that reflect this renewed emphasis on compliance and CRA. For instance, the agency is closely scrutinizing CRA performance, both past and future, in its consideration of mergers and acquisitions. Where we have identified substantial concerns, we have required banks to develop and implement a viable CRA plan that includes input from the affected community, in order to help ensure that those institutions serve their communities. This change demonstrates that fair lending considerations are a fundamental part of our oversight, and our message is that these should also be a fundamental consideration for banks. Failure to maintain strong CRA performance and compliance can and will have serious business consequences. In one recent case, a CRA rating downgrade by the OCC forced a bank to withdraw applications for two acquisitions and postpone the target date for those actions until late 2017 while it works to resolve the CRA concerns. I said it earlier, and I think it's worth saying again, CRA performance and compliance are critical parts to the business of banking. If a company exhibits weaknesses in these areas, then we have to question whether it is ready to expand. On the other hand, companies that integrate CRA performance and compliance into their core businesses, and commit to the resources and leadership necessary to demonstrate strong performance in these areas, those may be the companies best positioned to succeed.

In closing, I want to say that, as always, the OCC encourages you to contact us with any questions you have about CRA, fair lending, or any other issues. I hope you'll take back to your organizations not just the information and insights offered by the speakers and panelists here, but also a renewed sense of just how important these issues are to your organizations and communities. As the Comptroller has noted, banking is and always has been "a business founded on confidence and character." No matter what other changes are ahead for our industry, we need to keep that foundation strong. Thank you.