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Acting Comptroller of the Currency

Before the

Committee on Banking, Housing, and Urban Affairs

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Statement Required by 12 U.S.C. § 250:
The views expressed herein are those of the Office of the Comptroller of the Currency and do not necessarily present the views of the President.

Introduction

I am pleased to testify before the Committee on Banking, Housing, and Urban Affairs to provide an update on the activities underway at the Office of the Comptroller of the Currency (OCC) as we seek to ensure that national banks and federal savings associations operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations.

The OCC charters, supervises, and regulates more than 1,050 national banks, federal savings associations and federal branches and agencies of foreign banks (collectively, "banks"). These institutions range in size from very small community banks to the largest, most globally active banks operating in the United States. The vast majority of these institutions have less than $1 billion in assets, while 55 have greater than $10 billion in assets. Together, OCC-supervised financial institutions hold more than $15 trillion in assets—almost 66 percent of all assets held in commercial U.S. banks.

My written statement provides a general overview of the state of the federal banking system, an update on the OCC's work to advance the four critical agency priorities that I initiated after becoming Acting Comptroller more than two years ago, and a description of recent key regulatory developments.

State of the federal banking system

The overall condition of the federal banking system is sound. Despite the significant market stresses earlier this year which started with the failures and liquidation of several state-chartered banks and a challenging interest rate environment, banks in the aggregate continue to have strong levels of regulatory capital and healthy levels of profitability while maintaining sufficient liquidity buffers.

The OCC closely monitors the condition of the institutions it supervises and engages directly with them to ensure they are appropriately managing their risks. The OCC provides heightened supervisory attention to banks with elevated levels of risk, such as high levels of unrealized losses and uninsured deposits, or a significant concentration in commercial real estate exposure.

Banks must remain vigilant in managing risk. The OCC's Bank Supervision Operating Plan for 2024[1] summarizes the agency's exam priorities for next year and highlights asset liability management, credit risk and allowance for credit losses, cybersecurity, operational risk, and consumer compliance risk, among others, as key areas of focus.

Update on Agency Priorities

Guarding Against Complacency by Banks

Guarding against complacency is essential to building and maintaining trust in the banking system. It has been a priority for the OCC since I took over as the Acting Comptroller in May of 2021.

The large bank failures in the spring of this year and resulting market disruption serve as a reminder that stress at banking organizations can affect financial stability and public trust in the nation's financial system. In particular, this highlighted the dangers of complacency by bank management and boards of directors.

While there has been relative calm since then, the OCC expects the banks we supervise to remain vigilant and stay "on the balls of their feet" regarding risk management. Banks need to successfully manage traditional, "blocking-and-tackling" risks, such as credit, liquidity, and interest rate risks, as well as prepare for emerging risks and tail risk events.

To assist banks, the OCC has updated guidance and provided transparency around our expectations. For example, in response to increasing risk in commercial real estate, the OCC, Federal Reserve Board, the FDIC, and the National Credit Union

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[1] See: Fiscal Year 2024 Bank Supervision Operating Plan, Office of the Comptroller of the Currency, Committee on Bank Supervision (occ.gov)

Administration, in consultation with state bank and credit union regulators, published the "Policy Statement on Prudent Commercial Real Estate (CRE) Loan Accommodations and Workouts."[2] The statement replaces the 2009 interagency guidance on CRE loan workouts and reflects the OCC's commitment to build trust by collaborating with other agencies to ensure consistent supervision and to provide timely guidance that reflects current best practices.

In addition, the Federal Financial Institutions Examination Council (FFIEC) also updated several sections of the FFIEC *BSA/AML Examination Manual* to reinforce the risk-focused approach to BSA/AML examinations. The updates reflect my commitment, as the current Chair of the FFIEC, to improving the effectiveness of the BSA/AML and reducing undue burdens on banks.[3]

Reducing Inequality in Banking

Another priority essential to building and maintaining trust in the banking system is reducing inequality in banking. Ensuring that financial services are offered responsibly and fairly takes continued effort and vigilance by banks, regulators, members of the public and other stakeholders. Public trust in banks can enable a virtuous cycle between banks and the communities they serve.

On October 24, 2023, the federal banking agencies issued an interagency final rule implementing the Community Reinvestment Act (CRA). The CRA was enacted in 1977 to prevent redlining and to encourage banks and savings associations to help meet the credit needs of all segments of the communities in which they operate, especially low- and moderate-income (LMI) neighborhoods and individuals. The final rule adopted by the federal banking agencies modernizes and strengthens the CRA. It modernizes the CRA by recognizing banking activities that take place beyond physical branches and

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[2] See OCC Bulletin 2023-23, "Credit Administration: Final Interagency Policy Statement on Prudent Commercial Real Estate Loan accommodations and Workouts."

[3] See OCC Bulletin 2023-26, "Bank Secrecy Act/Anti-Money Laundering: updated Sections of the FFIEC BSA/AML Examination Manual."

ATMs, being significantly more data driven and objective, and providing for greater transparency. It strengthens the CRA by addressing concerns related to "grade inflation" in CRA ratings, and by better incentivizing CRA lending and investments in LMI communities.

The rule will provide clarity and consistency for all banks, but also tailors evaluations and data collection to bank size so that community banks do not have additional burden. The agencies also responded to commenters by providing a 24-month phase-in period to allow banks and regulators time to prepare for it. The OCC will now turn its efforts to perhaps the most important step toward reducing inequality, which is the implementation of the new rule.

Earlier this year, we issued guidance to address the risks associated with overdraft protection programs. These programs can present a variety of risks, including compliance, operational, reputation, and credit risks. In particular, the guidance highlighted certain practices that may present heightened risk of violating federal prohibitions against unfair or deceptive acts or practices. These include assessing overdraft fees on "authorize positive, settle negative" transactions and charging a fee each time an item is presented for payment after being returned for non-sufficient funds. It also describes practices that may help banks control risks with overdraft programs, as well as provides information about programs that assist consumers in meeting short-term liquidity and cash-flow needs.

This fall, the OCC hosted a public Special Purpose Credit Program (SPCP) Roundtable with the Department of Housing and Urban Development, the Federal Housing Finance Agency, and the Consumer Financial Protection Bureau to highlight the availability of SPCPs to help meet the credit needs of eligible individuals. The roundtable brought together diverse stakeholders for a discussion about how SPCPs can help meet the credit needs of underserved consumers and reduce the racial wealth gap. SPCPs are a long-established tool under the Equal Credit Opportunity Act and its implementing Regulation B, and a way for creditors to expand access to credit for economically or socially disadvantaged consumers and commercial enterprises. The roundtable served to support banks' exploration around the establishment or expansion of such programs.

I also want to recognize the continued progress of the OCC's Project REACh – or Roundtable for Economic Access and Change – which is focused on removing barriers to financial inclusion. For instance, initiatives targeting credit invisibles are bringing new entrants into the mainstream financial system and providing them with credit scores and access to credit. Investments of talent and financial resources in Minority Depository Institutions have resulted in increased partnerships, exchange programs, training and capital. Efforts to promote homeownership for the underserved and for those on tribal lands are underway, as are investments in minority small businesses and awareness of special purpose credit programs.

Adapting to Digitalization

Banks' relationships with third parties, including financial technology (fintech) companies, continue to expand. The use of third parties has significant potential benefits, but poor third-party risk management can hurt consumers, weaken banks, and contribute to an unlevel playing field.

Recently, the OCC and other regulators jointly issued "Interagency Guidance on Third-Party Relationships: Risk Management."[4] This document builds on the OCC's guidance from 2013 and reminds banks of their responsibility to operate in a safe and sound manner and in compliance with applicable laws and regulations regardless of whether their activities are performed in-house or outsourced. The guidance also recognizes that not all third-party relationships reflect the same level of risk and therefore not all require the same level of risk management.

[4] See OCC News Release 2023-53, "Agencies Issue Final Guidance on Third-Party Risk Management."

The OCC recognizes the considerable interest by the banking industry in artificial intelligence (AI). To date, banks have generally approached machine learning and AI cautiously across a range of use cases The potential benefits of more widespread adoption of AI are significant, but so are the risks, which we expect banks to manage appropriately.

In the digital asset space, attention is shifting from crypto to the tokenization of real-world assets and liabilities. In contrast to crypto, tokenization is driven by solving real-world settlement problems and can be developed in a safe, sound, and fair manner. Next February, the OCC will host a public symposium on tokenization to take stock of developments, help enable strong foundations, and promote public discussion.

Managing Climate-Related Financial Risks to the Federal Banking System

On September 24, 2023, the OCC, along with the Federal Reserve and FDIC, approved principles for climate-related financial risk management for large banks. These principles build upon the OCC's initiative as the first U.S. federal banking agency to propose for public comment principles for large banks nearly two years ago.

The principles are focused exclusively on risk management of climate-related financial risks. They are needed because the increased frequency and severity of extreme weather events impact individuals, businesses, and communities. As with all risks, large banks need to be ready and to have effective risk management capabilities. At the same time, these principles recognize and respect that industrial policy and climate policy are outside of the scope of bank safety and soundness. The principles do not tell bankers what customers or businesses they may or may not bank. Rather, they clarify how large banks can maintain effective risk management and keep their balance sheets sound and continue to be a source of strength to their customers and communities through a range of scenarios.

To date, the OCC has worked with the large banks it supervises to better understand their work to identify, manage and control climate-related financial risks. Going forward, we plan to monitor the development of large banks' climate-related financial risk framework for safety and soundness and engage with bank management and other regulators to better understand the challenges banks face in this effort.

As with all emerging risks, it is critical that banks prepare for climate-related financial risks. They should not wait for disaster to strike before they act – prudence demands that regulators and the industry adapt as risks emerge. This philosophy underpins these principles, as well as prudent risk management and our mission to ensure bank safety and soundness.

The OCC Supports Community Banks and MDIs

The OCC is committed to promoting a vibrant and diverse banking system to match and support the diversity of the U.S. economy. The banking system needs to be diverse in order to meet the wide range of individual consumer and community financial needs across this country. A diverse banking system also enables healthy competition and the ability to adapt to change and adversity. A vibrant and diverse system is comprised of a broad spectrum of institutions, including community banks and minority depository institutions, community development financial institutions, mutual savings associations, and FSAs. Supporting them is critical to our mission and vision.

We are mindful of concerns from community bankers that requirements for large banks should not trickle down to smaller banks, as such requirements can pose an undue burden and unnecessarily tie up scarce personnel and other resources. The OCC will remain diligent in guarding against such outcomes and tailor our supervisory expectations while ensuring the federal banking system remains safe, sound, and fair. We plan to continue to engage directly with each community bank that we supervise, and our two Federal Advisory Committees, the Minority Depository Institution Advisory Committee, and the Mutual Savings Association Advisory Committee, will continue to assist in this effort.

Additional Recent Key Regulatory Developments

The OCC has been engaged in developing and finalizing several proposals to promote the resiliency, resolvability, and inclusiveness of the federal banking system.

Revisions to Capital Rules for Large Banks

Last July, the OCC joined the federal banking agencies to issue a proposal to update the risk-based capital requirements applicable to large banking organizations and banking organizations with significant trading activity. This so-called "Basel endgame" NPR is intended to replace the current risk-based capital framework, which was adopted in response to the 2008-2009 financial crisis and helped facilitate the recapitalization of large banks after the crisis. The purpose of the NPR is to finish the job by establishing a durable risk-based capital framework for large banks that adequately captures all material risks and utilizes methodologies that are consistent and reliable.

Like building codes, we need our capital framework to be prudent and robust, so that large banks – like large buildings – can withstand a wide range of shocks and stresses. Gathering public input on the proposal is critical. We will consider all comments, including alternative approaches. The comment period for the proposal was recently extended until January 16, 2024.

Enhancements to Long-Term Debt Requirement for Large Banks

On August 29, 2023, I approved an interagency proposal to establish a long-term debt requirement for large banks with $100 billion or more in assets. The purpose of the rule is to help ensure that a large bank's losses are borne by its investors in the first instance. The failures of Silicon Valley Bank and Signature Bank earlier this year highlight the importance of securing this safeguard for all large banks, not just the global systemically important banks (GSIBs). As with the Basel endgame NPR, I look forward to reviewing the comments provided on this rulemaking.

Conclusion

I am committed to ensuring that OCC-supervised banks operate in a safe, sound, and fair manner, meet the credit needs of their communities, treat all customers fairly, and comply with laws and regulations. As we work to ensure that the federal banking system remains a source of strength to the U.S. economy, we will continue to advance key agency priorities to ensure the federal banking system is well positioned to respond to community and consumer needs well into the future.