Remarks by

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Before
The OCC-Boston University Conference
"Building on 150 Years: The Future of National Banking"

Boston, Massachusetts
March 31, 2014

Thank you, Con, and to you, ladies and gentlemen, let me extend a very warm welcome to an event we <u>like</u> to say is 150 years in the making. But what really made today possible is the hard work over the past year of the OCC and Boston University staff responsible for its planning and execution. To them I extend my sincere appreciation.

And, of course, we are exceedingly grateful to our program participants who are taking time from their busy lives to share their thoughts on the future of financial services generally and the national banking system in particular.

I also have the distinct pleasure of welcoming you to the city I have long called—and continue to call—home. It is where I learned the basics of bank supervision, where I had the honor of serving as the Commonwealth's Commissioner of Banks, and where much of my family and a great number of my friends reside. I am delighted to see so many of those friends and associates here today.

Our avowed reason for our being here, of course, is the 150th anniversary of the national banking system and the OCC as its federal supervisor. Why the system was created has been a matter of some dispute. You will hear it argued that President Lincoln and Treasury Secretary Salmon P. Chase embraced that system as a short-term expedient, for the quick cash it was expected to bring to the beleaguered wartime Treasury. But this is Lincoln we're taking about—a remarkable leader who could keep one eye on the practical needs of the day and the other on his vision for the future. He understood that a vibrant economic system required sound banks and that public confidence in those banks required uniform national rules and strong national supervision. By investing their political capital in that vision, Lincoln and his allies built a financial system whose basic structure has endured since 1863.

The structure endured not only because it was well suited to American habits and values—being a mix of large and small banks under both state and national supervision—but because its regulators and supervisors continuously adapted the system to meet the needs of the time. Business and finance have changed greatly since the days of Lincoln, and the national banking system has evolved to keep pace.

I think there's one other reason the system has stood so well for so long. It's because the OCC recognized in its earliest years, under its first Comptroller, a set of guiding principles that turned out to be as relevant in the age of the Internet as they were in the days of the telegraph and horse-drawn wagon.

That first Comptroller of the Currency, Indiana's Hugh McCulloch, had his hands full in 1863, standing up his office and approving or denying applications for the new national bank charter. By the end of the year, nearly 150 had been authorized. But those new national bankers wanted to know what was expected of them beyond the specific requirements laid out in the law. In response to their questions, McCulloch, who was perhaps the most esteemed banker of his generation, took pen in hand and drew up a list of the responsibilities and expectations that came with their charters.

His words were a compilation of the principles of sound banking. McCulloch cautioned against speculation, asset concentration, and “fictitious” capital. He demanded that all loans be “secured beyond a reasonable contingency.” Above all, he wrote, national bankers must “pursue a straightforward, upright, legitimate banking business. Never be tempted by the prospect of large returns to do anything but what may be properly done under the National Currency Act.” Banking was a business founded on confidence and character in McCulloch’s time, and it still is today.

Since becoming Comptroller, I have made a point of presenting a copy of McCulloch’s advice to every banker who visits us. I would like each of you to have a copy as well. They are available at the registration tables. I hope you will take the opportunity to read and ponder what this great, if today underappreciated financial statesman has to say to us. I think you will find it to be of real value.

I’ve wondered at times what McCulloch would think of the current state of the system he helped bring into being, and how he might have recommended we commemorate its 150th anniversary. I suspect he would not be surprised to find, 150 years after taking office as Comptroller, that both the OCC and the national banking system are flourishing and continuing to play a vital role in supporting our nation’s economic life. And as for the agency’s 150th – well, I’m guessing that he would have encouraged us to read his advice to bankers and then get back to work.

Anniversaries are usually given over to self-praise, but that’s not where we chose to go this past year. We dedicated our sesquicentennial instead to taking a hard look at ourselves and seeing what insights we could glean from our history that might make us better custodians of Lincoln’s legacy – and, therefore, better bank supervisors. To cite just one example, last year the OCC asked senior supervisors from Australia, Canada, and Singapore – nations whose banks showed particular resilience during the financial crisis—to participate in a review of our large and midsize bank programs. This peer review was conducted under the direction of Jonathan Fiechter, a name that is probably familiar to most of you from his tenure at the OCC, the OTS, the IMF, and the World Bank. The Fiechter report provided an independent perspective on how we manage supervision, and it made a number of constructive recommendations. We are now reviewing the report's recommendations and making decisions on how to implement them.

By definition, change is disruptive and often uncomfortable. But I am proud to say that the OCC has responded to the prospect of change with the same professionalism and devotion to public service that our people have shown throughout the agency's history.

Our sesquicentennial explorations took us beyond the OCC itself to the larger world in which we operate, as we looked for light on where the industry and regulators are heading. To start the ball rolling, let me share a few of our takeaways.

First, I think the theory that history moves in cycles has special validity when it comes to bank regulation. In few other areas have there been sharper shifts in the national consensus on the proper balance between private enterprise and government oversight. These shifts reflected our people's historic ambivalence about banks: depending on your point of view, either as institutions that must be free to innovate and compete to keep our economy strong, or as institutions that must be supervised tightly to preserve stability and fairness. I am in the camp of those who believe that sound and credible supervision, informed by judgment, is essential.

This ambivalence was partly responsible for the cycles of regulation and deregulation that have marked American banking history. For example, the national banking acts of the 1860s were inspired by a general disgust with the banking abuses of the pre-Civil War period, while the authors of the Federal Reserve Act were responding to the fact that the money and banking system they inherited, though well suited to the 1860s, was no longer adequate to meet the needs of what by then was perhaps the world's most dynamic economy.

Similarly, the Glass-Steagall Act of 1933 and the Banking Act of 1935 were an explicit repudiation of the profligate 1920s, when tiny undercapitalized unit banks proliferated; large banks in New York City and elsewhere engaged in massive speculation on their own and their clients' behalf; and cascading failures of both large and small banks helped trigger the Great Depression, prompting creation of the Federal Deposit Insurance Corporation as part of the 1933 law.

We now find ourselves at another historical inflection point, brought on by the financial crisis that began in 2008. Clearly, the Dodd-Frank Act has strengthened the regulatory system, and made the banks we supervise more safe and more sound. Gone are proprietary trading and investments in hedge funds. Gone too are the days of originating shoddy loans with the intent of selling them to investors before they go bad. The agencies have new tools to wind down large banks that get into trouble, and a new mandate to require more capital of our largest and most systemically important institutions. The law works enormous changes in the way supervisors go about their work and the way in which banks do business. But even with all that progress, how do we stay on course to avoid another crisis?

Previous breakdowns were met with legislative and regulatory responses that seemed adequate to deal with the crisis that had just passed, but were not, by themselves, able to avert future breakdowns. The bank and thrift crises of the late 1980s and early 1990s, for example prompted two major pieces of legislation that fundamentally reordered the industry and our regulatory structure. The two laws cleaned up the industry's accounting, mandated higher reserves for the bank and thrift insurance funds, and established a system of prompt corrective action, among other measures.

The system that FIRREA and FDICIA established worked well for more than a decade. The two laws made important contributions to safety and soundness, and they deserve a fair measure of credit for the long period in which bank failures were rare and the nation prospered. So what was missing? What was lacking in our regulatory structure that allowed the financial crisis to take root?

I'll cite one factor that is of special significance to those of us at the OCC: the difficulty of focusing attention on weaknesses that develop, but remain hidden below the surface in good times.

In the worst days of the crisis, everyone understood the need for strong supervision. If anything, the question asked was why we didn't get tougher sooner. But in good times, when loan losses are low and capital appears strong, pressure will mount to relax standards and go easy as emerging weaknesses are discovered. When the party is going full roar, it's easy to believe it will go on forever, and nobody understands why supervisors might be eyeing the punch bowl.

But it’s our job as supervisors to lean against the wind. It’s our job to identify the soft spots that will turn into losses when the economy changes direction. And it’s our job to direct corrective actions in advance, when it is most easy for banks to adjust.

We all need to remember the lessons of history, including those from our very recent past. The collapse of Bear Stearns at the outset of the crisis dates back just six years ago this month, but already memories of those traumatic days are growing dim. As the events of 2008 and 2009 recede further into the past, the role of supervision will become more important than ever.

Although the Dodd-Frank Act is prescriptive in many ways, the authors of the law—who you’ll hear from later today—were wise enough to leave the OCC and other federal banking agencies with considerable discretion in deciding how to apply it. We have used this discretion in our rulemaking activities, taking pains to ensure that we fulfill the letter and spirit of the law, while also making sure that banks are able to continue serving their customers in a safe and sound manner. That is undoubtedly what Congress intended, and we are committed to carrying out its will.

The crisis underscored what we as an agency have learned time and again over the course of our 150 years: the important role of supervision and examiner judgment as a cornerstone of a healthy financial system. Of course, rules are crucial to safety and soundness, as are stress tests, capital and the data analytics that help us evaluate an institution’s health. But so are examiner “boots on the ground”—the presence of seasoned professionals who bring the benefit of sound judgment and years of experience to their work. That’s a truth that has been demonstrated countless times over the last 150 years.

Today is about drawing on the wisdom of the past to help formulate a vision for the future. It should be a great program. So let's get it underway.

Thank you.