Remarks by

Thomas J. Curry
Comptroller of the Currency

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Thank you, David, for the opportunity to reconnect with all of you after what has certainly been a winter for the ages. I am pleased to see that you, my friends and colleagues, weathered the many storms, and I am also pleased to see that the Depositors Insurance Fund (DIF) has made it successfully through another year. Since its founding during the Great Depression, the DIF has been all about safety and confidence, and there's not a person in America who doesn't think we could use more of both in our nation's financial system today.

I was particularly pleased to accept your invitation today, although my staff probably wondered why I'd want to address a group with so few national bankers in attendance. The answer is simple: I've had a long relationship with many of you, dating back to my time in state government, and that is something I will always prize.

The fact is, however, that the 60 or so Massachusetts-chartered institutions that comprise the DIF and the 1500 community banks and federal thrifts supervised by the OCC nationwide are much more alike than different. Regardless of where they may be located or which agency provides their supervision, community banks face many common challenges, and we should take advantage of every opportunity to share and learn from our common experiences. Indeed, the importance of collaboration among banks and among the banking agencies is the point I'd like to emphasize in my remarks today.

There is one feature of the Massachusetts banking statutory framework that impressed me. I'm referring to the flexibility of the state's banking charter. During the 1980s, as you know, the legislature acted to make powers and investment authorities, as well as supervisory requirements, the same or comparable regardless of the type of banking charter. All Massachusetts-chartered banks are allowed to exercise those powers while retaining their own corporate structure.

This flexibility enables Massachusetts banks to adapt their business strategies to changing business conditions and markets without having to go through the costly and time-consuming process of a charter conversion. It has given Massachusetts bankers the freedom to build a business on the traditional foundation of mortgage lending or to engage primarily in commercial lending, or some combination of the two. It has been your choice to make, based on the business strategy you see fit to adopt.

I have long thought that the system that has worked so well in Massachusetts should also be available to federal thrifts. I am pleased to say that we are making progress toward this goal. The OCC has been working with members of Congress to shape legislation that would modify the provision of existing law that requires every savings association to devote a fixed percentage of its balance sheet to home mortgages. The new legislation would enable federal thrifts to diversify their loan portfolio, maintain their federal charter, and retain the OCC as their regulator. Because OCC examiners would continue to provide their supervision, there would be no gap in their supervisory coverage and no additional risk to the institutions' safety and soundness.

If adopted by Congress—and we hope it will be—this would hardly be the first Massachusetts initiative that became a model for the entire nation. I believe that the responsible and constructive manner in which Massachusetts bankers have used their authority is one key reason why similar authority is now within reach for federal thrifts, and I applaud you for it.

The OCC's advocacy for charter modernization underscores our broader commitment to ensuring that regulatory compliance is no more burdensome than it must be to keep financial institutions, and the financial system generally, safe and sound. We recognize that regulatory burden is a pressing concern for resource-constrained community banks, which means practically all community banks. We know enough about what a struggle it can be for smaller banks to cope with the vast majority of regulations that are necessary to understand the burden of dealing with outdated, redundant, or unnecessary ones. Our goal is to make compliance as manageable as possible for one simple reason: to free community banks to serve their customers and communities. The regulators can assist by doing everything possible to streamline their processes and avoid duplication of effort, and we are doing just that.

Some community banks have taken constructive steps on their own, and with each other, to better control compliance and other operational costs. Earlier this year, the OCC issued a paper that describes collaborative arrangements among community banks to obtain cost efficiencies and leverage specialized expertise in such areas as marketing, purchasing, product development, employee benefits, and, of course, regulatory compliance. I would encourage you to review this paper, which is available on our Web site.

Many suggestions for regulatory reconsideration come to light in in the regular course of our supervision and rulemaking, and from what bankers tell us during our frequent outreach meetings. But as you know, there is a formal process for conducting regulatory reviews, pursuant to the Economic Growth and Regulatory Paperwork Act of 1996, better known as EGRPRA. We are now in the midst of the mandatory ten-year review cycle, which involves state bank regulators as well as federal regulators working together through the Federal Financial Institutions Examination Council. By happy coincidence, my friend Commissioner Cotney is the state bank representative to the FFIEC. I expect that he will be on hand with other FFIEC members when they meet here in Boston a month from now, on May 4, in the third of five outreach meetings we are holding across the nation seeking feedback on regulations in need of review. I would encourage you to attend this event—or view it online—and give us the benefit of your thoughts via written comment.

The OCC has two additional priorities intended to ease the regulatory pressure on community banks. We have long believed that healthy, well-managed community banks ought to qualify for the 18-month examination cycle. Just by raising the asset threshold from $500 million to $750 million, more than 100 OCC-supervised banks and thrifts and several hundred additional institutions would qualify for the extended cycle. That would not only reduce the burden on those well managed institutions, it would also allow the federal banking agencies to focus our supervisory resources on those banks and thrifts that may present capital, managerial, or other issues of supervisory concern. I am pleased to report that legislation was introduced in Congress last week.

Another area ripe for congressional action is a community bank exemption from the Volcker Rule. We do not believe it is necessary to include smaller institutions under the Volcker Rule in order to realize congressional intent, and we have recommended exempting banks and thrifts with less than $10 billion in assets.

Collaboration between state and federal regulators through the FFIEC has been productive in other areas, particularly in addressing the growing risk to institutions from cyber attacks. I am proud that during my tenure as FFIEC chairman, the agencies took a number of steps to raise awareness of the threat, disseminate best practices for the industry, and to enhance our supervisory capabilities in this area.

In developing these initiatives, we've had the needs of community banks very much in mind. It is not that our largest banks have immunity from cyberattack; in fact, the opposite is true. But these institutions have sophisticated and funded programs in place to address these threats, and we devote full-time onsite supervisory resources to monitor their efforts.

However, institutions of all sizes are at risk, either from direct attacks or due to the interconnectedness that exists between systems and relationships with third parties. This interconnectedness is essential to enabling efficient processing of the large volumes of transactions that make the global economy run. But these connections with customers and third parties must be effectively implemented, managed, and monitored to safeguard the overall cybersecurity and the resilience of banks, payment systems, and the financial sector overall. Because these interconnections exist across the financial system, we stress the importance of information sharing about threats and vulnerabilities through organizations such as the Financial Services Information Sharing and Analysis Center, or FS-ISAC. The FFIEC has taken a formal position of encouraging financial institutions to join this group and to leverage that membership to inform their overall risk assessments.

In 2014, the FFIEC agencies conducted a pilot assessment of cybersecurity readiness at more than 500 community institutions. It highlighted the need for improvements in the way banks think about, and prepare for the possibility of cyberattack, as well as how management and boards of directors support and oversee their efforts. Among other things, it recommended that bank managers incorporate cyber-incident scenarios in to their business continuity and disaster recovery planning. It also reaffirmed a point that the OCC has particularly emphasized through our own supervisory guidance: the importance of evaluating a bank's exposure to cyberattack through its interconnections with other institutions and third parties.

Last month the FFIEC agencies adopted an ambitious agenda for 2015 to address the pilot assessment findings. We are developing a self-assessment tool to assist institutions in evaluating their inherent cybersecurity risk and their risk management capabilities. We are also working on enhanced processes for gathering, analyzing, and sharing information among the FFIEC agencies, improved crisis management capabilities, more advanced training for agency staff on evolving cyber threats and vulnerabilities, heightened attention to technology service providers, and upgraded collaboration with law enforcement and intelligence agencies. We are also updating and supplementing the FFIEC's Information Technology Examination Handbook to sharpen the supervisory focus on risk management and oversight, threat intelligence and collaboration, cybersecurity controls, external dependency management, and incident management and resilience.

In light of the accomplishments in cybersecurity and regulatory relief that I've described, it may be useful to recall the circumstances of the FFIEC's founding. It happened back in 1979, a time of strained relationships among the agencies—so strained, in fact, that Congress felt obliged to make interagency collaboration a statutory responsibility. Even then, the agencies came to the table warily and reluctantly, not wanting to sacrifice their independence and autonomy. Not surprisingly, the FFIEC's accomplishments were initially quite modest.

We have come a long way since then. The FFIEC agencies continue to exercise their own statutory authority and to bring their own unique experience and perspective to the interagency process. But we have learned that the challenges confronting the financial system require that all of us—state and federal supervisors alike—to work together, and that is what we are doing today. I would encourage financial institutions to embrace that lesson as well.

Thank you.