Statement Of

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Chairman Dodd, Ranking Member Shelby, and Members of the Committee, the financial crisis has raised legitimate questions about whether we need to restructure and reform our financial regulatory system. I welcome the opportunity to testify on this important subject on behalf of the OCC. Let me summarize the five key recommendations from my written statement, which address issues raised in the Committee's letter of invitation.

First, we support the establishment of a systemic risk regulator, which probably should be the Federal Reserve Board. In many ways, the Board already serves this role with respect to systemically important banks. But no agency has had similar authority with respect to systemically important financial institutions that are not banks, which created real problems in the last several years as risk increased in many such institutions. It makes sense to provide one agency with authority and accountability for identifying and addressing such risks across the financial system. This authority should be crafted carefully, however, to address the very real concerns of the Board taking on too many functions to do all of them well, while at the same time concentrating too much authority in a single government agency.

Second, we support the establishment of a regime to stabilize, resolve, and wind down systemically significant firms that are not banks. The lack of such a regime this past year proved to be an enormous problem in dealing with distressed and failing institutions such as Bear Stearns, Lehman Brothers, and AIG. The new regime should provide tools that are similar to those the FDIC currently has for resolving banks, as well as provide a significant funding source if needed to facilitate orderly dispositions, such as a significant line of credit from the Treasury. In view of the systemic nature of such resolutions and the likely need for government funding, the systemic risk regulator and the Treasury Department should be responsible for this new authority.

Third, if the Committee decides to move forward with reducing the number of bank regulators, we have two general recommendations. The first may not surprise you: to preserve the role of a dedicated prudential banking supervisor that has no job other than bank supervision. Dedicated supervision produces no confusion about the supervisor's goals or mission; no potential conflict with competing objectives; responsibility and accountability are well defined; and the result is a strong culture that fosters the development of the type of seasoned supervisors we need. But my second recommendation here may sound a little strange coming from the OCC, given normal turf wars: Congress should preserve a supervisory role for the Federal Reserve Board, given its substantial experience with respect to capital markets, payments systems, and the discount window.

Fourth, Congress should establish a system of national standards that are uniformly implemented for mortgage regulation. While there were problems with mortgage underwriting standards at all mortgage providers, they were least pronounced at regulated banks, whether state or nationally chartered. But they were extremely severe at the nonbank mortgage companies and mortgage brokers regulated exclusively by the states, accounting for a disproportionate share of foreclosures. Let me emphasize that this was not the result of national bank preemption, which in no way impeded states from regulating these providers. National mortgage standards with comparable implementation by federal and state regulators would address this regulatory gap and ensure better mortgages for all consumers.

Finally, the OCC believes the best way to implement consumer protection regulation of banks – the best way to protect consumers – is to do so through prudential supervision. Supervisors' continual presence in banks through the examination process creates especially effective incentives for consumer protection compliance, as well as allowing examiners to detect compliance failures much earlier than would otherwise be the case. They also have strong enforcement powers and exceptional leverage over bank management to achieve corrective action. That is, when examiners detect consumer compliance weaknesses or failures, they have a broad range of corrective tools, from informal comments to formal enforcement action – and banks have strong incentives to move back into compliance as expeditiously as possible. Finally, because examiners are continually exposed to the practical effects of implementing consumer protection rules for bank customers, the prudential supervisory agency is in the best position to formulate and refine consumer protection regulations for banks.

Proposals to remove consumer protection regulation and supervision from prudential supervisors, instead consolidating such authority in a new federal agency, would lose these very real benefits. If Congress believes that the consumer protection regime needs to be strengthened, the best answer is not to create a new agency that would have none of the benefits of a prudential supervisor. Instead, the better approach is for Congress to reinforce the agencies consumer protection mission, and directing them to toughen the applicable standards and close any gaps in regulatory coverage. The OCC and the other prudential bank supervisors will rigorously apply any new standards, and consumers will be better protected.

Thank you very much. I would be happy to take questions.