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Oral Statement
before the
Committee on Financial Services
U.S. House of Representatives
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Chairman McHenry, Ranking Member Waters and Members of the Committee, I am pleased to testify today to provide an update on the activities underway at the Office of the Comptroller of the Currency (OCC).

Despite the significant market stresses earlier this year and a challenging interest rate environment, the overall condition of the federal banking system is sound. OCC-supervised banks in the aggregate have strong levels of regulatory capital and healthy levels of profitability while maintaining sufficient liquidity buffers.

The OCC engages directly with the institutions it supervises to ensure they are being vigilant in managing their risks. Our recently released Bank Supervision Operating Plan for 2024 summarizes the agency's examination 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.

My written statement provides an update on the agency's work advancing its key priorities of guarding against complacency by banks, reducing inequality, adapting to digitalization and managing climate-related financial risks at the largest banks. I will highlight some of these efforts.

Despite the relative calm in the market today, the OCC has urged the banks it supervises to stay "on the balls of their feet" with regard to risk management. To assist banks, the OCC has updated guidance for the industry. For example, in response to increasing risk in commercial real estate, the OCC and other regulators published the "Policy Statement on Prudent Commercial Real Estate Loan Accommodations and

Workouts" which updates existing interagency supervisory guidance on CRE loan workouts and reminds banks to work prudently and constructively with creditworthy borrowers during times of financial stress.

Ensuring that financial services are offered responsibly and fairly takes continued effort and vigilance by banks, regulators, and other stakeholders. 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 the communities in which they operate, especially low- and moderate-income neighborhoods and individuals. The final rule modernizes the CRA by recognizing banking activities that take place beyond physical branches and 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 tailors evaluations and data collection to bank size so that community banks do not have additional burden.

Banks' relationships with third parties, including financial technology 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" reminding 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 OCC also 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 continue 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.

This fall, the OCC along with the Federal Reserve and FDIC, approved principles for climate-related financial risk management for large banks. The principles are focused exclusively on risk management and do not tell bankers what customers or businesses they may or may not bank but clarify how large banks can maintain effective risk management and keep their balance sheets sound so they can continue to be a source of strength to their customers and communities through a range of severe weather scenarios.

In closing, the OCC continues to be engaged in a range of efforts to ensure 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 now and into the future. Thank you, I will be happy to answer your questions.