

Statement of
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before the

Committee on Banking, Housing, and Urban Affairs

United States Senate

*Oversight of Dodd Frank Implementation: A Progress Report by the Regulators at the
Half-Year Mark*

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Chairman Johnson, Senator Shelby, and members of the Committee, I appreciate the opportunity today to describe the activities the OCC has undertaken to implement the Dodd-Frank Act. But let me begin by saying that it is a pleasure to appear before Chairman Johnson for the first time, and by expressing my hope for a continuing, productive working relationship with the Committee – including its five new members.

I am pleased to report that much has been accomplished during the past six months on implementation of the Dodd-Frank Act – progress in a number of areas is discussed in my written statement. Our single largest task is integration of the employees and functions of OTS into our supervisory mission, and we are on track to complete all transfers by the target date of July 21st.

We firmly believe that the talent and experience of OTS staff will be essential for effective supervision of federal savings associations going forward, and we are fostering an environment that will maximize career opportunities while ensuring they enjoy the full protections afforded employees by the Dodd-Frank Act. We are also engaged in extensive outreach to the thrift industry, addressing concerns, clarifying expectations, and promoting effective supervision. We anticipate an orderly transfer of authority that will

ensure the combined agency can continue to provide effective supervision of both national banks and federal savings associations.

In the area of rule-writing, we are making progress on the many projects assigned to us, but a few present particular challenges. An issue I raised in testimony last September is the prohibition on use of credit ratings. We recognize that the misuse of credit ratings, especially in structured finance, contributed importantly to the financial crisis. But this was not true of corporate and municipal ratings and, after significant study and comment, we have found no practical alternative for such ratings that could be used across the banking sector. We have heard concerns from regional and community banks that attempting to replace ratings with internal assessments of creditworthiness would be prohibitively costly and complex for them. Although we certainly do not advocate a return to total reliance on credit ratings, their use within defined limits is essential for implementation of capital rules, including the Basel III capital framework. We urge Congress to modify this prohibition.

A more general concern is the need to coordinate implementation of Dodd-Frank requirements for capital and liquidity with Basel III. While the two share many common objectives, it is essential to implement these reforms in a coordinated, mutually reinforcing manner that enhances safety and soundness without damaging US competitiveness or restricting access to credit. My testimony describes our efforts to enhance the capital and liquidity standards of US financial companies with this coordination challenge in mind.

Finally, I'd like to update the Committee on steps the OCC has taken in response to the foreclosure crisis since I last testified on this issue. The federal banking agencies have concluded examinations of foreclosure processing at the 14 largest federally regulated mortgage servicers. The examinations, which we undertook in late 2010 with

the Federal Reserve, the FDIC and the OTS, found critical deficiencies and shortcomings that resulted in violations of state and local foreclosure laws, regulations, or rules.

Despite these clear deficiencies, we found that loans subject to foreclosure were, in fact, seriously delinquent, and that servicers had documentation and legal standing to foreclose. In addition, case reviews showed that servicers were in contact with troubled borrowers and had considered loss mitigation alternatives, including loan modifications. That said, the loan samples in our exams identified a small number of foreclosure sales that should not have proceeded because of an intervening event or condition.

We are now finalizing remedial requirements and sanctions appropriate to remedy comprehensively the problems identified. Our actions will address identified deficiencies and will hold servicers to standards that require effective and proactive risk management, and appropriate remedies for customers who have been financially harmed. We are also discussing our supervisory actions with other Federal agencies and state Attorneys General with a view toward resolving comprehensively and finally the full range of legal claims arising from the mortgage crisis.

Equally important, we are drawing on lessons from these examinations to develop mortgage servicing standards for the entire industry. The OCC developed a framework of standards that we shared with other agencies, and we are now participating in an interagency process to establish nationwide requirements that are comprehensive, apply to all servicers, provide the same safeguards for all consumers, and are directly enforceable by the agencies. While we are still at a relatively early stage, we share the common objective to achieve significant reform in mortgage servicing practices.

Thank you for the opportunity to testify today. I would be happy to answer any questions.