STATEMENT OF

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before the

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

UNITED STATES SENATE

July 11, 2013

Chairman Johnson, Ranking Member Crapo, and members of the Committee, thank you for the opportunity to discuss those provisions in the Dodd-Frank Wall Street Reform and Consumer Protection Act that reduce systemic risk and improve financial stability. The global financial crisis was unprecedented in its severity and exposed a number of fundamental weaknesses in the regulation and structure of the financial system. The Dodd-Frank Act sets new requirements for capital, liquidity, and higher-risk activities, and provides additional regulatory tools that will mitigate future problems.

In my written testimony, I provide a detailed update on what the OCC has done to implement those provisions along with other steps we have taken to ensure that national banks and federal thrifts operate safely even in times of economic stress. This morning, I'd like to focus on a handful of key areas.

First, I'm pleased to tell you that the OCC has completed work on all of the rulemakings required under Dodd-Frank that we have authority to implement on our own. This includes rules related to lending limits, stress testing, credit ratings, and retail foreign exchange transactions. We are continuing to work on an interagency basis on other Dodd-Frank provisions, including the Volcker rule.

Most recently, we joined with the other bank regulatory agencies in a comprehensive overhaul of the capital rules that apply to banks and thrifts. On Tuesday, I signed the new domestic capital rule, which takes important steps to improve the quantity and quality of capital for all banks and thrifts, while setting higher standards for large institutions. This rulemaking includes requirements laid out in Dodd-Frank. I also issued a proposed rule that would double the leverage ratio, to six percent, for the largest and most interconnected U.S. banks.

The new domestic capital rule raises capital ratios, expands the base of assets for risk-based capital calculations, and emphasizes common equity, which has proven to be the form of capital best able to absorb losses. The rule also mandates that all institutions maintain a buffer of additional common equity, and restricts payment of dividends and bonuses if that buffer falls below 2.5 percent.

In addition, for large banks and thrifts, we established a counter-cyclical buffer that can be activated during upswings in the credit cycle to protect against excessive lending, and will consider in a separate rulemaking a surcharge that would apply to the largest, most systemically important institutions. With these additional requirements, the largest U.S. banks could be required to hold Tier 1 common equity equal to as much as 12 percent of their risk-adjusted assets during upswings in the credit cycle.

Throughout this process, one of my top goals has been to minimize the impact of these rules on community institutions. We found that the vast majority of community banks already have enough capital to meet the new requirements. We conducted extensive outreach and paid close attention to comments we received from community banks and thrifts. As a result, we made a number of revisions to the proposed rule, particularly in the areas of residential mortgage exposures, AOCI, and Trust Preferred Securities, that I believe will effectively address their most important concerns.

While the financial crisis revealed the need for additional regulations, it also highlighted the importance of strong supervision and close collaboration among the bank supervisory agencies. At the OCC, we have raised the bar on our expectations for the institutions in our large bank program, requiring higher standards for audit, governance, and risk management. We have focused particular attention on independent directors. We expect them to set strategic direction for the bank and to have the knowledge and the will to provide a credible challenge to management.

In addition, we are working with the large banks we oversee to reduce the number and complexity of the legal entities within their organizations, and to ensure that those entities align properly with business lines at each bank. This process will take time, but it will ultimately improve transparency, risk management, and governance, and will make it easier to deal with the resolution of large institutions that do get into trouble.

Finally, I'm pleased to say that the national banks and federal thrifts supervised by the OCC have made significant progress in raising capital and have been reducing their reliance on volatile funding sources. At the same time, asset quality has improved across the board. The national banking system is substantially stronger today than it was before the crisis.

We believe these are important achievements. But we also recognize that much remains to be done. As we continue the important work of implementing the Dodd-Frank Act, I can assure you that the OCC will work closely with the other regulatory agencies to ensure that the banks and thrifts we supervise are safe and resilient enough to stand up to future economic disruptions.