Remarks by

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Good morning. I am so proud and honored to be with you today. This is an extraordinary organization. While you are a *trade* association representing financial institutions, your energy and interests focus squarely on the people your institutions serve—the men and women of our nation's armed forces and their families. Since your organization was created in 1959, the Association of Military Banks of America has worked to benefit military members and their dependents, helped pioneer products and services that protect military families rather than prey upon them, and developed a lasting partnership with regulatory agencies like mine—the Office of the Comptroller of the Currency. On behalf of Comptroller Curry, I congratulate you on 55 years of good work and thank you for partnering with us in so many ways. General Egeland, I am particularly grateful to you for your leadership on these issues, and it has been my pleasure to get to know you personally.

Earlier this summer, when I finally got the chance to meet Andy, I was struck by his enthusiasm and passion for a number of things. First, his passion around this year's theme of *financial readiness*. This theme resonates with me personally as I hope you will see in the remainder of these remarks. Second, for his passion about service to this great country—both his distinguished service and of that of the men and women who continue to answer the call to protect the freedoms we enjoy. While I never served, I am very proud that so many of my family members wore the uniforms of the U.S. Army and the Marine Corps. Hoo-rah! Did I say that right? Third, for his passion about North Carolina—where he spent so much of his career, and where I grew up.

While Andy and I agree that North Carolina is truly God's country, I grew up just outside of Fort Bragg, home of Airborne and Special Operations forces, populated by 57,000 military members, 11,000 civilian defense employees, and 23,000 military family members. Growing up outside of Fort Bragg, you see things. You see Bragg Boulevard lined with pawnshops, payday lenders, and check cashers. As you well know, the concentrations of such businesses close to military bases are common and often much more pronounced than in other communities and neighborhoods. Why? Well, such concentrations reflect the demand for the services these businesses offer. More fundamentally, it speaks to the need for greater *financial readiness* among the young men and women who answer the call to duty. Too often, these eager young Americans are ready to fight for their country but are ill-equipped to look out for their own financial wellbeing. As a result, this population of Americans is particularly vulnerable to those who would take advantage of them. This realization stays with me as the head of OCC compliance policy.

I'd like to say that the reputation for taking advantage of our uniformed military members is confined to the types of companies that I've already mentioned, you know "those non-banks," but unfortunately I cannot. The reputation of mainstream financial service providers—banks, thrifts, and credit unions—also suffers from very public breaches of trust and failures to comply with laws designed to protect servicemembers and their families. In recent memory there are too many examples of failures in compliance or operational risk management that have resulted in mistreatment of our servicemembers.

At a very broad level, compliance and operational risks are two of the key risk themes identified by the OCC in its most recent *Semiannual Risk Perspective.*[1] Published in the spring and fall each year, our report catalogs our perspectives on the risks facing the banking industry as the OCC sees them. The weaknesses in managing compliance and operational risks are documented in matters requiring attention, or MRAs, issued following exams. Over the last six months, 15 percent of all small bank MRAs have involved compliance related issues. For large banks, 21 percent of MRAs involved operational risk, 14 percent involved compliance with Bank Secrecy Act and Anti-money Laundering (BSA/AML) laws and rules, and 11 percent involved consumer compliance specifically. When not addressed adequately, compliance and operational risk failures can and do result in enforcement action, and the failures in these areas are well publicized and have resulted in billions of dollars in penalties and restitution.

In the last two years, as a result of these failures, the OCC has taken a number of actions against national banks and thrifts for violating the Servicemembers Civil Relief Act (SCRA) and for unfair and deceptive practices targeting members of our military. In September of last year, we ordered JPMorgan Chase to pay remediation to thousands of affected consumers for harm resulting from deficient bank practices and procedures related to the preparation and notarization of affidavits and other sworn documents used in the bank's debt collection litigation and its SCRA compliance program. As part of that order, we required the bank to correct these deficiencies, and to improve its policies and procedures for determining whether servicemembers are eligible for requested SCRA-related benefits; ensuring that the SCRA benefits are calculated correctly, and verifying the military status of servicemembers prior to seeking or obtaining default judgments against borrowers. Prior to that action, in July of 2012, the OCC joined the

[1] See http://www.occ.gov/publications/publications-by-type/other-publications-reports/semiannual-risk-perspective/semiannual-risk-perspective-spring-2014.pdf.

Department of Justice in taking action against Capital One for SCRA violations and also required that bank to remediate all financial injury and make restitution to each servicemember harmed by Capital One's violations of SCRA.

The actions against JPMorgan and Capital One are just two examples where institutions failed to provide protections owed to, and deserved by, members of our armed forces. In addition, those protections just happen to be required by law.

At the OCC, we recognize that the risks associated with failure to comply with SCRA requirements are significant. Failures adversely affect consumers and families, and they erode confidence in your institutions. Because of that risk, the OCC has stepped up its focus on compliance with SCRA during its examinations of national banks and federal savings associations. We now require our examiners to include evaluation of SCRA compliance during every supervisory cycle. While not mandated by law, this closer scrutiny is necessary because we believe that the cost of compliance failures in this area, both for the bank and our servicemembers, are too great not to be evaluated every time we go into an institution.

Another serious compliance concern involves unfair and deceptive acts or practices associated with overdraft and other administrative fees. Overdraft fees continue to be one of the most frequent topics of complaints regulators receive. I understand why customers are frustrated when I personally go through page after page of legal notices and disclaimers before I find what is often poorly worded disclosures about fees. I know this is a concern to military commanders in the field. To your credit, a 2011 report by Office of the Deputy of Assistant Secretary of the Army for Financial Operations concluded that financial institutions offering services on military bases charge lower fees on average than those commonly charged by other financial institutions in the industry. At the time, the study found that on-base banks, thrifts, and credit unions charged an average of $25 per overdraft versus an industry average of $35. The average non-sufficient funds fee also averaged less than $26 for on-base institutions compared with more than $30 for the industry as a whole. But, the size of the average fee does not tell the whole story. Overdraft protection programs can fall short by failing to be transparent enough for the customer to understand when and how many fees may be incurred.

The OCC has a history of taking action to address problems in this area. In 2010, the agency took action against Woodforest National Bank for excessive amounts of overdraft fees and for improperly assessing recurring fees, or "continuous overdraft fees" against certain consumers. In addition, we found marketing brochures that emphasized free or low-cost features of certain accounts while omitting information about costly features such as overdraft protection. The bank's marketing also suggested that certain accounts were well suited for consumers who had previous difficulty in managing their bank accounts, while once again omitting information about the high-cost features of its overdraft protection.

Unfortunately, enforcement actions like these really represent failures. They are failures on the part of institutions to control for certain risks and to ensure that products and services comply with applicable laws and rules. And, they are failures of the broader industry to innovate in ways that can actually enhance the financial readiness of consumers and reduce the need for servicemembers to turn to high-cost, high-risk products and services. These are failures that we can avoid. So at this point, I'd like to shift gears from the necessary enforcement actions that can and should occur when institutions fail to meet their obligations to good work being done by the industry and regulators to avoid such failures by encouraging innovation and by creating a culture that truly values financial readiness.

As I mentioned, growing up near Fort Bragg, I've personally seen and understand the need for responsible products that meet the small-dollar, short-term credit needs of customers. As a regulator of national banks and thrifts, I am confident that banks and thrifts can meet this need more safely than other institutions. That's why in guidance related to direct deposit advance products issued last November, we called for the industry offer small dollar, short-term loan products in a manner consistent with safety and soundness and other supervisory considerations. Properly managed small-dollar loan products offered with reasonable terms and at a reasonable cost do not pose the same level of supervisory risk as the deposit advance products identified in our guidance. We also encouraged banks to develop innovative programs to meet the need for small-dollar credit that do not exhibit the risks associated with deposit advance products and payday loans.

I congratulate General Egeland on his work with the Federal Deposit Insurance Corporation to develop the "Military Small-Dollar Loan Template." This military template provides guidance to the nation's banks on lending to the military and provides viable financial alternatives for their customers. The template can serve as the basis for innovative products that lead to profitable, long-term customer relationships and may receive positive consideration during Community Reinvestment Act (CRA) examinations. As institutions take up these loan programs, they should carefully review them for compliance with all applicable laws and regulations, including any upcoming regulation that would implement the Talent-Nelson Amendment.

Innovation must be part of the solution in meeting the needs of these customers. As a regulator, I can understand how risky innovation can seem, particularly in a complex regulatory landscape. That's why we are committed to taking every possible step to make expectations more clear, to make standards more transparent, and to ensure these rules are implemented consistently across the industry. This requires regulators and industry working together more effectively. One example where I think collaboration is working relates to the implementation of the Military Lending Act of 2007. As you know, the Military Lending Act provides a variety of protections to active-duty personnel, active National Guard and Reserve personnel, and their dependents. Protections include capping annual interest rates at 36 percent, requiring written and oral disclosure of rates and fees, and prohibiting securing consumer credit to a military borrower with a personal check, wage allotment, or title to a vehicle. While Congress gave the Department of Defense the authority to write the implementing rules for this law, DoD has actively worked with banking regulators to do so. Experts from my compliance staff and attorneys from our Chief Counsel's Office meet almost weekly with DoD officials. That openness has resulted in greater regulatory understanding, more effective rules, and more consistent application of the rules. All this cooperation benefits the servicemembers and their families.

While working together on rules and guidance is important, we must also work together on a perhaps more difficult challenge—creating a culture that encourages and teaches financial readiness. The OCC offers a great many resources to help. The OCC Community Affairs staff offers a variety of reference materials and publications that are available on our Web site, OCC.gov.[2] These resources focus on how banks and thrifts can serve their communities more effectively, but they also provide periodic updates on financial literacy events and opportunities.

Another resource that we maintain is our consumer focused Web-site—helpwithmybank.gov. This Web site empowers consumers with answers to common banking

[2] See http://www.occ.gov/topics/community-affairs/index-community-affairs.html.

questions and allows consumers to file and track complaints about their banks online. While much of the complaint volume has transferred to the Consumer Financial Protection Bureau, the OCC responded to nearly 70,000 consumer complaints in 2013. While 53 percent of those complaints involved mortgages, 14 percent involved checking accounts and another 8 percent involved credit cards.

Even if we were to adjust these numbers to include complaints that the CFPB receives, the overall level of complaints may seem relatively small in light of the 50 million of mortgages outstanding and 1.9 billion of credit cards in use in this country. Is it because everyone is happy with his or her service? Are all of their needs being met? Optimistically, that may be part of it. But, I think there may be more significant factors contributing to low complaint volume, and they are the same factors at work behind borrowers waiting until they are in too deep over their heads to seek assistance and borrowers not responding to offers of assistance made proactively. You probably have seen these traits among your customers. Pride and fear.

Pride and fear mix to make a dangerous cocktail of inaction when it comes to taking control of your financial wellbeing. We hear anecdotes from military bankers and people who provide financial counseling that many military members are reluctant to seek help or complain about treatment because they feel as though they are acknowledging a personal failure. Or, they hesitate to share their difficulty with their chain of command because they fear it could adversely affect their career. For whatever reason, we must encourage a culture that addresses concerns and problems early and directly. As risk professionals who are familiar with loss mitigation, you know that problems addressed early provide both lender and borrower with the best chance of creating a successful workout strategy. Cultures that encourage hesitation and inaction only contribute to the financial difficulties that folks may face. Asking for and accepting help may run counter to the vision of a strong, independent, nearly invincible soldier, but we can't let a lack of financial readiness be the chink in our servicemembers' armor.

I want to thank Andy again for inviting the OCC and me to participate in this workshop. I appreciate the opportunity to share my perspective on important compliance issues facing military bankers and challenges we have ahead us. I deeply respect your commitment to serving America's military members and their families. Events like these are valuable in that they allow regulators and industry professionals to interact, but I should remind you that you don't have to wait for events like these to discuss concerns and issues with the OCC. Those of you from large and midsize banks have dedicated teams of examiners who can answer your questions. Similarly, each community bank or thrift has an assigned portfolio manager and a local Assistant Deputy Comptroller who are familiar with your institution and can discuss issues you care about. If these experienced examiners don't know the answer to your question, they can quickly reach out to the agency's national network of resources and find someone who does. Open communication is key to your customer relationship management, and it's key to our effectiveness as supervisors, too. I thank you for listening and look forward to answering your questions.