Remarks by
Thomas J. Curry
Comptroller of the Currency
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It's a pleasure to be here today and to see so many of the men and women I've known and worked with over the years. Many of you were actually around when I was a state bank commissioner and during the time that I served a term as chairman of CSBS. Indeed, Gavin Gee, Mick Thompson, Ed Leary, Joe Face, Robert Glenn and briefly, in an acting stint, Jan Owen all served while I was in Massachusetts. I worked with many others, including Tom Candon, John Ducrest, Candice Franks, Howard Pitkin, and Greg Gonzales before they assumed the top jobs in their respective states. I even recall Ray Grace, and let's not forget that I hired David Cotney. So, I genuinely feel at home here.

I also look forward to getting to know those of you who arrived on the scene after I transitioned from the state banking system to the federal one—a transition that I sometimes forget took place a decade ago. As we continue to work through the issues raised by the financial crisis, I don't think there has been a more important or challenging time to serve in bank supervision, and our nation is better off for the work that you do.

Some might think it a bit odd that the Comptroller of the Currency is addressing an organization that represents state bank supervision. And it is true that over the years we have had—shall we say—some differences of opinion. But one of my core beliefs involves the importance of collaboration and cooperation. The work we do is too important for any of us to think we have all the answers or that we can go it alone. If we are to be successful in repairing the damage to the banking system that was done during the financial crisis and in preventing a breakdown like that from happening again, we all need to work together. The value state supervisors provide through their regular participation on the FFIEC suggests some of the possibilities in this regard.

That we provide help and support to each other doesn't mean we should ignore or try to minimize the differences between the two parts of the dual banking system. Congress intended for the federal system to be different—to operate under one single set of standards administered by a single agency in a uniform way throughout the nation. Since 1863, the OCC has worked in a thoughtful way to adapt the national charter to the evolving needs of the nation's financial system. That has resulted in a modern system capable of meeting the needs of consumers, communities, businesses and the nation's economy. The states have innovated as well, serving as laboratories where new products and new ways of doing business are developed and tested. I believe firmly that the nation has been better served by the two systems that provide institutions with a choice of charters than it ever could have been served by one system alone. And while our systems are different, they are also complementary. None of us has a monopoly on best practices, and we can all learn from each other.

As someone who has now served on both sides of the dual banking system, I can tell you that I have learned a great deal from the two experiences. And today, I'd like to take advantage of that experience and share some thoughts on this uniquely American financial structure.

Throughout the years, my first concern has been for the quality of supervision throughout the entire system. First and foremost, our mission is to maintain a safe and sound banking system that treats everyone fairly and provides all Americans with a safe place for their savings and a robust source of the credit they need to improve their lives and grow our economy.

The global financial breakdown that began in 2008 showed how important our work as bank supervisors is to financial stability and our economy. One of the clear lessons of the financial crisis is that we all have to step up our game. And I mean all of us, not just the industry, but regulators as well, both state and federal.

For its part, the OCC has taken a hard look at how we supervise all of our institutions, including our largest, in light of the crisis. Our efforts have focused on improved capital, robust reserves, and higher-quality liquidity. Under our heightened expectations program, we emphasize the need for improved corporate governance, audit and risk management. This program, which is aimed at our largest, most systemically important banks, requires a much higher level of governance for boards of directors and senior management. We expect directors to present a credible challenge to management, and we insist that they protect the sanctity of the insured institution so that it does not simply serve as a booking agency for the holding company. The organization as a whole is also expected to maintain the highest standards for audit and risk management. Most recently, we have proposed new guidelines under Part 30 of our regulations that would make these standards enforceable.

The OCC also has focused its attention on community bank supervision. It is important to get it right with respect to both the rules of the road and supervision. Too many community banks failed during the crisis. The Material Loss Reviews or *post mortems* from the crisis share a common thread of failed banks that operated with flawed business plans, excessive real estate concentrations and inadequate capital for the level of risk.

I know that many of you have also taken up that call to step up your game. You have put considerable effort into trying to understand where the breakdowns occurred and what is needed to improve. For that, you deserve much credit.

At the OCC, we too have subjected our own processes to intensive scrutiny and, where we find we have fallen short, we are taking steps to improve.

Part of our response was to put in place a series of strategic initiatives that target virtually every aspect of our work, from the way we communicate within the agency to our own enterprise risk management.

One initiative I'm particularly proud of is our international peer review. As some of you might know, we asked senior supervisors from three countries that proved especially resilient during the financial crisis to evaluate our process for supervising large and midsize banks. Jonathan Fiechter, one of the most respected members of both the U.S. and the international regulatory communities, led the process of reviewing almost every aspect of how we supervise large institutions.

This was an independent process. We gave the review team complete access to our staff, with no restrictions, and they took full advantage of that. They plowed through boxfuls of background materials, and interviewed both OCC supervisory staff and the CEOs of some of our largest banks. At the end of the first stage of that review, the committee provided a report that included a number of thoughtful recommendations for how we might improve our supervisory work. We're now engaged in the process of implementing those recommendations through working groups that comprise a cross-section of OCC supervisory and other staff.

I won't try to pretend that this has been an easy task. Honest self-evaluation can be uncomfortable at best, and evaluation by others, especially by one's counterparts from other agencies, can be frankly painful. And yet, the senior executives in OCC's supervisory units have embraced this project in the same way they undertake every challenge—with determination, enthusiasm and a resolve to succeed. I think this is extraordinary. It speaks volumes about the high standards that the men and women at the OCC set for themselves that so many are willing to do everything possible to assess their weaknesses and strengths while building on their successes.

I would suggest to you that this peer review report has lessons that each of you will find helpful, and I encourage you to give it a read. We've posted it on our Web site, and I believe that the lessons it drew can be of real value to everyone in the bank regulatory community.

In all of these efforts, I've been assisted by the experience I gained in other parts of the supervisory community, including my years as a state commissioner and my time on the FDIC Board of Directors. I've benefitted even more from the experience I've gained at the OCC. If you'll forgive my obvious bias—and pride—I regard the OCC as a standard setter for bank supervision, if not the nation's preeminent bank supervisory agency.

With that as background, I'd like to use the rest of my time to offer three observations on the dual banking system. Most of what I'm going to say stems from my unique experience within both the state and federal systems, but I will say that these last two years at the OCC have brought even greater clarity to my views.

First, I know from personal experience how difficult it is to be a bank supervisor, both in good and bad times. When times are good, everyone sees only the upside, and no one appreciates a bank supervisor who identifies emerging risks and is ready to remove the proverbial "punch bowl" at the height of the party. Bad times can be tougher. If you don't have independent authority for budget, hiring and compensation, as the OCC does, it can be difficult in times of economic stress to secure adequate funding from a state legislature. Since my days as Massachusetts bank commissioner and chair of CSBS, I've worried that too many state banking departments do not have the necessary staffing and budgetary resources to be full-service regulators, especially during economic downturns. In Massachusetts, I had to constantly beg and cajole my state legislature to get even minimal budget help. Too often, some state administration officials and legislators viewed charter assessments and reserve funds as sources of general revenue and trimmed the financial resources available for bank supervision while still collecting the same or higher assessment fees from state-chartered banks. This clearly is not the way to maintain an independent, professional and competent bank supervisory agency.

Banking departments need steady resources to maintain an adequate staff of trained and experienced examiners. So, in that kind of environment, it's easy to understand why state agencies look to the Federal Reserve and the FDIC for help as I did in Massachusetts. But it's one thing to share examination responsibilities, as was the intent of the federal/state partnerships established 25 years or so ago, and quite another to lose a banking department's identity as a supervisor, or worse yet, to cede that responsibility to the federal agencies. A joint bank examination needs to be a joint product and not just the affixing of a department's name to a report. As Massachusetts bank commissioner, I resolved never to permit the Division of Banks' examination force to be reduced to a level where it could not do a meaningful job. I would have rather closed up the shop or sought a regional supervisory compact if I could not have mustered the resources we needed to do the job on our own. In today's perhaps even more challenging environment, all of us—the states, the OCC, and our sister federal agencies—have a vested interest in making sure the dual banking system is truly dual, with effective supervision regardless of charter.

Second, I think we need to remember that the true measure of our success as bank regulators is strong, credible supervision of individual state and federal banks and of the dual system as a whole. The dual banking system, for the most part, relies on assessments from the institutions we regulate to fund our operations. This system of funding enables us to exercise independent supervisory judgment.

On the other hand, it can also leave us vulnerable to regulatory capture. Regulatory capture is a real threat to our agencies and the banking system we oversee. As regulators, we need to take great care to avoid doing anything that even creates that perception. We have seen examples of banking and deposit insurance agencies that suffered significant reputational damage, and in some cases were ultimately abolished, because the public saw them as serving private, rather than public, interests. We should never employ our chartering authority to compete for "market share."

To be clear, I welcome competition—but not if the goal is nothing more than the accumulation of charters based on laxity in supervision or pricing differences. The dual banking system at its best reflects a much healthier kind of competition. It is a race whose prize is the value each of us adds to a healthy, safe and sound banking system through credible and effective supervision. As reaffirmed by the financial crisis and recent operational risk lapses, safety and soundness and consumer protection go hand in hand. A banking system that promotes or implies a lighter touch on either safety and soundness or consumer protection matters is not sustainable. So, if we are going to compete, we should do so on the basis of who is best at identifying weaknesses early, when they can be most easily cured, and who can provide the kind of expertise and support that enhances bank and system resilience.

That kind of competition can lead to a stronger banking system, and I am familiar enough with state agencies to know that you can compete quite well on that basis. If there is going to be a race, let it be a race to the top.

My third point is focused on policy. Our mission at the OCC is quite specific. We charter, regulate and supervise national banks and federal savings associations. But most of you have a much broader mandate, covering pretty much anything that moves in the financial sector. That can include everything from pawnshops to mortgage brokers. Here, again, I speak from experience, since Massachusetts, in addition to the banks, credit unions, and thrifts it supervises, has responsibility for over 7,000 licensed financial entities.

In the wake of the financial crisis, the regulation of insured depository institutions has become much more rigorous, as it should. But as we add safeguards, beef up capital requirements, and raise standards, some activities are almost certain to migrate out of insured financial institutions into what is often called the shadow banking system. We are seeing that clearly in the area of mortgage servicing rights, which is shifting from bank servicers to nonbank companies as a result of the new capital rules.

In some areas, the Consumer Financial Protection Bureau will play a role, both in writing rules and in supervising some nonbank entities. But the system will not work well without the kind of on-the-ground supervision and regulation that your departments can bring to bear on these nonbank entities. The shift of financial assets into the shadow banking system could carry with it the seeds for the next financial crisis if we do not act quickly and effectively. We can't tolerate a situation where banking activities migrate to nonbank financial institutions in order to escape prudential supervision. Much of the burden for regulating the shadow system will fall upon the states, and I would encourage you to make this a high priority.

We have accomplished much since the dark days of the crisis, but we can do better. In fact, we must do better. We owe it to the American people to do everything possible to ensure that we are up to the task of dealing with the kind of challenges that could, if left unchecked, morph into the next crisis. And to do that, we have to be honest in evaluating ourselves and in questioning past practices and standard ways of doing business.

I've been blunt today in discussing both the OCC and the state system, the two parts of the dual banking system that I have served over the course of my career as a regulator. I hope you'll be equally blunt in return, and that we can use that candor to facilitate a dialogue that will lead us to a stronger banking system that serves the needs of American consumers, communities and businesses.

Thank you. I would be very happy now to hear from you and to respond to your questions.