Remarks by

Thomas J. Curry

Comptroller of the Currency

before the

ABA Mutual Community Bank Conference

Washington, D.C.

March 23, 2015

Thank you. It's always a pleasure to speak to representatives of our nation's mutual institutions. In my time as a regulator – and that's more years than I sometimes care to count – I've spent a good deal of time addressing issues of importance to community banks generally, including mutual institutions, and I've continued that involvement as Comptroller of the Currency.

The decision to transfer authority for federal savings associations to the OCC as part of the Dodd-Frank Act did more than just add to the number of institutions we supervise. In my view, the savings associations we supervise add in a very positive way to the diversity of the federal banking system, and they contribute greatly to the communities they serve.

As you know, we supervise the largest financial institutions in the country. These banks offer a variety of important services to companies and consumers, from commercial loans to credit cards, and they present a number of challenges from a supervisory perspective. But the bulk of our resources are devoted to smaller institutions – to the banks and thrifts that are firmly rooted in communities across America.

These community-based institutions extend credit to farms and families and local businesses in towns and cities across America, and they serve their customers in a way that large banks just can't match. They are small enough to be able to know their customers, and they work with them in good times and bad. But they are also large enough to provide the services communities need. Mutual savings associations fit firmly in that tradition.

I first became acquainted with your industry while working in Massachusetts, which I like to think of as the heart of mutual territory. I am pleased to see the turnout from New England. I take special note of the Massachusetts contingent, which includes Rich Holbrook, Chairman, ABA Mutual Institutions Council and CEO of Eastern Bank, and Dorothy Savarese, ABA Vice Chairman and Chairman, President and CEO of Cape Cod Five Mutual Company. It was during my years at the banking division, first as a lawyer and later as commissioner of banks that I gained an appreciation for the importance of diversity in our financial system, and for the role that mutuals play in creating that diversity.

You don't have shareholders to answer to, and so you don't manage in order to meet the expectations of the stock market. You are free to do what is best for your customers, and that means you provide services and price those services in a way that puts people first – ahead of quarterly profit targets and ahead of investor interests.

We recognized the unique attributes of the mutual charter last year when we issued guidance that pertains to the characteristics of mutual savings associations. The guidance focuses on the structural and operational ways in which mutual institutions are different from stock-owned banks and thrifts. Because of those distinctions, the guidance provides, for example, that examiners should compare your associations to other mutual institutions in evaluating financial ratios and trends, particularly earnings – and not try to equate them with stock-owned banks and thrifts. I think that just makes good sense.

The idea for that guidance first surfaced in a meeting of our Mutual Savings Association Advisory Committee, which has proven to be an indispensable means for me and my team to stay on top of your concerns. More than that, the committee has shown itself to be a great source of ideas that can potentially help all community institutions.

For example, another idea that was first broached during one of these meetings resulted in an OCC paper on collaboration. Community banks and thrifts aren’t able to take advantage of some of the economies of scale that benefit larger institutions, and they are seeking ways to lower expenses in response to reduced profit margins and limited strategic opportunities.

Smaller banks and thrifts have also expressed concern about the cost of mounting regulatory compliance requirements that have increased the need for specialized expertise. At the same time, they are trying to develop the new products and services that their customers expect.

These are tough challenges for community banks and thrifts, but we believe that in many cases they can compensate for their lack of scale by sharing resources.

For example, they can exchange information and ideas, jointly purchase materials or services, and share back-office functions. They can also jointly own service organizations and they can jointly provide or develop products and services. In many cases, community banks may find that the benefits of cost-savings outweigh the competitive challenges that result from collaboration, particularly if they are working with institutions that are not direct competitors.

Efforts in this area require effective oversight on the part of the institutions involved, but the benefits can be considerable. I would urge you to give some thought to whether you can improve your competitiveness and your profit margins by collaborating with other banks and thrifts of similar size.

We're looking at other ways to help community banks and thrifts, particularly by eliminating or streamlining regulations that are needlessly burdensome. In that regard, I am taking the EGRPRA process very seriously. Through the FFIEC, which I chaired at the start of the process, we launched a series of hearings across the country so that we could hear from bankers like you about ways to reduce unnecessary and burdensome regulation.

We can't eliminate all burden – every rule carries with it some compliance difficulty, and in many cases that burden is outweighed by the public benefit it provides. But there are clearly some regulations that no longer serve their intended purpose. We want to identify those regulations, and we need your help to do so. If you haven't already made your views known, then I would encourage you to contact us. You'll find information about the process on the FFIEC Web site, at EGRPRA.FFIEC.gov.

Let me add that we aren't just looking at regulations that we have the authority as regulators to overhaul. We're also interested in those rules that would require congressional action to change. At the end of the process, we will provide Congress with a set of recommendations for legislative action this Term.

If we find regulations that we alone have the authority to change without adversely impacting safety and soundness, we won't hesitate to make the adjustment. But we aren't going to wait until the process is over to do that. If we identify areas where congressional action could help reduce needless burden, we'll make our views known right away. In fact, the OCC has already done just that. Earlier this year, we retransmitted to Congress a set of legislative proposals that we had developed in 2014, although too late for action in that Congress. We think these ideas have the potential to make a meaningful difference.

First, we think a greater number of healthy, well-managed community institutions ought to qualify for the 18-month examination cycle. By raising the asset threshold from $500 million to $750 million, hundreds of additional banks and thrifts would qualify. That would not only reduce the burden on those well-managed institutions, it would allow the federal banking agencies to focus supervisory resources on those banks and thrifts that may present capital, managerial, or other issues of supervisory concern.

Another idea that we think is ripe for congressional action is a community bank exemption from the Volcker Rule. Our proposal would exempt some 6,000 banks from the Volker Rule. As Toney Bland, our Senior Deputy Comptroller for Midsize and Community Bank Supervision, noted in congressional testimony last month, the vast majority of institutions with less than $10 billion do not engage in proprietary trading or covered fund activities, and we don't believe they should have to commit resources to determine if they have compliance obligations under the law. The Volcker Rule is an important protection against future crises, but we don't believe it is necessary to include smaller institutions in order to realize congressional intent.

Finally, we've urged Congress to make it easier for thrifts to expand their business model without changing their governance structure. Over time, markets change and the needs of your customers change. A business model that made sense even five years ago might be woefully outdated today. But if a federal savings association wants to change its strategy to increase commercial lending or some types of consumer credit, you're stuck – unless you want to change charters.

As you know, that's both time consuming and expensive. And for many federal savings associations, it may be prohibitively expensive. As I asked at the OCC-FDIC Joint Mutual Forum that many of you attended last year, why must savings associations change their charter in order to modify their business plan? My answer is that they shouldn't. I strongly believe that federal thrifts should be able to adapt their business strategies to current conditions without undergoing the costly and burdensome process of charter conversion at each turn.

So, we've proposed a new approach that wouldn't require a charter change for federal thrifts that want to move from a business model based on mortgage lending to one that places more emphasis on a mix of business loans and consumer credit. In my view, the charter should be flexible enough to accommodate either strategy, which is precisely what we did in Massachusetts. In Massachusetts, we permitted banks of any charter type to exercise comparable powers regardless of charter type. So when an institution wanted to change its strategy to increase its presence in commercial lending, for example, it could do so without a change in charter.

However, it is important to ensure that we do not disadvantage banks in this process. We believe that thrifts that choose to take on national bank powers should also be subject to the restrictions that apply to national banks.

If Congress were to authorize this kind of system, a federal savings association that diversifies beyond a mortgage focus would continue to maintain the same federal charter and would continue to have the OCC as its regulator.

Of course, every institution wants to brand itself, and your choice of charter is part of that process. You should be able to exercise new powers while retaining the charter. But some of the restrictions federal thrifts operate under severely limit their activities and are ripe for modification. I'm thinking in particular about the qualified thrift lender, or QTL, test and the restrictions on commercial and consumer lending. The QTL has long since outlived its purpose.

And as would be the case with any change in strategic direction, either for a national bank or a federal thrift, the OCC would work with the institution's management to ensure that the new business plan is implemented in a safe and sound manner.

We've had conversations with several members of Congress on this issue, and the results have been very encouraging. A number of legislators have expressed interest in our approach, and I'm hopeful that we will see legislation introduced soon that will bring the Massachusetts model to the federal system. I can promise you that we will continue to raise the issue for as long as it takes.

Thank you again for giving me this time to talk with you. I'm looking forward to hearing your thoughts and taking your questions.