Office of the
Comptroller of the Currency

For Release Upon Delivery
10:00 a.m. November 20, 2024

Statement of Michael J. Hsu
Acting Comptroller of the Currency

Before the

Committee on Financial Services
United States House of Representatives

November 20, 2024

Statement Required by 12 U.S.C. § 250:
The views expressed herein are those of the Office of the Comptroller of the Currency and do not necessarily present the views of the President.

Introduction

I am pleased to testify before the Committee on Financial Services to provide an update on the work of the Office of the Comptroller of the Currency (OCC) to ensure that national banks and federal savings associations operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations.

The OCC charters, supervises, and regulates more than 1,000 national banks, federal savings associations and federal branches and agencies of foreign banks (collectively "banks"). These institutions range in size from very small community banks to the largest, most globally active banks operating in the United States. The vast majority of these institutions have less than $1 billion in assets, while 54 have greater than $10 billion in assets. Together, OCC-supervised financial institutions hold more than $17 trillion in assets, representing nearly 66 percent of all the assets held in commercial U.S. banks.

My written statement provides a general overview of the state of the federal banking system, a discussion on the importance of safeguarding trust in the federal banking system, and an update on the four priorities, I established when I became Acting Comptroller in 2021.

State of the Federal Banking System

The overall condition of the federal banking system remains sound. The OCC closely monitors the financial condition of the institutions it supervises, which in aggregate have strong levels of regulatory capital and sufficient liquidity buffers. OCC examiners engage directly with national banks and federal savings associations to ensure they are appropriately managing their risks, including identifying material risks and their interconnected impacts. Continuous risk management review and improvement remain appropriate to ensure banks guard against complacency.

The OCC's recently issued Bank Supervision Operating Plan for 2025[1] identifies the areas of heightened focus for our supervisory strategies for individual institutions and third-party service providers examined by the OCC. In fiscal year 2025, examiners will focus on the impacts of volatile economic conditions, including recession possibilities and uncertainty with the future path of interest rates and deposit stability as well as geopolitical events, to ensure banks are appropriately and effectively managing their risks. Pursuant to the OCC's risk-based

[1] See Fiscal Year 2025 Bank Supervision Operating Plan, Office of the Comptroller of the Currency.

supervision approach, examiners will focus their efforts on a range of financial, operational, and compliance risk areas, and will coordinate resources to conduct horizontal assessments during the fiscal year.

Safeguarding Trust in Banking

Banking rests on trust. Trust enables growth and opportunity for individuals and communities and allows the economic pie to grow. Without trust in banking, people and businesses suffer because they have to worry excessively about their money, their payments, and their savings.

Bank regulators serve as guardians of this trust. When I became Acting Comptroller in 2021, I identified four priorities for the OCC, each anchored in fostering trust in banking: (1) guarding against complacency; (2) elevating fairness; (3) adapting to digitalization, and (4) managing climate-related financial risks.

Guarding Against Complacency

In 2021, the economic outlook was surprisingly positive given the Covid-19 pandemic. Coordinated actions by the government and banks had been effective in preventing economic collapse. Credit performance was historically strong, businesses were growing, and innovation was taking off, especially in crypto and among financial technology firms.

Those conditions felt familiar and ripe for complacency. In response, I prioritized strong risk management and encouraged bankers and supervisors to be vigilant. This proved prudent. In the following years, crypto lost over $2 trillion of value and a significant number of players failed; inflation and interest rates rose rapidly, stressing some parts of the banking system; and commercial real estate concerns grabbed market headlines. Throughout this period, OCC-supervised banks stood strong. Customers and counterparties to national banks and federal savings associations were able to have peace of mind despite the volatility brought about by the crypto winter, rising interest rates, and CRE uncertainty.[2] That was not luck. It was due, in part, to our persistent emphasis on strong risk management and guarding against complacency.

[2] Notably, none of the large banks that failed last year were supervised by the OCC.

Looking ahead, OCC examiners remain focused on institutions with at-risk credit concentrations to ensure they have the appropriate transaction-level risk ratings, provisioning, and portfolio-level risk management in place. OCC examiners have also been focused on banks' liquidity risk profiles to ensure that the stronger liquidity risk management practices adopted after last year's large bank failures are being maintained.[3] With regard to nonfinancial risks, the OCC has observed an increase in the sophistication of malign actors, impacting cyber risk and anti-money laundering (AML) risk. Banks must remain vigilant and continuously improve their cyber, operational, and AML risk management controls and capabilities. Doing so can also enable better fraud detection and prevention, a topic of increasing salience to banks, consumer advocates, and regulators.

Elevating Fairness

Ensuring fairness in banking is part of the OCC's mission. Promoting fairness is also critical to fostering trust in banking. People need to believe that their bank and the banking system are working for them, not against them. Fairness and trust go hand in hand.

Since 2021, I have made elevating fairness one of the key priorities for the agency.[4] Actions we have taken include strengthening and modernizing the Community Reinvestment Act,[5] reforming overdraft practices,[6] updating our fair lending screens and examinations,[7] and expanding financial inclusion through Project REACh,[8] among other things.

This past year, we increased our focus on consumer financial health, in particular on measurement. Building on the idea that "what gets measured, gets managed," the OCC

---

[3] See OCC Bulletin 2024-29, "Commercial Lending: Refinance Risk."

[4] Acting Comptroller of the Currency Michael J. Hsu Remarks at the NCRC's 2023 Just Economy Conference, "Elevating Fairness," March 30, 2023.

[5] See OCC News Release 2023-117, "Agencies Issue Final Rule to Strengthen and Modernize Community Reinvestment Act Regulations."

[6] See OCC News Release 2023-41, "OCC Issues Guidance on Overdraft Protection Programs"; see also Acting Comptroller of the Currency Michael J. Hsu Remarks at the National Community Reinvestment Coalition Just Economy Conference 2024.

[7] See OCC Bulletin 2023-2, "Fair Lending: Revised Comptroller's Handbook Booklet and Rescissions."

[8] Project REACh: Incubating Solutions to Accelerate Financial Inclusion.

published a report in June that defines financial health and identified three potential "vital sign" metrics that can be used in real time to gauge the financial health of individuals.[9] We look forward to continuing our work with consumer advocates, research organizations, and banks to test and develop these ideas. By developing better measures of consumers' financial health, the banking system can deliver better products and services to those who need them and achieve fairer outcomes overall.

Adapting to Digitalization

Banking services are no longer provided by just banks. The digitalization of banking has allowed nonbank financial technology companies – fintechs and big techs – to offer payments, lending, and deposit-taking services to their users. Some refer to this as banking-as-a-service (BaaS), as nonbanks cannot fully perform such services on their own and must partner with banks.

While this evolution has fostered greater competition and innovation in digital banking, it has also confused consumers, diffused accountability, and created an unlevel playing field between banks and nonbanks. Since 2021, the OCC has been highlighting these challenges and working to address them.[10]

The bankruptcy of Synapse, a BaaS middleware firm, showed that the risks of these arrangements are not just theoretical. Over 100 nonbank fintechs, such as Yotta and Juno, marketed high-yield digital saving accounts and other banking services to consumers across the country, enabled by Synapse's partnerships with several sponsor banks. When Synapse filed for bankruptcy in March, many of the customers of those fintechs could not access their money. Their stories, which have been widely reported, are heartbreaking.[11]

---

[9] See OCC, *Community Developments Insights: How Banks Can Measure and Support Customer Financial Health Outcomes.*

[10] See, for example, Acting Comptroller of the Currency Michael J. Hsu Remarks before the Federal Reserve Bank of Philadelphia, Fifth Annual Fintech Conference, "Modernizing the Financial Regulatory Perimeter" November 16, 2021; Acting Comptroller of the Currency Michael J. Hsu Remarks at the TCH+BPI Annual Conference, "Safeguarding Trust in Banking: An Update", September 7, 2022; OCC Bulletin 2024-20, "Third-Party Arrangements: Joint Statement on Banks' Arrangements With Third Parties to Deliver Bank Deposit Products and Services,"

[11] See National Public Radio, Planet Money, "What the collapse of one fintech company tells us about bank regulations."

Notably, neither Synapse nor any of the fintechs involved are regulated or supervised by the federal banking agencies. In fact, nonbank fintechs and big techs generally navigate a patchwork of regulatory requirements set by state-level agencies. Perhaps not surprisingly, some nonbanks, like Synapse and a number of crypto firms, took advantage of gaps in the regulatory framework to operate with weak to nonexistent controls. Their bankruptcies and resulting harms to consumers have prompted questions and calls for reform.

Throughout this period, the OCC, the Federal Reserve Board, and the Federal Deposit Insurance Corporation have taken steps to protect consumers, clarify responsibilities, and try to level the playing field. In 2023, we issued interagency guidance on third-party risk management, which includes banks' arrangements with fintechs.[12] In addition, each agency has taken enforcement actions against sponsor banks with weak practices – with the OCC leading on this front with an action in 2022.[13]

This past July, the agencies issued a Request for Information (RFI) on bank-fintech arrangements and effective risk management practices.[14] The RFI provided a tailored framework that distinguished between deposit-taking, lending, and payments arrangements. The comment period recently closed and we are working carefully through all of the feedback received.

Whatever steps the OCC and other federal banking agencies take, as long as fintechs remain licensed and regulated solely at the state level, there is likely to remain a regulatory gap that some nonbanks will continue to exploit. I support the Treasury Department's call for federal payments regulation and a chartering regime for nonbanks.[15] If well designed, such a system – which could be modeled on the dual banking system with distinct roles for federal versus state authorities – would provide the guardrails necessary to close regulatory gaps, protect consumers, and promote more responsible innovation and competition.

---

[12] See OCC Bulletin 2023-17, "Third-Party Relationships: Interagency Guidance on Risk Management."

[13] See Formal Agreement by and between Blue Ridge Bank, N.A. and the OCC, August 2022.

[14] OCC News Release 2024-85, "Agencies Remind Banks of Potential Risks Associated with Third-Party Deposit Arrangements and Request Additional Information on Bank-Fintech Arrangements."

[15] U.S. Department of the Treasury, Remarks by Under Secretary for Domestic Finance Nellie Liang: "Modernizing the Regulatory Framework for Domestic Payments" at the Chicago Payments Symposium, hosted by the Federal Reserve Bank of Chicago., and *The Future of Money and Payments*.

Separate but relatedly, the Cloud Executive Steering Group (CESG), which I co-chair, has made progress on facilitating responsible cloud adoption by banks of all sizes.[16] The culmination of the work included the publication by the Department of the Treasury and the Financial Services Sector Coordinating Council of a suite of resources on effective practices for financial institutions in their secure cloud adoption journey.[17] The CESG deliverables provide strong foundations from which stakeholders can build. Getting secure cloud adoption right is especially important given artificial intelligence (AI) adoption trends.

Managing Climate-Related Financial Risks

The financial risks from climate change to banks and the communities they serve are highly uncertain. Risk managers know that preparation is key to avoiding surprises and maintaining safety and soundness across a range of outcomes.

Since 2021, the OCC has taken a deliberative, common-sense approach to climate-related financial risks.[18] Our focus has been on engaging large banks with over $100 billion in total assets to understand and review their climate-related financial risk management programs and capabilities. In general, the OCC has observed that these banks have been making progress on incorporating climate-related financial risks into their risk management frameworks and policies.

Looking ahead, increases in the frequency and severity of extreme weather events, such as Hurricanes Helene and Milton, are likely to lead to changes that banks will have to adapt to. For instance, changes in insurance markets and concerns regarding insurance gaps have been particularly notable, as banks generally are at an early state of analyzing the effects of insurance affordability and availability challenges on their customers and asset valuations.

---

[16] Treasury Department Press Release, "U.S. Department of the Treasury Kicks Off Public-Private Executive Steering Group to Address Cloud Report Recommendations."

[17] Treasury Department, Cloud Executive Steering Group.

[18] See OCC *Semiannual Risk Perspective* (Spring 2022); Financial Stability Oversight Council, "Report on Climate-Related Financial Risk" (2021); Bank for International Settlements, "Principles for the effective management and supervision of climate-related financial risks" (June 15, 2022); Financial Stability Board, "Supervisory and Regulatory Approaches to Climate-related Risks: Interim Report" (April 29, 2022).

Strengthening climate-related financial risk management practices will help large banks prepare for the uncertainty that lies ahead and help them seize opportunities as the economy, public policy, and behaviors evolve.

Promoting a Diverse and Dynamic Banking System

The U.S. has the most diverse and dynamic economy in the world. In order to thrive, it needs an equally diverse and dynamic banking system.

The OCC plays a unique role in this, supervising over 1,000 banks, which have roughly two-thirds of the assets of the banking system. The vast majority of those banks are community banks, which have strong relationships and provide important, high-touch services to a long, diverse tail of unique communities and groups across the country.

The OCC has been a consistent supporter of community banks. From lowering assessment fees[19] to providing specialized guides and technical assistance[20] to hosting advisory committees,[21] the OCC actively engages and continually seeks to support community banks so they can thrive.

The OCC also supports a dynamic banking system, marked by *healthy* mergers and acquisitions. Just as unfettered mergers and acquisitions (M&A) can hurt communities or increase risks to financial stability, a sclerotic banking system can be just as harmful, impeding the renewal and growth needed to enable communities and businesses to thrive.

To promote the right balance and reduce uncertainty, the OCC enhanced transparency around its consideration of bank mergers by publishing clear indicators for applications that are more likely to be approved in a timely manner as well as those that raise supervisory or regulatory concerns.[22] This should help incentivize potential applicants to take actions and consider options that benefit communities, enhance competition, and support a diverse and dynamic banking system.

---

[19] See OCC News Release 2022-145, "OCC Reduces 2023 Assessments on National Banks and Federal Savings Associations."

[20] See OCC, *Conducting Due Diligence on Financial Technology Companies - A Guide for Community Banks.*

[21] See OCC, Minority Depository Institutions Advisory Committee, Mutual Savings Association Advisory Committee web pages.

[22] OCC News Release 2024-101, "OCC Approves Final Rule and Policy Statement on Bank Mergers."

Finally, I would like to make two observations regarding de novo bank applications. Starting a new bank can be a risky endeavor and may sometimes end in failure. I believe the paucity of de novos in the U.S. is due primarily to extreme risk aversion to bank failures. This risk aversion is understandable. However, until there is a greater risk appetite by the public and policymakers for bank failures, de novo activity is likely to remain limited. Additionally, anecdotes suggest that some amount of de novo activity historically was linked to M&A activity – for instance, a group of bankers might depart after a merger in order to form a new bank to serve a community they felt was being left behind by the merged institution. Further research and policy adjustments to take this into account, coupled with greater risk appetite for bank failures, could be effective in reviving de novo activity in the U.S.

Conclusion

In addition to acting on the priorities noted above, fostering trust requires frequent communication and active engagement with all stakeholders. Since 2021, I have spoken publicly on a wide range of topics including mitigating too-big-to-fail, elevating fairness, the blurring of banking and commerce, tokenization, and AI.[23] Each speech provides an opportunity to share views, seek feedback, invite engagement and discussion, and work collaboratively to improve and strengthen the banking system.

I have also engaged in balanced and active outreach with stakeholders. I have prioritized meetings with community banks in a wide range of states, hosted regular meetings with a wide span of community organizations and civil rights groups, engaged academics, and visited local communities across the country from Midland, Texas, to Polson, Montana. Directly engaging a wide range of stakeholders, meeting them in their communities, and actively listening have helped keep me and the agency grounded in what we do and how we approach issues. Most importantly, it has fostered trust.

Finally, I would like to recognize the staff of the OCC, who are true unsung heroes. Their work is invisible to most, yet their impact is huge. I am proud to have been a part of this agency and to have joined such dedicated public servants in a mission focused on ensuring the safety, soundness, and fairness of the federal banking system. I know OCC employees will remain

[23] See speeches by Acting Comptroller of the Currency Michael J. Hsu available at [Newsroom | OCC.]

committed to the agency’s mission and ensuring that the federal banking system remains a source of strength to the U.S. economy.