

Acting Comptroller of the Currency Michael J. Hsu

Remarks at the TCH + BPI Annual Conference

“Safeguarding Trust in Banking: An Update”

September 7, 2022

Thank you for inviting me to speak at this year’s TCH + BPI annual conference. It is a pleasure and an honor to participate in an event that covers such a wide range of pressing topics and brings together such a distinguished group.

Last year, I spoke of the importance of safeguarding trust in banking.¹ I noted that my key priorities at the helm of the OCC—guarding against complacency, addressing inequality, adapting to digitalization, and managing climate-related risk—reflect what I see as the key long-term threats to trust in banking. With an eventful year having passed, I would like to take a few moments today to provide an update on each priority, starting with digitalization.

Adapting to Digitalization

Like many industries, banking is being digitalized. At a high level, this is occurring through the expansion of technology firms into financial services and to a lesser degree the hype and growth of the crypto industry. While crypto has grabbed the headlines for most of the past year, I believe fintechs and big techs are having a large impact and warrant much more of our attention.

Maintaining a “careful and cautious” approach to crypto

Before my appointment as Acting Comptroller, the OCC issued several interpretive letters that gave national banks and federal savings associations (FSA) a green light to engage in certain crypto activities.² I had a different perspective and saw red flags in crypto’s rapid

¹ Acting Comptroller Michael J. Hsu, “[Safeguarding Trust in Banking](#)” (Exchequer Club, September 15, 2021).

² [OCC Interpretive Letter 1170](#) (July 22, 2020); and [OCC Interpretive Letter 1172](#) (September 21, 2020); [OCC Interpretive Letter 1174](#) (January 4, 2021).

growth.³ Under my direction, the OCC has adopted a “careful and cautious” approach.⁴ The agency put into place this approach through the issuance of Interpretive Letter 1179, which establishes guardrails by clarifying that national banks and FSAs should not engage in certain crypto activities unless they demonstrate that the activities can be performed in a safe, sound, and fair manner.⁵ National banks and FSAs should follow the process detailed in Interpretive Letter 1179 to obtain a supervisory non-objection in writing before beginning certain new crypto activities. This process prevents national banks and FSAs from engaging in these activities without first adopting appropriate measures to manage the risks of these activities. The FDIC and Federal Reserve Board later issued similar letters to supervised banking organizations, helping to ensure a level playing field.⁶

The Terra stablecoin collapse in May, among other factors, sparked contagion across cryptocurrencies, resulting in several crypto platforms failing, forcing numerous exchanges to close, and driving large losses and reductions of staff at a number of publicly traded companies.⁷ The repercussions are still being felt today in the crypto space.

The federally regulated banking system, by contrast, has been largely unaffected. I believe this is due, at least in part, to the careful and cautious approach that we adopted and intend to maintain for the foreseeable future.⁸

Developing a more sophisticated understanding of bank-fintech arrangements

As all of you know, banking continues to march steadily towards taking place online, on mobile devices, and in the cloud. Similar to other industries, financial services, which used to be

³ Acting Comptroller Michael J. Hsu, “[Cryptocurrencies, Decentralized Finance, and Key Lessons from the 2008 Financial Crisis](#)” (Blockchain Association, September 21, 2021).

⁴ Acting Comptroller, Michael J. Hsu, “[Modernizing the Financial Regulatory Perimeter](#)” (Federal Reserve Bank of Philadelphia Fifth Annual Fintech Conference, November 16, 2021)

⁵ [OCC Interpretive Letter 1179](#) (November 18, 2021).

⁶ FDIC, Financial Institution Letter FIL-16-2022, “[Notification of Engaging in Crypto-Related Activities](#)” (April 7, 2022); Board of Governors of the Federal Reserve System, Supervision and Regulation Letter SR 22-6 / CA 22-6 “[Engagement in Crypto-Asset-Related Activities by Federal Reserve-Supervised Banking Organizations](#)” (August 16, 2022).

⁷ The Wall Street Journal, “[Coinbase Posts Steep Second-Quarter Loss Amid Crypto Meltdown](#)” (August 9, 2022)

⁸ Acting Comptroller Michael J. Hsu, “[Crypto: A Call to Reset and Recalibrate](#)” (DC Blockchain Summit 2022, May 24, 2022). As evidence of the banking industry’s desire to get into crypto, see The American Banker, “[Banking groups plead with Biden administration for bigger crypto role](#)” (August 9, 2022).

integrated and largely contained within the banking industry, are being compartmentalized and offered by a greater number of entities beyond traditional banks, including by technology firms. These developments are creating an increasingly varied and complex set of arrangements, which are significantly more intricate than the standard bank outsourcing relationships of yesteryear. The growth of the fintech industry, of banking-as-a-service (BaaS), and of big tech forays into payments and lending is changing banking, and its risk profile, in profound ways.

I analogize these changes to the globalization of manufacturing that started in the 1980s. What began as outsourcing evolved over time into a system of highly specialized companies linked by hyper-efficient and complex supply chains.⁹ While this evolution generally resulted in lower prices for consumers, recent events have highlighted the vulnerabilities of such a system to disruptions.¹⁰

Banking is undergoing a similar transition today. Digitalization has put a premium on online and mobile engagement, customer acquisition, customization, big data, fraud detection, artificial intelligence, machine learning, and cloud management. These activities require expertise and economies of scale that most banks do not have. Fintechs and big techs have stepped in, starting with payments but expanding well beyond that. The result is an increasingly *de-integrated* stack of banking services, with technology firms competing across many layers.¹¹

Some data points may help illustrate what the future holds. I recently asked my team to quickly profile banks with multiple BaaS partners. They identified at least 10 OCC-regulated banks that have BaaS partnerships with nearly 50 fintechs. Using public information they also identified similar arrangements at banks regulated by the Federal Reserve and FDIC. Notably, this is not a large bank issue. The vast majority of the banks identified have total assets below \$10 billion; nearly a fifth have total assets less than \$1 billion.

⁹ The Princeton University Press, [“The Mushroom at the End of the World”](#) (Anna Lowenhaupt Tsing, 2015); see also Harper Business, [“Direct: The Rise of the Middleman Economy and the Power of Going to the Source”](#) (Kathryn Judge, 2022).

¹⁰ [Economic Report of the President](#), ch. 6 (April 2022); Harvard Business Review, [“Are the Risks of Global Supply Chains Starting to Outweigh the Rewards?”](#) (March 21, 2022); Brookings, [“The coronavirus will reveal hidden vulnerabilities in complex global supply chains”](#) (March 5, 2020).

¹¹ The Globe Newswire, [“Insights on the \\$332.5 Bn Fintech Market is Expected to Grow at CAGR of over 19.8% During 2022-2028”](#) (May 9, 2022); McKinsey & Company, [“What the embedded-finance and banking-as-a-service trends mean for financial services”](#) (March 1, 2021)

The pressure to partner is not only coming from the bank side, but from fintechs as well. Valuations in the fintech space have fallen significantly. (Customer acquisition is more expensive and harder than expected, apparently.) As a result, prophecies of fintechs disrupting banks out of existence have largely been replaced with a focus on building partnerships.¹²

By partnering, banks can gain speed to market and access to technological innovation at lower cost, while fintechs seek to benefit from banks' reputations for being trustworthy, long-standing customer bases, and access to cheaper capital and funding sources. As a result, bank-fintech partnerships have been growing at exponential rates and have gotten more complicated. Banks and tech firms, in an effort to provide a "seamless" customer experience, are teaming up in ways that make it more difficult for customers, regulators, and the industry to distinguish between where the bank stops and where the tech firm starts.¹³

Where is this all headed? For me, there is a nagging familiarity. In the 2008 financial crisis, I recall being camped out at the Federal Reserve Bank of New York and seeing for the first time a wall-sized map of the shadow banking system that had been put together by Zoltan Poszar and Adam Ashcraft.¹⁴ From afar, it looked like a circuit board diagram: lots of boxes and lines. But if you looked closely, you could see T-accounts of assets, liabilities, and equity, connected to each other in complex ways—money market funds buying liabilities from asset-backed commercial paper conduits buying CP from SIVs buying paper from CDOs buying paper from other CDOs.¹⁵ The lightbulb moment for me was realizing that the plethora of Fed 13(3) facilities that were being established to prevent the financial system from melting down were backstopping each component of this complex system—a system that had evolved to *approximate* and compete with banks and was then enduring a run. In other words, the discount

¹² Finextra, "[Fintechs and banks might rather collaborate than compete](#)" (June 19, 2022); Forbes, "[Collaboration Is The New Competition In FinTech](#)" (December 16, 2020).

¹³ Forbes, "[Collaboration Is The New Competition In FinTech](#)"; Acting Comptroller Michael J. Hsu, "[Modernizing the Financial Regulatory Perimeter](#)."

¹⁴ Federal Reserve Bank of New York, Staff Report No. 458, "[Shadow Banking](#)" (revised February 2012).

¹⁵ A "T-account" is an informal term for a set of financial records that uses double-entry bookkeeping. Commercial paper (CP) is a type of short-term debt instrument. A collateralized debt obligation (CDO) is a synthetic investment product backed by a pool of bonds, loans, and other credit instruments. A structured investment vehicle (SIV) attempts to profit by borrowing in the short-term by issuing asset-backed CP and investing in long-term assets, which may include CDO tranches.

window—the government’s liquidity backstop for banks—had to be synthetically created to match the complexity of the modern financial system.

My concern today is that a similar increase in complexity is happening with regards to online and mobile payments, lending, and deposit-taking activities. To be clear, this is different from the credit disintermediation of the 1990s and 2000s. The “de-integration” of banking services that is taking place now has its roots in technology, data, and operations and is affecting all banks, not just the large, money center banks. My strong sense is that this process, if left to its own devices, is likely to accelerate and expand until there is a severe problem or even a crisis. Like the globalization of manufacturing and the disintermediation of credit, the efficiency gains of these changes can be enjoyed immediately, while the most material risks do not manifest for some time.

The first order safety and soundness implications of this digitalization transition are in some ways obvious and have been a focus of supervisors for several years. In fact, over the last two decades, the OCC has adjusted its bank information technology (BIT) examinations in response to technological innovations. For instance, in the mid-2000s the OCC nimbly responded to advances in remote deposit capture and the expansion of mobile device usage in banking operations.¹⁶ Today, BIT examinations include assessments of ransomware, artificial intelligence, cloud computing, and distributed ledger technology.

Technological advances can offer greater efficiencies to banks and their customers. The benefit of those efficiencies, however, are lost if a bank does not have an effective risk management framework, and the effect of substantial deficiencies can be devastating. BIT concerns in the national banking system are elevated. They currently constitute 25 percent of all cited supervisory concerns. A majority are related to fundamental elements of risk management, e.g., board oversight, governance, and internal controls. Common issues involve insufficient information security controls, change management issues particularly with emerging products and services, and IT operational resilience.

Of course, these are the “known knowns.” I worry increasingly about the “unknowns” and am concerned that the less familiar risks of this digital transition are unlabeled and thus unseen. As we learned from the 2008 financial crisis, risks that are unseen have a tendency to

¹⁶ OCC Bulletin 2009-4, “[Remote Deposit Capture: Interagency Guidance](#)” (Jan. 14, 2009); Comptroller’s Handbook, “[Payment Systems](#)” (October 2021).

grow and later to be the source of nasty surprises. Which brings me back to trust in banking. Banks have done a commendable job of rebuilding trust since the 2008 crisis. Their financial buffers and risk management capabilities have improved dramatically. Notwithstanding, trust is sensitive to surprise. And the evolution of bank-fintech arrangements in the era of digitalization is giving rise to new opportunities for surprises.

Fortunately, this risk can be mitigated. At the OCC, we are currently working on a process to subdivide bank-fintech arrangements into cohorts with similar safety and soundness risk profiles and attributes. This will enable a clearer focus on risks and risk management expectations. To make real progress, however, a wide range of questions must be posed and answered: Who is responsible for what when things break? How might confidence be lost in a banking services supply chain disruption and what would it take to regain it? How do banks and their third parties view and treat customers in bank-fintech arrangements—when do customers go from being the client to becoming the product and how are consumer protections maintained? How resilient are banking services to stress at fintechs? What happens when fintechs fail? How are bank and fintech business models changing and how are incompatibilities reconciled?

This last point bears emphasis. When credit and liquidity risks in the banking system were being disintermediated in the 1990s, the mantra for the disruptors was, “We are in the moving, not storage business.” Banks stored risk, whereas securities firms and other nonbanks transformed and distributed it. The 2008 financial crisis revealed that these business models were competing with each other, leading to a race to the bottom, and providing incentives and opportunities for needless opacity and complexity.

Fast forward to today. The technology business model is very different from the banking business model. (LTV/CAC is different than NIM, for instance.¹⁷) What is the dynamic between the two business models? Do they lead to healthy competition resulting in better products and services and more resilience at better prices for customers? Or do they lead to a race to the bottom with pressure to cut compliance corners and to monetize user data in novel ways? Perhaps both? In the lead up to the 2008 financial crisis, the failure to understand these

¹⁷ Customer lifetime value (LTV) to customer acquisition cost (CAC) ratio compares the value of a customer over their lifetime to the cost of acquiring them. LTV/CAC differs significantly from performance measures used by banks, such as net interest margin (NIM).

dynamics between traditional and shadow banking created a massive blind spot for the industry and regulatory community.

At the OCC, we are actively working to eliminate such blind spots. Our recently released five-year Strategic Plan explicitly acknowledges the digitalization forces that are at play and the need for us to be agile and credible in addressing them. We are building on the excellent work of staff over the last five years in the fintech/crypto space with regards to policy and service providers and related to IT and operational resilience supervision. We are also working closely with our interagency peers to help ensure that we have a shared understanding of how the financial system is evolving and that regulatory arbitrage and races to the bottom are minimized.

Much more work remains to be done. My sense is that we are still in the early stages of a significant shift in how banking services are going to be provided in the future. By expanding our aperture, engaging more substantively with nonbank technology firms, and mapping out bank-fintech relationships and risks, we can help ensure that banking remains trusted and safe, sound, and fair as the system evolves.

Managing Climate-Related Risk

The physical and transition risks associated with climate change pose safety and soundness challenges for banks.¹⁸ There is an urgent need for action.¹⁹ Shortly after my appointment last year, the OCC joined the Network for the Greening of the Financial System and established a Climate Risk Officer position. I would like to emphasize several key developments since then.

First, in December, we issued for comment *Principles for Climate-Related Financial Risk Management for Large Banks*. In the Principles, we focused on risk management,

¹⁸ 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).

¹⁹ [Statement of Michael J. Hsu Acting Comptroller of the Currency before the Committee on Financial Services United States House of Representatives](#) (May 19, 2021); [Statement of Michael J. Hsu Acting Comptroller of the Currency before the Committee on Banking, Housing and Urban Affairs United States Senate](#) (August 3, 2021); Acting Comptroller Michael J. Hsu, "[Five Climate Questions Every Bank Board Should Ask](#)" (November 8, 2021).

consistent with our mandate.²⁰ We heard from thousands of individuals. We also heard from financial services trade groups, banks, environmental and public interest groups, providers of risk models, and governmental organizations. We appreciate the great interest in this area, and we are carefully reviewing these comments.

The majority of commenters generally supported the draft principles, while some warned of regulatory overreach. Most commenters who supported the principles also offered suggestions for changes, reflecting a range of views on the subjects that should be addressed in the guidance, the level of detail, and the focus on large institutions. We are sifting through all this feedback as we determine next steps with our interagency colleagues.²¹

Second, in every meeting I have had with community banks and their state trade associations over the past year, concerns about supervisory and regulatory actions related to climate change have been raised.²² I want to acknowledge those concerns and commit to continued open dialogue and constructive engagement as we move forward. In the coming weeks, I will be traveling to Lubbock and Midland, Texas, to meet with local OCC-supervised community banks and hear directly from them about the risks and issues impacting their communities. I intend to listen actively and to provide more clarity on the commonsense approach we are taking to climate-related risk management.

²⁰ Acting Comptroller Michael J. Hsu, "[Remarks at the Institute of International Bankers, Annual Washington Conference](#)" (March 7, 2022) ("Unlike regulators in some other jurisdictions, we do not (yet) have a mandate to help meet carbon reduction targets. This means we cannot take supervisory measures specifically designed to accelerate the transition to a carbon neutral economy, such as limiting credit to fossil fuel companies. Rather, we are focused on large banks' climate-related risk management capabilities: identifying, measuring, monitoring, and mitigating climate-related exposures and risks. Weaknesses in risk management could adversely affect a bank's safety and soundness, as well as the overall financial system.")

²¹ The FDIC followed suit by issuing a substantially similar proposal at the end of March. FDIC, Financial Institution Letter FIL-13-2022, "[Request for Comment on Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions](#)" (March 30, 2022).

²² Roundtable with OCC-supervised Kansas City-area bankers (Feb. 7, 2022); Roundtable with OCC-supervised Denver-area bankers (Feb. 8, 2022); Fireside chat at Kansas Bankers Association Public Affairs Conference (Feb. 9, 2022); Roundtable with OCC-supervised Kansas bankers (Feb. 9, 2022); Meetings with Colorado Bankers Association and Independent Bankers of Colorado trade executives (Feb. 18, 2022); Meeting with Ohio Bankers League (March 3, 2022); Meeting with Delaware Bankers Association (Apr. 7, 2022); Meeting with Minnesota Bankers Association (May 3, 2022); Fireside chat at Texas Bankers Association Annual Convention (May 19, 2022); Meeting with New York Bankers Association trade executives (Jun. 8, 2022); Meeting with Iowa Bankers Association (Jun. 16, 2022); Meeting with Indiana Bankers Association (Jul. 12, 2022); Meeting with Louisiana Bankers Association (Jul. 20, 2022).

Third, two imperatives for large banks have become much clearer to me over the past year: (1) the need for coordination and harmonization across jurisdictions, and (2) the need to operationalize scenario analyses and to prioritize diverse approaches to such efforts over one-size-fits-all stress tests. With regard to harmonization, my sense is that convergence by bank regulators on risk management expectations for large banks is achievable in the near to medium term, both domestically and internationally. Data and metrics, on the other hand, are going to present more challenges. Among others, the FSOC’s Climate-related Financial Risk Committee (CFRC) is an excellent forum to help address them.²³

With regards to scenario analyses for larger banks, a strong emphasis on diversity of approaches needs to be maintained, lest banks and regulators gravitate toward miniature standardized stress tests. With climate-related risks, I believe we are much more exposed to failures of imagination—not asking enough “what if?” questions—than we are to failures of stringency or consistency. Given the uncertain nature of climate-related risks today, probing for vulnerabilities under different scenarios will be more impactful to climate-related risk management than generating comparable, but overly stylized, loss estimates. In short, I am concerned that the muscle memory of capital stress testing is more likely to handicap climate scenario analysis than to help it. I believe a clean sheet of paper and an open mind to considering a wide range of risks and scenarios will yield richer and more actionable information than an approach that borrows heavily from capital stress testing. In addition to strengthening climate risk management and avoiding pitfalls, robust scenario analyses will help large banks seize opportunities as the economy, public policy, and behaviors change. (As I’ve noted before, the better a car’s brakes, the faster you can safely drive it.²⁴)

Finally, one quick personnel note: In July we posted for a new Chief Climate Risk Officer, to replace the incumbent who retired. Our selectee, whom I am very excited to announce in the coming weeks, will lead the OCC’s new Office of Climate Risk, which elevates our internal function into a full-fledged Office reporting directly to me.

²³ Financial Stability Oversight Council, “[Report on Climate-Related Financial Risk](#)” (2021).

²⁴ Acting Comptroller Michael J. Hsu, “[Five Climate Questions Every Bank Board Should Ask](#)” (November 8, 2021).

Addressing Inequality

Persistent economic inequality can erode trust in banking because those who feel stuck or lack access to traditional financial products and services may conclude that the system is working against them, rather than for them. The OCC has been very active in taking steps to address inequality over the past year.

Most importantly, we got the joint initiative to modernize the Community Reinvestment Act (CRA) back on track across the federal banking agencies.²⁵ The recent interagency notice for proposed rulemaking seeks to strengthen and modernize the CRA.²⁶ The proposal seeks to build on, and expand, the historical effectiveness of the CRA as a critical motivator for bank lending and investment to help meet the credit needs of low- and moderate-income individuals, families, and communities. The proposal also aims to accommodate changes in the banking industry, including internet and mobile banking. We received hundreds of detailed and thoughtful comments on the NPR and are now working closely with our interagency partners to review and evaluate the ideas and suggestions as we move forward with the rulemaking process.

We have also focused on encouraging banks to reform their overdraft programs to make them more consumer friendly.²⁷ It is expensive to be poor, and for some, overdrafts are a key, and recurring, expense. We have seen positive signs that many banks are getting the message. As noted in a June 21, 2022, PEW Research article, the largest U.S. banks have made changes to their overdraft policies that could save consumers more than \$4 billion annually.²⁸ The savings are coming from banks lowering penalty fees for overdrafts, reducing the daily maximum number of overdraft fees that are charged, adding a grace period or buffer amount before fees kick in, or eliminating nonsufficient funds fees or overdraft transfer fees. Changes at the three national banks with the largest overdraft fee revenues could alone save consumers more than \$2 billion annually. The OCC's own data shows significant decreases in overdraft fee revenue in

²⁵ OCC News Release 2021-94, "[OCC Issues Proposal to Rescind its 2020 Community Reinvestment Act Rule](#)" (September 8, 2021); OCC, News Release 2021-133, "[OCC Issues Final Rule to Rescind its 2020 Community Reinvestment Act Rule](#)" (December 14, 2021).

²⁶ [Letter from 79 Members of Congress](#), addressing the Notice of Proposed Rulemaking to Strengthen and Modernize Regulations Implementing the Community Reinvestment Act (August 5, 2022).

²⁷ Acting Comptroller Michael J. Hsu, "[Reforming Overdraft Programs to Empower and Promote Financial Health](#)" (December 8, 2021); American Banker, BankThink by Acting Comptroller Michael J. Hsu, "[Don't be the last banker to update your overdraft program](#)" (March 28, 2022).

²⁸ The Pew Charitable Trusts, "[Large Banks Improve Overdraft Policies and Cut Fees](#)" (June 21, 2022).

2022 at large banks supervised by the OCC. These reforms at the biggest banks should have outsized benefits for Black and Hispanic customers who, as the June PEW article notes, are more likely to incur overdrafts. We hope that the positive changes made by these banks will inspire more banks to make similar pro-consumer changes to their overdraft programs.

We continue to support the removal of structural barriers to financial inclusion. The OCC's Project REACH, or the Roundtable for Economic Access and Change, is a unique initiative focused on reducing barriers to financial inclusion. Through Project REACH, the OCC convenes leaders from banking, business, technology, and national civil rights organizations to reduce specific barriers that prevent full, equal, and fair participation in the nation's economy. Project REACH's work is divided into four national workstreams addressing (1) affordable homeownership, (2) inclusion for credit invisibles, (3) revitalization of minority depository institutions, and (4) access to capital for small and minority-owned businesses.

In addition to the success of these REACH initiatives, I am encouraged to see others focusing on reducing structural barriers to financial inclusion. For example, in July, the White House announced a new coordinated effort to maximize federal dollars flowing into underserved communities, including communities of color, rural, and Tribal communities.²⁹ In late 2021, the Department of Housing and Urban Development and the Consumer Financial Protection Bureau each issued guidance to facilitate the ability of creditors to extend special purpose credit programs to meet the credit needs of specified classes of persons.³⁰ In 2020, Fannie Mae and Freddie Mac published a Joint Credit Score Solicitation as the first step in the process of evaluating new credit score models.³¹

On the bank supervision front during each supervisory cycle, OCC examiners use a consistent approach to identify the bank's level of compliance risk, to assess the adequacy of each bank's compliance management systems in managing that risk, and to assign the bank's

²⁹ [Statement from Secretary of the Treasury Janet L. Yellen on Launch of New Private and Public Sector Efforts to Maximize Investments in Underserved Communities](#) (July 28, 2022).

³⁰ U.S. Department of Housing and Urban Development, Office of General Counsel, "[Guidance on the Fair Housing Act's Treatment of Certain Special Purpose Credit Programs That Are Designed and Implemented in Compliance with the Equal Credit Opportunity Act and Regulation B](#)" (December 6, 2021); Consumer Financial Protection Bureau, "[Advisory Opinion on Special Purpose Credit Programs](#)" (December 21, 2021). See also OCC, Bulletin 2022-03, "[Fair Lending: Interagency Statement on Special Purpose Credit Programs](#)" (February 22, 2022).

³¹ Federal Housing Finance Agency, "[Fannie Mae and Freddie Mac Publish Joint Enterprise Credit Score Solicitation](#)" (February 18, 2020).

consumer compliance component rating. OCC examiners also consider compliance risks posed by third parties that banks rely on in delivering products, services, and activities to bank customers, and examiners evaluate the adequacy of each bank's risk management over third parties. As we noted in the Spring 2022 *Semiannual Risk Perspective*, compliance risk is heightened as banks navigate the current operational environment, geopolitical risks, regulatory changes, and policy initiatives.³²

Looking ahead, I want to highlight several OCC priorities. We will focus on efforts to improve customer financial health, which should help us develop better approaches to evaluating and supporting consumer banking products and services, and to address inequality and barriers to financial inclusion. Additionally, the OCC is focused on strengthening our supervision processes and resources devoted to compliance with fair lending laws. It is simply not acceptable that redlining and other forms of lending discrimination continue in the year 2022.

Guarding Against Complacency

Today there are a range of mechanisms that help ensure large banks are adequately capitalized and well managed, e.g., stress testing and heightened standards. These mechanisms are not foolproof, however, and can fail due to complacency. As the Archegos situation showed, a “lackadaisical attitude towards risk discipline”³³ can undermine good risk systems and cause unexpected losses. Maintaining strong risk management discipline is critical. I have tried to reinforce this in my remarks on tail risks and the LIBOR transition and in my meetings with bankers and risk managers.³⁴

In addition to staying on top of novel, complex, and long-term risks, bank boards and senior managers need to ensure that they are covering the basics. Given the current rate outlook and mixed market signals, some of the liveliest discussions within banks should be taking place in asset and liability committee (ALCO) and credit risk committee meetings.

Finally, let me say a quick word on bank mergers. I believe that the Bank Merger Act guidelines are ripe for updating. The OCC is working with our federal banking agency peers and

³² OCC [Semiannual Risk Perspective](#) (Spring 2022).

³³ Credit Suisse Group Special Committee of the Board of Directors, [Report on Archegos Capital Management](#) (July 29, 2021), page 2.

³⁴ Acting Comptroller Michael J. Hsu, “[When the Tide Goes Out](#)” (May 17, 2022).

the Department of Justice to review our bank merger frameworks consistent with President Biden’s Executive Order on promoting competition,³⁵ as well as my own concerns about bank merger impacts on communities, the potential for institutions to become too-big-to-manage, and financial stability. As banks get larger, I am particularly focused on financial stability risks, given my experience in the 2008 financial crisis with too-big-to-fail firms.

Conclusion

To effectively safeguard trust in banking, we must maintain high fidelity to the concept of safety and soundness, we must champion fairness, and we need to be agile and credible as we adapt to changing circumstances. The recently issued OCC five-year strategic plan points us in this direction.³⁶

Data, tools, and accountability can help inform how best to implement the plan. We know from various sources that trust in banking fluctuates. For instance, according to the latest Gallup Poll, trust in banking fell 6 percentage points from last year to 27 percent.³⁷ In an FDIC survey, approximately one-third of unbanked households cited that the reason for not having a bank account was that they did not trust banks.³⁸

To better understand what lies behind these trends and headline numbers, I have asked staff to study existing surveys and develop a robust approach to systematically monitoring trust in banking. I believe an objective, well-designed survey that includes a number of measures of trust can help. The information would be informative to a range of stakeholders and assist us in developing actionable strategies to safeguard and hopefully increase trust in the banking system.

Finally, before turning to Q&A, I want to say a word about the OCC staff. They are true unsung heroes. Their work is invisible to most, yet their impact is huge. They make ensuring the safety and soundness of two-thirds of the assets in the U.S. banking system look easy. That is only because they are so good at it. I am proud to be a part of this agency and to join such

³⁵ The White House, [“Executive Order on Promoting Competition in the American Economy”](#) (July 9, 2021).

³⁶ OCC [Strategic Plan, FY 2023-2027](#)

³⁷ Gallup, [“Confidence in U.S. Institutions Down; Average at New Low”](#) (July 5, 2022).

³⁸ FDIC, [“How America Banks: Household Use of Banking and Financial Services”](#) (2019)

dedicated public servants in a mission focused on ensuring the safety, soundness, and fairness of the federal banking system. I cannot imagine a higher honor.

Thank you and I look forward to answering any questions you may have.