Comptroller's Viewpoint

As I write this introduction to the OCC's fiscal year (FY) 2012 *Annual Report,* it is a little more than six months since the Senate confirmed my nomination as the 30th Comptroller of the Currency. For a career bank supervisor like myself, there is no higher honor than to assume a place among the distinguished Americans who have built and burnished the OCC's reputation for excellence.

Since I arrived at the OCC in April 2012, three key anniversaries have come and gone. It has been five years since the start of the worst financial crisis since the Great Depression, two years since the Dodd–Frank Wall Street Reform and Consumer Protection Act altered the financial regulatory landscape, and one year since the integration of the Office of Thrift Supervision into the OCC. And next year will bring a fourth milestone that is very important to those of us at the OCC: the 150th anniversary of the passage of the National Currency Act of 1863, which created the federal banking system and the OCC as its supervisor. In its own way, each of these events influences my agenda as Comptroller.

The financial crisis was a powerful reminder that a safe and sound banking system is indispensable to our nation's economic health. That's why, at my Senate confirmation hearings, I publicly committed myself to the cause of robust supervision. I further promised that we would continually reexamine our own supervisory policies and procedures and take all necessary steps to enhance them.

Specifically, strong supervision means setting high standards and holding the national banks and federal savings associations we supervise (and ourselves) to those standards. It means making sure that banks have appropriate processes, procedures, and contingency plans to address the full spectrum of risk applicable to those institutions. It also demands that the OCC establish clear and reasonable rules and that our procedures enforce those rules consistently and fairly.

As someone who has been involved in bank supervision for more than 25 years, I have learned how important it is that supervision be fair and reasonable. The institutions we oversee play a vital role in supporting strong communities and economic growth by serving the financial needs of individuals, communities, and businesses, and we don't want to hamstring those efforts with supervision that is overly burdensome, arbitrary, or unpredictable. At the same time, it is important that the industry and the public recognize that supervisors take strong action—including public enforcement actions requiring payment of CMPs and restitution—to correct problems.

Several initiatives to enhance OCC supervision were under way when I became Comptroller, and those initiatives continue. U.S. bank supervisors are working together to raise capital standards because the financial crisis demonstrated yet again that a safe and sound banking system requires capital of sufficient quantity and quality to meet all reasonable contingencies. It is a measure of the industry's growing health that capital, both in absolute terms and in relation to the risks embedded in bank loan portfolios, is stronger today than it has been in many years. Progress has also been made in bolstering liquidity, addressing a weakness that was exposed during the period of low market confidence in 2008–2009. We've raised supervisory standards for risk management, including the management of operational risk, which has been a matter of particular concern of late.

We set heightened expectations for corporate oversight and governance at our largest banks. For example, while supervisors long operated on the premise that oversight functions rated as “satisfactory” were sufficient, we now require large banks to achieve a rating of “strong” in their audit and risk management functions. We expect members of each bank’s board and its executive management team to ensure that audit and risk management receive visible and substantive support. Our examiners evaluate the transition from “satisfactory” to “strong” in these two key oversight functions as part of their ongoing supervision. When we find weaknesses, we require corrective action.

We see considerable evidence that our heightened expectations for corporate oversight and governance are taking hold—that the people and systems behind our largest banks are better prepared to meet the challenge of running these complex and powerful financial institutions.

But we cannot afford to be complacent—certainly not at a time when the banking system and the U.S. economy are facing strong headwinds at home and abroad.

Community banks face special challenges. Some of the communities they serve have yet to participate in the economic recovery. Community banks tend to hold concentrations of residential and commercial real estate loans—two products that performed especially poorly during the recession. Not only have these banks had to write off disproportionate numbers of bad loans, but they also have had trouble finding creditworthy borrowers in this difficult economic environment. This situation has pressured bank profitability. Community banks also face new regulatory requirements. These circumstances explain why some question the future of the community bank franchise and why some veteran community bankers have decided to leave the business.

The OCC is committed to ensuring that community banking remains safe and sound. We devote the bulk of our resources to community bank supervision. We work closely with the banks we supervise to help them identify their strengths, correct their weaknesses, and build their businesses in a safe and sound manner. Our community bank supervision is carried out by examiners who are knowledgeable, experienced, and sensitive to the circumstances under which their institutions operate. Our supervision program combines the perspective of local examiners with the perspective of a national organization.

Regulatory burden seems always to fall most heavily on those institutions that are least equipped to handle it—namely, banks that don’t have a deep bench of consultants and lawyers to help steer them through the thickets. Thus, one of the most important contributions we can make—especially at a time of regulatory change—is to help minimize that burden. We are doing this by making sure we apply the rules with a view to the unique challenges facing community banks. As discussed in this *Annual Report,* we have done just that in a number of the Dodd–Frank rulemakings relating to stress testing and credit ratings, for example.

To address that challenge as effectively as possible, it is important for us to listen to the men and women who lead community banks. We have an ambitious outreach program that takes me and other OCC senior managers around the country to speak with—and listen to—community bankers. I look forward to continuing this dialogue in the coming months and years.

Last year’s *Annual Report* observed that Dodd–Frank implementation and international efforts to strengthen capital standards were the OCC’s major preoccupations in FY 2011. That was still true in FY 2012. Though many key rulemakings were finalized in 2012, as detailed in this *Annual Report,* others are still developing. Proposed revisions to the risk-based capital rules, the risk retention rule for asset securitizations, and the Volcker rule on proprietary trading generated enormous interest from the financial industry and other concerned parties. While the OCC intends to move forward with these rulemakings in an expeditious manner, it is also important to consider all the ramifications of these proposed rules.

The integration of the bulk of the people and supervisory functions of the OTS into the OCC, as mandated by Dodd–Frank, is continuing on schedule. The success of this massive undertaking is a matter of particular pride to me and should be to everyone who had a hand in making it happen.

The OCC's 150th anniversary in February 2013 will be more than a celebration of the vision of our founders, especially President Abraham Lincoln, Secretary of the Treasury Salmon P. Chase, and the first Comptroller, Hugh McCulloch. We will also celebrate the values that have distinguished the OCC since its creation: professionalism, independence, and a commitment to a strong, integrated national economy. In my career as a bank supervisor, I have experienced the savings and loan and bank crises of the late 1980s and early 1990s, as well as the more recent financial crisis that shook the U.S. and global economies. We have learned that risks to the banking system can come from many directions, and it is our job to be alert to them all. This is a challenge the OCC has met throughout its 150-year history and one I am confident we will continue to meet in the years to come. I welcome the opportunity to lead this vital organization into the future.

Thomas J. Curry
Comptroller of the Currency