Remarks by

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Good morning.

Let me first say how pleased I am to be here with you in a country so rich in history and so vibrant in modern times. While the agency I head is the oldest of the federal regulatory agencies in the United States, our century and a half of history pales alongside that of some of the institutions in your country. Still, we have much to learn from each other in the context of current developments, and so in that spirit I look forward to the opportunity at the end of these brief remarks to hear from you.

Before I go any further, I'd like to tell you a bit about the agency that I head back in Washington—the Office of the Comptroller of the Currency, or OCC for short. The OCC was created at the urging of President Abraham Lincoln in 1863, during the middle of our Civil War, to provide a uniform system of national currency and to oversee a banking system that would be subject to a uniform set of national standards.

One hundred and fifty-three years later, the federal banking system embraces institutions with more than two-thirds of all banking assets in the United States, ranging from the very smallest banks and savings associations to almost all of the largest U.S. banks that operate globally, as well as federal branches of foreign banks operating in the country. The remaining banking assets reside in banks and thrifts chartered by individual states. Like the Financial

Conduct Authority and the Prudential Regulation Authority, the OCC is funded by the institutions we regulate, rather than by the Government. We operate as an independent bureau of the Department of the Treasury, with sufficient authority to issue regulations and take enforcement actions and otherwise supervise our nation's federally chartered or licensed banks, thrifts and foreign bank branches.

The United States and the United Kingdom, of course, share many traditions. To me, one of the most important is the strength of our respective banking sectors, which are responsible in large measure for the growth and continuing strength of our respective economies and standing in the world. While the history of banking in our countries is not without ups and downs, I say confidently that without our robust banks—and the regulators who help maintain the safety, soundness, and public confidence in those banks—we could not have become the global leaders that we are. I've worked as a bank regulator on the state and federal level for my entire adult life, and I take great pride in the role we all must play in contributing to the strength of the global economy.

The foundation of that global leadership, though, begins not just at home, but in the home. That basic dwelling, where children are raised and the elderly are cared for, is the backbone of strong communities and strong economies. Providing shelter for individuals and families is a noble function, and it would not be possible without institutions like yours.

We are fortunate in the United States, as you are, to have a variety of different types of financial institutions, including some that are very similar to building societies. The closest equivalents are our savings associations and savings banks, which are directly descended from the building societies of the United Kingdom and their German counterparts. Historically, U.S. savings associations were organized as mutuals and focused on home mortgage lending as a result of statutory limitations that continue today. Most of our mutual savings institutions, like your building associations, are small community institutions with less than a billion dollars, or about 700 million pounds, in assets.

By the end of 2015, 823 thrift charters were active in the United States. The OCC supervises about half of those including 165 mutuals. Unfortunately, the ranks of mutual thrifts have declined by 25 percent since 2011, primarily as a result of conversions to different charter types or consolidations. However, I'm pleased that the performance of the remaining mutual institutions has improved year-over-year, as has the performance of most U.S. financial institutions since 2010.

In many ways, mutuals in the States struggle with the same issues that building societies do—credit quality, operational and compliance risks, and, most fundamentally, strategic risks. I thought it would be useful to discuss some of the steps the OCC is taking to strengthen community banks so they remain a vibrant part of the banking system and continue to meet the needs of the consumers, businesses, and communities they serve.

One challenge for mutual savings associations involves the ability to raise quality capital quickly in response to changing economic conditions, strategic plans, or regulatory requirements. I understand why this is a concern for mutuals in the United States. Traditionally, it has been difficult for mutual savings associations to raise capital, because the only consistent way to do that has been through retained earnings.

Mutual savings associations, which must observe limits on commercial and other consumer lending, are reliant on income from residential mortgage loans. Mortgage interest rates, meanwhile, have been limited to a tight range, making it difficult to squeeze any more juice from the orange. Such business model limitations, some say, make increased capital requirements impractical or even unfair. While I understand the resistance to tougher capital requirements, as a regulator I believe in institutions maintaining high levels of high-quality capital, particularly when they have concentrations in a particular product or service.

Diversification is one way to reduce concentration risk. Banks with diversified portfolios can mitigate the need for additional capital. However, for mutual savings associations, moving beyond residential mortgages into commercial credit or other forms of consumer credit is easier said than done. It requires strong internal controls, due diligence, and management before venturing into new products.

At the OCC, we recognize the difficulties federal savings associations face in broadening their business models. That's why we've proposed a new approach that follows a model we used in Massachusetts when I was Commissioner of Banks. Under our approach, savings associations could change their business model to emphasize non-housing-related products, for example, without going through the time and expense of switching to a charter that permits a broader business strategy. They would still brand themselves as savings associations, but would have a broader range of products and activities available to them.

This proposal requires legislative action, and we've made considerable progress with Congress. I'm very hopeful that we'll succeed this year.

We've also promoted the idea of collaboration among smaller institutions in a paper we published last year.[1] While community banks of all types compete with each other – and with larger institutions – for customers, there are many areas where they can work together to save money and achieve economies of scale. We want banks to know that it is acceptable and even prudent to share certain resources, such as back office functions or specialized staff.

[1] See http://www.occ.gov/publications/publications-by-type/other-publications-reports/pub-other-community-banks-working-collaborately.pdf.

Cybersecurity is also important to banks of all sizes, and it's another area where community banks can work together to create the kind of efficiencies they need to compete for business while remaining safe and sound.

Regulators and bankers really share common goals—healthy organizations that operate in a safe and sound manner and an environment in which businesses can compete fairly to provide the products and services they offer. However, to remain healthy, banks and savings associations must do more than simply avoid undue risk. They must find ways to grow, to modernize, and to develop products that meet the needs of their customers and their communities.

Regulators have a role too. We want our regulations to foster safety and soundness, but in the least burdensome way possible. At the OCC, we recently developed and submitted to Congress several legislative proposals aimed at alleviating unnecessary burden on small institutions.

We also need to make sure that the modern regulatory system is open to new ideas and new ways of doing business. Recently, we proposed guidance that would allow federal banks to adopt programs to make high loan-to-value (LTV) mortgages on residential properties in areas slated for revitalization. We proposed this guidance, in part, because low housing values in distressed communities have inhibited banks from offering needed rehabilitation financing. Traditionally we've viewed high LTV loans as inherently risky, since homebuyers have little of their own capital at risk. But we ultimately concluded in our proposal that while high LTV loans carry risk, that risk may be manageable, especially when balanced against the urgency of addressing the problem of blighted neighborhoods.

That's the same approach we took to innovation, a topic we discussed at some length in a recent white paper.[2] Innovation, particularly in the area of financial technology, carries risks, to be sure, but they are risks that capable banks, and supervisors, can manage.

Financial technology companies, or fintechs, are challenging some preconceptions of traditional banking in the way they evaluate credit risk, for example, and in the kinds of financial services they deliver. One of the attributes of fintechs that I find appealing is their potential to improve services to low- and moderate-income individuals.

One tool that some consumers, particularly lower-income individuals, find helpful is reflected in a range of new "apps" that assist with the challenge of savings. Several banks and fintechs offer applications that connect to the customer's checking account, analyze deposit and spending patterns, and then regularly transfer small amounts of money into the consumer's savings account. The customer's savings, as a result, can grow over time as a result of transfers that are almost unnoticed.

With all their promise, fintechs and the technology behind them also present challenges to regulators. To ensure we are up to the challenge, we are developing a transparent framework for identifying and evaluating innovation that affects the banking system that community banks can navigate. The principles that guide our effort are also discussed in our white paper. In the months of research leading up to the paper, the OCC team responsible for developing our framework met with dozens of banks, fintech companies, and other regulators, including the FCA.

I know that some people think that fintech and innovation are the domain of large banks only, but that's not how we see it. In fact, one of the eight principles discussed in our paper

[2] See http://www.occ.gov/publications/publications-by-type/other-publications-reports/pub-responsible-innovation-banking-system-occ-perspective.pdf.

specifically calls on us to encourage banks of all sizes to integrate responsible innovation into their strategic planning. We intend to help in that process by making resources available to community banks, including the expertise of our supervisory and policy staff.

At the same time, however, innovation is not risk free, and that's why we have made "responsible" innovation a core part of our initiative. We want to be sure that new products do not, first of all, detract from safety and soundness or present new compliance issues for the banks that offer them. Moreover, while fintechs promise to improve service to unserved or underserved individuals, we want to make sure that these products do not lead to abuses, for example of the type that occurred in the U.S. mortgage business before the financial crisis.

So, I have covered a lot of ground today, and as I said at the outset, I wanted to leave ample room for discussion. So let me close by restating how proud I am of the work we have done for small, local banks in the United States, and the work that the community institutions like yours do every day in providing the credit families need to purchase and maintain their homes.

Thank you for your good work and for having me here today. With that, I'd like to open the floor for your questions and your comments.