

Statement of
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Chairman Crapo, Ranking Member Brown, members of the Committee. Thank you for this opportunity to update you on the OCC's work ensuring the federal banks operate in a safe, sound, and fair manner and remain sources of strength for their communities.

I want to congratulate Senator Crapo on his tenure chairing this committee. Thank you for your leadership. I look forward to working with your successor.

Over the past eight months, the OCC has supported the orderly function of our banking system through an extraordinary time. Fortunately, banks and savings associations entered this period with near historic high levels of capital and liquidity. Asset quality was strong, and the economy had enjoyed the longest expansion on record. Then, as part of the national response to COVID-19, economic activity was suspended. Regulators at this table collaborated to provide banks the flexibility necessary for them to use that strength to support their customers and sustain economic activity. My testimony provides detail on the actions the agency has taken on this front.

Today, we continue to monitor the effects of shutting down the economy. While banks remain sound, we see potential for troubled assets ahead in commercial and residential real estate, small business and consumer lending, and travel and hospitality sectors. Banks, particularly those with concentrations in these assets, must take a sober view of their risks, and work with customers to the maximum extent possible consistent with safety and soundness. The recent OCC *Semiannual Risk Perspective* highlights the credit, operational, and compliance risks in the system, which will focus our supervisory efforts in the months ahead. Prudent risk management today can avoid the need for more extreme loss mitigation tomorrow. Having said that, we also see reasons for cautious optimism about the future based on strong third-quarter GDP growth, continuing reduction in unemployment, strong consumer and small-business

sentiment, and better-than-expected news about the near-term availability of effective COVID-19 vaccines.

While the economy and banks face uncertainty as to the length and depth of the pandemic's trough, I also want to highlight what gives me optimism for the future of banking.

During the social unrest that followed the killing of George Floyd, it became clear that the protesters were angry that too many Americans have been left out of our national wealth-creation engine for far too long. The OCC founded Project REACH to convene bankers, civil rights leaders, innovators, and businesspeople to promote full, fair, and equal participation in our economy. The project is working to eliminate obstacles to credit for 45 million people with no usable credit score, to expand affordable housing for those who cannot afford high down payment requirements, and to reinvigorate minority banks that serve often neglected communities. We have kicked off regional REACH efforts, including one serving the greater Los Angeles area. And, we have hosted access to capital events in South Carolina and Colorado. I have been humbled by the momentum among the industry, community and civil rights advocates, and our staff. Indeed, REACH has become a movement to tear down barriers so that all may pursue their American dreams.

Another reason for optimism comes from innovators, within banks and elsewhere, who are excited about improving banking and financial services to consumers, business, and communities. We are seeing new products and better ways of delivering them, and much more efficient ways of operating. Ultimately, this progress will benefit consumers and businesses, and they will have greater choice and more autonomy over their financial wellbeing. At the OCC, we believe that consumers, businesses, and the economy are best served when this innovation can occur within the banking system and the system is allowed to evolve as consumer preferences evolve. We think this for several reasons. First, the banking system is among our most strictly regulated, closely supervised industries. Those who fear innovation may harm consumers should consider the possibility that innovation might be safer in a supervised environment than it is under the currently largely unsupervised environment. The same is true for those focused on prudential risk. Over the last decade, large market shares of lending and payments processing have migrated from the commercial banks into less regulated shadow banks. This trend reduces our collective ability to spot and manage issues early on. And, of course, we should not

underestimate the risk of a status quo in which incumbents seek protection from competition and thus delay the delivery of innovative financial services that are already available in other parts of the world.

The OCC has been a leader in this area since coining the phrase “responsible innovation” in 2015. We remain committed to encouraging responsible efforts to deliver more choice and more economic opportunities in safe, sound, and fair ways *within* the federal banking system to benefit consumers and businesses across the country.

Thank you again for the opportunity. I am proud to serve as Acting Comptroller of the Currency and to support the agency’s important mission. I look forward to your questions.