

**Remarks by**  
**Thomas J. Curry**  
**Comptroller of the Currency**  
**Before**  
**The New England Council**  
**Boston, Massachusetts**  
**December 7, 2012**

Thank you, Jim, for the nice introduction. This is something of a homecoming for me, and an opportunity to reflect on the long and constructive association I've enjoyed with the state's business and non-profit communities. This association stretches back over my two decades in the Office of the Secretary of State and in the commonwealth's Division of Banks, which I was privileged to head for ten years. And though my workaday life these days centers in the nation's capital, my heart and my home continue to be in Boston.

Ironically, we may be more familiar with each other than you are with the office to which the President nominated me and the Senate confirmed me this past March. The OCC, like the New England Council, is distinguished by its longevity and lineage: we are the oldest of the federal regulatory agencies, having been created by President Lincoln in 1863. Throughout those nearly 150 years, the OCC has been responsible for the safety and soundness of our federal banking system, which today consists of nationally chartered banks and federal savings associations. These institutions run the gamut from the very largest, most complex, internationally active institutions to the smallest

community banks and thrifts, and I am pleased to see a variety of financial institutions, some regulated by the OCC, some not, represented here today.

But probably the best way to understand the OCC—or any organization—is to look not at its charter but its culture: what values it holds dear, what behaviors it encourages or discourages, what kinds of people it recruits and retains, and how open it is to confronting its own mistakes and learning from them.

From time to time the OCC surveys its own people in confidence to test whether we're holding firm to the values that have defined our organization throughout its long history: the values of integrity, professionalism, independence, and teamwork. Because if our values start to slip, we want our people to tell us before it's too late. So we ask -- and we listen.

In our most recent survey, for example, employees told us they wanted a stronger commitment from senior management to improve internal communications. We have made that commitment. The survey also identified issues associated with the Dodd-Frank-mandated integration of the Office of Thrift Supervision into the OCC, which took place in 2011. As some of you may know first-hand, blending together two agencies with distinctive cultures is always challenging, and we're working hard to ensure that nothing about this integration distracts our people from their responsibility for the safety and soundness of the federal banking system.

Just as the OCC periodically assesses how well it is adhering to its core values, I think it is important for banks to make a similar, critical self assessment.

Banks have attributes that make them unlike most other enterprises. They are a fundamental part of our economic infrastructure, and the capital they supply is its

lifeblood. Their unique importance in the payments system is protected by a federal safety net of deposit insurance and access to the resources of the Federal Reserve System. And, not coincidentally, they are subject to a complex set of regulations, rules, and standards that are among the most comprehensive of any industry.

But whether banks are successful or not depends in large part on factors common to all businesses. As the OCC has seen over a period of many years, and especially over the tumultuous last decade, what differentiates troubled banks from healthy ones is not simply the strength of their systems, policies, and procedures. Equally if not more important is their commitment to those policies. Banks that adopt strong corporate governance principles and inculcate and enforce them throughout their organizations foster a culture of compliance with laws, regulations, and their own policies and controls which keeps them on track. Those that don't, don't.

Recently, we have seen what happens when there is a disconnect between sound policies and systems and what actually was happening inside the bank. For example, during the financial crisis, some banks departed from their own sound policies and systems to take advantage of business opportunities that resulted in over-concentrations and excessive credit risk. Some banks have professed a commitment to serving customers but tolerated marketing practices that suggested otherwise. And at other institutions, business lines have been allowed to dominate compliance and audit functions.

In all of these situations, it's fair to say that the problem was as much one of governance—of cultural failure—as it was of purely financial mistakes.

Although I'm speaking here from the OCC's perspective as a bank regulator, we know that banks and thrifts are hardly the only institutions that in recent years have dropped the ball and forfeited public confidence as a result. Indeed, in the financial sector, the worst lending practices and the worst abuses in the years leading up to the financial crisis were found at nonbank institutions that were largely unregulated. Those institutions, including certain mortgage brokers and mortgage companies, were responsible for a disproportionate number of loans that ultimately went into foreclosure, and they played an outsized role in bringing on the financial crisis. And outside the financial services industry, in both the public and private sectors, institutions of all sorts have been affected by, and in some cases have helped fuel, the perception that honesty, integrity, and trustworthiness don't mean what they once did.

I am not suggesting for a minute that good policies and systems don't matter. To the contrary, under the OCC's risk-based approach to bank supervision, our examiners spend much of their time evaluating the adequacy of bank policies and systems, including those used to ensure compliance with federal fair lending, Bank Secrecy Act, Community Reinvestment Act and other requirements—areas in which failure can have enormous legal and reputational consequences. We look at the robustness of banks' information security systems and whether they're sufficient to protect both the customer information entrusted to them and the reliability of the bank's operations. We evaluate the quality of a bank's corporate governance—the competence and independence of its board, the robustness of its audit functions, the fairness and effectiveness of its compensation practices, its provisions for leadership identification, training, and succession, and lots more.

We look at bank policies designed to monitor and control their relationships with third-party vendors—relationships for which the bank is ultimately responsible. And of course we spend considerable time validating the bank’s policies on financial risk – credit underwriting standards, collateral valuation, loan performance, risk models, capital adequacy, liquidity management—activities that are really at the heart of what the banking business is all about.

In addition to evaluating each of these areas, we look at them comprehensively to determine the bank’s overall risk profile. In other words, we evaluate the quality of the bank’s approach to enterprise risk management, which relates to the way risks interconnect and interact with one another across the entire organization. And our assessment of the bank’s overall risk, and the way each bank monitors and responds to that risk, shapes our supervisory response.

Yet, at the end of the day, even a comprehensive and integrated risk management program is no stronger than the culture into which it is embedded. Thus, assessing and understanding a bank’s culture of compliance with regulations and the bank’s own internal policies—even where we think those policies are adequate—is one of the most challenging and important things we do as bank supervisors.

That’s one reason we’ve adopted heightened expectations for corporate governance for our large banks. Among other things, this policy emphasizes the importance of creating and sustaining a sound culture of openness, oversight, and accountability. That requires a strong, credible internal audit capability, with auditors who command support and respect throughout the enterprise and who are independent of the business lines they review. And we expect boards of directors to have the expertise to

conduct diligent reviews of the bank's leadership team, financial status, and business plans, and, where needed, provide a credible challenge to that leadership. Board members, some of whom should be independent, must set the tone for enterprise-wide professional standards, corporate values, and integrity for senior management and other employees. When we find deficiencies in these areas of corporate governance, we require corrective action.

I said at the beginning that one of the hallmarks of a healthy risk culture is an organization's willingness to confront and learn from its mistakes and the mistakes of others. Some financial institutions did learn from the industry's previous stumbles, and as a result made it through the recent crisis relatively unimpaired. It is especially notable that community banks in New England, having been through the crucible of the regional real estate collapse in the late 1980s and early 1990s, were much less exposed, and therefore came through much less damaged, when real estate markets turned south again two decades later.

Bank regulators have been aptly described as professional worriers, and we are not so naïve to think that banks will never again succumb to the temptation to cut corners. Although banks are being tested today in an economic environment that can only be described as challenging – with sluggish growth, regulatory uncertainty, and worries about Europe, Asia, and the fiscal cliff at home – the true test will come at some time of future stress. Only then will we know whether the key lessons of the financial crisis have truly been learned.

Thank you.