Remarks by

Thomas J. Curry
Comptroller of the Currency

Before the
Federal Home Loan Bank of Chicago

Chicago, Illinois
August 7, 2015

Good morning. It’s a pleasure to be here with you today, and to have this opportunity to join a discussion that’s oriented toward the future of the financial services industry. With so much of the financial services business in flux today, the conference title, “Leading toward the Future; Ideas and Insights for a New Era,” could not be more appropriate. With respect to financial technology, or “fintech,” as it’s generally known, it sometimes seems that the real question is not so much what lies ahead as how to better understand and leverage the innovation in front of us now.

Mobile payment services like Apple Pay and Google Wallet could change the face of retail payments, particularly at the point of sale, while virtual currencies have the potential to transform the way we think about money. New online services offer the prospect of a banking relationship that exists only on a smart phone or home computer, and peer-to-peer lending has the potential of upending a bank’s traditional role as an intermediary. Automated systems compete with traditional financial advisors, and crowdfunding sites are entering the business of raising equity capital for new and existing companies.

Some of these products represent only incremental changes that don’t present major regulatory concerns, but others signify real points of departures that will require a significant
amount of scrutiny to ensure that they can be offered safely and soundly, consistent with applicable laws and regulations, and in a way that ensures adequate consumer protections.

Those cautions are important. Recall how the financial crisis was fueled in large part by such “innovations” as option Adjustable Rate Mortgages, Structured Investment Vehicles, and a variety of increasingly complex securities that represented interests in subprime mortgages. Those very risky activities created huge losses for financial institutions and their customers, and ultimately threatened the entire financial system. So new products and services have to be evaluated with an eye toward risk management.

However, while our views of innovative products and services are informed by the experience of the financial crisis, we can’t let that memory blind us to the importance of continued innovation in the financial marketplace. New approaches that meet the needs of an evolving marketplace are the lifeblood of our nation’s economy, and it’s our job as a regulator to support and even encourage innovation that helps bank customers. In fact, that’s a hallmark of the national bank charter – its ability to adapt to the changing needs of bank customers.

What I want to talk about today is how innovation can benefit the financial system, the vital role banks will continue to play in that innovation, and what we are doing at the OCC to better understand both the benefits and the risks of innovative products and services identified by banks.

The banking industry has always taken the lead in financial innovation, particularly in the area of technology. ATM networks make it possible to have your money delivered to you anywhere in the world and home banking has streamlined the process of paying bills, transferring funds, and managing money. Deposits are made by smart phone, and checks are
scanned and returned at the point of sale. Those are all impressive examples of innovations that have benefitted bank customers.

But it is also noteworthy that a large share of the innovation we’re seeing in the area of financial technology is developing outside of the regulated banking industry. There are a number of reasons why that’s so, but the one that’s of most concern to me is the perception that it’s too difficult to get new ideas through the regulatory approval process.

At the OCC, we’ve launched a new initiative to address that perception – and any reality that might lie behind it. What we want to do is develop a framework to evaluate new and innovative financial products and services.

We have a team with representatives from across the agency – policy experts, examiners, lawyers, and others – considering this question. We’re still early in the process, so I can’t tell you exactly where we’ll end up. It’s possible we’ll ultimately conclude that we need a small office dedicated to innovation, just as some banks have developed innovation centers. At a minimum, though, we’ll want to be sure that we have the capacity to identify and understand new trends and new technology, as well as the emerging needs of financial services customers so that we will be in a position to quickly evaluate those products that require regulatory approval and identify any risks associated with them.

Let me add that the kind of innovation I have in mind isn’t solely the domain of the private sector nor is it solely a matter of technology. Indeed, I would argue that it is exemplified by a program started by the Federal Home Loan Bank of Chicago to help small originators take advantage of government guarantees and insurance.
In a field where scale matters, the business of originating mortgages can be challenging for small institutions that deal in low volumes. As a result, some community banks and thrifts are struggling with the question of whether they can stay in that business.

That’s a shame. Mortgage lending is an important product that many consumers will want at some point in their lives, and no lender wants to turn away an established customer who’s on the verge of becoming a homeowner. Government insured or guaranteed programs offer a solution, but financial institutions that want to sell those loans through Ginnie Mae, as most will, need sufficient volume to form loan pools efficiently.

That’s where the Chicago home loan bank’s new program—the Mortgage Partnership Finance Government MBS program—kicks in. The program allows lenders to deliver government-guaranteed or government-insured home loans to the Chicago Federal Home Loan Bank, which in turn will act as the Ginnie Mae mortgage-backed security issuer. This approach eliminates the costs and barriers that community banks would otherwise face in becoming Ginnie Mae issuers themselves, and it will be particularly attractive for low-volume mortgage lenders.

By taking on this role, the Chicago FHLB provides liquidity, a reliable secondary market conduit, and operational support to participating banks. This program can put community lenders in a better position to offer competitive mortgage products, and it confers a number of advantages on participating institutions, including competitive pricing and the certainty of funding on closing day.

In my mind, this is an example of a financial win-win made possible by creativity and innovation. It confers obvious advantages on small institutions that want to remain competitive in an important product line, and it helps ordinary people achieve the American dream of
homeownership. It also exemplifies the creative spirit that has long made the American financial system such a powerful engine of economic growth.

At the OCC, we’re also focused on finding new and innovative ways to help community banks and thrifts serve their customers and reduce their cost of doing business. An example is the paper we published recently on collaboration. The thought behind it is that smaller institutions can join together to trim costs or serve customers and markets that might otherwise lie beyond their reach.

For example, community banks can exchange ideas and information, share back office operations or jointly purchase materials or services. In one case, a group of banks pooled their resources to finance community development activities through multi-bank community development corporations, loan pools, and loan consortia. In another, several smaller institutions formed an alliance through a loan participation agreement to bid on larger loan projects in competition with larger financial institutions.

As a regulator, I’m glad we were able to highlight some of the innovation that we’re seeing in the community bank space and add some of our own thoughts to that. But I want to emphasize that most of the paper was to encourage community banks to continue to innovate in the area of collaboration.

As the industry continues to innovate, it’s important that regulators strike the right balance between encouraging responsible innovation and managing risk. Virtual currency, like Bitcoin provides a good example.

There is considerable interest in the technology that Bitcoin and other virtual currencies use to keep track of ownership and prevent double spending, and that technology could lead to less expensive ways for banks to settle transactions. There is also at least some interest among
traditional banks, as well as the new online-only financial institutions, in facilitating Bitcoin transactions of one type or another.

That’s not objectionable in and of itself, but one of the attractions of virtual currency is anonymity, and so we need to be sure that federal banks and thrifts that participate are adhering to requirements of laws aimed at deterring money laundering and terrorist financing. Again, this is basic risk management, and it’s no different from the diligence we expect from traditional account management.

The same applies to the new types of services that have been lumped together under the heading of “neobanks,” which are internet-only institutions that offer bank-like services. We are already seeing some interest among federal banks and thrifts in these new products and services, and some of the banks we supervise are already exploring partnerships with existing neobanks.

What’s interesting to me about these new institutions is how nimble they are. One developed a way of allowing customers to turn their debit cards on and off with the press of a button on their smartphone. That has obvious advantages if you think you might have lost your card, but aren’t certain enough to be ready to cancel it, and it could also serve as a safety feature for bank customers worried that their personal financial information might have been stolen in any one of the recent hacks.

My hope is that some of that creativity might also be used to solve other types of problems, such as meeting the needs of underserved communities. For all of our efforts over the years to ensure equal access to credit, there are still communities with limited access to the types of financial services that people need to improve their lives. I’m talking about the availability of small business credit, consumer loans, and even basic transaction accounts.
Today, we are starting to see a number of examples of fintech products that make it a bit easier for lower-income individuals to save, borrow, and manage bills.

One example is income smoothing. A project undertaken by the Center for Financial Services Innovation and New York University’s Financial Access Initiative found that income sufficiency is less of a problem for low-income households than the timing mismatch between income and expenses. This is especially true for hourly workers, and at least one fintech company has developed a product that uses an algorithm to calculate an “average” paycheck for its customers. Amounts over that average automatically go into a savings account that the company manages, and shortages are made up by money taken from savings or through interest-free advances if there is no savings available. Customers pay $3 per week for the service.

A related problem involves the difficulty that many people, particularly lower-income individuals, have in building savings. Several financial technology companies have products to help. One such company tailored a savings app that connects to the customer’s checking account, analyzes spending patterns, and then regularly transfers a small amount of money into a savings account that it controls.

I could go on, but I think those examples illustrate the promise of financial technology in addressing the problems of the economically disadvantaged. And there are many more products aimed at serving the middle-class, affluent and the business community. Our task, as a regulator, is to be sure we have a robust process in place to understand and evaluate new approaches to permit and encourage responsible innovation that has benefits for consumers and businesses, while ensuring appropriate risk management and compliance with laws and regulations.
That means understanding the technology and the issues that arise from it, as well as the very different perspectives that characterize the traditional banking industry and those that underlie the new fintech companies that are offering banking services.

That difference was highlighted in a vivid way in a recent package of articles in The Economist magazine. In one article, Marc Andreessen, the well-known tech investor, cited the example of a loan officer talking across the desk to a prospective client and said that “to software people, that looks like voodoo.” On the other hand, a second article noted that the data mining methods fintech companies use to evaluate borrowers might look like “sorcery” to traditional bankers.

It’s hard to see how that gap ever gets bridged. For my part, I do see considerable merit in the traditional bank model, where bankers who know the businesses and families they serve are willing to lend money and stand by borrowers in good times and bad because they know the character of those customers. That’s an important piece of the American economic fabric. However, it’s not the only approach to financial services, and it’s important that regulators view new ideas with an open mind and not dismiss them as either sorcery or voodoo.

I think everyone in the regulated financial community – banks and supervisors alike – recognizes that the industry is undergoing a transformation, driven by technology, in the way it does business. I’m betting that much of that transformation will take place inside the traditional banking system, and I want the OCC to be ready to deal with it.

After all, the national bank charter – created in the early days of the Lincoln administration – has always adapted to meet changes in the marketplace, and we are working today to make sure it always will.