

For Release Upon Delivery

10:00 a.m., May 15, 2019

ORAL STATEMENT OF

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COMPTROLLER OF THE CURRENCY

before the

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

UNITED STATES SENATE

May 15, 2019

Statement Required by 12 U.S.C. § 250:

The views expressed herein are those of the Office of the Comptroller of the Currency and do not necessarily represent the views of the President.

Chairman Crapo, Ranking Member Brown, and members of the Committee, I am honored to be here with my regulatory colleagues to share my perspective on the condition of our nation's banking system and our efforts to ensure that bank supervision operates in the most efficient and effective means possible.

Since becoming Comptroller of the Currency in 2017, the OCC has focused on ensuring regulation and supervision support banks' abilities to serve their customers and promote economic opportunity, while still operating in a safe, sound, and fair manner. That work includes implementing the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 as well as advancing several priority items within the agency's authority.

The financial performance of the nation's banking system improved in 2018 and early 2019, driven primarily by strong operating performance. Capital and liquidity remain near historic highs. Return on equity is near pre-crisis levels, and OCC-supervised banks reported healthy revenue in 2018. Net income increased 25 percent for banks with assets of less than \$1 billion and increased nearly 50 percent for the federal banking system as a whole. The Tax Cuts and Jobs Act accounted for nearly half of the increase. Asset quality, as measured by traditional metrics such as delinquencies, nonperforming assets, and losses, is strong and stable.

While the condition of the federal banking system is strong, the OCC monitors risks on a continuous basis and summarizes those risks twice a year in our *Semiannual Risk Perspective*. Key risks highlighted in the most recent report include credit, operational, compliance, and interest rate. These areas continue to evolve in the context of changing economic, technological, and bank operating developments, and we work to ensure that our supervised institutions are aware of, and appropriately managing, these risks.

Maintaining the vitality of the nation's economy depends, in large part, on the ability of financial institutions, particularly community and mid-size banks and savings associations, to operate efficiently, effectively, and without unnecessary regulatory burden. The Economic Growth Act provided a common sense, bipartisan framework to reduce regulatory burden for small and mid-size banks while safeguarding the financial system and protecting consumers. We have made significant progress implementing the Act.

The Act authorizes the OCC to issue one regulation on its own and to issue others with fellow safety and soundness regulators. Separately, we are consulting with the Consumer Financial Protection Bureau on a variety of consumer protection requirements in the Act.

The regulation tasked solely to the OCC affords federal savings associations under \$20 billion in consolidated assets greater business flexibility without the burden of changing charters. In September 2018, the OCC proposed a rule to implement this provision of the law. We plan to issue a final rule in the near future.

In December 2018, the agencies jointly issued final rules to expand eligibility for an 18-month examination cycle. This change reduces burden on well-managed community banks and allows the agencies to focus their resources on more risky banks and thus enhance safety and soundness for all financial institutions.

Regulators are working together to finalize other rulemakings to implement the remaining provisions of the Act. Most will be completed in the third quarter of this year, and all will be completed by year's end. Those efforts include finalizing rules that ease reporting requirements for more community banks and thrifts, exempt certain rural, residential mortgages under \$400,000 from appraisal requirements, narrow the Volcker Rule to banks engaged in riskier activities, and implement a simplified measure of capital adequacy for qualifying

community banks through a community bank leverage ratio. Regulators also are working to implement rules that exclude custodial banks' qualifying deposits at central banks from the supplementary leverage ratio; allow banks to treat qualifying investment grade municipal securities as level 2B liquid assets; and limit the types of acquisition, development, and construction loans that may be considered high volatility commercial real estate exposures and subject to heightened capital requirements. We also are finalizing changes to certain aspects of "company-run" stress testing requirements, and tailoring capital and liquidity requirements consistent with section 401 of the Economic Growth Act that raises the threshold for enhanced prudential standards from \$50 billion to \$250 billion in consolidated assets.

In addition to rules required by the Economic Growth Act, the OCC has focused on taking actions under our existing authority to promote economic opportunity and eliminate unnecessary burden. Those efforts include modernizing Community Reinvestment Act regulations to increase investments in our communities that need it most, making Bank Secrecy Act compliance more efficient and effective, promoting responsible short-term small-dollar lending, and supporting responsible innovation that provides consumers and businesses more choices to meet their banking demands and allows the banking system to adapt to the evolving needs of the consumers, communities, and businesses they serve.

My written testimony provides additional detail on the condition of the federal banking system, the risks it faces, and the regulatory efforts underway to ensure banks serve the needs of their customers in a safe, sound, and fair manner for decades to come. I thank the Committee for this opportunity to discuss these important issues and look forward to answering your questions.