

Statement of

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Comptroller of the Currency

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The Economic Growth and Regulatory Paperwork Reduction Act

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Thank you, Ester, and thanks to everyone here at the Kansas City Federal Reserve Bank for all the work that you put into organizing this very special meeting focused on how we can reduce unnecessary regulatory burden. I also note that a few people from the regulators' Washington contingent hail from the Kansas City Fed. I am pleased to be here with Tom Hoenig, FDIC Vice Chairman, and Mary Ann Hunter, Deputy Director, Division of Bank Supervision and Regulation at the Federal Reserve Bank. As you probably know, this isn't the first such session we've held under the Economic Growth and Paperwork Reduction Act, or EGPR. But this one stands out because of its focus on the issues facing banks and thrifts and their customers in rural America.

While both economic conditions and the health of the banking industry have improved since the global financial crisis, rural banks face a number of challenges. Some of you do business in towns with aging populations, and you may find yourself struggling to attract new customers, management talent or independent directors. The cost of keeping up with changes in technology and attracting and maintaining the staff that's needed to provide new services falls harder on rural institutions that don't have access to the larger labor pools available in urban areas.

If you're an agricultural bank – and most of you are tied to the farm economy in some way, even if you don't lend directly to agribusinesses – then you and your customers are facing some serious challenges this year. Commodity prices are down, and while the costs of feed, fuel, fertilizer and the like have also dropped, they haven't fallen enough. So, your borrowers almost certainly face the prospect of reduced net income. At the same time, some of your competitors, including Farm Credit institutions, have pricing advantages that make it more difficult for you to compete with them.

Of course, it's not an easy time for community banks generally, and in most respects, the problems of rural banks are the problems of banks everywhere. The accumulation of laws and regulations – all of them well intentioned, all of them aimed at solving real problems – unfortunately place very real burdens on the industry, particularly upon those of you in the community bank sector.

That's why this process is so important. As bank regulators, we can't do anything about commodity prices or the changing demographics in your communities, but we can – and should – do everything possible to make sure you don't have to cope with unnecessary regulations.

The operative word in that statement is “unnecessary.” All regulations carry at least some burden. The expectation is that they will provide public benefits that outweigh the burden they impose. But what worries me is the way that the regulatory rulebook builds up over time, adding layer after layer of requirements that can be quite onerous for small banks. So we at the OCC are taking this process very seriously. I'm very interested in hearing from the panelists as well as members of the audience – including those of you watching live on computers around the country – about specific

regulations that are outdated, unnecessary, or needlessly burdensome, as well as your ideas for areas of improvement.

If you don't get a chance to speak today or to participate via the live-stream, I would encourage you to submit a written comment. You can use one of the comment forms we have here, or you can respond to one of the upcoming *Federal Register* notices. We will consider carefully all of the comments received today, and a summary will be published on the regulations.gov Web site and included in our report to Congress.

While this process will unfold over some time, I can assure you that we at the OCC will not wait until it is over to make changes when a solid case has been made for reform. If it is clear that a regulation is unduly burdensome, and if we have authority to make changes to eliminate that burden, we will act. However, many regulatory requirements are rooted in laws passed by Congress, and changes may require legislative action. In those cases, we will work with Congress to remove unnecessary burdens.

The OCC already has advanced three specific proposals to eliminate regulatory burden. We've discussed them with lawmakers, and we are hopeful that Congress will act on them in the current legislative session.

First, we think a greater number of healthy, well-managed community institutions ought to qualify for the 18-month examination cycle. Raising the threshold from its current \$500 million level would not only reduce the exam burden on many community banks, but it would allow the federal banking agencies to focus our supervisory resources on those banks and thrifts that present capital, managerial, or other issues of significant supervisory concern.

I'm pleased to report to you that the House Financial Services Committee approved legislation last week that would raise the threshold to \$1 billion, and similar language was included in a regulatory relief bill that cleared the Senate Banking Committee in May. While the legislation requires votes in the full House and Senate to become law, this is very welcome news.

Another idea that we think is ripe for congressional action is a community bank exemption from the Volcker Rule. We don't believe it is necessary to include smaller institutions under the Volcker Rule in order to realize Congressional intent, and we recommend exempting the more than 6,000 banks and thrifts with less than \$10 billion in assets. However, as an added protection, we also suggested that regulators retain the authority to apply the Rule to individual community banks that may be engaged in covered activities if it makes sense to do so. This approach was also included in the bill approved by the Senate Banking Committee in May.

Finally, we've developed a proposal to provide federal savings associations with greater flexibility to expand their business model without changing their governance structure. It's important that federal savings associations, like other businesses, have the flexibility to adapt to changing economic and business environments in order to meet the needs of their communities, and they shouldn't have to bear the expense of changing charters in order to do so. We have recommended authorizing a basic set of powers that both federal savings associations and national banks can exercise, regardless of their charter, so that savings associations can change business strategies without moving to a different charter.

We're gaining some traction on Capitol Hill. I am pleased that Representatives Keith Rothfus of Pennsylvania and Jim Himes of Connecticut have introduced the Federal Savings Association Charter Flexibility Act which embodies the objectives of my proposal to provide needed flexibility to the federal thrift charter.

I think these legislative proposals are meaningful steps which could help a great number of smaller institutions. But we shouldn't stop there. We should be looking at every approach that might help community banks thrive in the modern financial world.

One especially promising approach involves collaboration, which was the subject of a paper we issued recently. By pooling resources, smaller institutions can trim costs and serve customers that might otherwise lie beyond their reach. They can jointly purchase materials or services, share back office or other services or jointly develop or provide products and services.

At the OCC, we've seen a number of examples of successful collaborative efforts. For example, several community banks formed an alliance through a loan participation agreement to bid on larger loan projects in competition with larger financial institutions. Elsewhere, a group of banks pooled their resources to finance community development activities through multi-bank community development corporations, loan pools, and loan consortia.

And I hope community banks won't stop with those projects. There are opportunities to save money by collaborating on accounting, clerical support, data processing, employee benefit planning, health insurance – and the list goes on. Speaking only for the federal banking system, federal law and OCC regulations facilitate

collaborative arrangements through operating subsidiaries, service companies, and other structures.

I would encourage you to take a look at our paper on the subject, which is titled, “An Opportunity for Community Banks: Working Together Collaboratively.” You can find it on our Web site, at [OCC.gov](http://OCC.gov).

Let me finish by saying that we have much work ahead of us. As you know, we are working on this project on an interagency basis, as well as through the offices of the Federal Financial Institutions Examination Council, or FFIEC, which brings together the banking agencies, the National Credit Union Administration, the Consumer Financial Protection Bureau and the state supervisory agencies. The FFIEC participation is especially appropriate, since we are increasingly using it to provide support to community banks, particularly in resource-intensive areas like cybersecurity.

I can tell you that all of us here are committed to making this process work and to doing everything possible to eliminate unnecessary regulatory burden.

Thank you all for being with us today. I look forward to hearing from you.