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STATEMENT OF

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COMPTROLLER OF THE CURRENCY

before the

COMMITTEE ON FINANCIAL SERVICES

UNITED STATES HOUSE OF REPRESENTATIVES

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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.

Chairwoman Waters, Ranking Member McHenry, and members of the Committee, thank you for this opportunity to update the Committee on several activities underway at the Office of the Comptroller of the Currency (OCC). As requested, my testimony includes a discussion of the OCC and the Federal Deposit Insurance Corporation (FDIC) proposal to strengthen and modernize the Community Reinvestment Act (CRA) regulatory framework, the condition of the federal banking system, our supervision of regulated entities and the risks they face, our diversity efforts, incentive-based executive compensation policies for regulated entities, and our agencies' priorities, including efforts to enhance compliance with the Bank Secrecy Act (BSA) and anti-money laundering (AML) regulations and our efforts to support responsible innovation in the federal banking system.

Strengthening and Modernizing Community Reinvestment Act Regulations

On December 12, 2019, the OCC and the FDIC jointly issued a proposal to strengthen and modernize CRA regulations.[1] The proposed rule—as published in the *Federal Register* on January 9, 2020[2]—would apply to all national banks, state banks that are not members of the Federal Reserve System, and federal and state savings associations. The banks regulated by the OCC and FDIC conduct upwards of 85 percent of all CRA activity in the country. The OCC worked closely with the Federal Reserve and FDIC for months leading up to the proposal and the proposal incorporates ideas from all three agencies. However, the Federal Reserve opted not to join this notice of proposed rulemaking.

As staff have worked to develop a proposed rule in accordance with the Administrative Procedures Act, we have relied upon a large body of work conducted over nearly a decade that has identified opportunities to improve CRA regulations. The team considered hearings

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[1] See https://occ.gov/news-issuances/news-releases/2019/nr-ia-2019-147.html.
[2] See https://www.federalregister.gov/documents/2020/01/09/2019-27940/community-reinvestment-act-regulations.

conducted by the three federal banking agencies in 2010,[3] recommendations that the agencies reported to Congress in 2017[4] following a three-year review of regulations as well as recommendations published by Treasury[5] and feedback gathered by the Federal Reserve.[6]

Development of the proposal also was informed by approximately 1,500 comments responding to the OCC's Advanced Notice of Proposed Rulemaking (ANPR) published in August 2018[7] and extensive outreach conducted by the agency over the last 18 months. The interagency rulemaking process for CRA provides extensive and ample opportunity for all stakeholders to learn about the proposal, provide comments, voice their concerns, and have their interests heard. Our outreach has included meetings and conversations with thousands of stakeholders of all kinds, including community advocates and civil rights organizations, and

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[3] "CRA Public Hearings Held Summer 2010." The Federal Financial Institutions Examination Council. July-August 2010 (https://www.ffiec.gov/cra/hearings.htm).

[4] *Joint Report to Congress*. The Federal Financial Institutions Examination Council. March 2017 (https://www.ffiec.gov/pdf/2017_FFIEC_EGRPRA_Joint-Report_to_Congress.pdf).

[5] "Memorandum: Community Reinvestment Act—Findings and Recommendations." U.S. Department of the Treasury. April 3, 2018 (https://home.treasury.gov/sites/default/files/2018-04/4-3-18%20CRA%20memo.pdf)

[6] Perspectives from Main Street: Stakeholder Feedback on Modernizing the Community Reinvestment Act. Board of Governors of the Federal Reserve System. June 2019. (https://www.federalreserve.gov/publications/files/stakeholder-feedback-on-modernizing-the-community-reinvestment-act-201906.pdf).

[7] See OCC News Release 2018–87 (August 28, 2018); 83 FR 45053 (September 5, 2018). Summaries of these meetings, as well as all comments received on the ANPR, are available at Docket OCC-2018-0008 https://www.regulations.gov/docketBrowser?rpp=50&so=DESC&sb=postedDate&po=0&dct=PS&D=OCC-2018-0008.

personal visits with a range of stakeholders in Atlanta,[8] Baltimore,[9] Los Angeles, [10] New York,[11] Washington D.C.,[12] and New Mexico.[13]

The preponderance of feedback from all of those sources clearly supports modernizing the CRA rules. In fact, of the ANPR commenters who addressed the following issues (1) 94 percent stated that the current CRA framework lacks objectivity, transparency, and fairness; (2) 98 percent stated CRA is applied inconsistently; (3) 88 percent said it is hard to understand.

I am a strong supporter of the CRA and believe in its ability to revitalize communities. During my 35 years as a banker, I have personally worked to implement CRA programs alongside community members to meet their needs and drive investment and lending into areas that need it most. I have also seen opportunities to make CRA regulations work better for everyone. I believe we can make CRA regulations stronger by making four basic, but important, changes to the regulations.

First, the proposal would clarify what counts for CRA credit by articulating clear standards and requiring the agencies to publish an illustrative list of qualifying activities. Second, it would update how banks define their assessment areas by retaining areas surrounding branches

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[8] "Comptroller of the Currency Tours Atlanta Areas Where the Community Reinvestment Act Has Benefitted the Community and Where More Can Be Done." News Release 2019-88. August 9, 2019 (https://occ.gov/news-issuances/news-releases/2019/nr-occ-2019-88.html).

[9] "Comptroller of the Currency Visits Baltimore Affordable Housing Event." News Release 2019-90. August 14, 2019 (https://occ.gov/news-issuances/news-releases/2019/nr-occ-2019-90.html).

[10] "Comptroller of the Currency Visits Compton, California, to Discuss How to Increase Community Reinvestment." News release 2019-104. September 9, 2019 (https://occ.gov/news-issuances/news-releases/2019/nr-occ-2019-104.html).

[11] "Comptroller of the Currency Visits New York Neighborhoods Supported by the Community Reinvestment Act, Discusses Opportunities to Do More." News Release 2019-95. August 21, 2019 (https://occ.gov/news-issuances/news-releases/2019/nr-occ-2019-95.html).

[12] "Comptroller of the Currency Visits Areas of Washington, D.C., to Discuss Community Reinvestment Success and Opportunities." News Release 2019-93. August 19, 2019 (https://occ.gov/news-issuances/news-releases/2019/nr-occ-2019-93.html).

[13] "Comptroller of the Currency Visits New Mexico Pueblos to Discuss Community Reinvestment Act and Bank Services." News Release 2019-100. August 28, 2019 (https://occ.gov/news-issuances/news-releases/2019/nr-occ-2019-100.html).

and adding additional assessment areas where banks draw large amounts of their deposits. This would maintain the importance of branches in meeting community needs and capture banks with large scale activities outside their facility-based network. Third, the proposed rule would require examiners to evaluate CRA performance more objectively by assessing the distribution of retail lending as well as the impact of CRA activity. It would assess what portion (number of units) of a bank's retail lending is targeted to low- and moderate-income (LMI) individuals and LMI areas as well evaluate the impact of a bank's CRA-qualifying activities by comparing the dollar value of a bank's CRA-qualifying activity with its retail domestic deposits in each assessment area and at the overall bank level. Fourth, the proposal would improve the transparency and timeliness of reporting. Better reporting for banks subject to the new evaluation method would allow stakeholders and bankers to gauge CRA performance throughout the evaluation cycle, speed up regulatory decision making, and reduce the time necessary to produce Performance Evaluations at the conclusion of CRA examinations.

These changes would help achieve specific benefits and relief that stakeholders have expressed are important, such as:

- Removing uncertainty that discourages investment—Subjectivity and lack of transparency leave bankers and stakeholders guessing what qualifies for CRA credit and how much credit they will receive. This limits innovation and restricts the flow of capital to underserved areas. The proposal would fix this problem in part by adopting clear criteria, publishing an illustrative list of qualifying activities, and establishing a clear process for confirming that activities are qualifying and adding the activities to that list.

- Aligning incentives to focus on LMI borrowers—Current rules allow banks to receive credit for retail loans to wealthy borrowers in LMI areas, which can contribute to displacement and harmful gentrification. The proposal refocuses CRA credit on LMI borrowers by closing this loophole.
- Reducing CRA deserts—Current rules neglect rural needs and those of Indian country by focusing CRA evaluations on urban areas where branches are concentrated. The proposal would address this concern by clarifying that banks can receive credit outside their assessment areas and what specific activities serving rural and underserved areas would qualify for CRA credit. Requiring banks to designate additional assessment areas where they take large amounts of deposits also helps serve areas beyond the facility-based assessment areas.
- Shortening gaps between performance evaluations and publication—Today's process results in performance evaluations that can be more than 1,000 pages long and take months or years to produce. More objective measures and standardized reporting would alleviate this problem.
- Refocusing on long-term activity—Today's approach generally credits activity *initiated* within an evaluation period. The proposed rule instead would look at the sustained commitment of a bank to meet the credit needs within its communities and reward long-term investment that can help make more meaningful and lasting change.
- Supporting America's small farms and small businesses—The eligible size for loans to receive CRA credit has not been updated in 25 years. Raising the eligible

size would help create more jobs and economic opportunity and better support America's small farms and small business.

- Accommodating different bank sizes and business models—The proposal would provide an opt-in for small banks with less than $500 million in total assets to choose whether to be evaluated under existing performance standards or the revised framework based on their unique business model.

While I believe the proposal would make important strides to improve CRA regulations, it can still be improved by the thoughtful comments of stakeholders. Public comment is an important part of the rulemaking process and works best when comments are informed by the actual proposal rather than misperceptions. The following are examples of misperceptions in the public discourse that I would like to clarify.

The first and most grievous misperception is that the proposal somehow legalizes redlining and would reduce banks' accountability for serving their communities. The proposal actually would make evaluation more objective and transparent and thereby hold banks more accountable for services delivered to their communities. The OCC will continue to have authority under fair lending laws[14] and will continue to conduct regular fair lending examinations of supervised institutions under that authority, separately from CRA, to fight illegal discrimination and redlining. Nothing in modernizing CRA regulations encourages or legalizes redlining. Nothing in the proposed rule limits agency authority to examine for compliance with and enforce fair lending laws.

Another misperception involves claims that the proposal would rely on a single metric to determine a bank's CRA rating. The proposal would require examiners to consider a retail

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[14] See the Equal Credit Opportunity Act, 15 U.S.C. !691 *et seq.*, and the Fair Housing Act, 42 U.S.C. 3601 *et seq*.

lending test, virtually identical to that recently described by Federal Reserve Governor Brainard.[15] In addition, examiners would evaluate the impact of a bank's CRA activity by measuring the dollar value of that activity in each assessment area and at the overall bank level. *Then*, examiners would be required to apply their judgment in considering performance context to assign a final rating. For any reasonably sized bank, that involves hundreds of measures, and for larger banks it involves thousands. The proposed rule is structured to provide a series of checks and balances against weaknesses or abuses that may occur if only one aspect of the rule were considered. For instance, focusing only on the number and distribution of retail loans, as with Governor Brainard's approach, would allow a bank to reduce the actual value of these loans made in an area as long as they were distributed in an acceptable manner. Measuring dollars as well mitigates that concern. Conversely, measuring the distribution of loans limits a bank from satisfying all of its CRA obligations with a single large check. Requiring examiners to apply their expert judgment and consider performance contexts acts as an additional check to ensure CRA performance is evaluated qualitatively as well as quantitatively.

Yet another misperception suggests that the proposal strays too far from the statute and loses its focus on low- and moderate-income people and neighborhoods. On the contrary, the list of approved activities are more true to the statute's original intent and refocuses on LMI individuals by closing harmful loopholes that exist today. The proposal would stop the CRA credit banks receive today for loans to wealthy borrowers who buy homes in LMI areas. In closing this loophole, the proposal responds to specific feedback to reduced incentives that contribute to displacement and harmful gentrification. The proposal would also end incentives for banks to buy and sell the same pool of loans over and over without adding one new dollar to

[15] See https://www.federalreserve.gov/newsevents/speech/brainard20200108a.htm.

the community as they do today. These are two important ways that the activities being considered in the proposal help refocus CRA activity on LMI people and areas.

Another misperception is the proposal eliminates the importance of branches. Instead, the proposal *maintains* the branch's central role in CRA assessment areas and provides specific credit to banks for maintaining branches in LMI areas and in other areas of need. Today, a reasonably sized bank may have dozens or even hundreds of assessment areas around its branches, deposit-taking ATMs, and headquarters. But, banks only receive a full-scope CRA exam in a fraction of those areas. A review of any midsize or large bank CRA Performance Evaluation will confirm this practice today. Under the proposal, banks would receive the same evaluation in every assessment area. That increases the importance of branches and prevents the practices that exist today that would allow banks to load up on activities where it expects full-scope examinations and neglect areas that will not be examined as closely. In addition, the proposal would provide banks specific credit for maintaining branches in LMI areas and other areas of need.

One other misperception regarding the proposal is the idea that a bank could fail in as many as half of its assessment areas and still pass. The proposal sets no such threshold. Instead, the proposal states that a bank must have at least a satisfactory in a significant portion of assessment areas to get a satisfactory at the bank level and specifically asks for input on whether that threshold should be as high as 80 percent. We look forward to comments on this issue to help us determine a threshold and will revisit this issue after considering comments.

There is another misperception suggesting the proposal creates a new incentive by giving banks CRA credit for financing athletic facilities. In actuality, banks have received credit for financing athletic facilities, including professional sport stadiums, under the current CRA framework for decades. A review of publicly accessible Performance Evaluations[16] provides ample examples. Many of the examples involve community supporting repairs to local high school and municipal facilities that serve local communities. Some involve creative projects involving multiuse facilities or facilities that provide access to schools or colleges that primarily serve minority and LMI areas. The public reaction to including that item among the list of approved activities, however, demonstrates the value of the proposal's transparency. Under the current approach, such decisions would be made inconsistently and subjectively, but the proposal provides a transparent illustrative list of examples of qualifying activities that is available for all to review. Such transparency is healthy and part of the ongoing process of maintaining a list of pre-approved activities, and I welcome comment on all of the activities on the proposed list.

Another misperception suggests regulatory chaos will ensue if the three federal banking agencies fail to move in lock step. The reality is there are many examples where agencies act independently based on the needs of the institutions they oversee and the communities served by those institutions. Furthermore, the proposal would cover insured depository institutions regulated by the OCC and the FDIC that conduct 85 percent of all CRA activity. It is important to note CRA applies to the insured depository institution and not to its holding company.

Another harmful misperception that should be corrected is that the proposed rule would result in less CRA activity. Not true at all, but that misperception has been created by a handful of groups circulating faulty research,[17] form letters,[18] and encouraging local resolutions[19] based upon these misperceptions. The faulty forecast, developed more than a year in advance of any

[16] Published Performance Evaluations for OCC-regulated banks and thrifts are available online at https://apps.occ.gov/crasearch/default.aspx.
[17] "NCRC Forecast: Weakening The Community Reinvestment Act Would Reduce Lending By Hundreds Of Billions Of Dollars." National Community Reinvestment Coalition. September 6, 2018 (https://ncrc.org/ncrc-forecast-weakening-the-community-reinvestment-act-would-reduce-lending-by-hundreds-of-billions-of-dollars/).
[18] See https://ncrc.org/treasurecra/.
[19] See https://ncrc.org/local-resolutions-one-tool-in-supporting-appropriate-cra-reform/.

actual agency proposal to amend the rules, is premised on a Philadelphia Federal Reserve Bank study published in June 2017 describing what *could* happen in Philadelphia if certain areas were made ineligible for CRA credit.[20] The proposal, however, does not eliminate eligibility of any assessment areas. In fact, the proposal would create additional assessment areas where banks would be evaluated for CRA performance.

Another concern we have heard is that banks only have a limited number of CRA dollars to spend and broadening assessment areas and increasing lending to new needy areas, such as Native American reservations and distressed areas, will water down activity in existing areas by cutting pieces of the pie smaller and distributing them more widely. This worry assumes the size of the pie remains the same. Based on my experience as a banker and conversations with many bankers, we believe proposed changes would increase the size of the pie and that bankers will be incentivized to do more because there will be greater regulatory certainty about what counts and how much an activity counts for CRA credit.

By clarifying these misperceptions, I hope stakeholders will be able to focus on what is actually in the proposal in developing their comments. We understand that reasonable people can disagree and are entirely entitled to their views. However, the OCC supports public advocacy and discourse and welcomes all comments to make the CRA stronger.

We are also sensitive to concerns expressed by the Chairwoman and colleagues regarding "astroturfing" and the potential for advocates to "stuff the ballot box" when it comes to public comments. Astroturfing can adversely affect public discourse in two ways. First, it can suggest

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[20] Lei Ding and Kyle DeMaria. A Practitioner's Summary: The Effects of the Community Reinvestment Act (CRA) on Mortgage Lending in the Philadelphia Market. Community Development Studies & Education Department, Federal Reserve Bank of Philadelphia. June 2017 (https://philadelphiafed.org/-/media/community-development/publications/discussion-papers/practitioner-summary_the_effects_of_the_community_reinvestment_act_on_mortgage_lending_in_the_philadelphia_market.pdf?la=en).

more opposition or support for particular views than actually exists. Second, it can foster misperceptions if form letters and advocacy materials repeat inaccurate information over and over. Astroturfing can come in different forms. In December 2019, we shared concerns with the Chair and Ranking Member of both this committee and the Senate Committee on Banking, Housing, and Urban Affairs regarding practices of one well-known community advocacy group publishing letters purportedly signed by hundreds of its member organizations. After personal conversations, we learned that a number of the heads of the group's most prominent members were not aware of the letter or its contents. While these techniques may result in temporary publicity, the actual impact of such practices on the rulemaking process is limited, because each comment, including those submitted anonymously, is reviewed for the merit and contents of the comment itself. Form letters are easily identified and to the extent they provide valuable insight we use that information in the rulemaking process, but the sheer volume of comments does not alone affect the outcome of the rulemaking process. Conversely, form letters that repeat inaccurate information countless times are of less value to the rulemaking process. For those reasons, we encourage each stakeholder to read the proposal for themselves and provide comments and specific suggestions on the proposed rule to make a final rule even stronger by the deadline of March 9, 2020—88 days after the proposal's initial release.

Condition of the Federal Banking System

The OCC supervises 1,200 national banks, federal savings associations, and federal branches and agencies of foreign banks (banks) operating in the United States. These banks range in size from small community banks to the largest most globally active banks. The vast majority of national banks and federal savings associations, numbering approximately 932, have less than $1 billion in assets, while more than 61 have more than $10 billion in assets. Combined, these banks hold $12.4 trillion or 68 percent of all assets of U.S. commercial banks.[21]

OCC-supervised institutions manage more than $55 trillion in assets held in custody or under fiduciary control, which amounts to 43 percent of all fiduciary and custodial assets in insured U.S. banks, savings associations, and uninsured national trust banks.[22] The federal banking system holds more than three-quarters of the credit card balances in the country, while servicing about a third of all first-lien residential mortgages. Through their products and services, most American families have at least one relationship with an OCC-regulated bank.

The condition of the federal banking system remains strong and is a source of economic opportunity for local communities and the nation as a whole. In July 2019, the current economic expansion of more than 10 years became the longest in U.S. history, which has benefited banks' overall financial performance. And banks have helped maintain that momentum. Capital and liquidity remain near historic highs. As of September 30, 2019, the overall federal banking system, including community banks with less than $1 billion in total assets, held record high levels of capital as reflected in their leverage ratios as well as their tier 1 risk-based capital ratios. Tier 1 capital ratios for the federal banking system have increased from 9.4 percent in 2008 to 13.5 percent in 2019. For the same time period, banks with less than $1 billion in total assets reported an increase in Tier 1 capital ratios from 14.3 percent to 18.5 percent. OCC-supervised banks reported healthy revenue growth with a return on equity of 12.7 percent. Net income increased 8 percent during the last year, although net interest margin was flat through the third quarter of 2019.

[21] Data current as of September 30, 2019.
[22] Data current as of September 30, 2019.

Supervision of OCC-Regulated Entities and the Risks They Face

A core part of the OCC's mission is to identify, assess, and communicate risks facing the federal banking system. The OCC closely monitors risks to the federal banking system on a continuous basis and publishes a summary of risks facing banks twice a year in our *Semiannual Risk Perspective*.[23] The most recent report published December 9, 2019, highlights the state of credit, operational, compliance, and interest rate risks.[24] The specific risks highlighted in each report evolve in the context of changing economic, technological, and bank operating developments.

Highlights from the most recent report include:

- Operational risk is elevated as banks adapt to a changing and increasingly complex operating environment. Key drivers elevating operational risk include the need to adapt and evolve current technology systems for ongoing cybersecurity threats.
- Credit risk has accumulated in many portfolios. Banks should prepare for a cyclical change while credit performance remains strong. Preparation includes maintaining robust credit control functions, particularly credit review, problem loan identification and workout, collections, and collateral management.
- Recent volatility in market rates has led to increasing levels of interest rate risk. The complexity of asset/liability management is exacerbated by the recent yield curve inversions.

[23] See https://occ.gov/publications-and-resources/publications/semiannual-risk-perspective/index-semiannual-risk-perspective.html.
[24] "OCC Highlights Key Risks for Federal Banking System." News Release 2019-145. December 9, 2019 (https://occ.gov/news-issuances/news-releases/2019/nr-occ-2019-145.html).

- The London InterBank Offered Rate (Libor) will likely cease to be an active index by the end of 2021. Accordingly, the OCC is increasing regulatory oversight of this area to evaluate bank awareness and preparedness.
- Banks face strategic risks from non-depository financial institutions, use of innovative and evolving technology, and progressive data analysis capabilities.

The report also highlights technology management as a special topic in emerging risks, along with a discussion of cybersecurity as a risk that regulators and industry should closely monitor. Malicious external and internal actors use a variety of techniques to circumvent bank cybersecurity controls, and target not only bank staff and processes, but also bank customers and third parties. While banks have generally implemented appropriate security programs, continued vigilance is necessary to adapt to evolving cyber threats. As a result, it is critical that banks implement and maintain appropriate security tools and internal controls to protect their operations and sensitive data. Specifically, we expect banks to maintain basic cybersecurity controls including effective inventory management of information technology systems, strong configuration standards, and comprehensive patch management programs. Strong authentication programs, use of data encryption, and processes to continually test and validate the effectiveness of controls will also assist banks in mitigating potential vulnerabilities and assist them in their preparedness for a cybersecurity stress event.

By being transparent about the risks that we observe facing the banking system and publishing our findings, we believe the industry and bank management are better prepared to identify and manage the specific risks that may affect their institutions.

OCC examiners will use the risks highlighted in the agency's *Semiannual Risk Perspective* to prioritize their efforts over the next six to 12 months. These risks inform specific bank-level supervisory strategies that are tailored to the specific risks and business models of each supervised institution. That supervision is informed by review of extensive bank specific confidential supervisory information and on-site work. Local expertise is augmented and supported by a nationwide network of policy experts, lawyers, economists, information technology specialists, and others.

The OCC closely monitors the number of outstanding Matters Requiring Attention (MRA) concerns as an additional indicator of bank health. The number of MRAs issued by OCC examiners fell slightly during 2019 and is at its lowest level since 2006. Banks have invested significant time and resources addressing our supervisory concerns, and the decline in outstanding MRAs represent sustained improvements in bank governance, oversight, risk management systems and controls, and operating conditions of the banks. Both MRAs and enforcement action trends are reported semiannually in the agencies *Semiannual Risk Perspective* as well.

OCC's Diversity Efforts

The fulfillment of the agency's core mission of bank supervision depends on its employment of talented staff with high levels of expertise and experience. The OCC is fully committed to maintaining a competent, highly qualified workforce and recruiting the best, diverse talent available from a variety of sources. The agency is focused on maintaining an inclusive culture and workplace environment with a diversity strategy that focuses on leadership commitment, recruitment, development, retention, work-life balance, and an engaging culture.

The OCC has had an agency-wide diversity strategy in place for more than 10 years and regularly aligns those diversity strategic goals with the agency's strategic plan.

As of September 30, 2019, the participation rate of females in the OCC's permanent workforce was 44.3 percent, and the participation rate of minorities in the OCC's workforce was 35.6 percent. The participation rates for African Americans and Asian Americans were 17.6 percent and 9.4 percent, respectively, both above the National Civilian Labor Force (NCLF) rate. The participation rate for Hispanic Americans, at 7.4 percent, is slightly below the NCLF rate. In 2019, a focused effort was launched to uncover any impediments that may exist in the career cycle of Hispanic Americans at the OCC, with the intent to make substantive recommendations to encourage their full participation at the agency.

The OCC benefits greatly from the input of its seven Employee Network Groups (ENG) that advance special emphasis programs: the Network of Asian Pacific Americans; the Coalition of African American Regulatory Employees; PRIDE (the Gay, Lesbian, Transgender, and Bisexual Employees network group); the Hispanic Organization for Leadership and Advancement; The Women's Network; Generational Crossroads; and the Veterans Employee Network. These ENGs serve as a resource for mentoring and engagement, and as a collective voice in communicating workplace concerns and providing input to management around diversity and inclusion programs and activities within the OCC. The groups hold an annual leadership forum with the Comptroller and other key agency stakeholders to align individual group objectives with agency strategic priorities pertaining to recruitment, career development, and retention.

The OCC also has a robust recruitment program to attract highly qualified candidates who reflect a cross-section of the national population, particularly for its entry-level assistant national bank examiner positions. The recruitment program features ongoing partnerships with colleges, universities, banking associations, and professional affiliations. These efforts include participating in recruitment activities at Hispanic Serving Institutions, Historically Black Colleges and Universities, as well as outreach to student organizations. The OCC also has recruited on campus at minority-serving institutions and sponsored similar activities at colleges and universities with large female student bodies (60 percent or greater). The OCC also participates annually in a wide range of meetings, conferences, and career fairs to develop relationships and gain access to a diverse student applicant pool.

We are particularly pleased that, over the last four fiscal years (2016 - 2019), the OCC, through the federal Pathways Internship Program, has hired 40 students, of whom 40 percent were females and 47.5 percent were minorities. We also have hired 37 financial interns, of whom 56.8 percent were females and 32.4 percent were minorities. Over the same time frame, the agency sponsored 97 minority interns through its National Diversity Internship Program.[25]

Last summer, the OCC partnered with the District of Columbia's Department of Employment Services to provide paid summer internships to 80 rising seniors from D.C. high schools. The internships provided these minority students exposure to a professional workplace, career-readiness training, and greater awareness of the range of potential career opportunities in the financial service industry and regulation. The program was well-received by the students and agency staff, and the District of Columbia recognized the OCC's program as its intern program of the year. The program also gained the attention of Operation HOPE, a national financial literacy organization, which will provide paid positions to some of these students this summer.

[25] The OCC's National Diversity Internship Program partners with the following organizations that focus on developing opportunities for minorities and women in the industry: the Hispanic Association of Colleges and Universities; INROADS; Wire2Net; Minority Access; and The Washington Center.

The OCC will host the program again this year. I am proud to see other federal agencies following the OCC's leadership in this area to offer similar programs that will benefit even more students in 2020. The OCC is providing guidance and assistance to the FDIC, Consumer Financial Protection Bureau, and the Federal Housing Finance Agency to launch their programs and has offered similar assistance to the Nation Credit Union Administration.

The OCC is equally committed to the inclusion of minorities, women, and minority- and women-owned businesses at all levels of the agency's business activities. Payments to minority- or women-owned businesses represented 40.9 percent of the OCC's total contractor payments in fiscal year 2019, on target with the five-year average of 40.8 percent.

Section 308 of the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) describes goals for preserving and promoting minority depository institutions. The OCC takes numerous actions to achieve these goals, as described in recent OCC testimony before the Subcommittee on Consumer Protection and Financial Institutions.[26] For example, OCC regularly hosts workshops with minority depository institutions (MDI) and larger institutions to facilitate relationship building, information sharing, and successful collaboration opportunities. OCC subject matter experts provide technical assistance to MDIs on various topics, including cybersecurity, legal, accounting, compliance, and safety and soundness issues. The OCC also hosts meetings of its MDI Advisory Committee to assess the current condition of MDIs, what regulatory steps the OCC could take to fulfill the mandate of section 308, and other issues of concern to OCC-supervised MDIs. The OCC holds bank director workshops throughout the United States that address risk governance, credit risk, compliance risk, and other important

[26] See Testimony of Beverly Cole, OCC Deputy Comptroller, Northeastern District, before the Subcommittee on Consumer Protection and Financial Institutions, Nov. 20, 2019. https://www.occ.gov/news-issuances/congressional-testimony/2019/ct-occ-2019-137-written.pdf

banking issues and encourages MDI directors to attend these workshops, waiving participation fees as an incentive. The OCC's District Community Affairs Officers consult with MDIs on community development, the CRA, and related topics, and the OCC's External Outreach and Minority Affairs staff consult with MDIs on community development financial institution certification and advise them about other federal resources that support their missions.

Incentive-Based Executive Compensation for Regulated Entities

The invitation letter also sought an update regarding incentive-based compensation policies for regulated entities under Section 956 of the Dodd-Frank Act. The OCC supports implementing Section 956 of the Dodd-Frank Act regarding incentive-based compensation for regulated entities and is committed to completing the rule as required by the law. The agency continues to work with other federal agencies to develop a joint rule as required. While that process is underway, the OCC has issued heightened standards for large banks that include provisions that address compensation. Based on our supervisory experience under existing guidelines, most banks have already adjusted their compensation practices consistent with Section 956 and in advance of a joint rule.

OCC Priorities and Objectives

Since becoming Comptroller, I have sought to strengthen the federal banking system as an engine to promote economic growth and prosperity for consumers, businesses, and communities, including low- to moderate-income (LMI) communities, across the country. My priorities have been squarely focused on ensuring that the federal banking system continues to operate in a safe, sound, and fair manner and that the OCC operates as effectively and efficiently as possible; completing the implementation of the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 (Economic Growth Act) to reduce regulatory burden for small and mid-size institutions while safeguarding the financial system and protecting consumers; modernizing the Community Reinvestment Act (CRA) to increase lending, investment, and banking services where it is needed most (discussed in detail above); encouraging small-dollar lending; and improving the efficiency and effectiveness of Bank Secrecy Act (BSA) and Anti-Money Laundering (AML) compliance.

OCC Operational Efficiencies

When I arrived at the OCC, I immediately made the agency's effectiveness and efficiency a top priority. Ensuring the OCC operates effectively and efficiently allows us to succeed in our mission, to be a responsible steward of every assessment dollar collected, and to maintain a professional and fulfilling workplace for the men and women who serve our nation by supervising the federal banking system. In fiscal year 2019, we were again able to reduce our costs while being mindful of our bottom line. We continue to be fully reserved including our projected three-year capital expenditures, without sacrificing the high-quality supervision and technical expertise that national banks and federal savings associations have come to expect.

Because of these and other efficiencies, the OCC announced in December 2019 that we reduced the assessment rates charged to supervised institutions in all fee schedules by 10 percent for the 2020 calendar year. The reduced assessments went into effect January 1, 2020, and will be reflected in semiannual assessments paid by national banks and federal savings associations. This 2020 fee reduction is in addition to the 10 percent reduction in the General Assessment Fee Schedule rates that the OCC implemented for the 2019 calendar year. The reduction in fees is expected to reduce costs to the federal banking system by $85 million in 2020. These reductions in rates help to better align the OCC's revenues with the agency's streamlined cost structure and make assessed fees more comparable to state counterparts. State bank supervision fees and assessments remain significantly less than the OCC's assessment fees because state bank supervisors share their responsibilities with the Federal Reserve (FRB) and the FDIC and are therefore subsidized by reserves maintained and insurances premiums paid to the FRB and FDIC respectively by national banks and federal savings associations.[27] Assessments collected by the OCC continue to be sufficient for the agency to succeed in our mission of ensuring that the federal banking system operates in a safe, sound, and fair manner.

Examples of operating efficiencies that have allowed the agency to reduce the fees charged to banks are savings associated with optimizing space and real estate costs, reducing contract service costs, and conducting more remote work to reduce associated travel. While reducing costs, the OCC continues to invest in the future of OCC employees and the capabilities of the agency. For example, the OCC recently completed an agency-wide computer refresh to ensure that employees have current computer operating systems to perform their duties. In fiscal year 2020, the agency funded improvements in video teleconferencing and bandwidth to improve capabilities enabling employees to perform their jobs more efficiently and maintained funding of the development of a single supervisory system to modernize the tools the agency employees use to supervise bank activities. The improved system, expected by the end of 2020, will enable examiners to spend more time focused on higher priority supervisory work, thereby enhancing the effectiveness and efficiency of the agency's primary activity—bank supervision.

Implementation of the Economic Growth Act and Other Regulations

On November 18, 2019, the OCC completed its work to implement the common sense, bipartisan reforms included in the Economic Growth Act. The Economic Growth Act related rules and other regulations we have finalized will reduce regulatory burden for small and mid-

[27] A review of 2018 state assessments by the OCC showed the median of state fees was almost half of OCC rates for banks with similar amounts of assets.

size institutions while safeguarding the financial system, protecting consumers, and encouraging economic opportunity.

The OCC had the responsibility to issue one OCC-specific regulation, in addition to several joint agency rulemakings, to fulfill the requirements of the Economic Growth Act. Finalizing nine interagency rules in about 18 months reflects a significant commitment among the agencies to swiftly implement the Act so that banks, consumers, and businesses could realize the benefits intended by the law as quickly as practical. I applaud the OCC staff members and the cooperation of staff from the other agencies who worked tirelessly to accomplish this significant task.

Thrift charter flexibility. Section 206 of the Act required the OCC to issue rules to provide flexibility to small federal savings associations to broaden their business models and elect to operate with the powers and restrictions of national banks, while adhering to the same duties and restrictions, and retain their thrift charter and governance framework. The OCC published its final rule in May 2019.[28] Since that time, nine federal savings associations have made this election.

Examination cycle. Section 210 of the Act expanded eligibility for an 18-month examination cycle, making the extended examination cycle available to more well-managed banks and thrifts that are 1- and 2-rated institutions. This change, together with parallel changes to the on-site examination cycle for U.S. branches and agencies of foreign banks, allows the agencies to better focus their supervisory resources on higher risk financial institutions that are more likely to present capital, managerial, or other supervisory issues and thus enhance safety

[28] See https://occ.gov/news-issuances/news-releases/2019/nr-occ-2019-54.html.

and soundness of the federal banking system as a whole. This regulation was completed in December 2018.[29]

Short form Call Report. Section 205 of the Act provides for reduced reporting requirements on Call Reports for the first and third quarters for institutions with less than $5 billion in total consolidated assets. This change expands the number of community institutions that can benefit from the reduced burden associated with the short form Call Report, freeing up employees and other resources to serve customers and the operational needs of the institutions. The agencies published the final rule to implement this provision in June 2019.[30]

Appraisals of residential real property. Section 103 of the Act provides a tailored exemption from the appraisal requirements for certain residential mortgage loans with a transaction value of less than $400,000 located in rural areas. This final rule was published in October 2019.[31]

Volcker Rule: Sections 203 and 204 of the Act change the statutory provisions underlying the Volcker Rule, including reducing the number of institutions subject to its requirements and easing restrictions on common names between banks and sponsored funds. These changes provide regulatory relief to institutions that do not pose the types of risks the Volcker Rule was intended to limit. The agencies published the final rule in July 2019.[32] Separately, the agencies continue to address issues related to the definition of covered funds and hope to issue a proposal on that subject soon. The FDIC and FRB have indicated they will vote on the rule on January 30, 2020.

[29] See https://occ.gov/news-issuances/news-releases/2018/nr-ia-2018-143.html.
[30] See https://occ.gov/news-issuances/news-releases/2019/nr-ia-2019-65.html.
[31] See https://occ.gov/news-issuances/news-releases/2019/nr-ia-2019-109.html.
[32] See https://occ.gov/news-issuances/news-releases/2019/nr-ia-2019-76.html.

Community bank leverage ratio. Section 201 of the Act requires the agencies to simplify capital requirements for community banks by allowing them to adopt a simple leverage ratio to measure capital adequacy. The community bank leverage ratio framework removes requirements for calculating and reporting risk-based capital ratios for a qualifying community bank that opts into the framework. The agencies estimate approximately 85 percent of community banks will qualify for this new framework, which will be available for banks to use in their March 31, 2020, Call Report. The final rule was published in November 2019.[33]

Supplementary leverage ratio for custody banks. Section 402 of the Act directs the agencies to amend the supplementary leverage ratio (SLR) to exclude certain funds of banking organizations deposited with qualifying central banks, if the banking organization predominantly engages in custody, safekeeping, and asset servicing activities. The OCC approved this interagency final rule in November 2019.[34]

High-Quality liquid assets. Section 403 of the Act requires the federal banking agencies to amend their Liquidity Coverage Ratio (LCR) rules to treat qualifying liquid and readily-marketable, investment grade municipal securities as level 2B liquid assets. The agencies published a final rule on this provision in June 2019.[35]

High volatility commercial real estate. Section 214 of the Act limits the types of acquisition, development, and construction loans that may be considered high volatility commercial real estate exposures and subject to heightened capital requirements. The OCC approved this joint final rule in November 2019 to revise the capital rule to conform to this new definition.[36]

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[33] See https://www.fdic.gov/news/board/2019/2019-09-17-notice-dis-a-fr.pdf.
[34] See https://occ.gov/news-issuances/news-releases/2019/nr-ia-2019-135.html.
[35] See https://occ.gov/news-issuances/news-releases/2019/nr-ia-2019-59.html.
[36] See https://occ.gov/news-issuances/news-releases/2019/nr-ia-2019-134.html.

Stress testing. Section 401 of the Act requires changes to certain aspects of "company-run" stress testing requirements. The Act raises the minimum asset threshold for banks covered by the company-run stress testing requirement from $10 billion to $250 billion in total consolidated assets; revises the requirement for banks to conduct stress tests annually and instead requires them to conduct stress tests periodically; and reduces the number of required stress test scenarios from three to two. The agencies issued final rules in October 2019.[37]

Tailoring capital and liquidity requirements. In November 2019, the OCC approved a joint final rule to tailor capital and liquidity requirements for banking organizations with more than $100 billion in assets to more closely match their risk profiles.[38] The final rule establishes risk-based categories for determining applicability of requirements under the regulatory capital rule, the liquidity coverage ratio rule, and the proposed net stable funding ratio rule for large U.S. banking organizations. These proposals build upon the agencies' existing practices of tailoring capital and liquidity requirements based on the size, complexity, and overall risk profile of banking organizations and are consistent with section 401 of the Economic Growth Act that raises the minimum asset threshold for application of enhanced prudential standards from $50 billion to $250 billion in total consolidated assets. Importantly, regulatory capital and liquidity requirements for U.S. global systemically important banks do not change under the tailoring proposal.

Permissible interest on transferred loans. On November 21, 2019, the OCC published a proposed rule to clarify that when a national bank or savings association sells, assigns, or otherwise transfers a loan, the interest rate permissible prior to the transfer continues to be

[37] See https://occ.gov/news-issuances/news-releases/2019/nr-occ-2019-114.html.
[38] See https://occ.gov/news-issuances/news-releases/2019/nr-occ-2019-128.html.

permissible following the transfer.[39] This proposal would expressly codify the OCC's and banking industry's longstanding and well-established legal understanding and thereby address confusion stemming from a 2015 decision from the United States Court of Appeals for the Second Circuit. In doing so, the proposal would promote safety and soundness by facilitating loan sales, which enable the orderly functioning of the secondary markets and the ability of institutions to manage their liquidity risk. Despite criticism to the contrary, the proposal has no effect on the OCC's historical opposition to rent-a-charter relationships that facilitate predatory lending. As recently as 2018, the OCC reiterated its position that it views such relationships unfavorably. The FDIC issued a similar proposed rule, which applies to state non-member banks.

Small-dollar lending

Millions of Americans rely upon short-term small-dollar credit to make ends meet. Consumers need safe, affordable choices, and banks should be part of that solution. Banks are well-suited to offer affordable short-term small-dollar installment lending options that can help consumers find a path to more mainstream financial services without trapping them in cycles of debt.

To facilitate banks offering responsible short-term small-dollar installment loans to help meet the credit needs of their customers, the OCC published a bulletin in May 2018 setting out three core principles for these products:

- All bank products should be consistent with safe and sound banking, treat customers fairly, and comply with applicable laws and regulations.
- Banks should effectively manage the risks associated with the products they offer, including credit, operational, compliance, and reputation risks.

[39] See https://occ.gov/news-issuances/news-releases/2019/nr-occ-2019-132.html.

- All credit products should be underwritten based on reasonable policies and practices, including guidelines governing the amounts borrowed, frequency of borrowing, and repayment requirements.

The agency's bulletin also highlighted reasonable policies and practices specific to short-term small-dollar installment lending. While banks initially may not have had the infrastructure to engage in such lending, banks are purchasing loans and loan pools from online lenders and are creating more liquidity for these lenders. Additionally, banks are exploring relationships with lenders offering small-dollar loans that align with the sound lending principles discussed in the bulletin. The agency's position on such alignment remains firm and is not at odds with our current rule-making efforts to establish greater regulatory certainty on the validity of interest rates on loans made by national banks and federal savings associations that are subsequently transferred to others.

Finally, over the course of the past year, the OCC has had discussions with several banks that are considering new small-dollar products. The CFPB's proposal to amend its Payday Lending Rule, issued in February 2019, could accelerate interest in small-dollar products. However, as commenters noted in response to the FDIC's November 2018 request for information, regulatory uncertainty remains. The federal banking agencies are exploring principles-based options to address this uncertainty and to encourage banks to deliver safe, fair, and less expensive short-term credit products that support the long-term financial health of their customers.

Bank Secrecy Act and Anti-Money Laundering

The BSA and AML laws and regulations exist to protect our financial system from criminals who would exploit that system for their own illegal purposes or use that system to finance terrorism. While regulators and the industry share a commitment to fighting money laundering and other illegal activities, the process for complying with current BSA/AML laws and regulations has become inefficient and costly. To address today's threats and to better use the capabilities of modern technology to protect the financial system from illicit activity, it is critical that the BSA/AML regime be updated and enhanced.

The OCC has taken a leadership role in coordinating discussions with the federal financial regulatory agencies, Treasury's Office of Financial Intelligence, and the Financial Crimes Enforcement Network (FinCEN) to identify and implement ways to improve the efficiency and effectiveness of BSA/AML regulations, supervision, and examinations, while continuing to meet the requirements of the statute and regulations, support law enforcement, and reduce BSA/AML compliance burden.

The agencies have taken several steps toward this shared goal. In October 2018, the agencies issued a joint statement that clarifies the permissibility of sharing BSA resources among banks with a community focus, less complex operations, and with lower risk profiles for money laundering or terrorist financing.[40] In December 2018, the agencies issued a joint statement as part of interagency efforts to encourage banks to consider the use of innovative technologies for achieving anti-money laundering compliance.[41] Most recently, in July 2019, the agencies issued a joint statement to clarify and explain our existing risk-focused approach to examining for BSA/AML compliance programs.[42] This statement increases transparency into the existing supervisory approach, with the aim of improving the effectiveness of our examinations and strengthening compliance among our supervised financial institutions.

[40] See https://occ.gov/news-issuances/news-releases/2018/nr-ia-2018-107.html.
[41] See https://occ.gov/news-issuances/news-releases/2018/nr-occ-2018-130.html.
[42] See https://occ.gov/news-issuances/news-releases/2019/nr-ia-2019-81.html.

The OCC also recently concluded in an interpretive letter that a bank's automated filing proposal for suspicious activity reports (SARs) involving certain structuring transactions is permissible, subject to the conditions outlined in the letter and representations made by the bank.

The OCC also supports legislative changes that would increase the impact and efficiency of BSA/AML regulation and compliance programs. The OCC generally supports changes that would reduce unnecessary industry burden and compliance costs and allow for more effective information sharing related to illicit finance. These changes also could include requiring a regular review of BSA/AML regulations to identify those that could be strengthened or refined to reduce unnecessary burden. The OCC applauds the work that has been done by the House and Senate Committees to support needed BSA/AML reforms.

In addition to our focus on improving the effectiveness and efficiency of BSA/AML regulations, supervision, and examinations, the agencies have issued a joint statement on providing financial services to customers engaged in hemp-related businesses.[43] The Agriculture Improvement Act of 2018 removed hemp as a Schedule I controlled substance. The statement provides clarity regarding the legal status of commercial growth and production of hemp and relevant requirements for banks under the BSA and its implementing regulations. In the statement, the agencies explain that when deciding to provide financial services to hemp-related businesses, banks must comply with applicable BSA regulatory requirements. However, the statement notes that because hemp is no longer a Schedule I controlled substance, banks are not required to file Suspicious Activity Reports on customers solely because the customers are engaged in the growth or cultivation of hemp in accordance with applicable laws and regulations.

Supporting Responsible Innovation

[43] See https://occ.gov/news-issuances/news-releases/2019/nr-ia-2019-141.html.

Responsible innovation enables a vibrant banking system to meet the evolving needs of consumers, businesses, and communities. It promotes economic opportunity and job creation. When done responsibly, innovation increases consumer choice, improves the delivery of products and services, enhances bank operations, and enables financial institutions—including small and rural banks—to more effectively meet the needs of their customers and communities. Moreover, responsible innovation expands services to unbanked and underbanked consumers and promotes financial inclusion.

Innovation has significantly changed how consumers engage with their financial services providers, and the OCC has several programs and activities underway to support responsible innovation.[44] The OCC supports partnerships between banks and fintech companies that are safe and sound and meet the evolving needs of consumers, businesses, and communities. The OCC's Office of Innovation conducts outreach and provides technical assistance to banks, fintechs, and other stakeholders by hosting "office hours," "listening sessions," and participating in hundreds of meetings, calls, conferences, and events.

The innovation office also works to advance awareness and training for OCC staff on emerging trends to foster a culture that is receptive to responsible innovation and develop staff competencies. In addition, staff conducts research to assess the financial services landscape to inform OCC policy and supervisory actions.

Last April, the OCC proposed a voluntary innovation pilot program to support bank testing of activities that could significantly benefit consumers, businesses, and communities, including those that promote financial inclusion. The program is designed to assist banks in those

[44] See testimony of Beth Knickerbocker, OCC Chief Innovation Officer, before the Task Force on Fintech, June 25, 2019, for the full scope of OCC's innovation activities (https://www.occ.gov/news-issuances/congressional-testimony/2019/ct-2019-70-written.pdf).

situations where regulatory or supervisory uncertainty may be a barrier to deploying a new product, service, or process, and where early regulatory involvement may promote a clearer understanding of risks and related issues. The OCC invited public comment on its pilot program and is in the process of evaluating the comments we received.

Many fintech companies such as marketplace lenders, payment processors, and custody service providers offer products and services that historically have been offered by banks. Since the early stages of our work, these companies have consistently asked the agency about options to conduct their business on a national scale and their potential to become national banks. The OCC strongly supports the dual banking system and believes that fintech companies engaged in the business of banking should have the option to conduct their businesses through a national bank charter when it makes sense for their business model and they meet the standards and criteria for becoming a national bank. Today, fintech companies may choose to consider a full-service national bank charter to engage in the full array of authorized national bank activities, including accepting deposits, or to apply for a limited purpose charter if they are engaged in a limited range of banking activities.

On December 19, 2019, the OCC filed to appeal a decision by the U.S. District Court for the Southern District of New York blocking the agency's issuance of special purpose national bank charters to businesses engaged in banking but that do not take deposits. In appealing the court's decision, the OCC is defending long standing authority granted by the National Bank Act to charter national banks, including special purpose national banks that engage in at least one of the core banking functions—paying checks or lending money or taking deposits.

America's federal banking system plays a critical role in meeting the credit needs of consumers, businesses, and communities across the country. To continue serving as a major source of strength for the economy, the federal banking system must evolve and adapt to the changing needs of the nation and the marketplace, just as it has for more than 150 years. I expect litigation challenging the OCC's authority to provide a special purpose national bank charter for fintechs will be favorably resolved ultimately so that this additional option will be available to fintechs. Regardless of the particular path that a fintech company chooses to become a national bank, all national banks face rigorous examination and high standards that include capital, liquidity, compliance, financial inclusion, and consumer protection standards.

Conclusion

While the condition of the federal banking system remains strong, we stay vigilant in monitoring economic conditions, bank activities, and emerging risks. We also are advancing several priorities to ensure that banks appropriately invest in the communities that they serve and that our regulatory requirements are properly calibrated. We welcome the Committee's support and interest in these activities.