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STATEMENT OF
MICHAEL J. HSU
ACTING COMPTROLLER OF THE CURRENCY
before the
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
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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.

Introduction

Chairman Brown, Ranking Member Toomey and members of the Committee, I am pleased to provide an update on the activities underway at the Office of the Comptroller of the Currency (OCC) to ensure that national banks and federal savings associations operate in a safe, sound, and fair manner.

In May, I was sworn in as Acting Comptroller of the Currency. It is a tremendous honor to work with the 3,500 dedicated professionals of the OCC. I appreciate the confidence Secretary Yellen has shown in me by appointing me to this important post and I look forward to building on the agency's long history and rich heritage.

I am a career public servant and a bank supervisor at my core. My experiences at the Securities and Exchange Commission, U.S. Department of the Treasury, International Monetary Fund, and the Board of Governors of the Federal Reserve System over the past 19 years have spanned periods of growth, crisis, reform, and recovery. I have seen firsthand the benefits that financial innovation and healthy competition can bring, as well as the harm that excessive risk taking, ineffective risk management, poor internal controls, and lax compliance can inflict on families and businesses, the banking system, and the economy. I am proud to have worked alongside some of the smartest and most dedicated public servants in the world to repair and restore confidence in the financial system so that consumers, businesses, and communities can save, borrow, and participate in the economy.

Promoting fairness and inclusion in banking is a fundamental part of the OCC's mission. The events of the past two years have compelled me and many others to consider whether we are achieving fairness across many aspects of society, including banking. I look forward to working with members of the committee, fellow regulators, community groups, bankers, academics, and the staff of the OCC to ensure that the banking system works for *everybody*, especially those who are vulnerable, underserved, and unbanked.

My testimony today focuses on my priorities for the OCC and the review of key regulatory standards and pending actions that I initiated upon taking office. I also include an update on my thinking about community banks.

Priorities

As Acting Comptroller, I have a responsibility to address urgent problems and issues facing the OCC and the federal banking system. I see four challenges requiring the agency's immediate

attention: (1) guarding against complacency by banks, (2) reducing inequality in banking, (3) adapting to digitalization, and (4) acting on the risks that climate change presents to the financial system.

(1) Guarding Against Complacency by Banks

I believe the banking system is at risk of becoming complacent. Despite a once-in-a-lifetime pandemic, the banking system remains healthy. Key measures of financial strength—capital and liquidity ratios—are strong. Bank capital levels are well above where they were before the Great Recession, and bank liquidity is substantially higher.

Banks are also profitable. The federal banking system in the first quarter of the year increased profits significantly, driven in large part by reserve releases. The average return on equity (ROE) was 14.2 percent; a year ago it was under 4 percent. However, I am concerned that overconfidence leading to complacency is a risk as the economy recovers. Sound risk management remains critical. The \$10 billion in losses related to Archegos, a non-bank “family office,” serve as a reminder of that.

Many large banks have ambitious growth plans, a robust merger outlook, and a “risk on” posture evident from investor calls. Many community banks face strategic planning challenges and are compelled to grow, organically or through mergers, to achieve economies of scale. When done prudently, growth can provide significant benefits to consumers, communities, investors, and the U.S. economy. When done in an unsafe, unsound, and unfair manner, however, excessive growth can cause significant damage. One of our most important tasks as bank supervisors is to identify, assess, and act before that is the case.

My experience has made me sensitive to certain signals. Capitulation is one. In a dynamic economy, there is a constantly evolving set of products, practices, and clients that banks avoid, or limit exposure to, based on their risk appetite. For instance, at the height of the pandemic, most banks avoided crypto-related activities, limited their exposures to Special Purpose Acquisition Companies (SPACs), and passed on offering buy now, pay later (BNPL) products and services.

Today, things are different. In some cases, banks have done the work necessary, developed the risk management capabilities, and put in place the appropriate resources to engage prudently with these products, practices, and clients. In other cases, because of market demand and a fear of missing out on attractive profit opportunities, some banks have set aside their initial risk management concerns and engaged in these products. Distinguishing between cases that are

appropriate and those that are not is a task for supervision (as distinct from regulation) and a critical component of guarding against complacency in the current environment.

Capital distributions are another watch point. Subsequent to the Federal Reserve's 2021 stress testing announced in June, the U.S. bank holding companies have announced share buybacks in excess of \$13.5 billion and dividends of \$11.3 billion. Additionally, these banks holding companies have announced negative provisions year to date in excess of \$20.5 billion. Some of these banks also announced reinstating prior buyback plans or other plans to further distribute capital. The optimism reflected in these moves is a positive sign but should be tempered with caution. The OCC's spring *Semiannual Risk Perspective* report shows that credit risk remains elevated for some segments. Assistance programs and federal, state, and local stimulus have suppressed past-due levels. As these programs expire, and with uncertainty from the Delta COVID variant increasing, the banking industry is at risk of assuming a "mission accomplished" moment. We are continuing to closely monitor bank actions to ensure they maintain their focus on sound credit risk management practices as well as proactively work with borrowers who are exiting forbearance. We expect banks to manage their capital prudently in light of the continued uncertainty and to prevent avoidable foreclosures by notifying borrowers of the options available to them so they can make informed decisions for their specific situations.

Complacency is not a binary state. It often starts with small tradeoffs. One example is how banks respond to earnings pressures. Despite very low funding costs from low rates, loan growth is flat to declining. The CARES Act programs had a profound impact on the business of banks, particularly mid-sized and community banks. Commercial and industrial loans, driven by PPP lending, expanded 3.1 percent in 2020. However, absent the PPP, C&I lending would have shrunk 9.1 percent. With such compressed margins, banks of all sizes may be tempted to reach for yield, operate beyond their risk appetites, or compromise their sound risk management.

Another example is IT/operational risk and cybersecurity. To manage expenses, some banks have postponed investing to update their IT systems and have deferred maintenance of existing technology, leading to increases in operational and cybersecurity risks. Recent cyber incidents have used ransomware in attacks perpetrated against organizations such as Colonial Pipeline, Steamship Authority of Massachusetts, JBS (the world's largest meatpacker), and the Washington DC Metropolitan Police Department. Additionally, software used by Managed Service Providers (MSP) was leveraged in a mass ransomware incident against over 1,000 small business

customers over the July 4th holiday weekend. The OCC has been coordinating with the Federal Reserve and FDIC to conduct cybersecurity reviews at the largest banks, and last year issued a paper on Sound Practices to Strengthen Operational Resilience¹, as well as a Notice of Proposed Rulemaking (NPR) on Computer Security Incident Notification.² The NPR is intended to ensure that the federal banking agencies have timely notice of cybersecurity incidents at banks and their service providers that have the potential to be disruptive to the operations and customers of banks. The OCC is reviewing comments on the NPR and engaging with the industry to institute best practices in this area.

Finally, the OCC has been working on an interagency basis and directly with the banks we supervise to prepare for the cessation and replacement of the London Interbank Offered Rate (LIBOR). Our efforts are focused on ensuring OCC-supervised institutions mitigate any potential disruption from the LIBOR transition. Along with the Federal Reserve and FDIC, we have instructed banks to cease creating new LIBOR-based contracts as quickly as is practicable, and no later than December 31, 2021. The OCC expects banks to demonstrate that their LIBOR replacement rates are robust and appropriate for their risk profile, nature of exposures, risk management capabilities, customer and funding needs, and operational capabilities. The agency supports the identification of the Secured Overnight Financing Rate (SOFR) as a sound replacement rate. OCC examiners will be closely evaluating the robustness of other rates that banks look to use.

Being vigilant and guarding against complacency will help ensure that the banking system remains safe, sound, and fair, and can continue to support a strong economic recovery.

(2) Reducing Inequality in Banking

Reducing inequality in banking must be a national priority. The events of the last two years have brought our history of financial inequality into sharp relief. Research by the Brookings Institute illustrates the stark economic inequality faced by communities of color. In the average U.S. metropolitan area, homes in neighborhoods where the share of the population is 50 percent Black are valued at roughly half the price of homes in neighborhoods with no Black residents,

¹ OCC News Release 2020-144. “Agencies Release Paper on Operational Resilience.” October 30, 2020 (<https://occ.gov/news-issuances/news-releases/2020/nr-ia-2020-144.html>).

² OCC News Release 2020-175. “Agencies Propose Requirement for Computer Security Incident Notification.” December 18, 2020 (<https://www.occ.gov/news-issuances/news-releases/2020/nr-ia-2020-175.html>).

suggesting that the most important source of generation wealth building has been denied this segment of the population.³

The pandemic has had a disproportionate impact on minority households and businesses and threatens to further exacerbate financial disparities. The Federal Reserve’s Survey of Household Economics and Decision making, known as SHED, provides further evidence of the historical disparities experienced by communities of color and the impact the pandemic has had on the most vulnerable within our nation. The report from that survey released in May showed the gap in financial well-being between White adults and Black and Hispanic adults grew by 4 percentage points since 2017, and more than a third of Black and Hispanic adults reported doing worse financially than prior to the pandemic.⁴ Black and Hispanic households have been more likely to lose income and have trouble making rent or mortgage payments during the pandemic,⁵ and minority-owned small businesses have been hit harder than white-owned small businesses.⁶ The recovery threatens to leave these and rural communities even further behind.⁷

Banks can play an important role in preventing this and closing the wealth gap. Historically, many low-income individuals have been treated by banks as either credits to be avoided or credits to be exploited. The OCC’s twin mission of ensuring that banks provide fair access to financial services and treat customers fairly speaks to both of these challenges. To address this problem, I have focused the agency on several priorities.

First, the OCC is working to *strengthen* regulations implementing the Community Reinvestment Act (CRA). Shortly after I took office, I initiated a review of the OCC’s May 2020

³ Andre Perry, Jonathan Rothwell, and David Harshbarger. “The Devaluation of Assets in Black Neighborhoods.” Metropolitan Policy Program at Brookings. November 2018.

⁴ “Economic Well-Being of U.S. Households in 2020.” Board of Governors of the Federal Reserve System. May 2021.

⁵ Sharon Cornelissen and Alexander Hermann. “A Triple Pandemic? The Economic Impacts of COVID-19 Disproportionately Affect Black and Hispanic Households.” Joint Center for Housing Studies. Harvard University. July 7, 2020.

⁶ André Dua, Deepa Mahajan, Ingrid Millán, and Shelley Stewart. “COVID-19’s effect on minority-owned small businesses in the United States.” McKinsey. May 27, 2020.

⁷ Emily Moss, Kriston McIntosh, Wendy Edelberg, and Kristen Broady. “The Black-white wealth gap left Black households more vulnerable.” Brookings Institute. December 8 2020 (<https://www.brookings.edu/blog/up-front/2020/12/08/the-black-white-wealth-gap-left-black-households-more-vulnerable/>).

final rule implementing the CRA. That review has concluded. Based on the disproportionate impact of the pandemic on vulnerable groups, the comments provided on the Federal Reserve’s advance notice of proposed rulemaking (ANPR), and the lessons we have learned based on the partial implementation of the 2020 rule, I decided that the best course of action was to propose rescinding the OCC’s 2020 final rule and commit to working with the Federal Reserve and FDIC to put forward a joint rulemaking that strengthens and modernizes the CRA.⁸ Our proposal to rescind the rule will include consideration of how to effect an orderly transition to a new rule. I am committed to following the Administrative Procedure Act, including seeking public comment on any changes so that all voices are heard and considered.

Second, we must prohibit predatory and discriminatory practices while promoting financial inclusion and increased access to credit for the unbanked and underbanked. Overdraft programs are a good example. This committee recently shined a light on the harms to consumers from excessive fees related to overdrafts.⁹ It is unacceptable for bank customers to get trapped in a cycle of high cost debt. I look forward to seeing greater innovations by banks for programs that can help customers navigate unexpected needs for credit.

As discussed below, the debates around the OCC’s True Lender rule, which Congress overturned under the Congressional Review Act in June, also highlight the need for greater clarity and potential action in these areas.

Third, the institutions we supervise need to be more diverse and inclusive at every level—from their board rooms to their leadership teams to their employees. Diversity of background and thought will make these institutions stronger, fairer, and more connected to their communities. Data would help. Currently, banks voluntarily report diversity data to the federal banking regulators, however less than 20 percent of banks provide such reports. Increasing participation in such reporting would provide greater visibility into the diversity of the banking industry and where progress is and isn’t being made.

⁸ OCC News Release 2021-76, “OCC Statement on Rescinding its 2020 Community Reinvestment Act Rule,” July 20, 2021 (<https://www.occ.gov/news-issuances/news-releases/2021/nr-occ-2021-76.html>) and OCC News Release 2021-77 “Interagency Statement on Community Reinvestment Act Joint Agency Action,” July 20, 2021 (<https://www.occ.gov/news-issuances/news-releases/2021/nr-ia-2021-77.html>)

⁹ See, for example, Politico, “Warren Calls for Overdraft Fee Crackdown After Blasting Dimon,” May 26, 2021 (<https://www.politico.com/news/2021/05/26/warren-overdraft-crackdown-dimon-491020>)

We also need to call out racial, gender, and other biases and push for change where needed. For instance, the OCC has been monitoring increasing concerns about racial bias in appraisals, particularly in residential lending. We are addressing this issue in several ways, including by participating in the Administration’s interagency effort to address inequity in home appraisals.

Finally, in addition to regulatory action and supervision, we have used our status as a respected and knowledgeable federal banking agency to convene leaders and inspire action toward solving long-standing problems within our financial system. Such is the goal of Project REACH.

Origin and Scope of Project REACH

Just over one year ago, in the midst of the nation’s calls for racial and economic equality, the OCC conceived and launched the “Roundtable for Economic Access and Change” (known as Project REACH).¹⁰ Project REACH brings together leaders of banking, civil rights, technology, and business organizations to identify and reduce specific barriers that prevent underserved and minority communities from full, equal, and fair participation in the nation’s economy. Project REACH convenes those with the ability to help reduce inherent and structural obstacles so underserved populations have the same opportunities to succeed and benefit from the nation’s financial system as others. The OCC has dedicated staff supporting the project.

Shortly after launch, the participants of Project REACH identified several key barriers to financial inclusion and equity for underserved populations, including lack of usable credit scores, low rates of homeownership, and poor access to capital for minority-owned and small businesses. Four national workstreams were formed to address those barriers, and each workstream has made considerable progress. At the recent one year anniversary of Project REACH, I encouraged participants to aim even higher and asked the workstream leads to devise “moonshot” goals for the next two years – goals that will motivate and inspire action and outcomes that underserved communities will be able to feel.¹¹ Each workstream is described below.

Inclusion for credit invisibles: Forty-five million Americans—disproportionately poor and minority—lack a credit score and cannot obtain mortgages, credit cards, or other lending products.

¹⁰ OCC News Release 2020-89, “OCC Announces Project REACH to Promote Greater Access to Capital and Credit for Underserved Populations,” July 10, 2020 (<https://occ.gov/news-issuances/news-releases/2020/nr-occ-2020-89.html>).

¹¹ OCC News Release 2021-75, “OCC Marks the First Anniversary of Project REACH,” July 15, 2021, (<https://www.occ.gov/news-issuances/news-releases/2021/nr-occ-2021-75.html>)

Yet many people in this segment demonstrate financial responsibility through payment of rent, utilities, and other recurring financial obligations. Project REACH participants are evaluating models that use alternative data sources, including rent payments, utility bill payments, and other direct debit authorizations to demonstrate on-time payment history and boost the measurable creditworthiness of many Americans. Some of the banks engaged in this workstream are working with technology firms to develop a pilot program that would evaluate data and boost the creditworthiness of gig economy workers. These can help tear down a major barrier to economic access for millions of consumers and minority entrepreneurs, who currently rely on their personal credit to secure business loans. Today, some large banks are in the process of issuing credit cards and other consumer lending products to individuals with no credit score. Other progress in this area has been reported in the press regarding a collaborative effort to test the use of alternative data and underwriting to provide broader responsible access to credit for previously underserved people.¹² This could potentially provide millions of customers with a path to joining the financial mainstream.

Revitalization of Minority Depository Institutions (MDIs): The number of MDIs has declined over the years. The remaining MDIs are critical sources of credit and financial services in their communities, but face challenges with accessing capital, adopting new technology, and modernizing their infrastructures. Project REACH recognizes opportunities for partnerships that deliver sustained financial assistance to help MDIs remain a vibrant part of the economic landscape. The OCC has expanded relationships between larger banks and MDIs through capital investments dedicated to improving the technological infrastructure of MDIs so they can offer the same benefits to their customers like remote capture and faster electronic payment platforms.

Last fall, we developed a pledge for larger banks to support MDIs.¹³ To date, 23 banks have signed the pledge to provide dedicated technical assistance to help with talent development for MDI staff, as well as diversification of product offerings, and have committed nearly half a billion dollars in investments to MDIs. Most recently, we facilitated a meeting between the

¹² Peter Rudegeair and AnnaMaria Andriotis. “JPMorgan, Others Plan to Issue Credit Cards to People With No Credit Scores.” *Wall Street Journal*. May 13, 2021 (<https://www.wsj.com/articles/jpmorgan-others-plan-to-issue-credit-cards-to-people-with-no-credit-scores-11620898206>).

¹³ See Project REACH Pledge to Strengthen Minority Depository Institutions. OCC (<https://www.occ.gov/news-issuances/news-releases/2020/nr-occ-2020-166a.pdf>).

National Bankers Association, which represents minority financial institutions, and three of the largest service providers to mid-sized and community banks to assess how they can build better business relationships with MDIs and offer more affordable, innovative solutions to them.

Increasing homeownership and the inventory of affordable housing: Homeownership is one of the primary ways that families build wealth. Notably, since the Great Recession, the homeownership gap between Blacks and Whites has *grown* to its highest level in 50 years.¹⁴ One of the biggest barriers to homeownership for minority borrowers is that they do not have enough for a down payment. Working with civil rights and community-based groups, several participating banks have developed or expanded down payment assistance programs for minority and underserved homebuyers. These programs work in conjunction with community groups with counselors approved by the U.S. Department of Housing and Urban Development to provide consumers educational support for eligibility in these programs.

To increase the inventory of affordable housing, particularly in densely populated markets, Project REACH participants are exploring converting bank-owned housing inventories into affordable homes through low-cost transfer and renovation loans. This has included proposals to repurpose underutilized and surplus commercial real estate into mixed-use facilities that would include residential property and provide additional homebuying opportunities.

Expanding access to capital for minority-owned and small businesses: Project REACH participants also are engaged in evaluating models and strategies that facilitate loan participations and consortium lending to minority-owned and small businesses. The effort involves developing a consortium model whereby MDIs, community development financial institutions (CDFIs), and larger banks collaborate to support agricultural businesses and emerging commercial enterprises and industries in rural and native communities, such as clean energy and broadband.

To support small businesses more generally, other Project REACH participants are identifying the challenges of collateral requirements and transitioning entrepreneurs from over-utilization of consumer credit towards establishing a commercial credit profile and small business identity that meets the qualifications for small business trade lines. Participants also are currently developing a comprehensive guide for entrepreneurs to point them to the resources they need along the business development continuum.

¹⁴ Urban Institute, “Breaking Down the Black-White Homeownership Gap” Feb. 21, 2020.

Finally, a few participating Project REACH banks have created and offered virtual procurement showcases for minority-owned enterprises and entrepreneurs from underserved communities to build better business relationships and provide opportunities for growth and expansion.

While the four workstreams noted above are national in scope, the path to economic inclusion is often local. Needs differ across communities and markets. That is why we have created area-specific demonstrations of Project REACH where local stakeholders directly voice what their needs are and how to overcome their specific and unique economic barriers. Regional programs and efforts have expanded to Los Angeles, Detroit, Washington, D.C, and Dallas.

*OCC's Commitment to Diversity and Inclusion*¹⁵

As an agency, we also need to do our part to reduce inequality and improve our own diversity and inclusion. I am committed to promoting these efforts and ensuring that they remain areas of focus for my Executive Committee.

The OCC engages in comprehensive hiring, recruitment, and employee retention strategies to support efforts to enhance agency diversity. We also provide a wide range of formal and informal career development opportunities to provide our employees leadership skills, which are crucial for career development.

Additionally, the OCC has eight employee network groups,¹⁶ each of which serve as a collective voice in communicating workplace concerns and providing input to management around diversity and inclusion programs within the OCC. These have proven to be a valuable means to attract and retain employees from diverse backgrounds and create an inclusive work environment.

Such efforts have made some progress. Over the past 10 years, the OCC's total minority workforce has increased, and manager and senior-level manager positions held by minorities and women also have increased.¹⁷ While the trend is positive and strides have been made, much more

¹⁵ Testimony of OMWI Director Joyce Byrd Cofield before the House Financial Services Subcommittee on Diversity and Inclusion, September 8, 2020 for a detailed explanation of our diversity and inclusion programs (<https://www.occ.gov/news-issuances/congressional-testimony/2020/ct-occ-2020-118-written.pdf>).

¹⁶ These employee network groups are the Coalition of African-American Regulatory Employees (CARE); Generational Crossroads; HOLA; Network of Asian Pacific Americans (NAPA); PRIDE; The Women's Network (TWN); Veterans Employee Network (VEN); and the Differently Abled Workforce Network (DAWN).

¹⁷ The OCC's minority population has increased from 30 to 36 percent. Manager positions held by minority

needs to be done.

For the third consecutive year, the OCC is hosting its High School Scholars Internship Program (HSSIP) this summer, a six-week paid internship for nearly 100 minority students from public and charter high schools in the District of Columbia. This program provides an opportunity for students to explore a variety of career paths at the OCC, gain an understanding of the financial services industry, and engage in enrichment activities on financial literacy and leadership fundamentals. This year's program was expanded and now includes interns being placed at the Securities and Exchange Commission and the National Credit Union Administration. In addition to our HSSIP program, the OCC has provided minority college students paid internship opportunities for more than a decade through its National Diversity Internship Program.

(3) Adapting to Digitalization

The business of banking is changing rapidly and is driven by three related trends: (1) the mass adoption of digital technology, (2) the rise of new payments capabilities, and (3) technological innovations outside of the banking system, including in the digital asset and decentralized finance (“DeFi”) space.

For me, it is hard not to feel some déjà vu. In the 1990s and 2000s, “disintermediation” was the watchword. Securities firms and capital markets were disintermediating bank lending and the innovation focused on financial engineering (credit default swaps, collateralized debt obligations, etc.). While this led to greater efficiency in the allocation of credit from savers to borrowers, it also gave rise to a large and less regulated shadow banking system, which eventually collapsed and contributed to the Great Recession.

Today, the financial industry is again being disintermediated but in a different way. Instead of securities firms and capital markets, it is fintechs and technology platforms. Instead of lending, it is payments processing. Instead of financial engineering, it is application programming interfaces, machine learning, and distributed ledgers.

These trends cannot be stopped. They bring great promise, but also risks. Banks and the regulatory community must adapt to them.

My primary concern is that the regulatory community is taking a fragmented agency-by-

and female populations increased from 21 to 28 percent and 37 to 39 percent respectively. Senior level manager positions held by minority and female employees increased from 20 to 25 percent and 27 to 30 percent respectively.

agency approach to these trends, just as it did in the 1990s and 2000s. To the extent there is interagency coordination, it tends to be tactical, to deal with a pressing issue, such as Facebook's Libra proposal, now called Diem. The key strategic question which the regulatory community must answer collectively is: Where should we set the regulatory perimeter? To my knowledge, there is neither a shared understanding of the answer to that question nor an overarching strategy to achieve it.

At the OCC, the focus has been on encouraging responsible innovation and we created an Office of Innovation for this purpose. The agency also updated the framework for chartering national banks and trust companies and interpreted crypto custody services as part of the business of banking, actions which I have asked staff to review.

My broader concern is that some of these initiatives were not done in full coordination with all stakeholders. Nor do they appear to have been part of a broader strategy related to the regulatory perimeter. I believe addressing these tasks together should be a priority.

As a first step to increase interagency coordination, the OCC, FDIC, and Federal Reserve have established a Digital Assets Sprint Initiative (previously dubbed the "Crypto Sprint") to provide greater clarity and collaboration around digital assets, including cryptocurrencies. The initiative is comprised of a series of sprints focused on providing an active, coordinated, and timely response to questions and issues raised by rapid growth in that space. The first sprint focuses on developing a common taxonomy for digital assets and agreed upon definitions to ensure a common language and understanding of the basic terms and concepts for future discussions. The second sprint centers on understanding use cases and risks associated with cryptocurrencies and digital assets. The third sprint concentrates on potential gaps in regulation and supervision and prioritizing those gaps for additional consideration. The fourth sprint will consider the policy needs based on the work conducted during the previous sprints.

On a related note, we have been focused on stablecoins and are pleased to join the President's Working Group in evaluating their risks and developing policy recommendations. Stablecoins are important because cryptocurrency trading and DeFi rely significantly on stablecoins to function and to scale. The recent bank-like run on the Iron Finance stablecoin serves as a reminder that the stability of stablecoins cannot be taken for granted.

Finally, I would like to share my preliminary perspective on licensing and charters. Notwithstanding the strong oversight and enhanced provisions the OCC requires, I share the

concerns of those who maintain that providing charters to fintechs may convey the benefits of being part of the federal banking system without its responsibilities. I also agree with those who recognize that refusing to charter fintechs may encourage growth of another shadow banking system outside the reach of federal regulators. Put simply, denying a charter will not make the problem go away, just as granting a charter will not automatically make a fintech safe, sound, and fair. I will expect any fintechs that the OCC charters to address the financial needs of consumers and businesses in a fair and equitable manner and support the important goal of promoting the availability of credit. Recognizing the OCC's unique authority to grant charters, we must find a way to consider how fintechs and payments platforms fit into the banking system, explore the appropriate use of sandboxes to encourage responsible innovation, and coordinate with the FDIC, Federal Reserve, and the states to limit regulatory arbitrage and races to the bottom.

(4) Acting on the Risks that Climate Change Presents to the Financial System

As Secretary Yellen has noted, climate change poses an existential risk. Multiple government agencies are charged with addressing the environmental and social problems that climate change presents. Our focus at the OCC is on understanding how climate change may affect the safety and soundness of the institutions we supervise.

For banking supervisors, the issue is straightforward: banks are exposed to physical and transition risks presented by climate change. Physical risks include the increased frequency, severity, and volatility of extreme weather and long-term shifts in global weather patterns and their associated impact on the value of financial assets and borrowers' creditworthiness. Transition risks relate to adjustments to a low-carbon economy and include associated policy changes from Congress and other authorities, technology changes, and litigation.

The actions that need to be taken are less simple. Banks and supervisors are still developing methods for identifying, measuring, and managing physical and transition risks. Based on my observations, this will not be an easy or swift task.

Given this, I believe the OCC can help most if it adopts a two-pronged approach. First, we must engage with and learn from others. The OCC already participates in the Basel Committee on Banking Supervision's Task Force on Climate-Related Financial Risks. The group has taken stock of member initiatives on climate-related financial risks, cataloguing them for member organizations to benefit from one another's experience. Building on this, the OCC recently joined the Network for Greening the Financial System (NGFS), a group of central banks and supervisors

from across the globe interested in addressing climate change through the sharing of best practices and development of climate and environment-related risk management. The more perspectives and experiences we can leverage, the better.

Second, we must support the development and adoption of effective climate risk management, especially at large banks. I have asked staff to review and evaluate the current range of practices, with an eye towards identifying best practices and laggards. In addition, I recently announced the appointment of Darrin Benhart as the agency's first Climate Change Risk Officer.¹⁸ The creation of that position will significantly expand the agency's capacity to collaborate with stakeholders and to promote improvements in climate change risk management at banks. Darrin brings a wealth of supervisory, policy, and leadership experience to the role. Managing the risks of climate change will require a collective effort and Darrin will help us work with all stakeholders of the federal banking system.

The OCC is committed to collaborating with Treasury and other FSOC members, as well as market participants and international standard-setting bodies to inform our approach to the financial stability implications of climate change. As Acting Comptroller, I will work to ensure the agency is proactive in this space and acts with the sense of urgency.

Reviews

Shortly after I started as Acting Comptroller, I directed a review of key regulatory standards and matters pending before the agency. Those items include the OCC's True Lender rule, the 2020 Community Reinvestment Act (CRA) final rule as discussed above, interpretative letters and guidance regarding cryptocurrencies and digital assets, and pending licensing decisions and standards. For each topic, the review is considering a full range of internal and external views, the impact of changed circumstances, and a range of alternatives.

On June 30, President Biden signed legislation to repeal the OCC's True Lender rule under the Congressional Review Act. I respect the action by Congress to repeal this rule. Predatory lending has no place in the federal banking system. Indeed, promoting fairness is a critical part of the OCC's mission. I have instructed staff to gather and analyze data on bank-fintech partnerships in order to explore how we can differentiate between harmful rent-a-charter arrangements and

¹⁸ OCC News Release 2021-78, "OCC Announces Climate Change Risk Officer, Membership in the NGFS," July 27, 2021. (<https://www.occ.gov/news-issuances/news-releases/2021/nr-occ-2021-78.html>)

healthy partnerships that expand financial inclusion. That analysis will inform the development of options to protect consumers and expand financial inclusion.

I expect the review of charter applications and interpretive letters to conclude later this summer, around the same time as the Digital Assets Sprint Initiative and PWG effort on stablecoins. In the meantime, we are open to processing bank charter applications involving institutions that are engaged in traditional lending activities, that would obtain or maintain federal deposit insurance, and whose parent companies would be subject to supervision by the Federal Reserve.

Community Banks

While much of my initial focus has been on the federal banking system as a whole, I also have been spending time considering issues unique to community banks.

The OCC's community bank supervision program oversees nearly 850 community institutions with assets under \$1 billion. Community banks play a crucial role in providing consumers and small businesses with essential financial services and a source of credit that is critical to economic growth and job expansion. Community banks and their employees strengthen our communities through their active participation in the civic life of their towns.

Overseeing the safety and soundness of community banks is central to the mission of the OCC. The OCC recognizes the important roles they play, and we are committed to fostering a regulatory climate that allows well-managed community banks to grow and thrive. We recognize community banks do not pose the systemic risk to the federal banking system as larger institutions and should be regulated, supervised, and assessed accordingly.

We are particularly mindful of the burden our examination processes can have on smaller institutions. At the OCC, we are incorporating successes and lessons of the last 18 months to make community bank examinations less disruptive by leveraging technology and blending onsite and offsite work, while maintaining our high standards and quality of supervision.

We also want to level the playing field for federally chartered institutions and their unregulated and state-chartered competitors. For example, while we recognize that the Federal Reserve and FDIC absorb their costs of supervising state banks, the total assessments paid by OCC-supervised community banks generally exceed the assessments paid by their state counterparts. We are currently studying ways to further reduce community bank assessments.

For community banks, appropriate tailoring of regulations and supervision is important. I am committed to continuing to identify opportunities to tailor our supervisory expectations – for instance, with regard to climate change risk management – while maintaining the safety and soundness of our community banks.

Conclusion

I am committed to ensuring that OCC-supervised banks operate in a safe and sound manner, meet the credit needs of their communities, treat all customers fairly, and comply with laws and regulations. As we work to ensure that the federal banking system continues to serve as a source of strength to the recovering U.S. economy, we will also be focused on guarding against complacency, reducing inequality, adapting to digitalization, and acting on climate change.