Remarks by

Thomas J. Curry
Comptroller of the Currency

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Thank you. It's a pleasure to be here today in a room with so many community bankers. I've been involved in bank supervision for two and a half decades, and a lot of my work has revolved around community banks. In my early years at the Massachusetts Banking Department, I saw first hand just how important small banks and thrifts are to their communities, and I observed the same thing during my years as a member of the FDIC's Board of Directors. Today, in my current role as Comptroller of the Currency, I am seeing on a daily basis the positive impact that federally chartered community banks and thrifts have upon the towns and cities they serve.

Small banks and thrifts are the lifeblood of communities across America, and they are a key focal point for the Office of the Comptroller of the Currency. While the OCC's supervisory portfolio includes the largest financial institutions in the country – and, the world for that matter – the vast majority of our resources, including more than two-thirds of our examiners – are devoted to community bank supervision.

I know you've heard that many times before, and I'm sure some of you have wondered how an agency that has jurisdiction over so many large banks can understand the concerns and needs of smaller institutions. Well, I've been on both sides of the dual banking system, and I've spent years at agencies that had very few large institutions under their jurisdiction. Today, nearly one year into my term as Comptroller, I can tell you without question or qualification that the OCC's commitment to community banks and thrifts is rock solid.

The men and women at the OCC who examine your banks are assigned to offices around the country, located in the same communities in which you live and work. They go to the same high school football games, shop at the same grocery stores, and support the same local charities as you. They understand the local economic conditions that affect your bank, and they know the business of community banking through and through. Most of all, they care about the success of your institutions. I know there will be times when you disagree with a finding in an exam report, and I won't try to argue that we're perfect. But as I have gotten to know our supervision group better and better, I have been deeply impressed not only with their professionalism, but with their commitment to help assure the viability of community national banks and federal thrifts across our country.

And that's what I want to focus on in my time with you today: what community banks and thrifts need to do to remain strong and profitable, and what the OCC is doing to support your institutions. That support is especially important today, as we continue to work through what is clearly the most difficult economic environment of my lifetime.

In particular, I'd like to encourage those of you who are supervised by the OCC to look to your local exam team as a resource. Every community national bank or thrift has a portfolio manager, who serves as the point of contact between the bank and the OCC. The portfolio manager is typically an experienced commissioned examiner who carries a great deal of responsibility for communicating directly with your bank throughout the examination process to ensure that conclusions, analysis, and feedback are appropriately delivered and received. Through this dialogue, the portfolio manager develops an understanding of your bank's activities that guides the OCC's supervisory strategy.

We have offices in more than 60 cities across the country, and the examiners based in these offices know your local markets as well as anyone. They know your business strategy, and they can talk to you about risks and opportunities that they see. While they are locally based, they have access to a nationwide organization with all of the resources that entails, from liquidity specialists to licensing experts to legal counsel.

I hear from many of you just how knowledgeable and professional you've found our staff. You deal with them during exams, and you hear from them at least once a quarter between exams. My point here, though, is that you should seek them out regularly. I can assure you they are ready and willing to listen and to give you the benefit of their years of experience.

I'd also like to encourage you to take advantage of other resources we make available, from our workshops for bank and thrift directors to the many publications and online services we provide. Again, for those of you with federal charters, our BankNet service offers a number of applications that you'll find very helpful, including a tool for stress testing your commercial real estate portfolio and another one for comparing the performance of your institution with a peer group that you select. In addition, our economics department prepares short papers on a number of topical issues and our accounting unit publishes quarterly snapshots that cover key issues in that area.

One publication that I hope you'll check out is our Semiannual Risk Perspective, which you can find on our web site at www.occ.gov. This publication highlights a number of areas of risk that are especially important to community banks.

Another resource that is literally just off the presses is a new booklet which we've titled, *A Common Sense Approach to Community Banking*. You'll be getting copies in the next few weeks from the Assistant Deputy Comptroller who manages the local field office in your area, and some of you may already have picked up a copy at our booth in the exhibit hall.

The booklet outlines some of our thoughts about the fundamental practices that distinguish community institutions that flourish through all kinds of economic cycles from those that just get by or – worse – that ultimately cannot survive as an independent institution. It reviews a range of topics important to community bankers, and highlights in particular three time-tested concepts that all financial institutions should understand and apply to their business.

- First, accurately identify and monitor risks to the institution.
- Second, map out a vision and business plan that includes sufficient capital support.
- And third, understand how the supervisory process works and how to extract helpful information from that process. That third item, of course, harkens back to my point about reaching out to your Portfolio Manager or ADC.

Identifying, monitoring, and managing risk seems fundamental, but in practice it requires considerable experience and discipline, and some institutions are measurably better at it than others. One tool that can help you in this important area is the Risk Assessment System that we use to guide exams. It establishes a common framework to assess eight categories of risk that are present in all institutions to some extent, from credit and interest rate risk to strategic and reputation risk. As useful as it is to our examiners, it can also help you identify and manage risks in your institution, and our *Common Sense* booklet provides a detailed overview.

I won't try to run through the entire model, but I would like to share some thoughts about the way you might approach risk assessment systems or frameworks. First, no one system works for all community banks. Each institution should develop a risk assessment system tailored to its own specific needs and circumstances. You may find it very useful to start with our system. However, you will want to make adjustments based on your size and complexity of your organization and footprint. And it also should take into account your business strategy.

The *Common Sense* booklet also highlights the relationship between our Risk Assessment System and enterprise risk management. This is a subject of fundamental importance, and I'd like to spend a moment on it today. Even in community banking, products, services, and strategies are becoming more complex. That's why understanding your risks and managing them well is a business imperative, and it is critical to achieve your business strategies. I am encouraged by the industry's increased interest and commitment to strengthen risk management practices post-financial crisis.

While the OCC's Risk Assessment System tool can help you identify and monitor changes in risks across your bank's activities, enterprise risk management, or ERM, is a process that can help you manage those risks in a comprehensive and integrated manner.

I suspect that many of you are already practicing some form of ERM, even if you don’t use that term to describe it. Stated simply, enterprise risk management is an integrated approach to identifying, assessing, managing, and monitoring risk in a way that maximizes business success. It starts at the top, with the board and senior management making decisions about the institution’s business model and its appetite for risk, but it can’t be successful unless those policies filter through the bank’s culture.

A strong risk culture is proactive, and it drives the way your bank sets strategy and makes decisions. It also translates into how your management team and employees anticipate and respond to risk throughout the bank. This means that individual risks aren’t considered only within the lines of business or by function, although the board and management can and should think about them in this way. It also means that risk and risk management are considered in their totality across the bank, as well as how different risks are related and interact with one another. Ultimately, your risk culture and risk management activities should result in the board’s ability to understand material risks facing your bank and assist you in making key business and strategic decisions.

Again, these are issues that federal banks and thrifts can look to the OCC for support, and particularly to your portfolio manager. Don’t hesitate to call.

And finally, let me say that we understand how difficult it can be to keep up with all of the guidance and the various rulemakings that are being issued, particularly today in the wake of the financial crisis. The sheer volume of paper can be overwhelming even for large institutions with staff dedicated to regulatory compliance, and it is especially difficult for smaller banks and thrifts. We have tried very hard to make this process more manageable where we can. For example, the Basel III proposed rulemaking was broken into three separate issuances, in large part to make it easier for community banks to separate out the pieces that don't apply to their institutions, and we included an addendum summarizing the content of the parts that do apply to small banks and thrifts.

At the OCC, we are looking for ways to make the process even simpler by, for example, providing more summaries that can help you understand the key provisions of some of our rules and how they may apply to your institution. I'm a lawyer myself, and I know the reasons for writing rules in a careful and precise manner. But I also know that business people need information delivered in a way that can be quickly digested, and I would welcome your comments and suggestions of how we can do a better job with this in our rulemakings and issuances.

We need to do a better job on those kinds of issues so that you can continue to do your job of serving consumers, businesses, and local economies across the United States. I think the future is bright for well-managed community banks and thrifts, and the OCC stands ready to do everything we can to help assure that future.

Thank you. I'd be happy to take your questions now.