Remarks by

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Thank you.

It is a pleasure to return to my alma mater—and to be delivering the lecture instead of being lectured to. That takes nothing away from Manhattan College's very fine faculty, and particularly from the Christian Brothers I was fortunate to have as professors. I hope to prove that I absorbed one of the life lessons they taught me – never to use two words when one will do – by keeping my remarks brief.

I can begin by stating the obvious: not many young people have their hearts set on becoming bank regulators. I certainly didn't. But things have a way of working out when you have a classic liberal arts education at your back. It can take you anywhere you want to go—even if you are not sure exactly where that is.

My relationship with Manhattan was shaped by history—and not just the history I studied as a major in the department. My family's history, which made Manhattan my only choice for college, goes back 79 years. My late father, my uncle, and three of my brothers are Jaspers, and my niece Clare O'Connell graduates this year 75 years after her grandfather. All of us drew enormous benefit from the Lasallian tradition, with its emphasis on social justice and ethical conduct.

History and ethics went on to influence my life in some unexpected ways. It is my honor to have become the 30th Comptroller of the Currency at the same time that the office celebrates its 150th anniversary. I note that 1863 also marked the formal chartering of Manhattan College by the New York state legislature. So much of lasting importance came out of the Civil War era that it is easy to overlook the National Currency Act, which Abraham Lincoln signed into law in February 1863. With one stroke of his pen, Lincoln reshaped our financial system and redefined the federal government's role in its operation. He created a new kind of banking institution to serve the more mobile, dynamic economy he saw taking shape after the Civil War. The new national banks would operate under a single set of rules enforced uniformly by professionals, giving commercial banking in the United States a legitimacy and stability it had never enjoyed before.

In 1863, the OCC consisted of the Comptroller, a single deputy, and small clerical staff. Today we are nearly 4,000 strong, supervising a federal banking system with over $10 trillion in aggregate assets. The institutions we examine, regulate, and supervise range from major money center banks with trillions of dollars in assets to community banks and thrift institutions whose primary business is making loans to consumers and small businesspeople.

Lincoln's banking law, under which we still operate, was very prescriptive. But the principles woven into the law are worth mentioning. Lincoln and his collaborators understood that a bank charter conferred great power, but also great responsibility. The bank charter demanded that banks manage their risks in ways that did not compromise their solvency. It demanded that they operate in strict compliance with the law. It demanded that they serve their customers and communities in good faith. Perhaps most important of all, it held them to the highest standards of trustworthiness and integrity.

In a letter full of practical advice to bankers written in 1863, the first Comptroller of the Currency, Hugh McCulloch, reminded them to "pursue a straightforward, upright, legitimate banking business," never being "tempted by the prospect of large returns to do anything but what may be properly done" under the law. This was good advice in 1863, and it is good advice today.

Like all businesses, much has changed about banking since the days of Lincoln. Technology makes it possible to move money in seconds where it used to take days or weeks. It seems like just yesterday when we had to carry around wads of bills to conduct routine transactions and schedule a trip to the bank along with the dry cleaner most every weekend. Not that electronic banking is exactly risk-free banking, but it is certainly safer—and a lot more convenient—than the all-cash alternative.

Yet McCulloch's advice of 1863 reminds me how much about banking has not changed and should never change. It is still a business founded on confidence and character. When those qualities have gone missing, it has continued to cause no end of trouble. Throughout our Nation's economic history we have seen that when banks become unsound, the consequences ripple beyond the banks themselves. We saw this—not for the first time—during the financial crisis of 2008 – 2009. Catastrophe was only averted because the federal government acted decisively to prop up the system. But the cost was enormous, and five years later, the economy and individual households have still not finished digging themselves out of the financial crater the crisis left behind.

As for the banks, they are back on firmer financial footing. They have significantly increased their capital, reserves, and liquidity. New laws and regulations have gone into effect, holding them to higher risk management, capital, and liquidity standards. Large banks, which were at the center of the crisis, are now required to have plans in place to arrange for their own orderly dissolution under the U.S. Bankruptcy Code should their condition warrant it. If that option is unavailable or impractical, the FDIC, of which I am an ex officio board member, is authorized to do so under its statutory systemic resolution authorities.

But public confidence in the banking system has returned more slowly, and it has suffered several setbacks since the crisis began, including disclosure of the extent of bank involvement in shoddy mortgage foreclosure practices, ill-advised securities trading activities, and violations of the laws that protect the financial system from misuse by criminals and terrorists.

Coming on the heels of the financial crisis, these disclosures have erased some of the goodwill banks have been trying to rebuild. Indeed, one respected polling organization found that in 2012 the banking industry lost ground in public confidence, driving it to all-time lows. That is not what one would have hoped for in a recovering economy.

Banks obviously have a strong incentive to keep their customers satisfied. So it may strike you as odd, as it does me, that a few have allowed themselves to stray from the principles of trustworthiness and integrity that have differentiated successful banks from unsuccessful ones over many years.

Strong, credible regulation has an important role to play in restoring public faith in the industry we supervise. One of our jobs at the OCC is to set and enforce high standards, not only for financial solvency but also for the competence and integrity of its management--both operating management and boards of directors. Where we find problems, we insist that banks act forthrightly to correct those problems. When that is not enough, we have authority to impose tough penalties, and, in regard to the violations I mentioned a moment ago, we have done exactly that. The settlement of the mortgage foreclosure issue, for example, not only committed large mortgage servicers to paying $3.6 billion directly to injured borrowers - funds that are now being distributed - and over $8 billion in other indirect assistance, but also to overhauling mortgage processes and procedures so that the problem never repeats itself.

Troubled organizations are not the result of one or two bad apples who violate otherwise sound policies and practices.

Our long experience as bank supervisors suggests it is extremely difficult for isolated individuals to do material harm to a large organization where proper control systems are in place and monitored. By control systems, I'm referring to independent boards of directors capable of credibly challenging bank management when something they see or hear doesn't ring true. It means giving internal auditors the authority they need to look anywhere within the organization their professional instincts lead them to find problems needing correction.

It means having information systems that are sufficiently robust to protect confidential customer data, support the bank's own operations, and alert management to emerging problems so corrective action can be taken in a timely manner. It means that compliance functions—those dedicated to keeping a bank on track with all of its legal responsibilities—are properly resourced and supported at the highest echelons. And it means ensuring that the bank's compensation policies properly align incentives to support the bank's long term safety and soundness as well as its profits.

In 1863 Hugh McCulloch urged bankers to "pay your officers salaries as will enable them to live comfortably and respectably without stealing." I might have put it a little more delicately, but that still seems about right.

Yet at the end of the day, even a comprehensive and integrated system of internal controls is no stronger than the culture that surrounds it. That's another way of saying that banks not only have to say the right things, they have to do them. It is one of the more challenging parts of an examiner's work to draw conclusions about whether a banking organization has truly internalized Lincoln's banking principles as opposed to merely paying lip service to them.

One of the best ways to assess an organization's culture is to talk to people at various levels throughout the organization, and especially in compliance-related functions. Do they get promoted into other areas or do promotions go exclusively to personnel in business units? Where do executives with control or compliance responsibilities stand in the corporate pecking order? How much are individual performance measures linked to safety and soundness as compared to growth and profits? Are control-related functions viewed as a dead end for lesser performers or as an important part of career development for those being groomed to assume senior leadership positions? We work very closely with institutions identified as having cultural deficiencies and monitor their progress.

The good news is that the vast majority of American banks operate ethically as well as profitably. They deserve your business and your confidence. The OCC is working hard every day to make sure of it by continuing to apply the time-tested principles of sound and effective bank supervision first propounded by my office 150 years ago.