

Acting Comptroller of the Currency Michael J. Hsu
Remarks to the Woodstock Institute’s 50th Anniversary Celebration
“Ensuring the Public’s Trust in Banking and Fair Financial Access for All”
June 8, 2023

I’m deeply honored to join the Woodstock Institute’s 50th anniversary celebration.

Sylvia Scheinfeld’s vision of a conference center where participants could “debate social justice issues and plot solutions” has proven to be inspiring and enduring.¹ For five decades you’ve fought for economic justice, racial equity, and fairness for all in our financial system.

Justice, equity, and fairness are preconditions for trust. And trust lies at the core of banking. In this way, the missions of the Woodstock Institute and the OCC are complementary and intertwined.

With that in mind, I would like to focus my remarks this evening on trust and banking.

Trust and Banking

Trust can be defined as “the willingness of a party to be vulnerable to the actions of another.”² In finance, depositing one’s hard-earned money in a bank is one of the clearest acts of trust that one can imagine.³

Implicit in this definition of trust is the concept of power: The trusted party has power over the trustor. Through this lens, it is easy to see why fairness and justice are so critical to trust, and why trust is so hard to earn and so easy to lose. To ensure that banks wield that power

¹ “History,” Woodstock Institute, <https://woodstockinst.org/about/history/>.

² Mayer, Roger C., James H. Davis, and F. David Schoorman, “An Integrative Model of Organizational Trust,” *Academy of Management Review* 20, no. 3 (July 1995): 709–34, <https://doi.org/10.2307/258792>.

³ Simon Taylor makes an interesting and compelling argument that trust in financial services is undergoing significant change given the rise and impact of financial technology. “Fintech Food—the Future of Trust,” Fintech Brainfood, April 22, 2023, <https://sytaylor.substack.com/p/fintech-food-the-future-of-trust-4c4>.

responsibly and fairly takes continual effort and vigilance by banks, by regulators, and by community advocates like the Woodstock Institute.

Public trust in banks can enable a virtuous cycle between banks and the communities they serve. Customers who trust banks are more likely to use the regulated banking system rather than stashing their cash under their mattresses, relying on predatory lenders, or turning to alternatives like crypto. Banks able to attract and keep deposits can better meet the credit needs of their communities, maintain lending and profitability through economic cycles, and invest and plan for the long term. Strong banks can support strong economies and vice versa.

Conversely, low trust in banks can lead to a vicious cycle, increasing their fragility and cost of funding and reducing their capacity to meet loan demand. Research suggests that the aggregate levels of deposits at banks that endure runs do not return to pre-run levels.⁴ In addition, banks that have material fairness and compliance deficiencies may face stiff civil money penalties, restrictions on growth, and sustained reputational damage, limiting their capacities to make loans and otherwise serve their customers and the economy.

This critical role of trust in banking has implications for bank regulators. Let me turn to some things we are doing at the OCC to promote and safeguard trust.

OCC and Trust in Banking

The OCC's mission is to ensure that the federal banking system is safe, sound, *and fair*. Our mission statement puts equal emphasis on banks treating customers fairly, providing customers with fair access to financial services, and complying with laws and regulations, as it

⁴ Iyer, Rajkamal, and Manju Puri, "Understanding Bank Runs: The Importance of Depositor-Bank Relationships and Networks," *American Economic Review*, 102, no. 4 (June 2012): 1414–45, <http://www.jstor.org/stable/23245460>; Guiso, Luigi. "A Trust-driven Financial Crisis. Implications for the Future of Financial Markets." EIEF Working Paper 10/06, Einaudi Institute for Economic and Finance, Rome, Italy, March 2010. <https://www.eief.it/eief/index.php/working-papers-2010>.

does on banks operating in a financially safe and sound manner. This is intentional. Trust in banking requires all the above. As I've said on previous occasions, a banking system that is financially safe and sound but not fair and inclusive is a system at odds with trust, growth, and democracy.

At the OCC we are elevating fairness and advancing financial inclusion and fair access for *all*.⁵ Since becoming Acting Comptroller of the Currency two years ago, I've made reducing inequality one of the OCC's top priorities,⁶ and I have warned that persistent inequality can erode trust in banking.⁷

Strengthening and modernizing the Community Reinvestment Act (CRA) is critical to meeting that priority. This group understands the CRA well, so let me focus on just one point. We know that banks currently do a better job of lending in low- and moderate-income (LMI) areas located inside the boundaries of their current, branch-based CRA assessment areas. A 2022 analysis by the Urban Institute showed just how much more CRA-eligible mortgage and small business lending banks do in LMI areas inside their assessment areas, as compared with those outside their assessment areas, and how this leaves credit needs in many underbanked LMI areas unmet.⁸ We must continue to encourage banks to do a better job of offering products and services and serving all communities fairly, especially LMI communities.

⁵ Remarks of Acting Comptroller of the Currency Michael J. Hsu at the National Community Reinvestment Coalition's 2023 Just Economy Conference, "[Elevating Fairness](#)," March 30, 2023.

⁶ Statement of Michael J. Hsu, Acting Comptroller of the Currency, before the Committee on Financial Services, U.S. House of Representatives, May 19, 2021. <https://www.occ.gov/news-issuances/congressional-testimony/2021/ct-occ-2021-56-written.pdf>.

⁷ Remarks of Acting Comptroller Michael J. Hsu, "[Elevating Fairness](#)," note 4.

⁸ Goodman, Laurie, Ellen Seidman, and Jun Zhu, "Bank Lending Outside CRA Assessment Areas," Urban Institute, March 4 2022, <https://www.urban.org/research/publication/bank-lending-outside-cra-assessment-areas>.

To safeguard trust, bank products, services, and practices must also be free of discrimination and bias. In January we published a comprehensive update to the OCC's Fair Lending Booklet of the Comptroller's Handbook. The updated version provides new details on examination scenarios and strengthens our supervisory process and the fight against discrimination. We have also updated our annual process for screening mortgage lending activities to strengthen how we risk focus our fair lending examinations. This will allow us to better deploy resources and identify potential discriminatory practices.

Reforming overdrafts is also critical to maintaining trust in banking. Many individuals and households live paycheck to paycheck. In times of need, access to small dollar liquidity can be critical. Over the years, overdrafts have grown to meet that need, but at a high cost to consumers and to trust in banks. In April we issued guidance on overdraft protection programs.⁹ The guidance highlights certain practices that may present heightened risk of being unfair, deceptive, or unsafe and unsound, such as assume positive/settle negative and representment. It also describes practices that may help banks manage these risks, practices that are pro-consumer, such as low and limited fees, low-cost accounts, grace periods, and grace amounts. Limiting harms to consumers and encouraging practices that empower them can help build the public's trust in banks.

Bias in the appraisal of home values can also exacerbate and perpetuate inequality and erode trust in banks. The OCC has taken an active role on the Interagency PAVE Task Force initiative to address appraisal bias. For instance, just last week, we joined several agencies in issuing a proposed rule that would implement quality control standards for automated valuation models (AVM) used by mortgage originators and secondary market issuers in valuing real estate

⁹ OCC Bulletin 2023-12, "[Overdraft Protection Programs: Risk Management Practices](#)," April 26, 2023.

collateral securing mortgage loans. The proposed rule is designed to ensure the credibility and integrity of models used in real estate valuations.¹⁰ We are also developing and enhancing our supervisory methods for identifying discrimination in appraisals, taking steps to ensure that consumers know of their rights regarding appraisals, and supporting research that may lead to new ways to address the undervaluation of housing in communities of color caused by decades of discrimination.

Despite the critical role of trust and fairness in banking, there is a gap in research and data on the topic. Bank regulatory agencies, central banks, and academics have tended to focus on specific segments of the population or have covered trust in banks tangentially as part of broader survey efforts, such as the FDIC’s survey of unbanked and underbanked households, the CFPB’s Making Ends Meet Survey, the Federal Reserve’s Survey of Consumer Finances, University of Michigan’s Survey of Consumers, or the UK FCA’s Financial Lives Survey.¹¹

The OCC is considering designing and releasing an annual survey focused specifically on trust in banking. Earlier this week, we submitted to the Federal Register a request for information (RFI) addressing an annual consumer trust survey. The RFI would be designed to gather information and comments to inform the OCC’s development of an annual survey specifically focused on public trust in banking and bank supervision. The goal of the survey is to establish a rich set of data points and measurements capturing trends in and drivers of the consumers’ trust

¹⁰ OCC News Release 2023-51, “[Agencies Request Comment on Quality Control Standards for Automated Valuation Models Proposed Rule](#)” (June 1, 2023).

¹¹ Federal Deposit Insurance Corporation, [2021 FDIC National Survey of Unbanked and Underbanked Households](#), November 14, 2022; Consumer Financial Protection Bureau, [Making Ends Meet in 2022: Insights From the CFPB Making Ends Meet Survey](#), December 21, 2022; Board of Governors of the Federal Reserve System, [Survey of Consumer Finances](#); University of Michigan, [Surveys of Consumers – Recent Reports](#); and United Kingdom Financial Conduct Authority, [Financial Lives Survey](#).

in banking, which in turn could inform policymaking, supervision, and community advocacy priorities, as well as bank products and services.

The RFI seeks public input on the possible scope of the survey, components and drivers of trust, and ways to assess and analyze survey results over time. We value diverse stakeholder feedback and encourage you and others to respond to the RFI during the comment period, which extends into August.

There is a saying that what gets measured gets done. By conducting an annual survey on trust in banking, my hope is that banks, regulators, and community organizations will be better able to hold each other accountable for safeguarding trust in banks and the banking system.

Conclusion

As I wrap up, I'm reminded again of Sylvia Scheinfeld and her goal of creating a place to "debate social issues and plot solutions." This is something we all need to do—banks, regulators, and civil society groups—to ensure that our banking system is fair and just and trusted by all.

I want to thank the Woodstock Institute for your amazing work, which began 50 years ago, continues today, and I hope continues for decades more. Your mission of ensuring that *all* can experience economic security and prosperity remains as important today as then.

With your help, the OCC will continue our efforts to foster trust and promote a safe, sound, and fair banking system. Thank you again for inviting me to speak with you this evening.