

# Joseph M. Otting

## Comptroller of the Currency

June 22, 2018

# OCC at a Glance

- Created by Lincoln to oversee a national banking system in 1863
- Created to unite a nation through a uniform, nationwide system of banking, currency, and commerce



## OCC at a Glance

### **Mission:**

- Ensures banks operate in a safe and sound manner, provide fair access, treat customers fairly, and comply with laws and regulations.



## OCC at a Glance

- 4,000 employees
- 1,325 federal banks, thrifts & branches
- \$11.8 trillion in assets (67%)
- \$50.8 trillion in fiduciary & custody assets (42%)

# Condition of Banking

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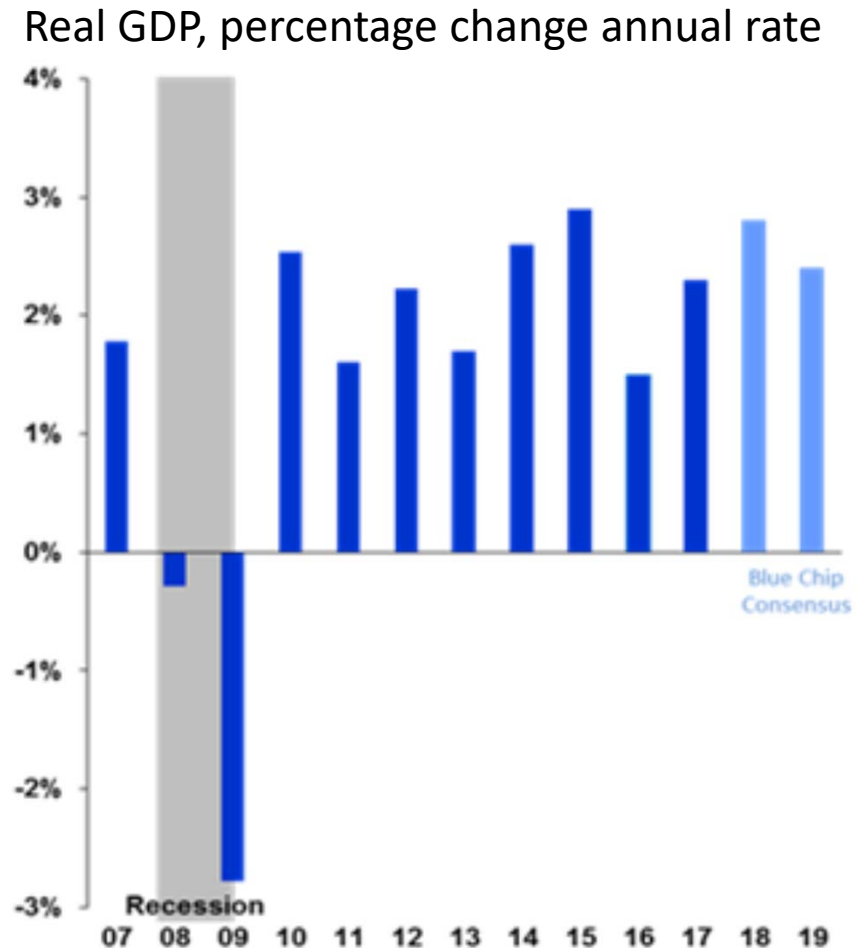
- Capital and liquidity near historic highs
- Best risk management in 30+ years
- Return on equity and asset quality approaching pre-crisis levels
- Higher regulatory costs

# Improving Conditions Through 2019

	2015	2016	2017	2018	2019
	Actuals		Estimated	Projected	
ROAA (%)	1.04	1.04	0.96	1.25	1.25
ROAE (%)	9.28	9.23	8.55	11.18	11.29
Efficiency ratio (%)	59.56	57.97	57.63	58.14	57.25
Net interest margin (%)	3.04	3.09	3.21	3.24	3.28

# Strong GDP Growth

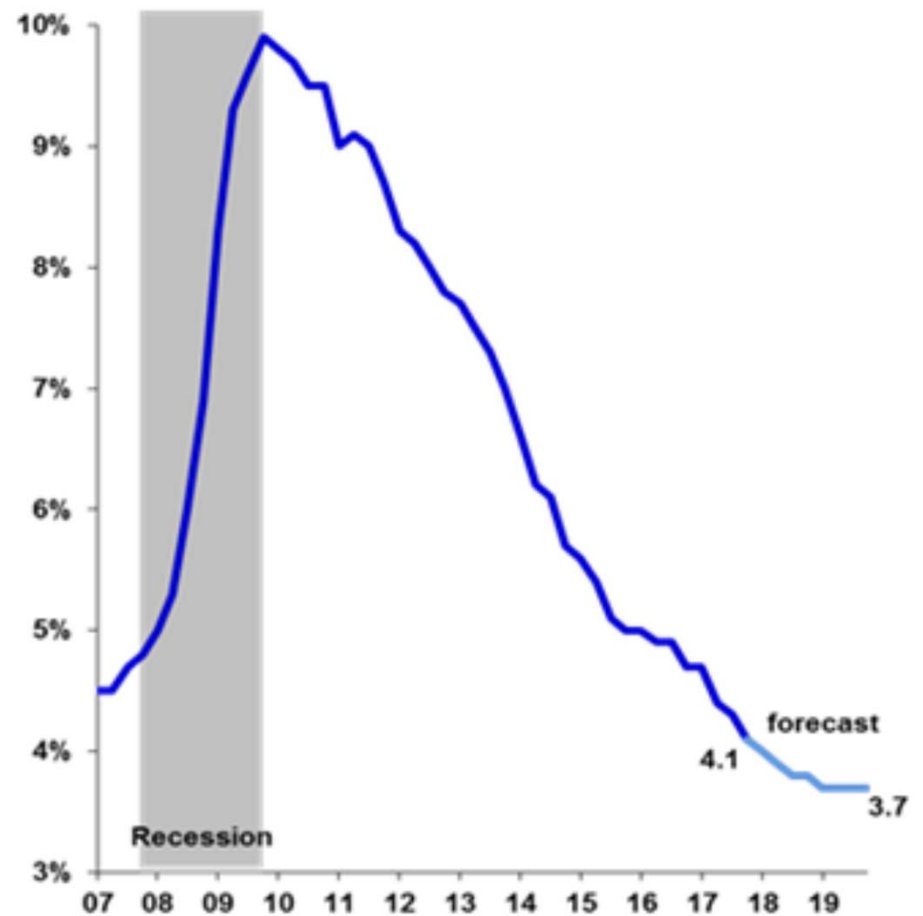
- Expansion to continue through at least 2019
- Percentage change annual rate





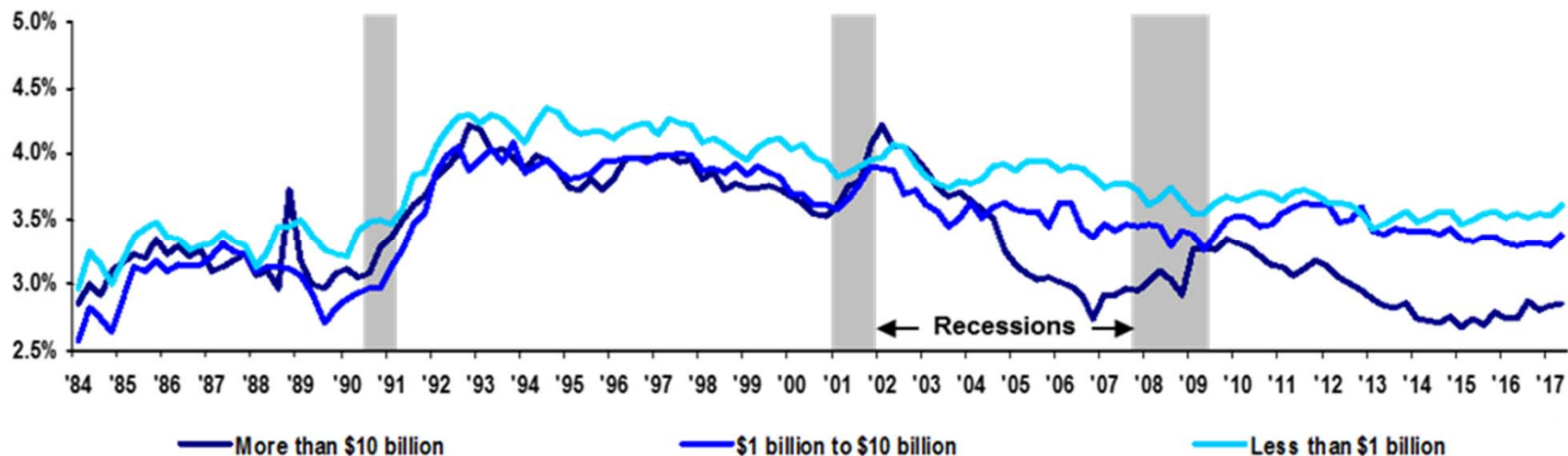
## Low Unemployment

- Near full employment
- Pick-up in wage growth of Tax Cuts and Jobs Act stimulus
- Quarterly average, percentage

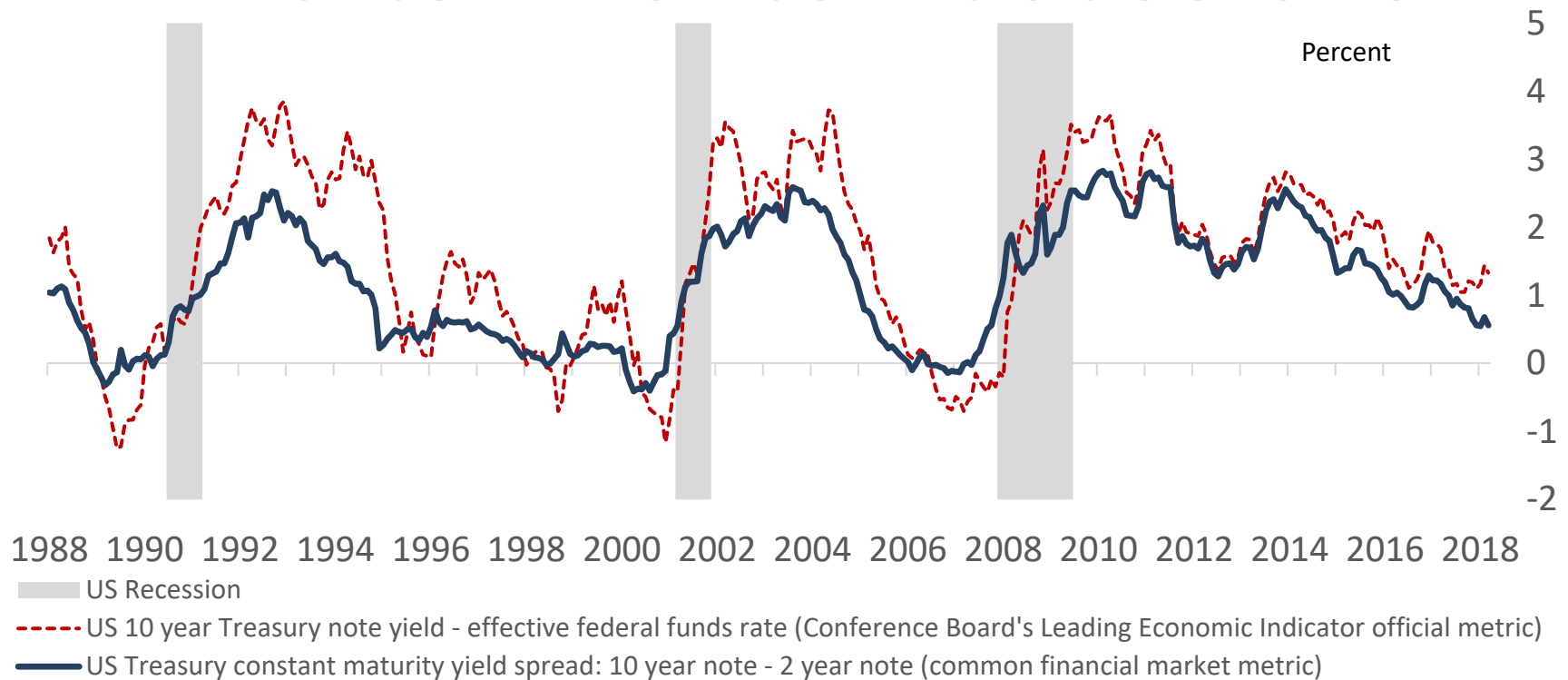


# Net Interest Margin as a Percentage of Earning Assets

- Net interest margins have increased

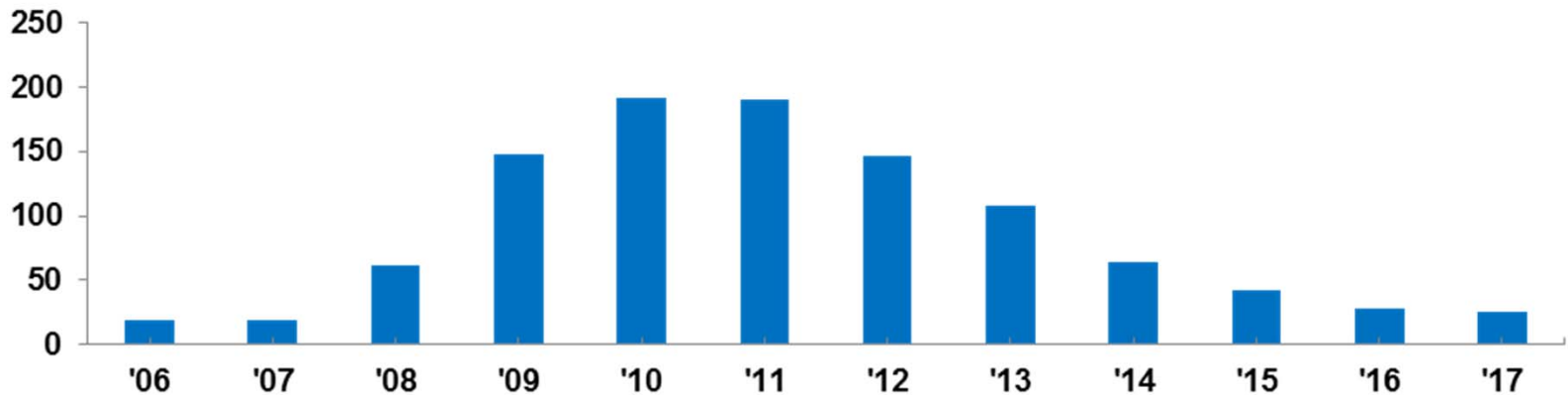


# Yield Curve Spread Typically Inverts Prior to Recessions



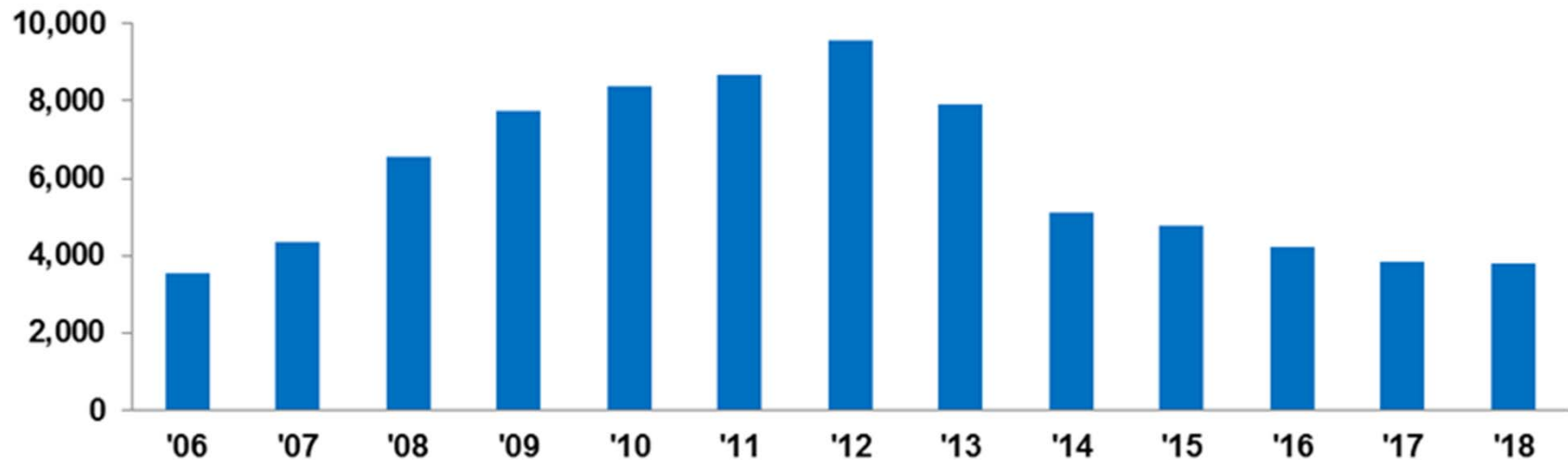
# Banks Are Better Rated

*Number of 4- or 5-rated banks near historic norm*



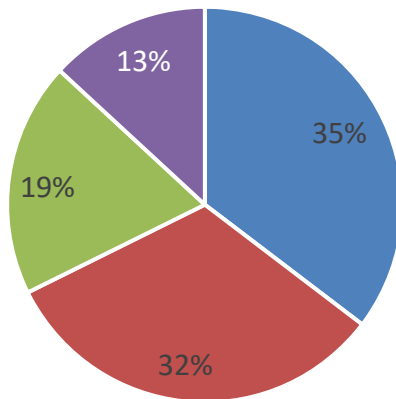
# Banks Have Fewer Issues

*Number of MRAs down*



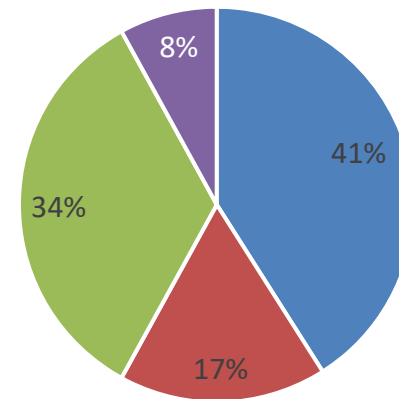
# Sources of MRAs

Community and Midsize Banks



■ Operational ■ Credit ■ Compliance ■ Other

Large Banks



■ Operational ■ Credit ■ Compliance ■ Other

# Risks Facing the Federal Banking System

# Key Risks

Credit	<ul style="list-style-type: none"><li>• Incremental easing in credit underwriting</li></ul>
Interest Rate	<ul style="list-style-type: none"><li>• Rising interest rates could erode value of long-duration and low, fixed-rate assets</li><li>• increase the cost of deposits because of competitive pressures</li></ul>
Operational	<ul style="list-style-type: none"><li>• Increasing complexity of cybersecurity threats</li><li>• Increasing concentrations in third-party services</li></ul>
Compliance	<ul style="list-style-type: none"><li>• Ongoing challenges in complying with the Bank Secrecy Act (BSA)</li><li>• Challenges in consumer compliance risk management</li></ul>





# Top Five Cybersecurity Issues

1. Phishing
2. Ransomware and extortion
3. Business e-mail compromise
4. Unpatched/out-of-date software
5. Cyberattacks via third-party risks

## Risks to Watch

- Agricultural debt and ability to service debt could be affected by additional price drops
- Current expected credit loss (CECL) in 2020 for SEC filers and 2021 for others

# Agency Priorities

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- Modernize the Community Reinvestment Act
- Encourage short-term, small-dollar lending
- Update approach to Bank Secrecy Act compliance
- Simplify regulatory capital and the Volcker Rule
- Operate effectively and efficiently
- Empower Examiners-in-Charge

Questions?