

Oral 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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Chairman Brown, Ranking Member Scott and Members of the Committee, I am pleased to appear today to offer my observations about the recent market stress, and to answer any questions you may have regarding the activities and priorities of the Office of the Comptroller of the Currency.

Since March, I have worked especially closely with my peers at the other banking agencies to maintain financial stability and confidence in the banking system. Adequate levels of capital going into the recent turmoil have helped to limit the risk of contagion. Despite the market stress, the federal banking system has remained resilient and national banks and federal savings associations have remained well positioned to serve their customers.

None of the four large banks that failed were regulated by the OCC. Notwithstanding, we are closely monitoring the conditions of the institutions we supervise and working with them to ensure that their liquidity and capital positions remain sound and that they are “on the balls of their feet” with regard to risk management. Many have taken steps to reduce risk in light of market conditions. To date, the vast majority of OCC-supervised banks have not experienced stress with regard to their depositors or business customers.

Over the past two years, I have consistently emphasized to bankers the importance of guarding against complacency and having strong risk management policies and practices in place. Most OCC-supervised banks have heeded this message and successfully navigated the rise in interest rates and changing economic outlook. OCC examiners will continue to actively monitor market conditions and engage with banks to help ensure they are prepared to meet future challenges.

Based on my perspective as Acting Comptroller and twenty years of experience as a financial regulator, I want to share some observations on steps that can be taken to restore full

confidence in the banking system.

First, supervisors need support to act in a timely and effective manner. Supervisors at the OCC and the other banking agencies play a critical role in keeping the banking system safe and sound by exercising discretion. The degree to which supervisors feel empowered to exercise that discretion impacts their will to act in a timely and forceful manner. Clear support to empower supervisors to exercise discretion and act when needed will help keep the banking system safe and sound.

Second, regulations regarding the resilience and resolvability of large banks need to be strengthened. Stronger resiliency requirements for large banks with regard to capital and liquidity would have reduced the probability of the recent bank failures. Stronger resolvability requirements would have facilitated orderly failures with less government involvement. The OCC is working closely with the Federal Reserve and FDIC to address these issues.

Third, deposit insurance coverage should be updated. The FDIC's recent report on deposit insurance is worth careful consideration, especially its conclusion regarding targeted expansion. In the meantime, we have been working with our banks, especially those with significant levels of uninsured deposits, to ensure that their cash holdings and borrowing capacity can meet depositor withdrawals. We remain committed to supervising banks so that depositors can rest assured that their money is safe.

Finally, the diversity of the banking system must be preserved as the industry evolves. The OCC has been working on updating the analytical frameworks related to the bank merger guidelines that the federal banking agencies and Department of Justice must follow when considering bank mergers. The recent turmoil has increased the urgency of these efforts. The OCC is committed to being open-minded when considering merger proposals and to acting in a timely manner on applications, consistent with the requirements of the Bank Merger Act. As the industry evolves, I believe strongly that we must preserve the diversity of the banking system, from community banks to midsize banks to regional banks.

Going forward, continued industry and regulatory vigilance is critical. Banks and supervisors must be attentive to the most salient risks today, as well as those beyond the daily

headlines. That will help ensure that the banking system remains a source of strength to the U.S. economy.

Thank you. I would be happy to answer any questions.