

Podcast with Joseph Otting, Controller of the Currency

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- Jo Ann Barefoot: [00:01](#) I am thrilled to say that my guest today is the Controller of the Currency Joseph Otting. We are so excited to have you on the show. Welcome.
- Joseph Otting: [00:10](#) Thank you very much. It's a pleasure to be here and an honor.
- Jo Ann Barefoot: [00:12](#) Well we are so honored to have you. You might recall that I myself am a former Deputy Controller of the Currency so I love to come back to the OCC. I think once you're at the OCC, always at the OCC.
- Joseph Otting: [00:25](#) Some say that once you have the tattoo, you forever have the tattoo.
- Jo Ann Barefoot: [00:29](#) That's exactly it, so true. I'm a real passionate alum of the organization and we're just thrilled to be able to talk with you today.
- Joseph Otting: [00:38](#) Thank you.
- Jo Ann Barefoot: [00:39](#) I wanted to start by asking to talk a little bit about yourself. You are unusual among controllers in that you came from a banking background. Just tell us for a few minutes about the journey that brought you here.
- Joseph Otting: [00:52](#) Well I like most people when you get out of school you perhaps don't have a clear direction where your career is going to take you. It's often subject to where you are at a point in time, what the economic conditions are and things like that. When I got out of school in 1981 and I grew up in the Midwest and the environment there as most people recall was severely depressed.
- Jo Ann Barefoot: [01:20](#) What city were you in?
- Joseph Otting: [01:21](#) They call it the Rust Belt so to speak and so most young people graduating either had to go west or go east. After exploring some options, I elected to go west to work for Bank of America. That I would say in some regards changed my life because by becoming a banker one of the great things about that was you

learn so many skills. You learn sales skills. You learn leadership skills. You learn management skills. You learn finance skills. You get to evaluate a lot of different management teams. Really, over the next 34 years of my life I got a chance to do so many things in the banking industry that also involved being directly involved in a lot of communities across America where I saw the need for communities. I saw how the CRA and things like that were able to benefit those communities.

Joseph Otting: [02:08](#)

Then once we conducted a transaction where OneWest Bank was sold to CIT Bank, I had an opportunity to go be an entrepreneurial person with some of my family assets and be actively involved in running small businesses. Then was presented the opportunity to be the Comptroller of the Currency. For me, it was the right time, right person, right background, right skills, being able to come in and look at a lot things and bring in I think somewhat of a different and unique a perspective to the agency. One that not only ... When I showed up here, no one had to teach me credit risk. They didn't have to teach me interest rate risk or compliance risk or all those things because I had done those my entire career.

Joseph Otting: [02:54](#)

I think the staff was advantaged because someone came in with pretty deep knowledge of all of those respective things. As we worked on a number of key projects and key initiatives over the last couple of years, I think having my practical experience with the strong support and regulatory depth that we have at the agency has I often say kind of a little bit like the peanut butter and chocolate when the Reese's Peanut Butter Cup came together. I think it's been healthy for them to understand the way a banker views at it and me to have a greater knowledge about the way a regulator looks at things.

Jo Ann Barefoot: [03:27](#)

Yeah, that's a good analogy. The OCC was founded in 1863 as I recall.

Joseph Otting: [03:34](#)

Yes.

Jo Ann Barefoot: [03:35](#)

I think it's the oldest of the regulators and now you're leading, taking the helm, have the helm, leading it into an era with a lot of change. Talk to us about the primary objectives that you have from your tenure in leading the OCC.

Joseph Otting: [03:51](#)

Sure. Well I think I often put it into three buckets and I think that's an easy way to explain it. The first was we really wanted the agency to operate in an efficient and effective manner. Often I think in government, people look at things by just being additive every year to the cost structure. When I came in, I took

a fresh look at the way we were doing things and one of the funny things we talk around about here is the first day I walked in there were three or four three ring binders sitting on my desk and with your OCC background you experienced this. I asked my executive assistant "What are those," and she said, "Well those are today's meeting."

Joseph Otting: [04:33](#)

I remember looking at her and saying, "Can I get those electronically?" She goes, "I don't know." I said, "Well Crystal they obviously have it because they print it." I said, "I want these electronically tomorrow." I didn't quite get them tomorrow, but the day after I did. I think very quickly we were able to move the entire agency from printing roughly three million less copies every year and everybody coming to meetings with laptops or iPads and being able to cover that information.

Joseph Otting: [05:03](#)

I think that's just a small microcosm of the way we started to look at the agency. For people to look at cost within the agency and say, "Are we getting the true value that we should from amongst the agency for the dollars that we're spending?" Since I arrived we reduced the operating cost to the agency by about \$180 million which is fairly substantial on roughly, slightly under \$1.2 billion. We did it really by just going through our vendors, our real estate, the processes, how we were organized, things that we were doing and just asking ourselves if we were starting over today would we do it the same way.

Joseph Otting: [05:42](#)

I would say the skillset that's been now developed in the OCC is one of the things I'm most proud of is I don't think people thought about that prior to my arrival. Now people will come in and be enthused and energized when they find out a way that maybe a vendor that we were using was charging us a certain amount money and they found another vendor that can do it for cheaper or even better or we've been able to combine vendors or we've been able to look at things differently. I think that's one of the key things that I think will be a takeaway from my tenure.

Joseph Otting: [06:14](#)

The second bucket I would put is the issue of rules and policies. When I got here I had a number of key things that I wanted to accomplish. One of the key one was modernization of the Community Reinvestment Act and as most people know we issued last month the MPR in written form. We're waiting for it to be published where we think there's a better way to do CRA across America.

Jo Ann Barefoot: [06:39](#) I'd like to come back and actually [crosstalk 00:06:40] on that a bit.

Joseph Otting: [06:41](#) Absolutely, spend some time on it. The second was on BSA/AML. I think financial institutions have worked very hard over the last seven or eight years to get AML/BSA up to an acceptable level. Where most institutions are in compliance with that, but now that we've spent all that time on that I think now we can step back and say, "Are we doing it the most effective way? And in what we're doing is it helping us catch the bad guys as they're coming in to the banking industry and taking advantage of it?"

Joseph Otting: [07:12](#) The third area that we've spent time on and we'll more time on is small ticket consumer lending. One of the things that I saw was in 2013 when we made it basically you had to fully underwrite a small ticket consumer lending loan, all of that business virtually left the banking industry and went to payday lenders and pawn shops and check cashers and not that they're bad people, but it forced a lot of people who could be back into the mainstream of banking and so we issued a bulletin in 2018 encouraging banks to get back in that business. I do look for something that will come out inter-agency in 2020 on this item that I think we can take a big and broad step forward in that regards.

Joseph Otting: [07:56](#) Then the third bucket that I would talk a little bit about is this really empowerment. One of the things I think that we had gotten to the point was we pulled a lot of authority from the EICs and ABCs into Washington D.C. and so we spent a lot of time looking at how do we re-empower the EICs and ABCs to feel that they are in charge of the institutions to which they supervise. I think we've gotten a lot of positive feedback that both from our people and also the banks and the boards that they feel like the engagement of the ABCs and EICs is much improved since we've taken those steps.

Jo Ann Barefoot: [08:34](#) Yeah. A theme that runs through almost all of what you've just covered is using technology better. I know the OCC has an innovation initiative. You also have an initiative on so called supotech or supervisory tech and then as you say you're thinking about your internal efficiencies. What are your thoughts on how to ... I love that you said how would we do this today if we started over, right? That's the conversation that I think is happening among regulators all over the world now. We have new technology. We have old ways of doing things.

Jo Ann Barefoot: [09:14](#) What are your thoughts on how to bring the best technology in the world into regulatory agencies like the OCC?

Joseph Otting: [09:21](#) Yeah, I think it often starts that technology doesn't solve a lot of problems. It only can make processes more effective in my mind. As an example one of our biggest initiatives in 2020 and 2021, we're moving towards a single supervisory platform in the agency. When you recall, we have a large bank supervisory program, and then we have a mid-size, and a community bank platform, and so we run really two independent platforms today. One of the key initiatives that we recognize was to gain the efficiencies and effectiveness in the agency is we needed to bring all of that into one.

Joseph Otting: [10:02](#) What that's caused us to do is it would be easy just to say, "Let's just plug in new technology," but what we've really done is we've gone back and mapped out everything we do from the time that we start talking about an exam, and how we schedule the resources, what will be the priorities of the exams, what takes place during the exam, what's the follow-up to the exam, how the actual PE is completed, are there any follow-ups from that PE, so you have a complete loop to that process.

Joseph Otting: [10:31](#) What it's allowed us to do is to go really map out and like anything you have processes and then you have customization. You have the way that people have done it, at agency you said 1863 for 50 years people have done certain things, but it's not documented. What we really have done is now put that down on paper and started looking at is where can technology play a bigger role today that it's not playing or in some instances where our current technology is actually causing the process to be less effective and then what can we do about that. Because nobody has a hey here's a supervisory system, plug it in and then it will fix for you.

Joseph Otting: [11:13](#) You're actually going to have to put different forms of technology in that process to bring that together. That's a big initiative for us in 2020 and 2021 that we actually started last year. I think it's things like that is where you use technology to enhance either knowledge or expertise or processing of information and I think people recognize that's really how we're going to be most effective in the future.

Jo Ann Barefoot: [11:41](#) Yeah. When you think about the technology that's transforming the industry itself, what are the terms that you think are most significant either for the customers and the public, financial inclusion and so on and also on the safety and soundness side.

- Joseph Otting: [11:58](#) Well I think there's two key elements to that. One is how consumers are now seeking out their buying of financial service products. If you think about it and you paralleled into the retail world, if you needed a new pair of tennis shoes you would generally go to your local store and try the shoes on and maybe you would shop multiple stores but generally what would happen is you would pick the pair of shoes out and buy that pair of shoes and bring it home. You were generally satisfied with your buying experience.
- Joseph Otting: [12:30](#) Now what happens today is most of the time people might research it on the internet. They very quickly can get five or six comparisons of that shoe to other shoe. They can quickly get five or six comparisons to the price point on that shoe and if they're prepared to do it they can hit a button and that shoe will show up the next day at their house. I think as people start to look at financial services they're doing the same thing. It is a great mechanism for them to be able to compare features, products, convenience, and how you will interact with that financial institution.
- Joseph Otting: [13:10](#) I think on the consumer side this whole way the world is going to interact with them is going to be different. I also think it's going to be, and I use an example that I did go on to look for a pair of running shoes a little over a year ago and I was looking for a certain size of shoe and a certain style of shoe. but I got busy and I got distracted but I can tell you the next five times I went on to get on the internet there were that pair of shoes and then finally they gave me a \$10 certificate and I bought the shoes on the spot. It was just they knew how to keep putting that shoe in front of me to the point where I bought it.
- Joseph Otting: [13:49](#) I think on the consumer side more choices, better information, better product comparison and better price comparison. I think also in the financial institution itself is they're learning a lot about their customers. What are their customer's patterns? How many times do they go to the branch? How many times do they come on to the system? Where are they in their life cycle for purchases because if someone is going to school and then all of the sudden a paycheck starts coming into their account there are certain things that probably that people are getting then. They're probably getting independent housing. They're probably potentially at least in our age group buying a car at that point in time.
- Joseph Otting: [14:31](#) Then there are cycles that they can normally predict, five to eight years they're probably going to be married. They're probably going to start to have children. They're going to be

start thinking about a home. If an institution can come to you ahead of time saying, "Hey if you're thinking about buying a house, we're happy to have a phone call with you to talk about what it's like to buy a home, how much home you can afford, how much down payment do you need, what your payment would look like, all those kind of things."

Joseph Otting: [15:00](#)

I think financial institutions are going to start reaching out to you and offering you the end of the rope so to speak of being able to buy your financial services versus you waking up one day and going, "Hey I've got to get a home loan, you know what I mean? Because I'm thinking about buying a home." I think those will be the two big transformational parts. I then think also in the banks what you're going to see is banks are going to use AI and other forms of data for both purchasing, but also risk management.

Joseph Otting: [15:30](#)

Today our AML/BSA relies upon a lot of systems to kick out a lot of data that often has an enormous amount of false negatives associated with it that requires a lot of resources to go through that false negative. I think if we can get to the point where we have better fine-tuned data with AI about tracking where information is and the type of activities that are occurring I think ultimately we'll have better risk management practices within the institutions as well.

Jo Ann Barefoot: [15:58](#)

Yeah, our listeners know that my organization worked this year with the Financial Conduct Authority to put on a tech sprint, a hackathon on any money laundering. People brought these new technology ideas into how to use AI to find these problems and as you say get rid of the false flags in the system that waste so much time. It's really there's just so much opportunity to do that better.

Joseph Otting: [16:23](#)

Yeah, if you think just in the SARs space that 7% of transactions hit the trip wire and then ultimately about 2% generally have SARs filed against it, that 5% is an enormous amount of resources that organizations are dedicating towards that compliance function then I'm convinced that through technology we can improve that process.

Jo Ann Barefoot: [16:49](#)

Yeah, absolutely. When you think about these trends, so I'm a great believer in all the upside opportunity in all of this that you've been talking about what should we be worrying about as we see technology changing in the industry and the way people interact with them?

- Joseph Otting: [17:07](#) I think the biggest thing that in my mind I've often said up till now the only thing that has destroyed a bank at least in my roughly 35 years of being around the industry has been credit quality. I mean most institutions can rebound from a technology blip. They can generally rebound from a reputational event, but credit quality is one of those things as we cycle through where institutions when they start to have credit problems generally if you're over concentrated in a deterring asset category very difficult to come back from.
- Joseph Otting: [17:42](#) I do think now in future we're going to have another one and I think that's cybersecurity risk. The institutions today we spend as you know based upon your regulatory background we look at security perimeters. We look at hardware. We look at software. We look at the patchwork. Just as important in today's environment is the ability for institutions to recover, win one of those events or something, but the problem with cybersecurity is we don't know when they're coming. We don't know what they're coming for. We've had instances where they've sat, penetrated and they've sat for nine to 12 months in this system gathering information and then the ability to through malware and other mechanisms to basically shut down institutions is rather frightening.
- Joseph Otting: [18:34](#) We're running as fast as we can. The industry is running as fast as it can to try to stay ahead of it, but every time there's an event I think we have great learnings from it. While we spend obviously a lot of time looking at drills and preparing ourselves, because not any one, two appear to be the same, that's part of the complexity that I think that we're going to deal with. When you say what concerns me it's clearly in the cybersecurity and can we get ahead of this to the point to not allow a major thing. Based upon our age, I would be willing to bet and I've said that you probably have somewhere between \$50 to \$200 in your billfold of cash I'm pretty close into that category, most people.
- Joseph Otting: [19:22](#) If you talk to kids between 18 and 24, there's a high probability they have zero cash.
- Jo Ann Barefoot: [19:27](#) Don't have any cash, yeah.
- Joseph Otting: [19:30](#) For the most part, they've spent their whole life being able to use their debit card or their credit card or their Apple Pay or something to conduct a purchase, but if tomorrow morning they got up and they went to Starbucks like they normally do and it didn't work and then they had to go get gas because all the young people I know it's usually on E, they can't get gas. They can't go to work and use their card for lunch. In two or

three days, it will be rather problematic for a large percentage of our population is they can't access the buying power that those vehicles provide them.

Joseph Otting: [20:05](#) We look at what happens if an institution goes down and can't fund. How would we rely upon this system to support those customers. If a major bank got shutdown, Australia opens at 8:00, Japan opens at 9:00, if a US entity couldn't fund their obligations they would be in default and we would have a rolling default across the United States. We spend a lot of time trying to understand the ramifications of that and what would we do in the event that those things occur.

Joseph Otting: [20:35](#) I would tell you we have instances where we work on and I would tell you they're very educational every time they come up. Some of the education I wish we wouldn't experience. I think each one builds upon the last one that we're better prepared for the next.

Jo Ann Barefoot: [20:49](#) Yeah, it's an enormous race isn't it?

Joseph Otting: [20:51](#) It is a bit. Well if you think about it you have people and this isn't people in your neighborhood. Bank robbers used to live ... They used to say, "Bank robbers lived with 30 miles of the branch they robbed." This is people all around the world that just use the super highway to come in and penetrate and conduct activities often that you don't even know, you know what I mean? They've been able to get into your system.

Jo Ann Barefoot: [21:16](#) Yeah. You touched on the Community Reinvestment ACT, CRA, thus you said you have just put out a proposal with the FDIC so tell us what you're doing with that.

Joseph Otting: [21:28](#) I couldn't be more excited. I mean one of the key things ... I reflect back on my banking career. One of the key things that I was able to do was to be somewhat of a community crusader in my career. When I was at US Bank, we had an outstanding CRA rating. Those don't come easy. It takes a full dedication of the organization to get behind that. Then for all our peoples across the markets of America to be actively involved in their community. I have seen the positive side of what CRA can do. I've seen people get into housing they never thought they could. I saw jobs created that changed people's lives. I've seen the good that CRA could do, but I also have seen how complicated it is, how subjective it is, how it's not well defined, what qualifies.

- Joseph Otting: [22:20](#) Our goal really had four key things. We wanted to find what qualifies. Believe it or not since 1977 when this was put in place there's never been a list that anybody could look and say here's the items that qualify. Just more importantly is if you have something you want to do and it's not on the list come talk to your regulator and let's see if we can get it pre-qualified because one of the biggest risks to a Community Reinvestment Act person is they make a recommendation. They conduct the investment or the lending and then the CRA exam a year and a half later someone says, "Well we're excluding those because they don't qualify."
- Joseph Otting: [22:56](#) What happens is people always just had a tendency to go back to the center and just do mortgages. I think by giving people what qualifies and giving them a read up front I think people will expand their horizons so to speak what qualifies. The second more important is where does it qualify. As you know, most banks pick a couple assessment areas. We're really focused on broadening the assessment areas that banks are accountable for. Then just as important the internet banks that generally have one assessment area, we're going to tell them that anywhere that you have 5% or more of your deposits, if 50% of your deposits come from outside the market that you're going to have those areas as assessment areas.
- Joseph Otting: [23:38](#) If you think about it some of the banks that are in a particular geographic area where 1% of their customers are, but 10% are in LA and 5% are in Chicago, 10% in New York they want to serve those markets, but historically they didn't get credit for CRA related activities. The third area is if I said to you, "We're going to come out and do an exam on your capital and liquidity and we'll tell you after the exam if your levels were acceptable." You would say, "That is absolutely crazy."
- Joseph Otting: [24:09](#) One of the things that we are also coming forward with is how are we going to measure you. How are we going to measure banks from the standpoint are you in compliance with CRA? We have a model that shows both units and dollars at the individual assessment area and then dollars at the top of the house. People have said, "Well that's the downside is a single metric." I often say, "Well if they have 20 individual assessment areas, in the top of the bank, every market we're measuring units and dollars well that's 40 and then the top of the bank that's dollars that's 41, which one is the single metric that you're describing?" The point being is this broad and deep, but it brings great clarity.

Joseph Otting: [24:54](#) Then the fourth area that we really want to be able to do. If I asked you today, "Tell me how much CRA activity was done in 2018 across America." You wouldn't have a clue nor does anybody else. Now we've gone through all the PEs and we've come up to that it's roughly \$480 billion on an annualized basis of CRA activity. We think there's a mechanism to be able to pool that data better and be able to report that data. We could tell you what is being done in a market and we can tell you what type of activities are being done. We can look at trend lines. There's no way for anybody to really understand the CRA data.

Joseph Otting: [25:34](#) I'm personally convinced by bringing the clarity and how people can exceed ... that we can see substantially more dollars flowing into communities across America to really help low-to-moderate income people in this country.

Jo Ann Barefoot: [25:49](#) I know that one of the things you've had in mind is specifically to get more lending to Native American communities and rural communities. CRA was started. I'll link in the show notes to this. We have a global audience, not everybody is familiar with CRA, but it's a US law I think from 1977, that requires banks and depository institutions to help serve the contingencies.

Joseph Otting: [26:15](#) Yeah it was really intended that where a bank has retail banking presence that they serve that community including low-to-moderate income. It was really intended for banks, "Hey you can't just open a bank, take deposits and make loans in] segments. You have to really look at the entire community."

Jo Ann Barefoot: [26:36](#) It started in 1977 in an era when pretty much all banking was local branch wise so now you're trying to modernize it for the more virtual.

Joseph Otting: [26:44](#) Yeah and if you think about in 1977 we didn't have internet, interstate banking. We definitely didn't have internet banking. We didn't really have phone banking, so all these other ways that people are conducting their business transaction that's why we want to modernize it. Specifically on the Indian country, one of the big challenges that Indian country has it's generally not within a bank's assessment area. There's reasons for that is because a lot of the Indian country is outside a metropolitan area and so it didn't get encapsulated into a bank's assessment area.

Joseph Otting: [27:23](#) What we're trying to do at the top of the house is allow financial institutions to get credit to be able to do things in Indian country where they have needs for things like housing and medical support and education and being able to let institutions

know that that will qualify at the top of the house from a CRA perspective. I think it will be one of the great breakthroughs that we have for CRA going forward. As you probably know we spent a fair amount of time interacting with the tribes and visiting Indian country in New Mexico and having a chance to hear what was working and what wasn't working when we were out there for a couple of day period.

- Jo Ann Barefoot: [28:04](#) Yeah, my home is in New Mexico.
- Joseph Otting: [28:07](#) Oh, it is. Okay, I didn't know that.
- Jo Ann Barefoot: [28:07](#) That's a great country, so again we'll link to your proposal in the show notes if people want to take a close look at it. You and the FDIC have gone together on this CRA proposal and we have so many areas in financial regulation where we need agency coordination, the US has a uniquely complicated regulatory system, quite a few federal agencies as well as the state agencies involved. Another thing, I noticed is a lot of developing coordination and interaction among the agencies. Talk about that. Do we need to evolve toward models with more inter-agency coordination and if so what are the secrets to getting to that or does it work fine?
- Joseph Otting: [28:58](#) I don't have the background because I showed up basically in November of 2017 to how it has worked, but I can comment on how it does work. One of the things I think I'm most proud of is between Randy Quarles and Jelena McWilliams at the FDIC we meet almost weekly either on the phone or in person. In fact, when I was meeting you in the elevator Randy, Jelena and I had a lunch. It isn't a social lunch. We really sit down, roll up our sleeves, talk about what rules or activities are underway. There is great coordination amongst the three of us. Then when we have to reach beyond that into things like where we have other areas with the CFPB or NCUA or the SEC where other agencies are involved I think there is really good coordination and dialog today about what should we take on, what our issues that are readily in need of modernization or changes.
- Joseph Otting: [30:07](#) I do think it is a very good working relationship from that standpoint with the other agencies.
- Jo Ann Barefoot: [30:13](#) We are going to have a podcast coming up with FDIC chairman Jelena McWilliams.
- Joseph Otting: [30:16](#) I heard that on Friday.

Jo Ann Barefoot: [30:17](#) I'm very excited. Yeah we're recording it tomorrow actually so that will be another great conversation. I know that something the OCC thinks a lot about is communities banks. They have a high regulatory burden, disproportionately high compared to larger institutions. A lot of them are really scrambling to keep up with technology change.

Jo Ann Barefoot: [30:41](#) What thoughts do you have on how to make sure that we have a vibrant community banking sector in terms of the parts of that the OCC can touch?

Joseph Otting: [30:52](#) Yeah, I believe that specifically rural America needs a vibrant community banking infrastructure especially as large banks are evaluating their delivery system across America. Usually the community bank is the stalwart in the local community and it's one of the reasons why under the Economic Act we were so supportive of what Senator Crapo accomplished by bringing the Economic Act that touched so many things. With Dodd-Frank no one wanted to open up the box. He was willing to open up the box, but he did it for what I would say the smaller community banks of America to lessen the regulatory burden.

Joseph Otting: [31:40](#) I think we made really great strides of looking at that and we've looked at things like capital, appraisals, just all the things, that was almost entirely dedicated to community banks. The other thing that we've done as you may have noted is we've had two years of back-to-back decreases of 10% in our assessment charges. One of the things that we've been very focused on is making sure that we're providing a high quality level of service to the community banks, but also doing it so we're doing it in a very efficient manner for them.

Joseph Otting: [32:17](#) I agree with you community banks are very important. We do spend a lot of time in the agency and offering up educational formats for community banks as you recall other than their directives, executives, legal compliance. We try to create a nucleus where they can come in and get educated about various things that are going on in that sector where maybe if you're in Maquoketa, Iowa so to speak and you don't have that infrastructure around you, you can come to the agency and gain that knowledge. Then we also produce a lot of that stuff via our website for people, so I agree with you it's a critical component.

Joseph Otting: [32:54](#) Also, those are often character loans meaning they know the family. They know the parents. They know the aunts and uncles and you can't always look at just the requirements on a piece of paper because that infrastructure around the family generally will be supportive financially.

Jo Ann Barefoot: [33:12](#) Yeah, I've spent a lot of time at community banks and I'm sure you've been in this situation too where you have a meeting and then you walk down the main street of the town with the bank president or something.

Jo Ann Barefoot: [33:23](#) Everybody knows him by name.

Joseph Otting: [33:24](#) Yeah, that's correct. Right.

Jo Ann Barefoot: [33:25](#) It's such a different environment. It's so vital to those towns. At the other end of the spectrum, we have so much potential structural change in finance. Are the big tech companies going to come in? What's going to happen with cryptocurrency? What's going to happen with Libra? Do you want to talk a little bit about where you think we're likely to go or how we should guide ourselves through navigating all that?

Joseph Otting: [33:53](#) Yeah, so personally I'm a big supporter of innovation. I think innovation is good not only in the sense of what it does for the consumer that generally it offers in more choices but it also I think is good for the industry to be challenged. People also forget that the banking industry has been incredibly innovative. I mean remember the first time in 1982 where I walked and stuck my ATM card in an ATM and it kicked out \$40.

Jo Ann Barefoot: [34:26](#) Bank of America was the first bank I think that did that.

Joseph Otting: [34:30](#) That's right. That's right. It was a Bank of America brand. I put my card in. It kicked it out. It was 6:00 at night. I thought, "Oh my God this is going to change the world." It did change the world a little bit, but not completely. It didn't knock out all of the other delivery systems.

Joseph Otting: [34:44](#) Then I also recall the first time I went on to online banking and had an opportunity to sign up to pay my bills on online banking you know what I mean and do that on a repetitive basis. Then I remember multiple banking. If you think about that, most of that was done within the banking industry. Now I think we're on a perch of where people see in the technology world lots of customers, lots of ways that they're doing things, but not often the most effective or the efficient or the most user friendly. I think that you're seeing technology first starting out when Tom Curry who I give credit for starting the innovation group here, when Tom started that in 2015 I thought it was a brilliant move to put that in a centralized area in the agency where people could use it as a utility.

- Joseph Otting: [35:36](#) A lot of technology companies thought they wanted to be banks and so they came and they talked to us. They found out capital, liquidity, compliance, risk management, policies and procedures which if you line up a lot of technology companies that's on the other end of the spectrum. I often kid and said people left skid marks leaving the building because they realized that they didn't want to be a bank, but they still recognized the potential of what's out there for those customers. Now we spend a lot of time talking to various vendors or advancement in ideas about how do I partner with a bank and what does a bank need from me or how do I navigate with the service providers to the banks today to be able to be a source into the service providers that then can be a provider into the banking industry.
- Joseph Otting: [36:28](#) I do think we're going to continue to see I think advancements in technology that will come both from the banking industry and outside the banking industry. I think if you look at the last couple of years where has been the most I think movement and it's clearly been in small ticket business and small ticket consumer lending. As an example, if you need a small business loan you go into the bank, they hand you 16 pages of applications, they want three years of tax returns, your bank statements, put all that together and 30 days later they'll tell you you're approved or not. Go online. I mean literally in about three minutes. Now you'll still have to provide all that information but you're able to put in all this information and they'll tell you you're approved subject to validating what you've put in. Where would you get your small business loan?
- Joseph Otting: [37:22](#) I think that is a new way of thinking about processes and that's why we've seen such significant growth. It's ease. It's convenience. It's certainty. I don't have to take time out of my day to go down to the local bank and get their form packet. I can immediately do it online. Now the large banks are starting to migrate into that, but if you look at some of the technology movement, now they can say a lot of the technology companies will come in and they'll say give us three pieces of information and we can tell you. Tell us where you live. Tell us what you make and give us your social security number and we'll go pull your TRW. We can tell you what your DTI and everything looks like. I think those are the revolutions that we are going to continue to see going forward.
- Jo Ann Barefoot: [38:08](#) Yeah, you touched a couple of times on the OCC's innovation group. We actually did a podcast with Tom Curry back right around the time that they launched that. The OCC was the first agency to really launch a full-fledged innovation group in the

US. What are your goals for that? What's it doing that you're excited about?

- Joseph Otting: [38:29](#) Well I think the goals there is both ... We didn't touch on it, but clearly we believe that the National Banking Charter is a great place for certain entities who want to be a bank to come in and be a part of the ability to offer nationally consumer products or small business lending. As you know we are in an arm wrestling match on that issue. We have filed an appeal to that. We ultimately feel that we will win that. We think it's unfortunate that both consumers and small businesses are being restricted from having national banks to provide those products and services.
- Joseph Otting: [39:10](#) A big part of what that group used to do is to consult those institutions that wanted to file for a charter. There's still a fair amount of dialog, but we're going to go through the process of the appeal. Where has a lot of the other activity been? It's really been on how do I partner with banks or how do I break into the service providers of banks or when someone is thinking about offering a product, does it comply with the rules and regulations. I think you have to view it as this enormous consulting function within the agency that can provide services to people that are considering offering financial services products.
- Jo Ann Barefoot: [39:52](#) I was going to ask you about the charter and you've kind of answered it. The OCC issued a proposal or a concept for creating a National Bank Charter for Fintechs and as you say there was litigation that ensued. We actually have a couple of shows on this topic in our archives and that you're optimistic that that's going to work its way through the courts.
- Joseph Otting: [40:17](#) I am. I mean a national bank is an entity that takes deposits or processes checks or makes loans. It just comes down to the definition in my mind of or.
- Jo Ann Barefoot: [40:28](#) Yeah, good. What haven't we talked about that we should?
- Joseph Otting: [40:35](#) What haven't we talked about that we should? Interesting question. I think we've covered it.
- Jo Ann Barefoot: [40:52](#) Yeah.
- Joseph Otting: [41:00](#) I think 2020 will be another year where a substantial amount of rule-making will take place. Last year wasn't a record because of Dodd-Frank but it had to be a close second from the standpoint

of the number of rules that actually got across the finish line. I think this year again we have a strong suite of rules that we would like to accomplish. We are now starting to spend time within the agency on a couple of topics that one is this cycle comes to an end at some point in time. If you think about it, we're well into 10 years now of recovery. As you can appreciate, it's like the Maytag repair person, is a lot of people that worked on problem related bank activities either have moved on in their career or have retired and we have a whole population of young people that are in the agency now that have never experienced a down cycle.

- Jo Ann Barefoot: [42:05](#) And in the industry too.
- Joseph Otting: [42:06](#) Yeah. Talking about what does that mean and what does that look like and how do you ... What role do you play I think in that is an important ingredient to having forward thinking, but just as important be asking management what are your early warning signs and what are you looking for. I think will be an important ingredient as you look forward.
- Jo Ann Barefoot: [42:33](#) Great. I think we know where people can get information about the OCC. It's www-
- Joseph Otting: [42:38](#)occ.gov. Yeah.
- Jo Ann Barefoot: [42:38](#) Thank youocc.gov. We will link to that in the show notes so that people can get more information. Joseph Otting we just can't thank you enough for being our guest today.
- Joseph Otting: [42:53](#) Thank you. It's my pleasure.
- Jo Ann Barefoot: [42:54](#) It's been a wonderful conversation.
- Joseph Otting: [42:54](#) Thank you very much.