

Semiannual Risk Perspective

From the National Risk Committee

Office of the Comptroller of the Currency
Washington, D.C.

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About This Report

The Office of the Comptroller of the Currency (OCC) charters, regulates, and supervises national banks and federal savings associations (collectively, banks) and licenses, regulates, and supervises the federal branches and agencies of foreign banks. The OCC supervises these banks to ensure they operate in a safe and sound manner and comply with applicable laws and regulations, including those requiring fair treatment of consumers and fair access to credit and financial products.

The OCC's National Risk Committee (NRC) monitors the condition of the federal banking system and emerging threats to the system's safety and soundness. NRC members include senior agency officials who supervise banks of all sizes, as well as officials from the law, policy, accounting, and economics departments. The NRC meets quarterly and issues guidance to examiners that provides perspective on industry trends and highlights issues requiring attention.

The OCC's *Semiannual Risk Perspective* addresses key issues facing banks, focusing on those that pose threats to the safety and soundness of banks and their compliance with applicable laws and regulations. This report presents data in four main areas: the operating environment, bank condition, key risk issues, and regulatory actions.

The OCC publishes the report twice a year, drawing upon midyear and year-end data. The fall 2015 report reflects bank financial data as of June 30, 2015.

The OCC welcomes feedback on this report by e-mail: NRCReport@occ.treas.gov.

Executive Summary

The financial performance of national banks and federal savings associations strengthened through the first six months of 2015 compared with the first six months of 2014. Net income for the federal banking system rose 7 percent year-over-year primarily because of higher operating income and lower noninterest expenses. Profitability as measured by return on equity rose to almost 10 percent for large and small banks. Small banks—those with total assets less than \$1 billion—reported stronger gains in net interest income and noninterest income, but net interest margin compression continued across large and small banks as yields on earning assets declined. Banks benefited from solid loan growth system-wide. Larger banks saw loan growth centered in commercial and industrial (C&I) loans. Smaller banks experienced loan growth primarily in residential and commercial real estate (CRE). Notwithstanding these positive developments, many banks will continue to struggle with revenue growth as long as sluggish economic growth and low interest rates persist.

Primary supervisory concerns remain generally unchanged but evolve as competition for banking products and services increases. Strategic, underwriting, cybersecurity, compliance, and interest rate risks (IRR) remain the OCC's top supervisory concerns. Risks associated with underwriting and cybersecurity are increasing, while strategic, compliance, and IRR remain stable.

- Many banks continue to face strategic challenges growing revenues to meet target rates of return in a slow-growth, low interest rate economic environment. Many banks are reevaluating risk tolerances and business models.
- Banks are easing credit underwriting standards and practices, including structure, terms, pricing, collateral, guarantors, and loan controls in response to competitive pressures and growth objectives. This easing is particularly evident in high-growth loan segments, such as indirect auto, C&I, and multifamily CRE.
- The ongoing low interest rate environment poses additional concerns as banks reach for yield by extending asset duration trends. Deposit stability, a significant component of IRR modeling, is difficult to assess because of recent deposit inflows and the potential for increased competition for retail deposits. The low interest rate environment continues to pressure net interest margins as asset yields decline and the cost of funds has stabilized at historic lows.
- Cyber threats, reliance on service providers, and resiliency planning remain concerns particularly in light of heightened global threats.
- Regulatory amendments and reliance on third parties continue to create challenges for bank consumer compliance functions. Bank Secrecy Act (BSA) risk also continues to increase as criminal behaviors evolve and criminals leverage technology innovations.

The OCC's NRC is monitoring several risks that warrant awareness among bankers and examiners. These risks have the potential to develop into broader systemic issues and may already raise concern at individual banks. The risks include:

- exposure to oil- and gas-related sectors (e.g., service, office, and hotel sectors) as well as direct exposure to exploration and production firms.
- increasing loan concentrations in multifamily CRE and nondepository financial institution sectors.
- the appropriateness of allowance for loan and lease loss (ALLL) levels and methods given loan growth, easing in underwriting, and layering of credit risk.
- banks' ability to exit balance-sheet positions because of declining market liquidity.
- implementation of the new integrated mortgage disclosure requirements under the Truth in Lending Act of 1968 and the Real Estate Settlement Procedures Act of 1974, as amended, and their

implementing regulations (Regulations X and Z, respectively), which went in effect on October 3, 2015.¹

Key Risk Themes

Competitive pressures, the search for revenue growth, and the ongoing low interest rate environment continue to challenge bank risk management and influence risk appetite.

- Slow economic growth, low interest rates, and abundant liquidity continue to increase competition for commercial loans. Supervisory activities and industry surveys, including the OCC's *2015 Survey of Credit Underwriting Practices* and the interagency [Shared National Credits Program 2015 Review](#), identified easing underwriting standards and practices in commercial lending among banks with assets of \$3 billion or more as lenders strive for volume and yield.
- Banks are easing underwriting standards across a variety of credit products because of competitive pressures. Easing standards are particularly evident in indirect auto and leveraged lending; however, easing in underwriting and increased risk layering are also occurring in C&I, asset-based lending, and CRE.
- The ongoing low interest rate environment continues to lay the foundation for future vulnerability. Some banks have reached for yield to boost interest income with decreasing regard for interest rate or credit risk. Banks that extend asset maturities to pick up yield could face significant earnings pressure and capital erosion, depending on the severity and timing of interest rate moves as well as changes in the yield curve.
- Sustained post-crisis bank deposit inflows and shifts in deposit mix have compounded the complexity of IRR management, resulting in a considerable amount of funding at historically low rates. It is important for banks to assess the adequacy of their earnings, considering the dynamics of the marketplace where the potential for increased demand for retail deposits and improved technologies may increase the competitive environment. These factors may make some deposits less stable as rates change. Accordingly, bankers and examiners need to understand the effect of the competitive environment on deposits as a key component of the IRR oversight processes.²

Strategic risk remains high for many banks as management search for sustainable ways to generate target rates of return or struggle to implement their strategic plans.

- In small banks, strategic risk is concentrated in the search for revenue and profitable market niches. For larger banks, strategic risk arises from adjustments to balance sheets and corporate structures to generate an acceptable return on equity. Forward-looking management teams may seek to differentiate their bank by focusing on long-term strategies that leverage technology, produce balanced growth in core businesses and markets while maintaining satisfactory liquidity, ALLL, earnings, and capital positions.
- Challenges facing banks include the risks stemming from the search for improved profitability and changing business models. Competition continues to push some banks to relax credit structure and

¹ [OCC Bulletin 2015-42](#), "Consumer Compliance: Initial Examinations for Compliance With TILA-RESPA Integrated Disclosure Rule" (November 6, 2015).

² [OCC Bulletin 2010-1](#), "Interest Rate Risk: Interagency Advisory on Interest Rate Risk Management" (January 8, 2010), reminds institutions of supervisory expectations regarding sound practices for managing IRR.

terms to book new business, particularly in leveraged, indirect auto, C&I, and CRE lending. Some banks are building concentrations in areas that were excessive and detrimental in the past cycle, while other banks with limited strategic options are responding to the increased competition by looking at merger, acquisition, or liquidation options. Finally, some banks continue to struggle with planning for board and management succession.

- Banks are increasingly adopting innovative products, services, and processes in response to the evolving needs for financial services and growing competition from other banks and financial technology firms. Doing so often involves assuming unfamiliar risks, an expanded reliance on third-party relationships,³ and the need to update or acquire new systems and technology platforms. Banks involved in responsible innovation recognize the benefit to consumers and businesses (including their own operational efficiencies), as well as the need for sound risk management to properly oversee and control heightened risks.
- The pace of mergers and acquisitions increased in the past 12 months among banks with less than \$20 billion in total assets. The OCC expects merger and acquisition activity to continue in 2016 as banks seek to enhance shareholder value, gain economies of scale, enhance market penetration, and improve cost efficiencies. Merger and acquisition activity, however, challenges risk control structures, management information systems, and operational platforms.

Operational risk is high as banks adapt business models, transform technology and operating processes, and respond to increasing cyber threats.

- Banks and their employees, customers, and third-party relationships remain vulnerable to cyber attacks, including attacks that involve extortion and those that can compromise, disrupt, or destroy data and systems.
- Cyber attacks against cybersecurity products and services further increase risk to banks because of the release or sale of malware and zero-day vulnerabilities.⁴
- Cyber criminals target businesses to steal sensitive business information. They also steal trade secrets and intellectual property to gain a competitive advantage or to disseminate the sensitive business information publicly to affect reputation, share prices, and stock offerings.
- Businesses are being successfully targeted with phishing attacks to gain access to internal systems or, in the case of the Business E-Mail Compromise (BEC),⁵ forging payment requests for legitimate vendors but directing the funds to the cyber criminal's account.
- New platforms and technology, such as virtual currencies, are enabling greater anonymity to cyber criminals and other groups to launder money and raise funds to pay for physical attacks and cyber attacks.
- Business operating models are under increasing pressure as bankers seek to launch new products, leverage technology, reduce staffing, outsource critical activities, reengineer business processes, and partner with firms unfamiliar with the bank regulatory environment. Banks may not always adapt risk management and control processes to these changing business strategies.

³ [OCC Bulletin 2013-29](#), "Third-Party Relationships: Risk Management Guidance" (October 30, 2013).

⁴ Zero-day vulnerabilities are previously undiscovered vulnerabilities for which a software patch or other mitigating control is not yet available.

⁵ Federal Bureau of Investigation (FBI), [Public Service Announcement I-082715a-PSA](#), "Business Email Compromise" (August 27, 2015).

- Banks may not be adequately incorporating resiliency considerations, including recovery from cyber events, into their overall governance, risk management, or strategic planning processes.
- The number, nature, and complexity of domestic and foreign third-party relationships continue to expand, increasing concentration and risk management challenges.
- While banks increasingly use central counterparties (CCP), or central clearinghouses, to reduce counterparty exposures and settlement risks, CCP memberships can expose banks to increased concentration, credit, liquidity, and legal risks. Foreign CCP membership may introduce additional risks from jurisdictional differences in rules, requirements, and authorities.

Compliance risk remains high as banks manage BSA and anti-money laundering (AML) risks and implement changes to policies and procedures to comply with new mortgage lending requirements.

- BSA/AML risks remain high, as technological developments that benefit customers through enhanced products and greater access to financial services may be vulnerable to criminals who exploit such innovations. Some banks have failed to develop or incorporate appropriate controls as products and services have evolved. In addition, some banks have failed to devote sufficient resources and expertise to BSA/AML.
- The use of third-party relationships to conduct all or a portion of consumer credit-related product development, implementation, and fulfillment can increase the risk of unfair or deceptive practices. In recent years, a number of banks failed to exercise adequate risk management and controls when developing and offering various add-on products to customers. These banks were the subject of OCC enforcement actions (EA), including the imposition of civil money penalties, for engaging in a range of activities that violated section 5 of the Federal Trade Commission Act.
- Fair lending risk also increases when banks engage a third party to conduct all or a portion of the application or underwriting processes or make decisions regarding terms or pricing.
- Some banks will face operational and compliance challenges meeting the integrated mortgage disclosure requirements, which apply to loan applications for most closed-end consumer credit transactions secured by real property received on or after October 3, 2015. In implementing the new integrated mortgage disclosure requirements in Regulations Z and X, compliance risk management should include revisions to policies and processes, technological changes, training, testing, and effective third-party risk management.

OCC Risk Perspective: Outlook by OCC Operating Unit

Large Banks

Overall, the large banks supervised by the OCC are in sound financial condition, with positive trends in liquidity, capital, and traditional asset quality metrics. Management of operational and compliance risk associated with business activities is improving, but challenges remain. Risk management weaknesses predominantly associated with operations, BSA/AML, compliance, internal controls, and credit have driven concerns addressed in matters requiring attention (MRA) and EAs. These weaknesses have contributed to increased reputation and strategic risks for large banks.

Key risks facing large banks include:

- weaknesses and gaps within governance and enterprise risk management practices that do not align fully with heightened standards.
- a high level of operational risk across a spectrum of activities.
- an increasing volume and sophistication of cyber threats and information technology vulnerabilities.
- elevated consumer compliance risks.

- elevated BSA/AML risk.
- use of third-party relationships without appropriate oversight and controls to monitor risks within those relationships.
- easing of underwriting standards, particularly in leveraged lending, indirect auto, and commercial loans.
- appropriateness of the ALLL, given the growth in loan portfolios and easing in underwriting.
- weaknesses in model risk management.
- high volumes and frequency of changes to information systems to address regulatory requirements, and the need for enhancements to risk monitoring reporting and updates to compliance systems.
- increased competition for retail deposits to promote compliance with new regulations that could result in cost of funds pressure.

Community and Midsize Banks

The overall financial condition of community and midsize banks supervised by the OCC is improving, as reflected in positive trends in traditional asset quality indicators. The earnings outlook for community and midsize banks, however, is more diverse. While some banks see improving net income because of loan growth and reduced credit expenses, pressures persist at many others because of acute competition for quality lending opportunities and declining earning asset yields.

Key risks facing community and midsize banks include:

- high strategic risk as banks adapt their business models to respond to sluggish economic growth, low interest rates, and intense competitive pressures from both banks and nonbanks.
- board and management succession and retention of key staff.
- easing of underwriting standards in high-growth loan products and the need to manage concentrations of credit risk effectively.
- potential exposure to oil- and gas-related industries (e.g., service, office, and hotel sectors) as well as direct exposures to exploration and production, given the decline in oil prices.
- expansion into new products and services that require specialized risk management processes and skills.
- increasing reliance on third-party relationships to provide products and services and perform operational and business functions.
- increasing volume and sophistication of cyber threats.
- increasing BSA/AML risk because controls have not kept pace with higher-risk services and customer relationships.
- increased competition from larger banks for retail deposits to promote compliance with new regulations that could result in cost of funds pressure.
- increasing exposure to IRR from instability in the deposit base, especially those banks with concentrations in longer-term assets, including mortgage-backed securities and loans.
- change management necessary to meet new mortgage-related compliance regulations.

OCC Supervisory Priorities for the Next 12 Months

The OCC's supervision and policy base priorities on key risks. The next pages summarize the key priorities.

Large Bank Supervision

The OCC developed and is executing a supervisory strategy for each large bank that prioritizes risks and addresses the OCC's supervisory objectives. The top priorities for the next 12 months include the following:

- **Governance and oversight:** Assessing feasibility and risks posed by business model and strategy changes, focusing on bank governance and risk management practices to ensure compliance with, and to identify any substantive gaps in relation to, the final guidelines for heightened standards.⁶ Examiners are ensuring that any gaps they identify are documented and communicated clearly and that management has committed to closing the gaps within an appropriate time frame.
- **Credit and underwriting:** Reviewing commercial and retail credit underwriting practices, especially for leveraged, indirect auto, nondepository financial institution, and some sectors of CRE that have grown rapidly with some easing in underwriting standards. Examiners continue to assess banks' efforts to mitigate risk for home equity lines of credit (HELOC) approaching their end-of-draw periods.⁷
- **Compliance:** Developing and implementing plans for assessing compliance with new regulatory requirements, including those related to capital, liquidity, trading activities, residential mortgages, and risk retention. Emphasis is on the following:
 - Compliance management for the integrated mortgage disclosure requirements under the Truth in Lending Act of 1968, the Real Estate Settlement Procedures Act of 1974, and their implementing regulations (Regulations X and Z).
 - Continuing to share information and coordinate examinations with the Consumer Financial Protection Bureau to assess overall compliance with consumer laws, regulations, and guidance.
 - Determining compliance with the Flood Disaster Protection Act of 1973 and the Servicemembers Civil Relief Act, focusing on the adequacy of enterprise-wide compliance risk management.
 - Assessing banks' effectiveness in identifying and responding to risks posed by new products, services, or terms.

⁶ [OCC Bulletin 2014-45](#), "Heightened Standards for Large Banks; Integration of 12 CFR 30 and 12 CFR 170: Final Rules and Guidelines" (September 25, 2014), issued enforceable guidelines that establish minimum standards for the design and implementation of a risk governance framework for large insured national banks, insured federal savings associations, and insured federal branches of foreign banks.

⁷ [OCC Bulletin 2014-29](#), "Risk Management of Home Equity Lines of Credit Approaching the End-of-Draw Periods: Interagency Guidance" (July 1, 2014).

- **Cyber threats:** Reviewing banks' programs for assessing the evolving cyber threat environment and banks' resilience to cyber attacks. Examiners are using the new Cybersecurity Assessment Tool⁸ in conjunction with information security and operational risk supervisory activities.
- **Operational risk:** Assessing information security and data protection, model risk management, and third-party risk management, including risks associated with third-party relationships.⁹ OCC supervisory staff are evaluating bank management plans to respond to increasing operational risk resulting from the introduction of new or revised business products, processes, delivery channels, or third-party relationships.
- **BSA/AML:** Assessing the effectiveness of BSA/AML programs and controls to address evolving money-laundering schemes, the rapid pace of technological change, and overall money laundering and terrorist financing risks.
- **Fair access:** Assessing banks' efforts to meet the needs of creditworthy borrowers and monitoring banks' compliance with the Community Reinvestment Act and fair lending laws and regulations.
- **MRAs and EAs:** Ensuring effective, timely, and consistent application of guidance for MRAs and EAs. This includes assessing and validating that requirements for MRAs and EAs are met and these supervisory actions are closed or terminated timely. Examiners-in-charge will clearly communicate any additional actions needed to satisfy requirements.

Community and Midsize Bank Supervision

The OCC developed and is executing supervisory strategies for each community and midsize bank that prioritizes risks and addresses the agency's supervisory objectives. The top priorities for the next 12 months include:

- **Strategic planning and governance:** Assessing business model and strategic changes and reinforcing the importance of sound corporate governance appropriate for the individual bank's size and complexity. A specific focus is determining the adequacy of strategic, capital, and succession planning. Examiners are assessing whether banks' plans are appropriate in light of the risks in new products or services. Examiners will assess the bank's merger and acquisition processes and procedures, if applicable.
- **Credit underwriting:** Evaluating underwriting practices on new or renewed loans for easing in structure and terms. Examinations focus on new products, areas of highest growth, or portfolios that represent concentrations. Examiners are assessing banks' efforts to mitigate risk associated with HELOCs approaching their end-of-draw periods.
- **Cyber threats:** Reviewing banks' programs for assessing the evolving cyber threat environment and banks' resilience to cyber attacks. Examiners are using the new Cybersecurity Assessment Tool¹⁰ in conjunction with information security and operational risk supervisory activities.

⁸ The Federal Financial Institutions Examination Council (FFIEC) developed the Cybersecurity Assessment Tool to help institutions identify their risks and determine their cybersecurity preparedness. See [OCC Bulletin 2015-31](#), "Cybersecurity: FFIEC Cybersecurity Assessment Tool" (June 30, 2015).

⁹ [OCC Bulletin 2013-29](#), "Third-Party Relationships: Risk Management Guidance" (October 30, 2013).

¹⁰ The FFIEC developed the Cybersecurity Assessment Tool to help institutions identify their risks and determine their cybersecurity preparedness. See [OCC Bulletin 2015-31](#), "Cybersecurity: FFIEC Cybersecurity Assessment Tool" (June 30, 2015).

- **Operational risk:** Assessing information security and data protection, model risk management, and third-party risk management, including risks associated with third-party relationships. OCC supervisory staff are evaluating bank management plans to respond to increasing operational risk resulting from the introduction of new or revised business products, processes, delivery channels, or third-party relationships.
- **BSA/AML:** Determining whether banks have effective BSA/AML programs and controls to address changing customer profiles, evolving money-laundering schemes, the rapid pace of technological change, and the overall risk that money laundering and terrorist financing activities create.
- **Compliance:** Evaluating adequacy of compliance risk management and assessing banks' effectiveness in identifying and responding to risks posed by new products, services, or terms. Examiners will also assess compliance with the
 - new integrated mortgage disclosure requirements under the Truth in Lending Act and the Real Estate Settlement Procedures Act and their implementing regulations (Regulation X and Z).
 - relevant consumer laws, regulations, and guidance for banks with less than \$10 billion in total assets.
 - Servicemembers Civil Relief Act.
- **IRR:** Evaluating management of IRR including the ability to accurately identify and quantify IRR in assets and liabilities under varying model scenarios with specific attention to deposit stability assumptions.
- **Fair access:** Assessing banks' efforts to meet the needs of creditworthy borrowers and to monitor banks' compliance with the Community Reinvestment Act and fair lending laws.
- **MRAs and EAs:** Ensuring effective, timely, and consistent application of guidance for MRAs and EAs. This includes assessing and validating that requirements for MRAs and EAs are met and these supervisory actions are closed or terminated timely. Examiners-in-charge are clearly communicating any additional actions needed to satisfy requirements.

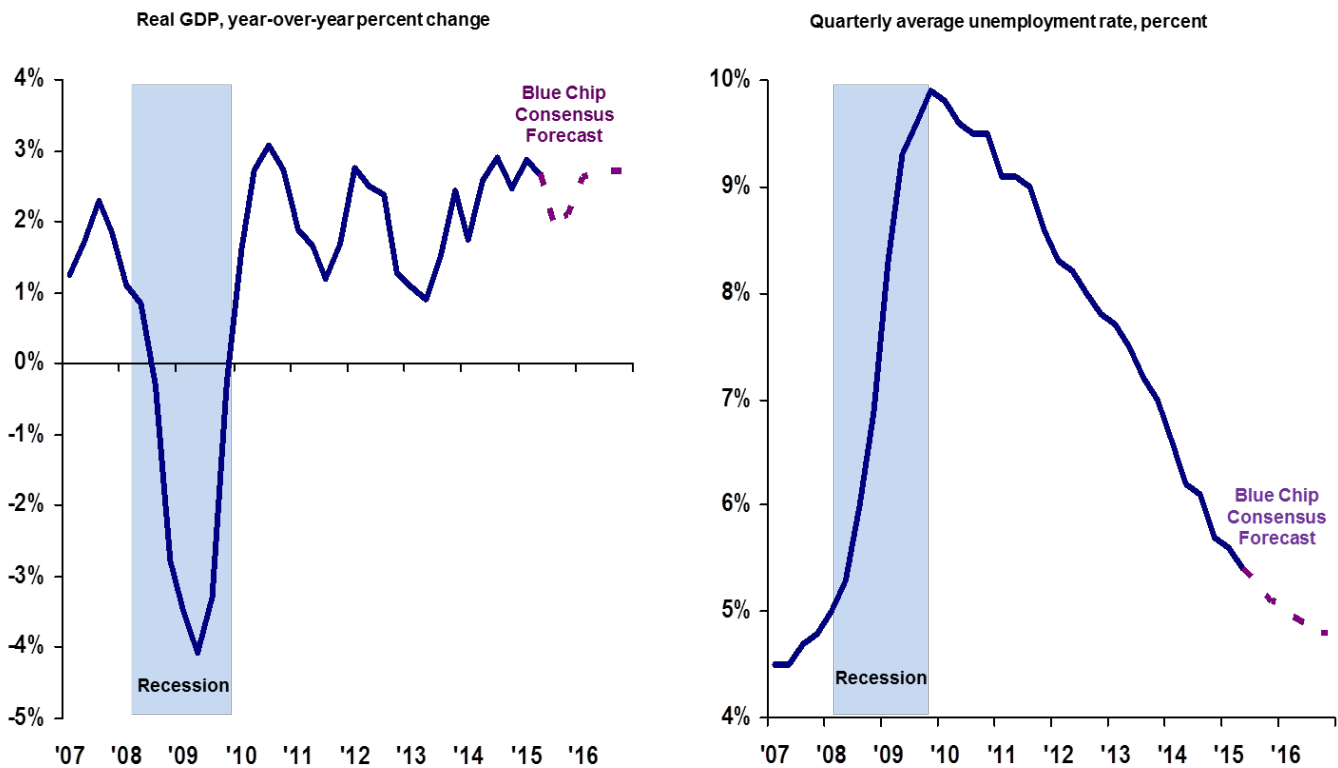
Part I: Operating Environment

U.S. economic growth improved after a slow start in the first quarter of 2015. The stronger job market in the second quarter of 2015 increased household incomes and spurred consumption, even though rising employment has not yet led to steady gains in real wages. Lower oil prices are expected to save U.S. households \$150 billion this year, or about \$1,000 per household but may negatively affect job growth in energy producing states. The comparatively strong performance of the U.S. economy has driven the U.S. dollar up by 15 percent against other currencies over the past year, limiting export growth and job growth in industries heavily reliant on exports or exposed to competition from overseas.

U.S. Economic Growth Expected to Strengthen in Second Half of 2015 and 2016

Real gross domestic product (GDP) increased 2.7 percent between the second quarter of 2015 and the second quarter of 2014 (see figure 1). Increased consumer spending primarily drove the increase. The unemployment rate has fallen to 5 percent, with total employment up 2 percent from a year ago. Job growth slowed from the rapid pace posted in the fourth quarter of 2014 but still averaged 200,000 new jobs per month over the first half of 2015. The consensus of private sector forecasters is for economic growth to continue to strengthen through the end of 2015 and during 2016.

Figure 1: GDP and Unemployment Trends



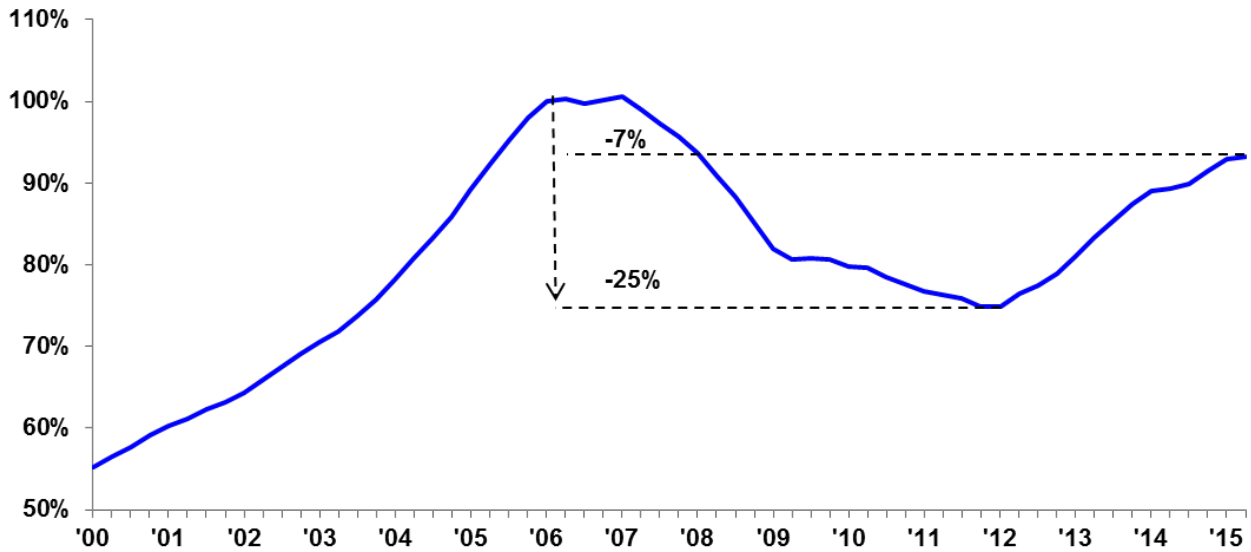
Sources: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics/Haver Analytics, Blue Chip Indicators (August 2015)

Housing Markets Slowly Improving

The housing market improved through the first half of 2015, albeit at a slower pace than the same period in 2014. While still 7 percent below 2006 peak levels, Standard & Poor’s (S&P) Case–Shiller repeat-sales data showed home prices up 4.4 percent year-over-year in 2015 (see figure 2).

Figure 2: S&P/Case–Shiller U.S. National Home Price Index

Seasonally adjusted, 2006 Q1 = 100



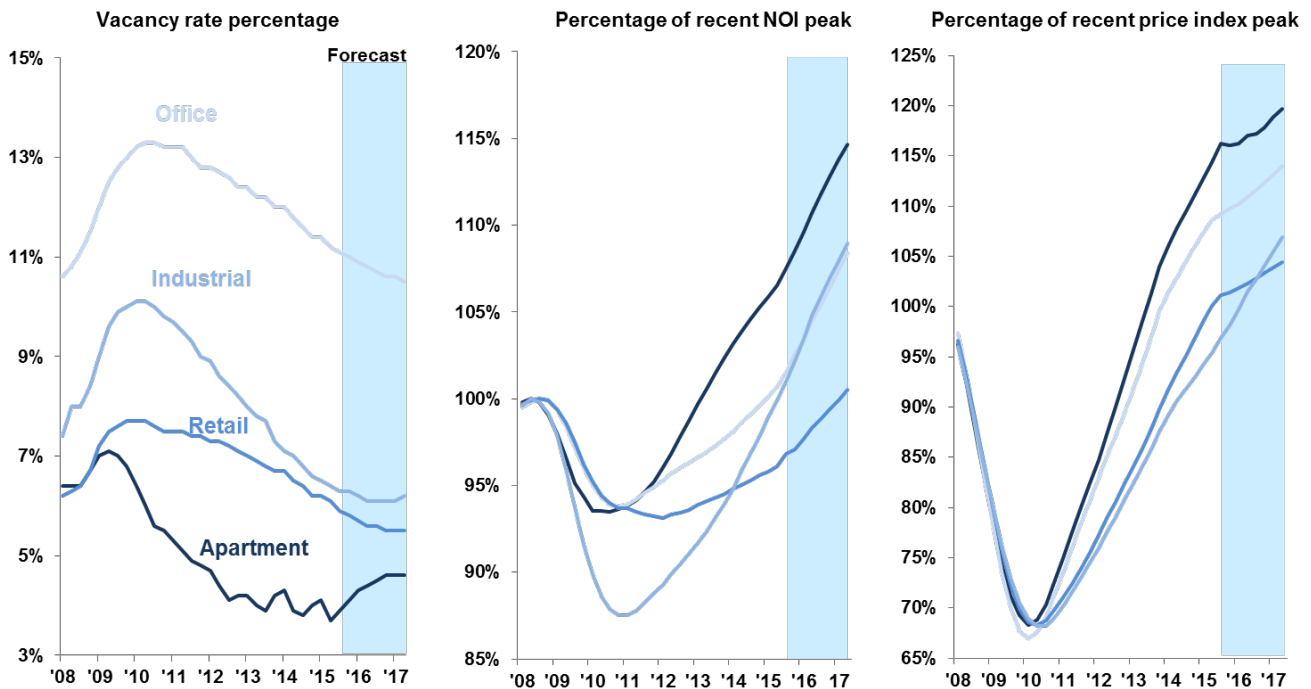
Source: S&P

CRE Outlook Is Mixed

Apartments are at a different point in the vacancy rate cycle than other commercial property types. Due to booming new apartment construction, the national apartment vacancy rate, which bounced around a narrow range over the last two years, is expected to increase by nearly one percentage point over the next two years. Markets with the most new construction will likely see apartment vacancy rates rise by more than one percentage point and will experience significant pressure on rents and net operating income. Construction of other types of commercial properties has been and is likely to remain more limited. Consequently, the national vacancy rates for office, industrial and retail space declined steadily over the last two years, and are expected to continue to decline over the next two years.

The pace of growth in CRE property values is expected to slow over the next two years. Over the last two years, strong property performance and low interest rates made CRE attractive relative to investment alternatives and investors rapidly bid up property prices, particularly in major markets attractive to foreign investors. Over the next two years, higher interest rates would raise borrowing costs for investors and could dampen the pace of price growth for commercial properties.

Figure 3: CRE Vacancy Rates

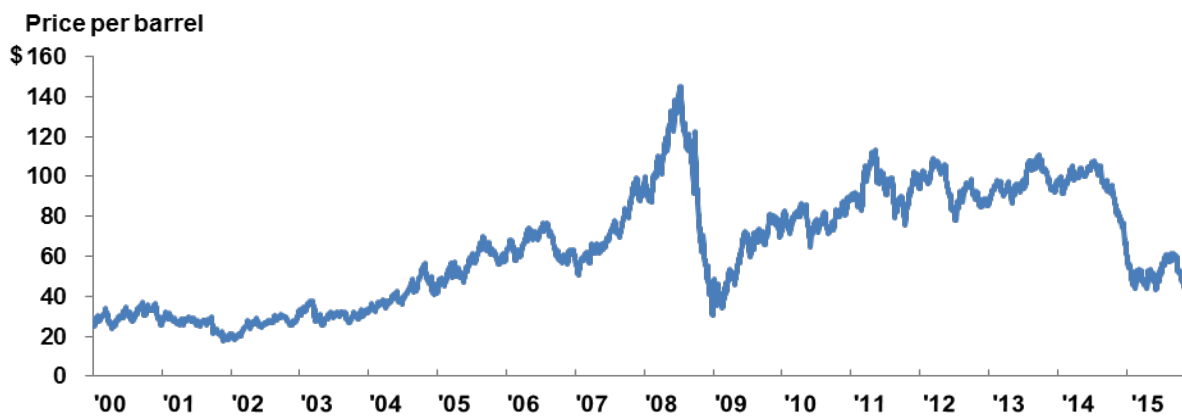


Source: CoStar Group (formerly Property and Portfolio Research); 2Q 2015 baseline forecast for 54 tier 1 markets

Weakening Global Demand Weighs on Crude Oil Prices

The West Texas Intermediate benchmark crude oil price declined over 50 percent year-over-year through June 30, 2015, as increased U.S. and Organization of the Petroleum Exporting Countries production coincided with weaker demand for crude oil in China and Europe (see figure 4). U.S. dollar strength, supply concerns, and uncertain global demand may continue to put downward pressure on crude oil prices. Regional and secondary industry impacts continue to be expected, particularly in Texas, North Dakota, Pennsylvania, Louisiana, Colorado, Wyoming, and Oklahoma as companies reduced drilling activities, canceled significant new projects, and laid off employees in 2015. If these trends persist, the reduced drilling activity and related reduction in employment in these areas will hurt local businesses through lower consumer and business spending and state and local tax revenues. Credit quality deterioration in those areas has not been severe but remains a risk for 2016.

Figure 4: Trends in the Price of West Texas Intermediate Crude Oil

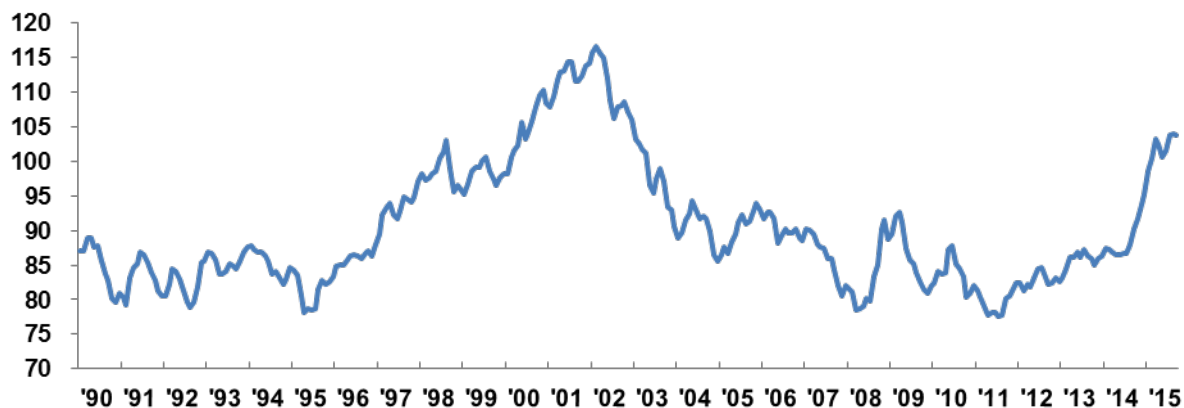


Source: Bloomberg

U.S. Dollar Strengthens on Slowing Growth Abroad

The U.S. dollar appreciated year-over-year through June 30, 2015 because of stronger economic performance in the United States and expectations of rising short-term U.S. interest rates. The Board of Governors of the Federal Reserve System's U.S. Real Trade Weighted Dollar Index rose 17 percent from June 2014 through June 2015 (see figure 5). The appreciation of the U.S. dollar may pose an additional challenge to U.S. companies' ability to hedge risk and compete in export markets.

Figure 5: Trends in U.S. Dollar Trade Weighted Index (Inflation Adjusted, 1973=100)

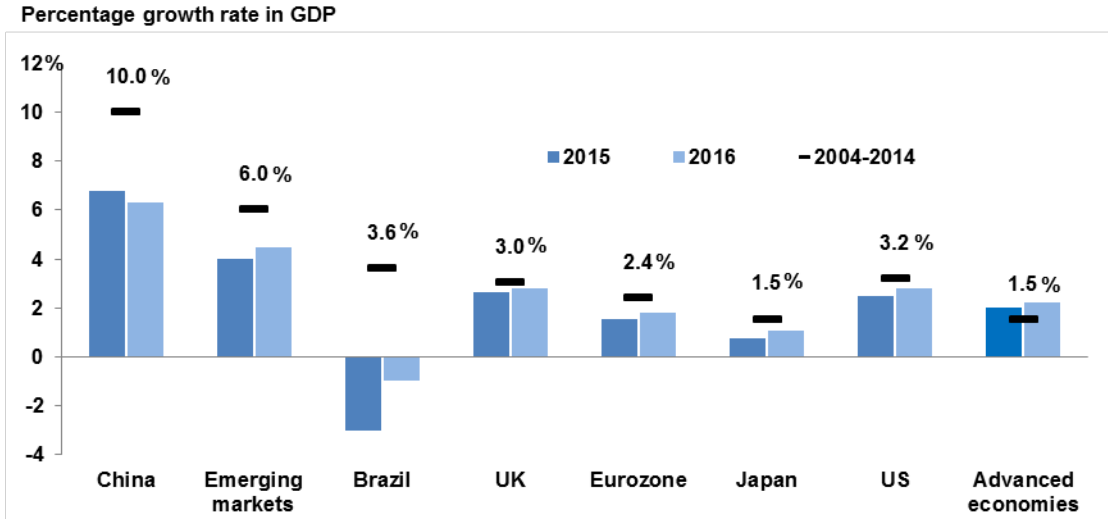


Source: Board of Governors of the Federal Reserve System

Diverging Growth Trends Among Advanced and Emerging Market Economies

Economic growth trends differ across global economies. The emerging market economies are slowing relative to their long-term averages, while growth rates for the advanced economies are surpassing their recent 10-year annual average growth rate (see figure 6). Notably, China’s economy is projected to continue to slow in 2016, while Brazil is expected to remain in a recession through 2016.

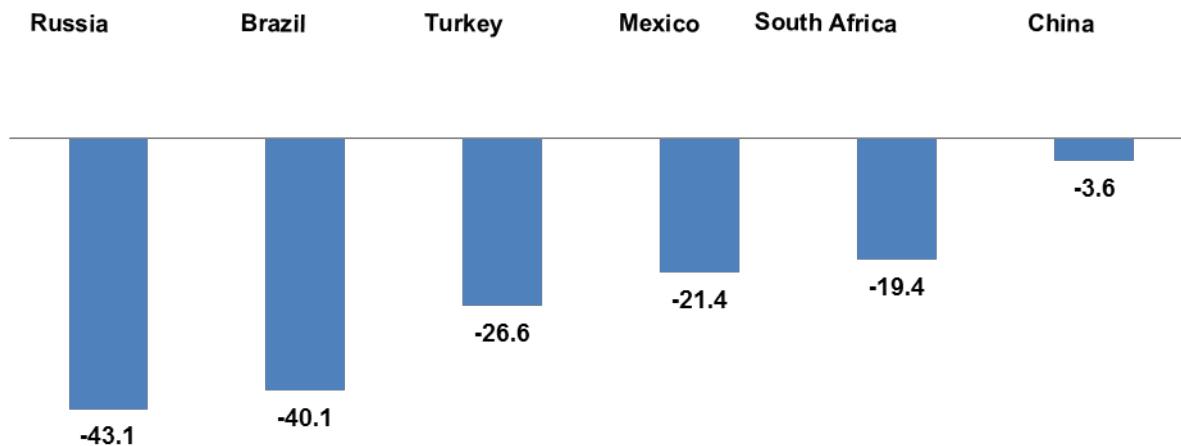
Figure 6: Real GDP Growth Trends Among Advanced and Emerging Market Economies



Source: International Monetary Fund, World Economic Outlook, October 2015

Weakening global demand, falling commodity prices, and prospects for increases in U.S. interest rates are behind the weaker growth prospects for emerging markets. These forces have driven significant depreciations of local currencies against the U.S. dollar, with several currencies depreciating by 20 percent or more over the past year (see figure 7).

Figure 7: Currency Depreciation Against U.S. Dollar, September 2015 Year-Over-Year Percentage Change

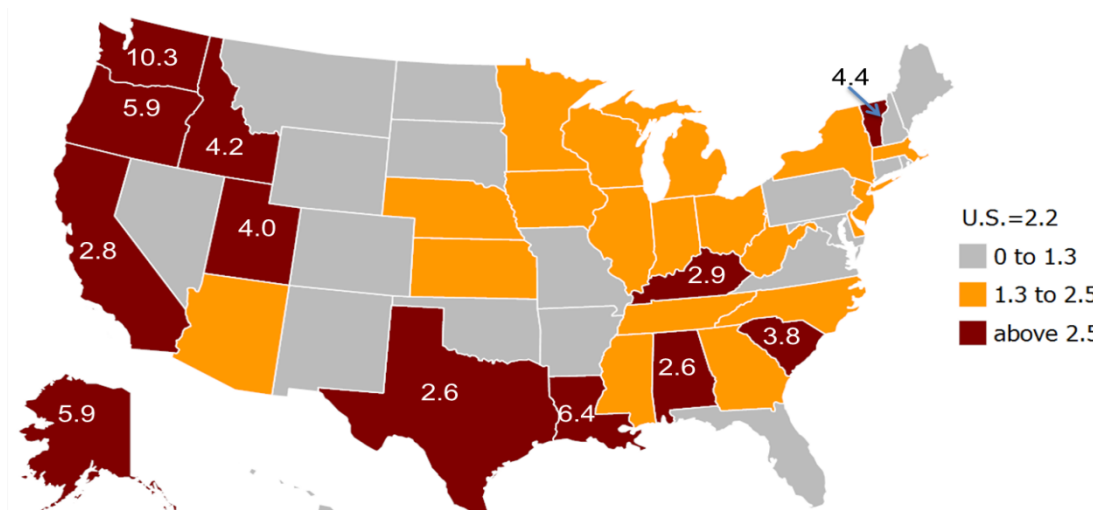


Source: International Monetary Fund, World Economic Outlook, October 2015

Limited Reliance on Exports to Emerging Markets for Most States

Businesses across the United States rely on the export of goods and commodities to emerging market countries but effects are limited relative to their total GDP. Washington, Louisiana, Oregon, and Alaska are the only states whose exports to China and its Asian trading partners account for more than 5 percent of state GDP (see figure 8). If economic developments in China cause significant declines in commodity markets and other emerging market economies, such as Brazil and Chile, the impact would be somewhat higher for Texas, Louisiana, and Kentucky than other states.

Figure 8: Exports to Emerging Markets of Eastern and Southeast Asia and Taiwan as a Percentage of GDP

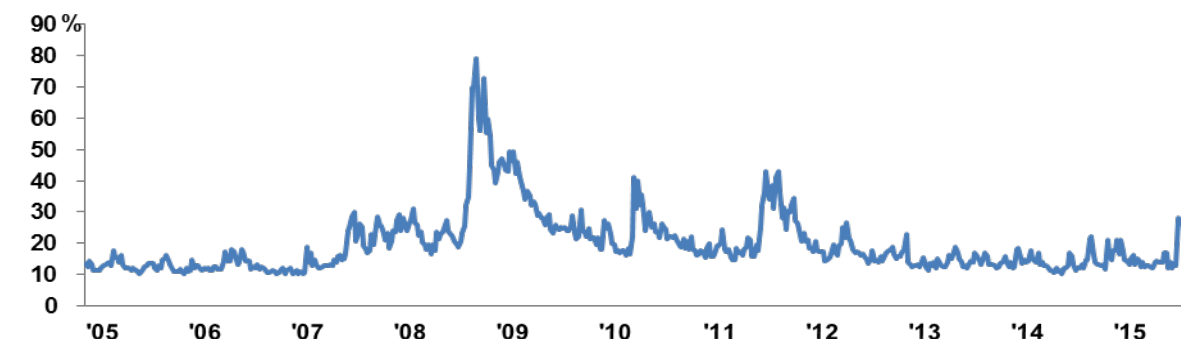


Sources: Census Bureau, Bureau of Economic Analysis, Moody's Analytics, 2014.

Slowing Global Growth Weighs on Financial Markets

Financial conditions tightened and market volatility, as measured by the CBOE Volatility Index (VIX), increased in the third quarter of 2015, as market participants weighed slower growth abroad with the prospect of tighter monetary policy in the United States (see figure 9). As the global economy has weakened, the economic growth and prices in the United States have been more stable than most other countries. Risk assets rebounded modestly after resolution of the Greek bailout but declined in response to the prospect of slower growth in emerging markets and Europe. Downside risks include further significant economic declines in China, weakening emerging markets, declining prices of commodities, and geopolitical conflict.

Figure 9: VIX Index Rises Over Signs of Global Economic Weakness



Source: Bloomberg

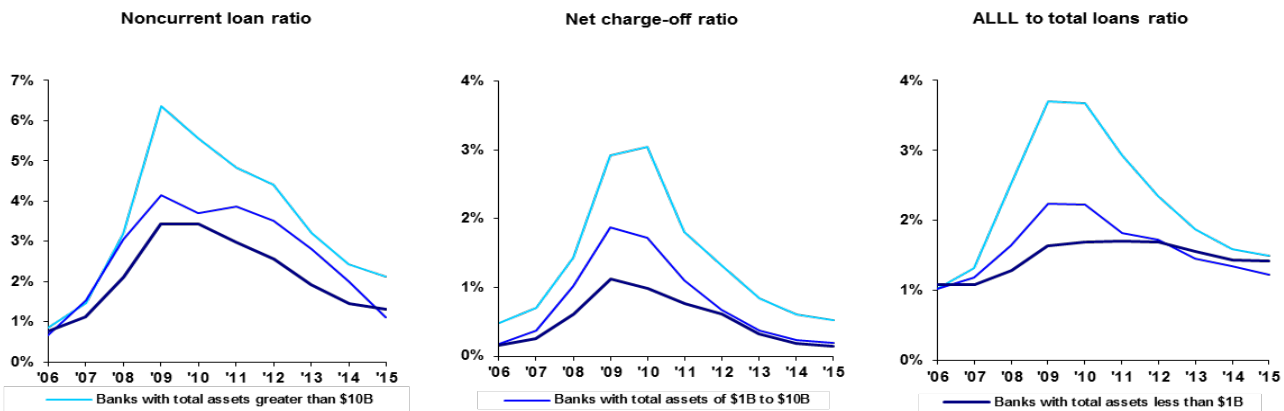
Part II: Bank Condition

A. Overall Credit Quality Is Sound but Risk Is Increasing

Credit Performance Metrics Flatten in the First Half of 2015

Lagging credit quality performance metrics continued to improve through the first half of 2015 (see figure 10). Total noncurrent loans—those 90 days or more past due or on nonaccrual—declined further for large and small banks, though improvement in the ratio for banks with total assets greater than \$10 billion continues to lag. Net charge-off ratios have returned to near 2006 levels. The ALLL as a percentage of total loans appear to be stabilizing as the rate of improvement in credit quality performance metrics begins to flatten.

Figure 10: Credit Cycle Analysis



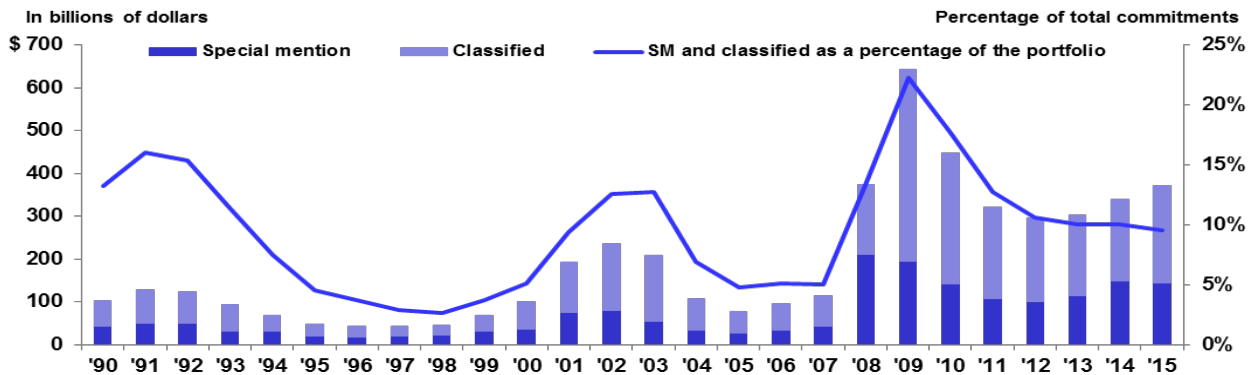
Source: Integrated Banking Information System (OCC)

Note: Data for 2015 are as of June 30. All other data are as of year-end. Noncurrent loans are 90 days or more past due and nonaccruals.

Shared National Credit Review: Credit Risk Remains High

Credit risk in the \$3.9 trillion Shared National Credits portfolio remains high and has increased from the prior year. The interagency *Shared National Credits Program 2015 Review* reports that special mention (SM) and classified commitments remain elevated at 9.5 percent of total commitments (see figure 11). The level of special mention and classified assets increased \$31.9 billion or 9.4 percent from 2014. The volume of loans classified substandard increased 18.5 percent, primarily because of deterioration in oil and gas commitments. Further, SM and classified commitments have stabilized at a level above that of prior credit cycles.

Figure 11: Trends in Shared National Credits Review



Source: Shared National Credit Database

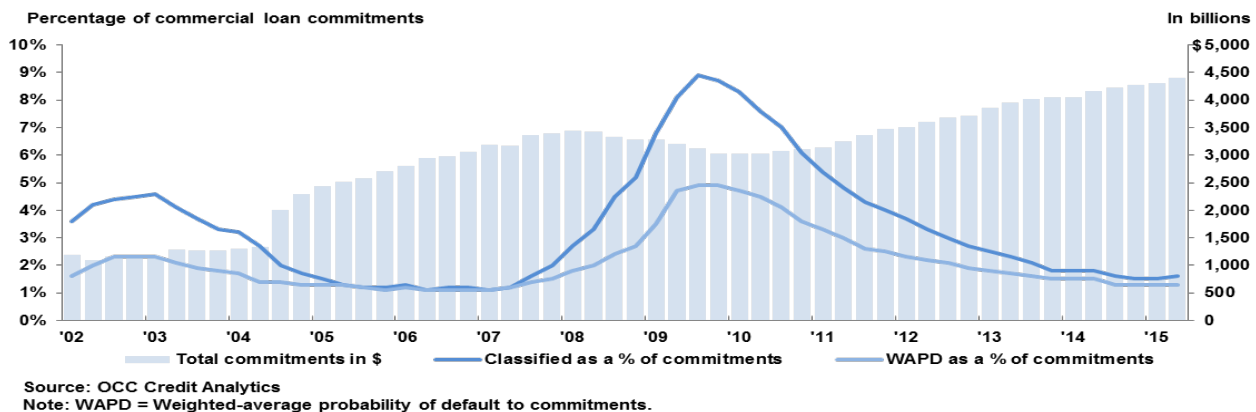
Commercial Credit Risk Is Building, Although Loan Quality Metrics Are Near Pre-Recession Lows

With continued slow economic growth, low interest rates, and plentiful market liquidity, competition among banks for commercial loans remains strong. Supervisory examinations and industry surveys, including the OCC's annual underwriting survey, continue to find evidence of easing underwriting standards and practices in commercial lending as lenders strive for volume and yield.

Credit concentrations have increased in large and small banks year-over-year. Concentrations are primarily in CRE loans, particularly multifamily, financial services, and energy-related industries. Concerns over easing underwriting standards coupled with these concentrations require bankers to evaluate concentration risk management thoroughly. Strong growth rates and strategic initiatives in these loan portfolios could cause the buildup of excessive and poorly managed credit risk in the federal banking system.

For loans included in the OCC's Credit Analytics data system,¹¹ the weighted-average probability of default rate for the first half of 2015 ended at 1.3 percent, and the ratio of classified commitments to total commitments ended at 1.6 percent, compared with 1.2 percent and 1.5 percent, respectively, at the end of 2014 (see figure 12). Classified commitments ended the first half of 2015 at 6.5 percent of aggregate tier 1 capital and reserves. This level remains below the low point of 7.2 percent reached in 2006, reflecting improved credit quality and higher capital levels.

Figure 12: Commercial Loan Trends for Select Banks



Oil and gas industry classified assets increased sharply in the second quarter of 2015 but remained moderately low at less than 6 percent of oil and gas commitments. Results from the interagency *Shared National Credits Program 2015 Review* indicate a large volume of downgrades from pass to non-pass rating categories. If oil prices remain low, classified exposures are expected to rise again during the third and fourth quarters of 2015. The steep decline in oil prices has a significant negative impact on the oil and gas extraction industry (exploration and production companies, drilling companies, and service companies) and the quality of oil and gas production portfolios across large and midsize banks. While oil and gas production portfolios are not systemically large, these results combined with

¹¹ Credit Analytics is an OCC-sponsored voluntary data-sharing program for analyzing commercial credit trends. The data represent more than 80 percent of total commercial loan commitments in the federal banking system.

deterioration in correlated industries may negatively affect some banks' asset quality ratings and ALLL calculations for 2015 and 2016.

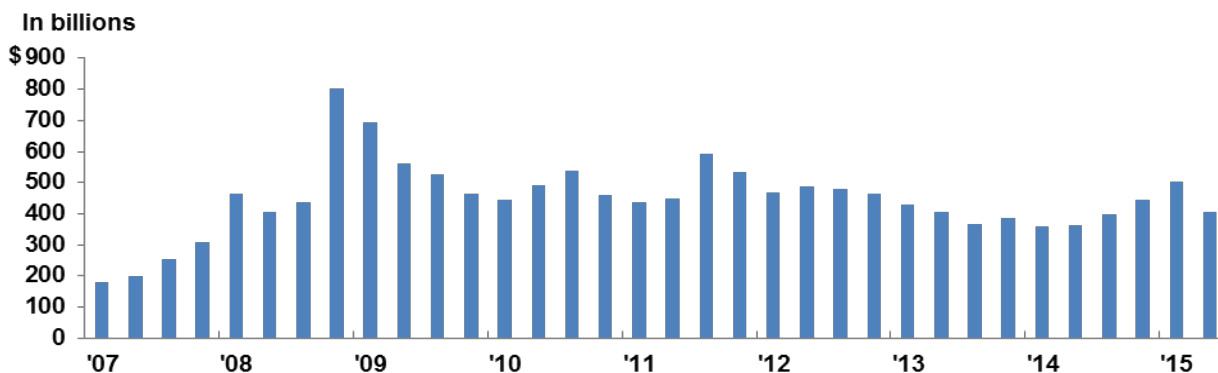
Counterparty Credit Exposure in Derivatives Falls

After peaking at \$804 billion at the height of the financial crisis, net current credit exposure—the primary metric the OCC uses to evaluate credit risk in bank derivatives activities—has declined. Net current credit exposure is largely a function of changes in interest rates, as 78 percent of the total notional amount of derivatives are interest rate contracts. Net current credit exposure tends to move inversely with interest rates. Interest rates rose modestly in the first half of 2015, causing credit exposure to decline. Net current credit exposure fell by \$97 billion (19 percent) in the second quarter of 2015 from the first quarter of 2015 (see figure 13).

Counterparty credit exposure from derivatives is a significant potential risk in trading activities. Central clearing mandates in the Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010 have led to a significant increase in the types and volumes of derivatives transactions that are cleared through CCPs. CCPs reduce bilateral credit exposures, which became problematic in the financial crisis. The purpose of the CCP is to act as the buyer to every seller, and the seller to every buyer. That is, each of the original counterparties faced the CCP as a counterparty and not each other.

One consequence of increased central clearing, however, is that credit risk becomes concentrated in a small number of CCPs. Exposures to CCPs have become the largest counterparty credit exposures for most large derivatives dealers. CCPs perform a critical role in reducing bilateral credit risk to market participants but also mutualize credit risk across members and create contingent exposures that are difficult for members to measure. Because of the risk of mutualized losses, banks that are, or wish to become CCP members need to implement effective risk management processes to conduct robust initial and ongoing due diligence and ongoing monitoring to limit their exposures in a manner consistent with OCC regulations, guidance, and interpretive letters.

Figure 13: Net Current Credit Exposure



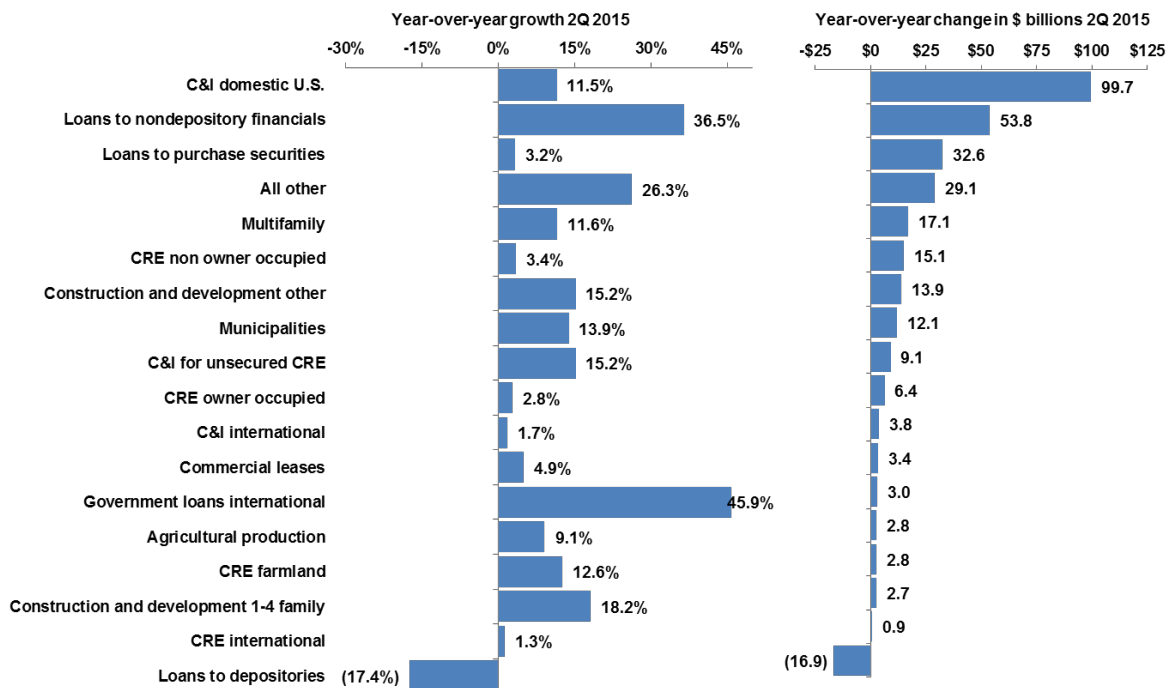
Source: Integrated Banking Information System (OCC)

B. Loan Growth Momentum Continues; Underwriting Standards Weaken

Commercial Loan Growth Led by Nondepository Financials, C&I, and Real Estate

Total commercial loan commitments, including standby letters of credit, continued a steady increase through the end of the second quarter of 2015. Commercial loans increased 9 percent year-over-year through June 30, 2015. Growth was concentrated in domestic C&I loans (11.5 percent), loans to nondepository financial institutions¹² (36.5 percent), and multifamily loans (11.6 percent). Construction lending also increased for both single family and other construction and land development (see figure 14). Over the past three years, loans to nondepository financial institutions have increased by more than 217 percent and are now the fourth largest commercial category reported in the quarterly Consolidated Reports of Condition and Income, compared with the 11th largest at mid-2012. Loans to municipal governments, up by 13.9 percent in 2015 and by more than 74 percent over the past three years, are another area of strong growth.

Figure 14: Commercial Loan Balances and Year-Over-Year Growth



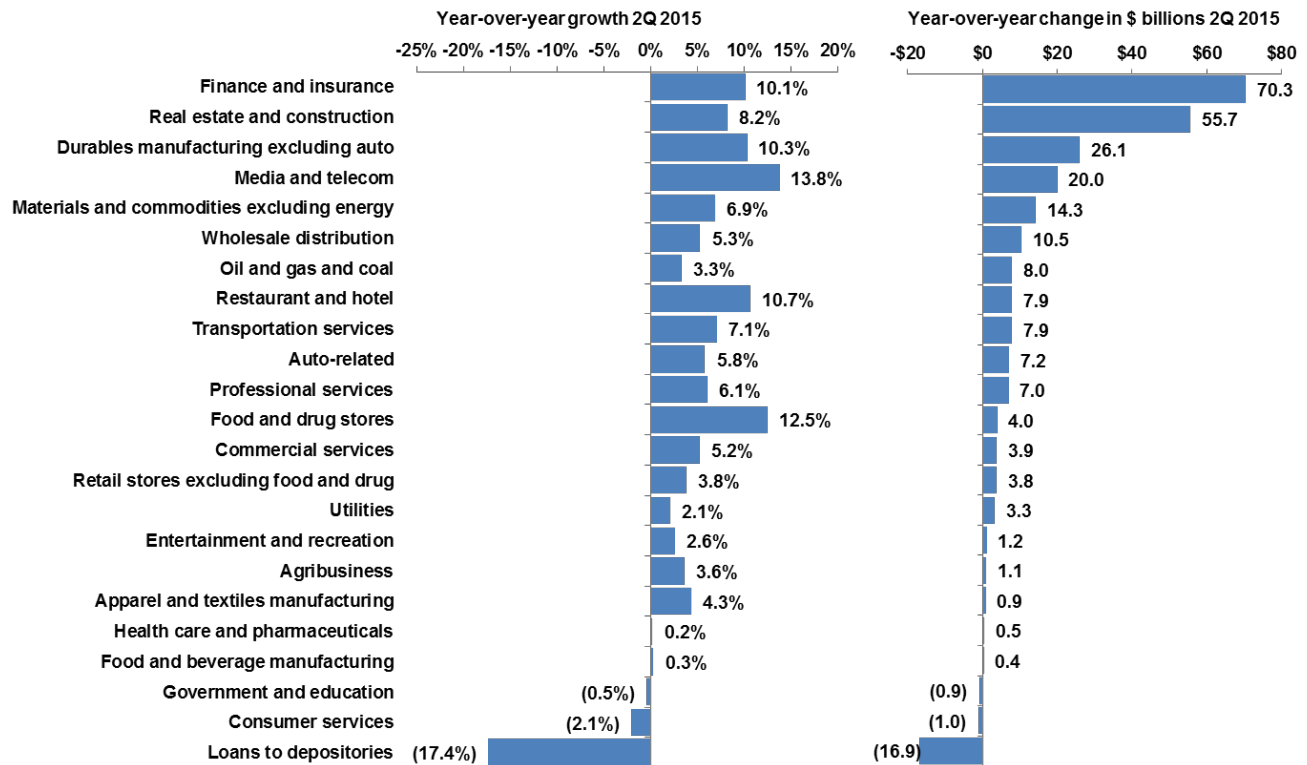
Source: Integrated Banking Information System (OCC)

Banks reporting to the OCC's Credit Analytics data system show growth trends at a more detailed industry level. Reporting banks experienced growth in commercial commitments of \$237 billion, or

¹² Loans to nondepository financial institutions generally include (1) loans to real estate investment trusts and to mortgage companies that specialize in mortgage loan originations and warehousing or in mortgage loan servicing; (2) loans to holding companies of other depository institutions; (3) loans to insurance companies; (4) loans to finance companies, mortgage finance companies, factors, and other financial intermediaries, short-term business credit institutions that extend credit to finance inventories or carry accounts receivable, and institutions whose functions are predominantly to finance personal expenditures; (5) loans to federally sponsored lending agencies; (6) loans to investment banks; (7) loans and advances made to the bank's own trust department; and (8) loans to other domestic and foreign financial intermediaries whose functions are predominantly the extending of credit for business purposes, such as investment companies that hold stock of operating companies for management or development purposes.

5.7 percent, in 2015, compared with 7.8 percent for 2014. Commercial loan growth was evident across most industry groups. The finance and insurance group (nonbank financial firms) and the real estate and construction group led the way with \$70.3 billion and \$55.7 billion of growth in commitments in 2015, respectively (see figure 15). The strongest growth within the real estate industry was commercial mortgages to owners and lessors of nonresidential property. Within the finance and insurance industry, the fastest growth was in loans to investment funds and other financial vehicles and loans to nondepository credit intermediaries, while loans to securities firms and equipment-leasing firms also increased. On a percentage growth basis, the industry groups with double-digit growth rates include finance and insurance, durables manufacturing, media and telecommunications, restaurants and hotels, and food and drug stores.

Figure 15: Commercial Commitment Growth by Industry for Reporting Banks

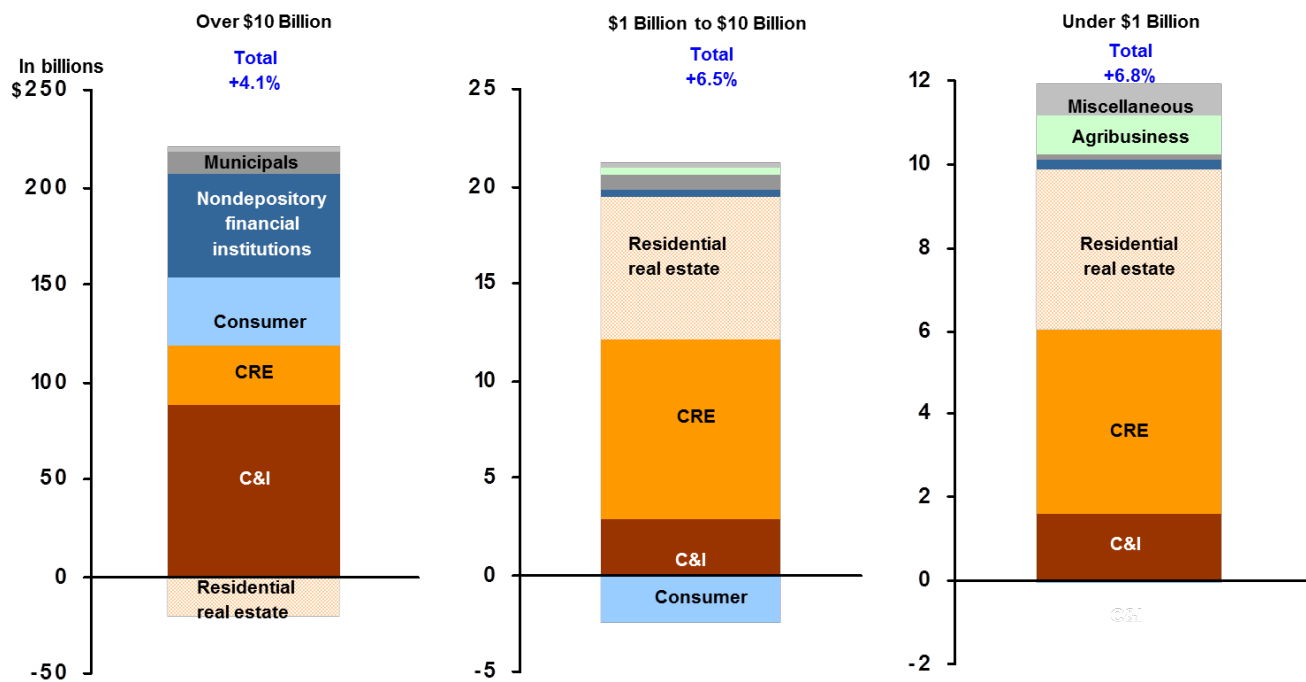


Source: OCC Credit Analytics

Loan Growth at Smaller Banks Centered in Commercial and Residential Real Estate

Banks of all sizes reported stronger total loan growth, led by a year-over-year growth for the second quarter of 2015 of 6.8 percent at banks with total assets less than \$1 billion (see figure 16). Loan growth for these banks was centered in CRE lending (sum of construction, nonresidential mortgage, and multifamily) and residential mortgage lending. Banks with total assets between \$1 billion and \$10 billion as a group reported 6.5 percent growth in total loans year-over-year, also driven by CRE and residential mortgage lending. The overall growth rate for banks with total assets more than \$10 billion continues to lag behind that of smaller banks. Sources of loan growth for larger banks remain centered in C&I, nondepository financial institutions, and consumer lending.

Figure 16: Year-Over-Year Loan Growth Trends Through First Half of 2015



Source: Integrated Banking Information System (OCC)

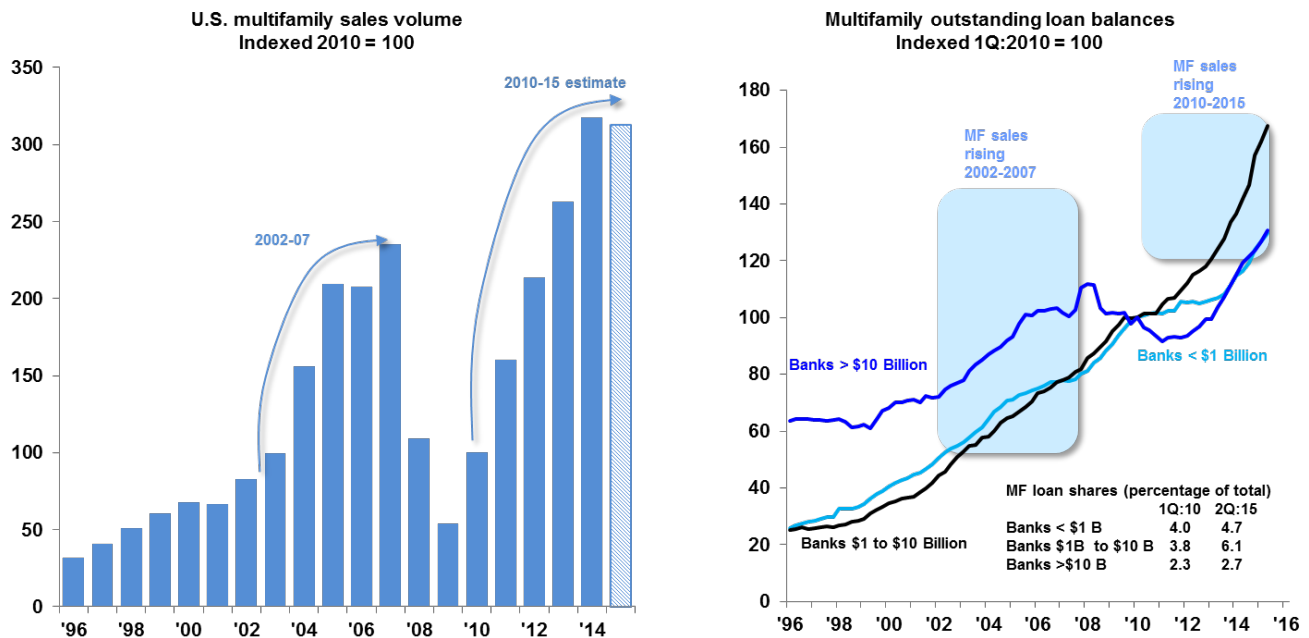
Note: Data are merger-adjusted and held constant for institutions in continuous operation from 1Q:2010 to 2Q:2015.

While overall loan growth increased in the first half of 2015, competitive pressures are evident in the distribution of growth across community banks. Compared with the first half of 2014, slightly more than one-fifth of banks experienced negative total loan growth through the first half of 2015, and a comparable share of banks experienced double-digit rates of total loan growth. The market-share shifting may contribute not only to the squeezing of net interest margins but also may explain part of the merger activity, the pressure to loosen underwriting standards, and banks reaching for yield from less traditional credit products.

Growth in Multifamily Lending Is Building Concentrations

Multifamily lending by banks is increasing as strong property market conditions across the United States attract investment. Multifamily lending accounts for a relatively small portion of loans in the federal banking system, but since 2010 growth has accelerated and multifamily lending is a growing concentration for many banks (see figure 17). When interest rates increase, collateral values on real estate projects may fall, which could increase refinance risks. While interest rates are only one factor that influence capitalization rates, rising rates generally puts upward pressure on capitalization rates. This risk applies to all forms of CRE lending, but multifamily loans are a particular concern, given that capitalization rates are at or near historical lows.

Figure 17: Growth in Multifamily Lending at Banks



Sources: Integrated Banking Information System (OCC); CoStar Group

Note: 2015 Multifamily sales volume estimate is annualized rate through 2Q:2015. Historical multifamily loan data are merger-adjusted. Data reflect all institutions in operation as of 2Q:2015.

Part III: Key Risk Issues

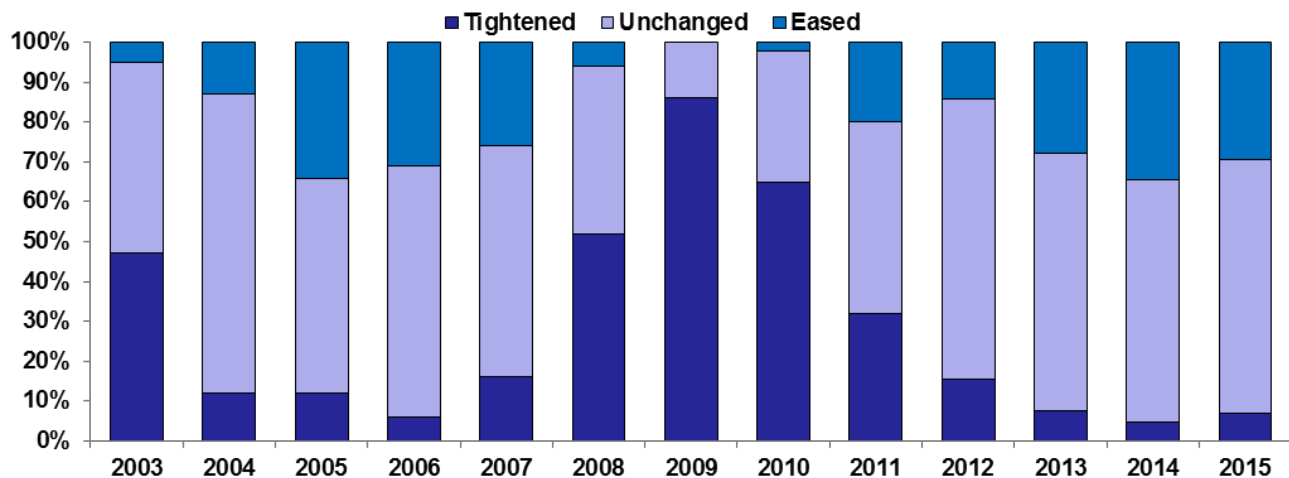
A. Competition Drives Easing of Underwriting Standards

Loan Underwriting Standards Easing

The results of the OCC's 2015 *Survey of Credit Underwriting Practices* show the third consecutive year with underwriting standards easing more than tightening for commercial and retail loan products. The number of banks with eased underwriting standards for the past three years is similar to the findings from the 2005–2007 surveys. Similar to pre-crisis surveys, the 2015 survey reflects that many banks are pursuing portfolio growth and yield by loosening underwriting standards. Credit risk is increasing because of these trends.

Loan portfolios that experienced the most easing in underwriting standards included indirect consumer, credit cards, leveraged loans, other CRE loans, and CRE construction. Competition was the most prevalent reason cited by examiners for relaxing pricing and terms, with economic outlook, ample market liquidity, market strategy, and risk appetite also contributing to loosened underwriting standards.

Figure 18: Percentage of Survey Respondents Tightening Commercial Underwriting Standards



Source: OCC, 2015 *Survey of Credit Underwriting Practices*

Similarly, the interagency *Shared National Credits Program 2015 Review* identified weaknesses in underwriting standards in 28 percent of the sampled loans. Leveraged lending and oil and gas commitments were cited as the primary driver of these weaknesses. The most frequently cited underwriting weaknesses included minimal or no loan covenants, liberal repayment terms, repayment dependent on refinancing, and inadequate collateral valuations.

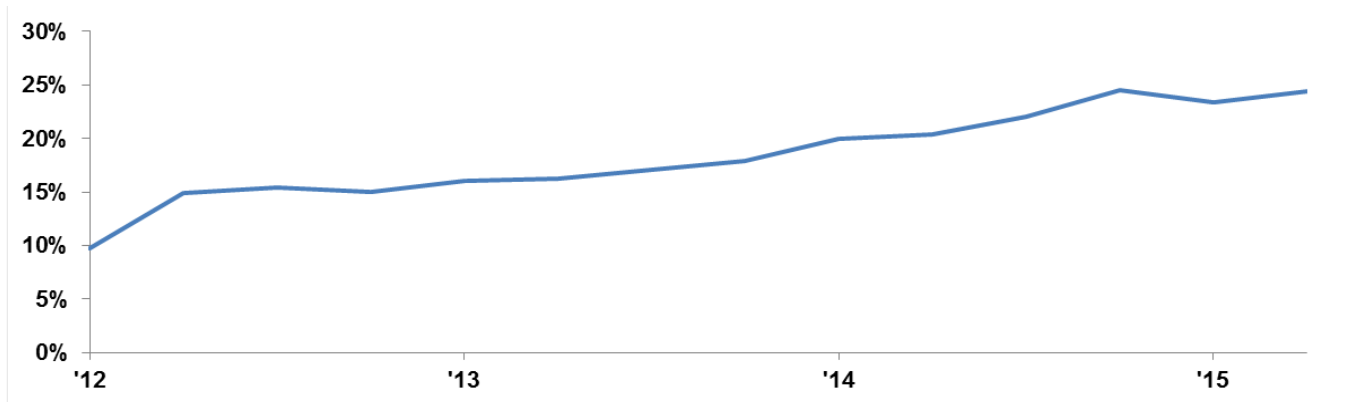
The OCC is monitoring trends in leveraged lending, as banks work to implement the 2013 interagency leveraged lending guidance.¹³ Non-pass originations of leveraged loans to new borrowers declined during the second quarter of 2015 from the previous year. The quality of newly originated loans will be a focal point in the agency's 2016 supervision strategies.

¹³ [OCC Bulletin 2013-9](#), "Guidance on Leveraged Lending" (March 22, 2013).

Auto Lending Is a Concentration in Some Banks

Underwriting practices and weak loan structures in auto lending are most concerning in banks with high concentrations of auto loans. Strong auto loan growth alone does not pose systemic risk; however, the level of concentrations and rate of growth at individual banks are an increasing focus for the OCC. Even as banks have increased capital levels, auto loan portfolios represent greater than 25 percent of capital at about 15 percent of banks. Furthermore, nearly one in four banks shows year-over-year growth in outstanding auto loans of greater than 10 percent through the second quarter of 2015. The number of such banks increased steadily since the first quarter of 2012 (see figure 19). Concentrations and growth reflect both new originations and extended durations of loans caused by lengthening maturity schedules.

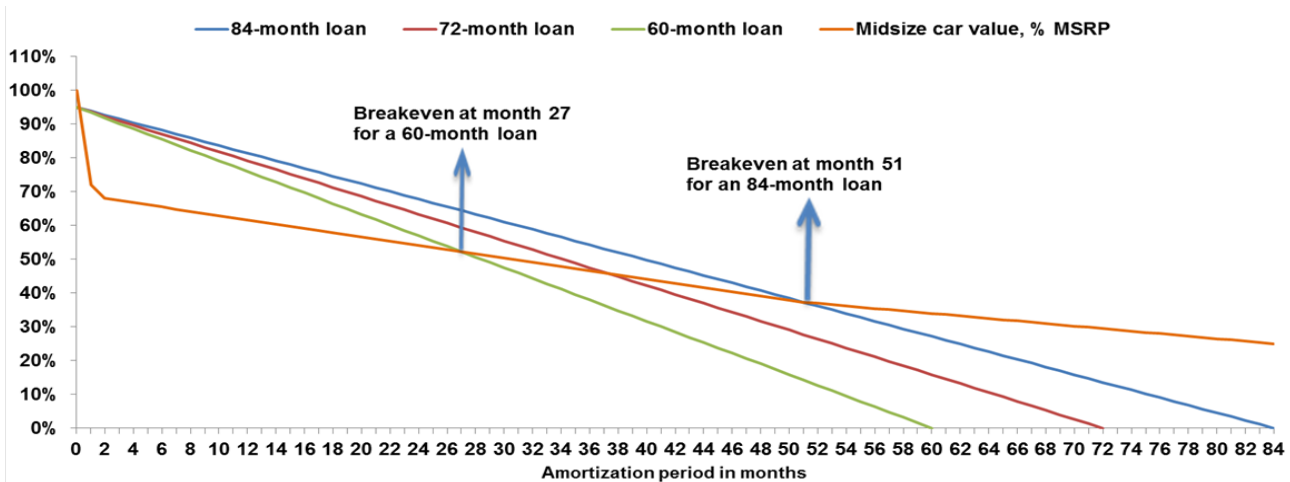
Figure 19: Trends in Banks With Annual Auto Loan Growth Greater Than 10 Percent



Source: Integrated Banking Information System (OCC)

The OCC is focusing on how banks with auto portfolios account for risk layering in their ALLL and capital. For example, layering of risk by extending the length of loan maturity and advancing at higher loan-to-value levels create a longer period of time banks and consumers are in a negative equity position (see figure 20). Specifically, the outstanding principal balance exceeds the value of the automobile for a longer period of time with the lengthening of the loan term before a breakeven point is reached (where the outstanding principal and value of the automobile are equal). To illustrate, the average breakeven point on an auto loan with a 60-month term is 27 months compared with a 50-month average for an 84-month auto loan. This longer time to breakeven increases the loss exposure if a borrower defaults.¹⁴

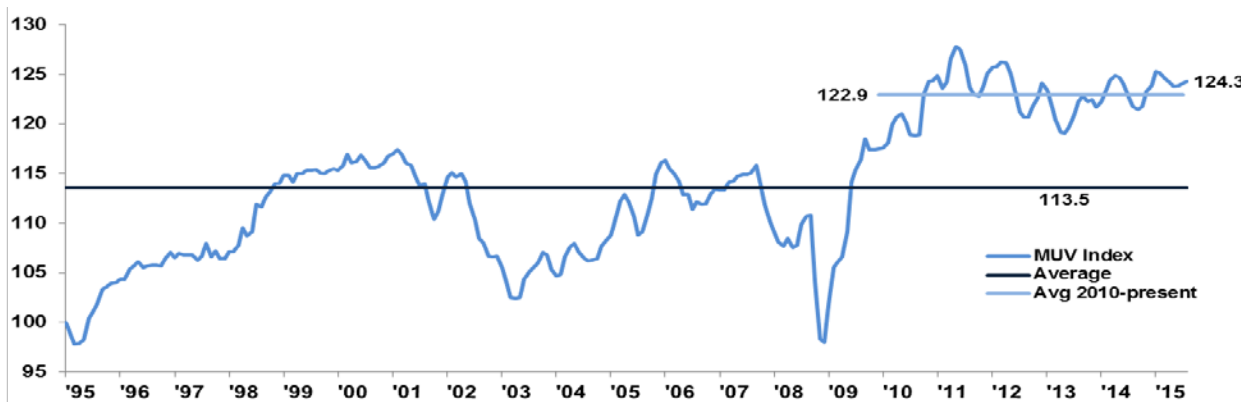
Figure 20: Vehicle Depreciation Compared With Loan Amortization



Sources: National Automobile Dealers Association, Moody's Investors Service

In addition to an increased exposure from lengthening terms, used-car values remain well above the historical average. The Manheim Used Vehicle Index (MUV Index) over time reflects a historic average index of 113.5, compared with a recent MUV Index of 124.3 in August 2015 (see figure 21). This situation implies greater risk of loss if the values revert to historical levels.

Figure 21: Trends in Mannheim Used Vehicle (MUV) Index (1995=100)



Source: Haver, seasonally adjusted

¹⁴ This analysis assumes two loans with identical loan characteristics: prime and near-prime borrowers with 95 percent loan-to-value level and a 5 percent interest rate, varied only by the length of term. The depreciation is an average of four popular mid-sized vehicles with sufficient historical data: Toyota Camry, Ford Focus, Nissan Altima, and Honda Accord.

B. IRR Vulnerabilities

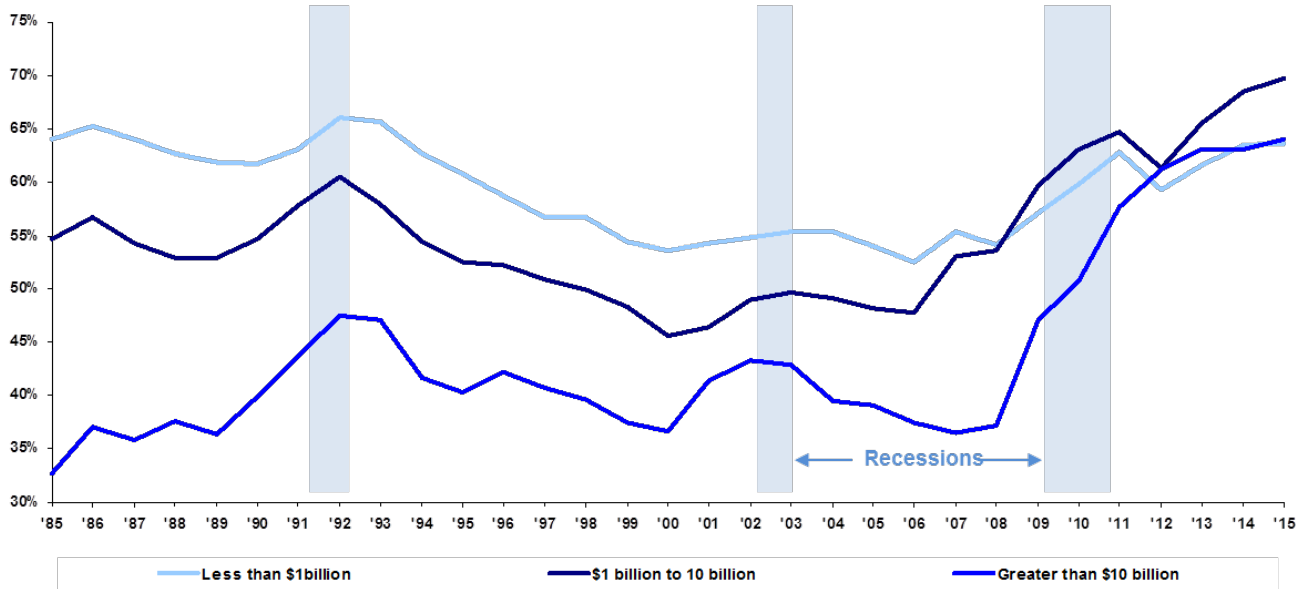
Retention Rate of Post-Crisis Core Deposit Growth Remains Uncertain

Interest rates remain historically low, although the market is expecting the Board of Governors of the Federal Reserve System to increase the federal funds rate. The uncertainty around the timing and size of the expected move and the uncertain effect on long-term rates make it important for banks to understand their IRR exposure under different rate environments. Net interest margins, in general, continue to decline as the cost of funds stabilizes, but earning asset yields continue to shrink. Bank earnings could be negatively affected if short-term interest rates rise relative to long-term rates. A flattening of the yield curve could create an environment where deposits reprice but asset yields do not benefit as significantly. Therefore, it is appropriate for banks to assess their IRR exposure under a variety of scenarios appropriate for the bank's own risk and complexity.

Core deposits surged during the recession and remain significant because of the low interest rate environment (see figure 22). Transaction accounts experienced a growth rate higher than in other periods of declining rates. Total deposits increased at a similar rate to past cycles, but customers migrated to transaction accounts thereby increasing the reliance on transaction accounts. These inflows from depositors looking for safety and liquidity could quickly reverse when rates rise. Accordingly, the OCC expects banks to carefully analyze the recent behavior of liabilities and to use this information to model alternative assumptions in interest rate models. Sensitivity testing should show an analysis and understanding of the range of potential outcomes, given the uncertainty of the stability of surge deposits or the deposit mix where surge inflows were less evident. Banks should consider the long-term implications to earnings and capital in strategic planning when assessing their own level and potential exposure to IRR.

Figure 22: Trends in Core Deposits for Banks

Core deposits,*excluding small certificates of deposit share of liabilities, percent



Source: Integrated Banking Information System (OCC)

Note: Data for 2015 are as of June 30. All other data as of year-end. *Core deposits defined as domestic deposits less time deposits of \$100k or more. Ratio also excludes small certificates of deposit.

C. Operational Risk Remains Elevated

Operational Risk Concentrated in the Largest Banks, Increasing in Smaller Banks

Operational risk is elevated for a number of reasons. These include the amount and pace of internally and externally initiated change, greater interconnectedness and interdependencies, increased sophistication of cyber threats, and pervasive technology vulnerabilities. While high operational risk has been primarily concentrated in the largest banks, it is also increasing among smaller banks.

Organizations are being targeted via the BEC, a sophisticated scam targeting businesses by forging payment requests for legitimate vendors but directing the funds to the cyber criminal's account. The FBI's Internet Crime Complaint Center reported approximately \$800 million in losses between October 2013 and August 2015 because of BEC schemes (see table 1). When combined with losses reported by international law enforcement agencies, total losses from BEC schemes exceeded \$1.2 billion.

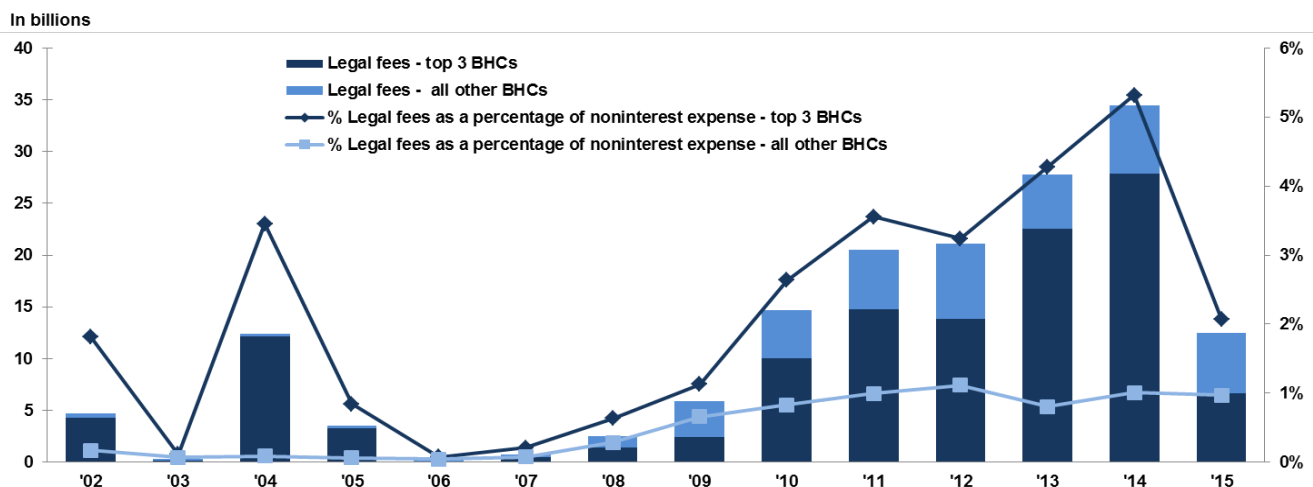
Table 1: BEC Statistics, October 2013 through August 2015

	Number of victims	Losses in U.S. dollars
U.S.	7,066	\$747.66 million
Non-U.S.	1,113	\$51.24 million
Total	8,179	\$798.90 million

Source: FBI Internal Crime Complaint Center, October 2013 through August 2015.

In addition to cyber-related losses, legal fees and settlements represent a measure of the financial impact of operational loss events. A U.S. Securities and Exchange Commission report as of December 31, 2014, indicates that the 12 largest bank holding companies (BHCs) estimated a maximum potential legal exposure of approximately \$17.8 billion in excess of reserves. The exposure amounts were \$14 billion, \$20.1 billion, and \$22.9 billion for 2011, 2012, and 2013, respectively. Aggregate legal fees and settlements were at a 10-year high in 2014 and have decreased during the first half of 2015 (see figure 23). Several large banks and a small number of midsize banks continue to incur significant legal settlements and regulatory penalties.

Figure 23: Trends in Legal Fees and Settlements



Source: Federal Reserve Y-9C Reports

Note: Data for 2015 are as of June 30, all other data as of year-end.

D. Compliance Risk Remains High

Increased BSA/AML Risk Observed in New Offerings and Strategies

BSA/AML risk is increasing. Technological developments in enhanced delivery platforms for bank products may create new exposures to criminal activity. More traditional concerns, such as bulk cash smuggling, including via armored car service and funnel account activity, also continue to present risks to banks.¹⁵

Some banks have reevaluated client BSA/AML risk profiles and closed the accounts of certain higher-risk customers. Displacement of customers because of reevaluation strategies by larger banks may result in the continued on-boarding of higher-risk customers by banks that potentially have less experience with associated BSA/AML risks. This displacement also may result in the financial exclusion of some customers from banking services. The OCC expects banks to assess the risks posed by individual customers on a case-by-case basis and implement controls to manage the relationships commensurate with these risks. As a general matter, the OCC does not direct banks to open, close, or maintain individual accounts, nor does the agency encourage banks to engage in the termination of entire categories of customer accounts without regard to the risks presented by an individual customer or the bank's ability to manage the risk.

Over the past four fiscal years, the number of OCC formal EAs related to BSA/AML has remained relatively constant (see table 2). Notwithstanding the drop in the dollar amount of civil money penalties imposed during fiscal year 2015, the volume of EAs is on pace with prior years. Importantly, the increased dollar amount of civil money penalties between 2010 and 2014 reflects more significant or egregious BSA violations.

Table 2: Trends in OCC BSA/AML-Related EAs

Fiscal year	2010	2011	2012	2013	2014	2015	Total
Formal EAs	14	10	15	16	16	8	77
Civil money penalties	2	2	0	4	3	2	13
Dollar amount (in millions)	\$5.2	\$15	\$0	\$551.6	\$351	\$1.5	\$924.3

Source: Financial Crimes Enforcement Network Consolidated Quarterly Reports

Note: Data for 2015 include EAs and civil money penalties issued through September 30. All other data are as of year-end.

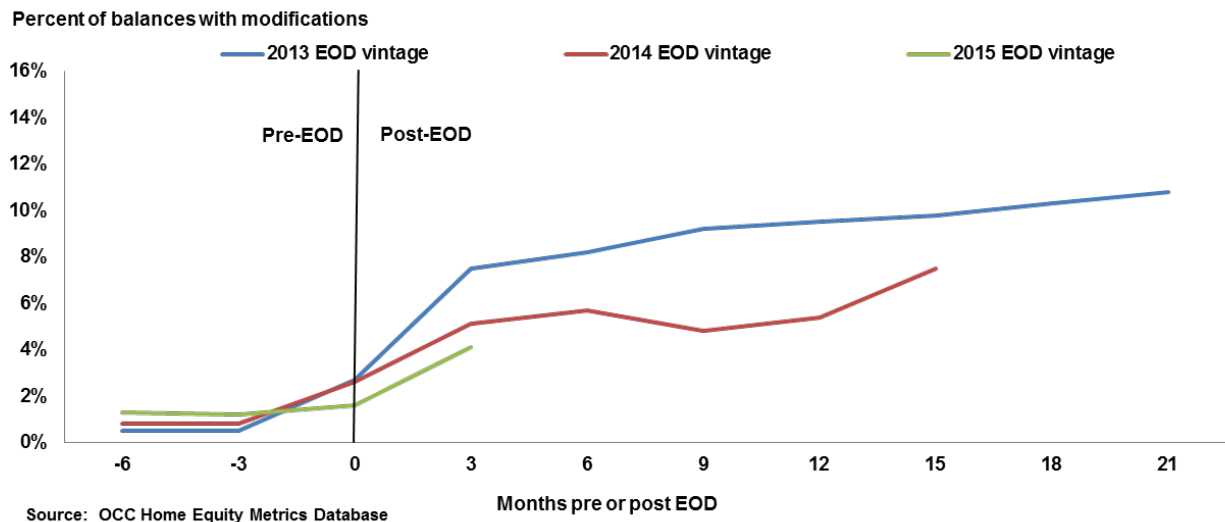
¹⁵ A funnel account is an individual or business account located in one geographic area that receives multiple cash deposits, often in amounts below the cash-reporting threshold, and from which the funds are withdrawn in a different geographic area with little time between the deposits and withdrawals.

E. HELOC End-of-Draw Comes Into Focus

HELOC Modifications Increase Post End-of-Draw

Banks continue to make progress implementing home equity line of credit end of draw (HELOC EOD) guidance. HELOC accounts reaching the end-of-draw in 2013, 2014, and 2015 at the nine largest OCC-supervised home equity lenders have shown that modification rates dramatically increase post end-of-draw (see figure 24). As HELOCs become delinquent, banks report heightened modification and troubled debt restructure activity. This activity when prudently conducted can benefit the bank and the consumer but also warrants monitoring to ensure the modifications are sustainable.

Figure 24: Modified Loan Concentration by End-of-Draw Vintage

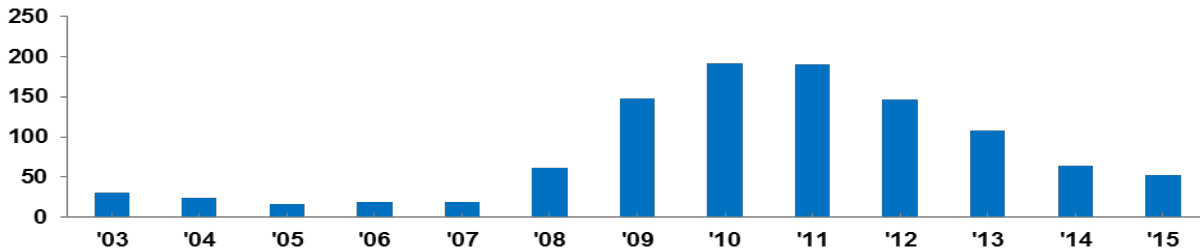


Part IV: Regulatory Actions

Number of Banks Rated 4 or 5 Continues to Decline

The number of OCC-supervised banks rated 4 or 5 declined modestly through the first half of 2015 after peaking in 2010 and 2011 (see figure 25). The decline was attributable mainly to positive trends in bank condition.

Figure 25: Number of Banks Rated 4 or 5



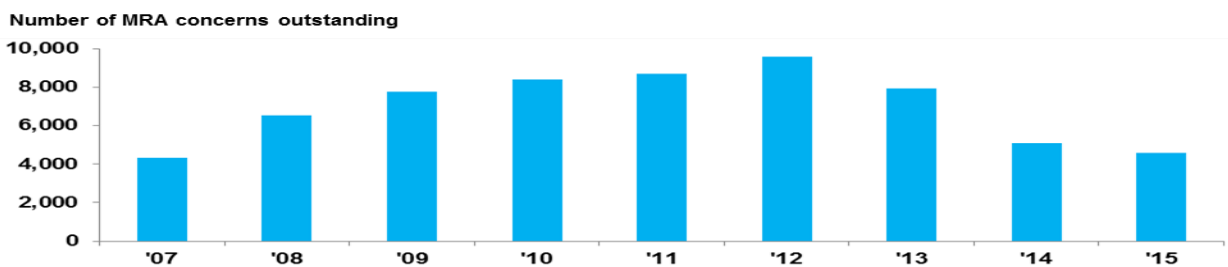
Source: OCC

Note: Data for 2015 is as of June 30. All other data are as of year-end.

Outstanding MRA Concerns Declined Slightly

The OCC communicates supervisory concerns to a bank's board of directors and management in the form of MRAs. Supervisory concerns include bank practices deviating from safe and sound banking practices or sound risk management principles.¹⁶ Such deviations, if not addressed appropriately, could adversely affect a bank's earnings, capital, risk profile, compliance, or reputation and could lead to EAs. The number of outstanding MRAs peaked in 2012 and has declined through June 30, 2015 (see figure 26).

Figure 26: Trends in Outstanding MRA Concerns



Source: OCC

Note: Data for 2015 as of June 30, all other data as of year-end.

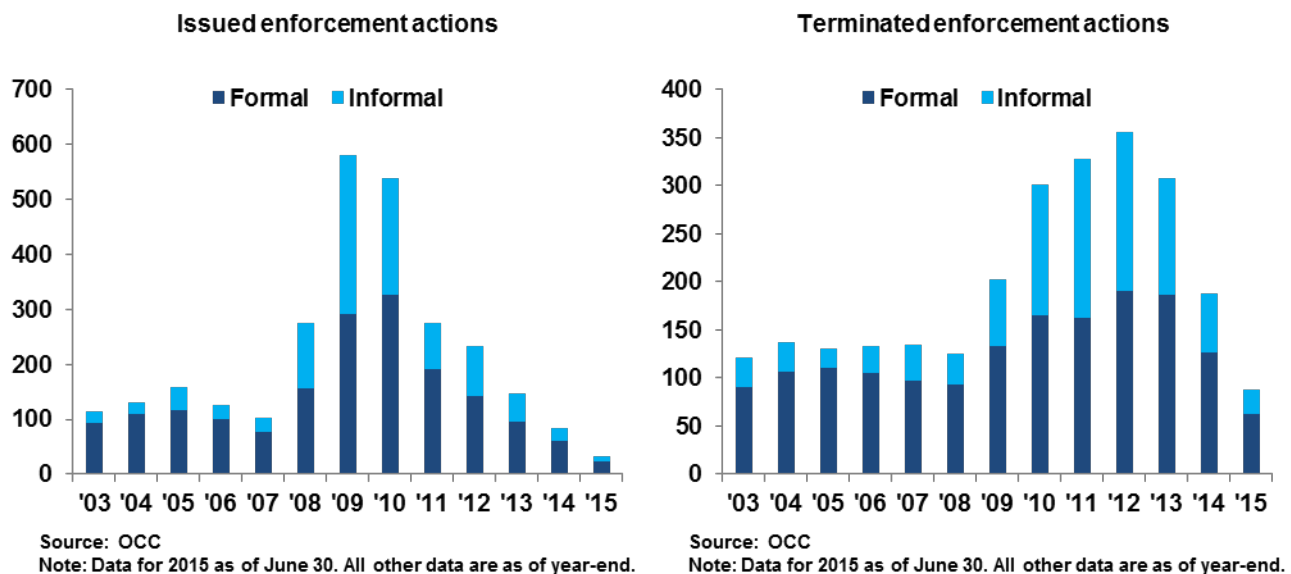
The top five MRA categories for small banks included credit (45 percent), enterprise governance (18 percent), bank information technology (12 percent), BSA/AML (9 percent), and consumer compliance (9 percent). For large banks, the top five MRA categories included credit (26 percent), capital markets (13 percent), BSA/AML (12 percent), consumer compliance (10 percent), and bank information technology (10 percent).

¹⁶ [OCC Bulletin 2014-52](#), "Matters Requiring Attention: Updated Guidance" (October 30, 2014).

EAs Against Banks Continue to Decline

The OCC uses EAs to address more acute problems or weaknesses requiring corrective measures. Informal EAs include commitment letters, memorandums of understanding, and approved safety and soundness plans. Formal EAs, which are disclosed to the public, include cease-and-desist orders, capital directives, and formal agreements. Generally, the OCC may take formal enforcement actions for violations of law, rules, or regulations, unsafe and unsound practices, violations of final orders, violations of conditions imposed in writing, and for individual affiliated parties' breaches of fiduciary duty. The number of EAs issued by the OCC against banks in 2015 continues to decline (see figure 27), reflecting the improvement in banks' conditions. Compliance or operational failures have resulted in a number of recent EAs. Remedial EAs have addressed a lack of appropriate governance, oversight, and risk management systems and controls. In addition, in 2015 the OCC assessed significant civil money penalties for serious violations of law and unsafe or unsound practices.

Figure 27: OCC EAs Against Banks



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