



Comptroller of the Currency
Administrator of National Banks

Washington, DC

September 2000

To: Board Members and Chief Executive Officers of National Banks

I am pleased to enclose the results of the *2000 Survey of Credit Underwriting Practices* recently conducted by senior OCC credit analysts at sixty-nine of the largest national banks. These banks collectively hold 89 percent of the total loans in the national banking system.

This survey shows fewer overall changes in underwriting standards than in prior years, including, most notably, less slippage in new underwriting. While this is an encouraging sign, we nevertheless remain quite concerned about the high levels of “embedded” credit risk on the books of some banks as a result of relaxed underwriting and risk selection in prior years. We are also apprehensive about the continued growth of various types of highly leveraged and subprime lending in the system, and the frequency with which these activities are being undertaken without adequate analysis and risk management systems at some banks.

Because these embedded and new risks will not fully manifest themselves in terms of delinquencies and collection problems until economic conditions deteriorate, bankers should be preparing now for this eventuality by shoring up collateral values and guarantor support, and, where possible, correcting overly generous repayment terms.

Our examiners will continue to assess credit quality and underwriting on a bank-by-bank basis and will highlight conditions requiring board and management attention to avoid or mitigate credit problems as the credit cycle matures. I encourage you to discuss this survey and other credit issues with your OCC examiner-in-charge. Please also feel free to contact your local OCC supervisory office or Barbara Grunkemeyer of the Credit Risk Policy division in Washington (202-874-5170) with questions or comments.

Sincerely,

John D. Hawke, Jr.
Comptroller of the Currency