

NR 96-95  
September 11, 1996

OCC Survey Shows Some National Banks Changed  
Underwriting Standards for Commercial and Consumer Credit

WASHINGTON, D.C. -- A survey of Office of the Comptroller of the Currency (OCC) examiners in the 82 largest national banks found that, in most of the banks surveyed, underwriting standards were unchanged from a year earlier. Only 19 percent of banks changed their loan standards in the commercial sector (14 percent eased; 5 percent tightened) and 26 percent changed their loan standards in the retail sector (13 percent tightened and 13 percent eased).

Examiners who participated in the survey identified competitive considerations as the predominant reason banks have made changes in their lending standards over the last year. The effects of competition were most apparent in eased pricing for all categories of commercial loans, where banks are competing not only among themselves but also, in many cases, with other financial intermediaries and the capital markets.

In a letter to the chief executive officers of national banks accompanying the survey results, Comptroller of the Currency Eugene A. Ludwig said that, "vigilance by bankers and regulators alike is the best way to avoid future problems."

The findings in the 1996 Survey of Credit Underwriting Practices, which represent the views of the lead examiner of each bank surveyed, showed a higher level of credit risk in some parts of both retail and commercial portfolios compared to a year ago. These higher levels of credit risk were most frequently noted in the credit card and indirect consumer components of banks' retail portfolios, and in the middle market and syndicated/national credit (generally, loans to very large companies) components of commercial portfolios.

Because there are significant differences among banks in the importance of individual product components to the total loan portfolio, Mr. Ludwig noted that the impact of an increased level of inherent credit risk for a particular portfolio component can only be assessed on a bank-by-bank basis. He said that in banks with increased levels of risk, examiners, where appropriate, recommended that bank senior management strengthen systems and controls and increase reserves or capital.

The National Credit Committee, composed primarily of OCC bank examiners specializing in credit matters, developed the survey. It is chaired by Jeri Gilland, assistant chief national bank examiner for credit and management policy. The committee was formed by Mr. Ludwig early in 1995 because of growing concerns about slippage in credit underwriting standards.

The survey analyzes 12 types of loans: syndicated/national credits, middle market, small business, commercial real estate, international, and agricultural loans in the commercial portfolio; and credit card, home equity, direct consumer

(originated by the bank), indirect consumer (purchased by the bank), residential real estate, and affordable housing loans in the consumer portfolio.

Copies of the survey will be sent to all national banks and bank examiners.

For a copy of 1996 Survey of Credit Underwriting Practices: write to Comptroller of the Currency, Communications Division, Washington, DC 20219; or fax your request to (202) 874-4448; or go to the OCC's web page at <http://www.occ.treas.gov>; or call (202) 974-5043 to order by phone; or visit the OCC's Public Reference Room at 250 E Street, S.W. in Washington, D.C. (9 a.m. - noon and 1-3 p.m., Monday-Friday).

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The OCC charters, regulates and examines approximately 2,800 national banks and 66 federal branches and agencies of foreign banks in the U.S., accounting for more than half the nation's banking assets. Its mission is to ensure the safety and soundness of the national banking system.