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Survey of Large National Banks Shows Some  
Relaxation of Lending Standards

WASHINGTON, D.C. -- A survey of the 40 largest national banks conducted by examiners of the Office of the Comptroller of the Currency (OCC) covering the period May 1994 to May 1995 found relaxed standards for making loans on some products, primarily in retail lending. Where standards were relaxed, they were done so to meet competitive pressures and because of changes in the bank's market strategy.

"I continue to be concerned that, in their efforts to be competitive, banks should not lose sight of the effect of new lending on the risk in their portfolios," Comptroller of the Currency Eugene A. Ludwig said. "Although most banks have not formally changed their underwriting standards, the survey indicates that banks have in fact relaxed underwriting standards for some loan products, and made more policy exceptions for individual credits that do not conform to the bank's established loan policy."

The National Credit Committee, composed primarily of OCC bank examiners specializing in credit matters, developed the survey. The committee was formed by Mr. Ludwig earlier this year because of growing concerns about slippage in credit underwriting standards.

While most bank lending standards did not change over the year, the OCC credit committee is concerned about the possibility that those banks which relaxed standards may not have adequately assessed the additional risk they assume. The committee was also concerned that, although banks have processes to monitor and manage underwriting, those processes may not be effective when portfolios are subjected to the stress of significant changes in economic conditions.

While the surveyed banks were seen as having adequate systems to approve and report individual loan policy exceptions, examiners expressed concern about the banks' ability to monitor the aggregate level of loan policy exceptions. Examiners also reported a wide variation in the systems used to identify and manage risk associated with concentrations of credit, while noting that the systems appeared to be effective.

The survey analyzes and includes a breakdown of 11 types of loans: commercial and industrial and syndicated loans; middle market lending; small business loans; agricultural lending; international credits; commercial real estate loans; residential real estate loans; affordable housing loans; home equity loans; indirect consumer lending; and direct consumer lending.

Of the reported changes in underwriting, most were reported in

retail credit products. The changes included: higher loan-to-value ratios, longer maturities, lower loan fees and interest rates, and more use of teaser rates. The highest incidence of increased credit risk was reported in consumer-indirect loans (35 percent) and home equity portfolios (23 percent).

For a copy of Survey of Underwriting Policies and Practices: call the OCC's automated fax system (202) 479-0141 and at the voice prompt enter document numbers 1020 and 1021; or write to Comptroller of the Currency, Communications Division, Washington, DC 20219; or fax your request to (202) 874-5263.

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The OCC charters, regulates and examines America's approximately 3,000 national banks which hold more than 50 percent of the nation's bank assets.

Its mission is to engender confidence in the nation's financial structure by safeguarding the safety and soundness of the national banking system.