



Comptroller of the Currency
Administrator of National Banks

NR 2001-59

FOR IMMEDIATE RELEASE
June 27, 2001

Contact: Robert Garsson
(202) 874-5770

Comptroller Views Underwriting Tightening Rational Response to Previous Lending Excesses

WASHINGTON -- The OCC's seventh annual Survey of Credit Underwriting Practices found that underwriting standards for commercial and retail loans tightened during the 12-month period ending March 31, 2001. Tightening was most pronounced in the syndicated national and structured finance (leveraged lending) commercial loan products where standards were eased most in prior years, and where credit problems developed even before the economy slowed.

Previous underwriting surveys indicated rising levels of credit risk in bank loan portfolios. In today's less favorable economic climate, a number of factors--eased underwriting and risk selection practices, and rising business and household debt and leverage--are affecting credit quality.

"Reported tightening appears to be a rational response to prior practices and increases in problem loan levels," said Comptroller of the Currency John D. Hawke, Jr. "I am pleased that bankers are taking steps to improve underwriting practices and credit risk recognition."

While the overall volume of problem credits remains moderate, Mr. Hawke indicated that some banks need to improve risk identification and management. "I urge bankers to consider the lessons learned from this experience of allowing short-term earnings pressures to unduly influence their risk taking and risk management processes. For banks to be fully capable of serving the interests of their customers and shareholders over the long term, they must maintain strong and stable credit risk management processes at all times," Mr. Hawke said.

With today's uncertain conditions and problem loan levels on the rise, Deputy Comptroller for Credit Risk David D. Gibbons said banks should ensure that:

- Sufficient resources are available for problem loan identification, management and resolution;
- Management information systems are sufficient to identify and report credit risk trends, vulnerabilities, and concentrations at the customer, product, geographic, industry, and portfolio levels;
- Strong internal controls are in place; and
- The allowance for loan and lease losses is fully adequate to absorb inherent losses.

-more-

The OCC will continue to focus supervisory attention and resources to ensure that credit risk in national banks is accurately rated and that credit risk management practices and allowances for loan and lease loss levels are commensurate with risk levels.

The 2001 survey covered the 66 largest national banks with an aggregate loan portfolio of \$2 trillion, or 90 percent of national bank loans. The Office of the Comptroller of the Currency's senior examiners completed a series of questions concerning 16 types of commercial and retail credit focusing on the direction of lending standards and the level of inherent risk in the portfolio and products of the banks they supervise.

The 2001 OCC survey found that:

- Underwriting standards tightened more significantly during the 12 months covered by the 2001 survey than in either of the previous two years.
- Fifty-five percent of banks tightened commercial loan standards in 2001 compared to 25 percent in 2000, while 6 percent loosened standards in 2001 compared to 16 percent in 2000.
- Underwriting standards for retail loans also tightened, but to a lesser degree than those for commercial loans. The 2001 survey found that 32 percent of the banks tightened retail standards, while 20 percent eased standards.
- Economic outlook was the most frequently cited reason for tightening standards, followed closely by change in risk appetite and product performance/portfolio quality.
- Examiners also reported that the level of inherent portfolio credit risk increased in the past year. Fifty-one percent of the surveyed examiners reported that commercial credit risk had increased since the last survey, and 63 percent expected it to increase over the next 12 months.
- Economic conditions and changes in portfolio quality were most frequently cited as reasons for increasing product and portfolio risk.

For a copy of the *2001 Survey of Credit Underwriting Practices*, write to: Office of the Comptroller of the Currency, Communications Division, Washington, DC 20219. A copy is also available on the OCC's Web site: www.occ.treas.gov.

###

The OCC charters, regulates and examines approximately 2,200 national banks and 56 federal branches of foreign banks in the U.S., accounting for more than 55 percent of the nation's banking assets. Its mission is to ensure a safe and sound and competitive national banking system that supports the citizens, communities and economy of the United States.