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Underwriting Standards Continue to Ease, OCC Survey Shows

WASHINGTON — Underwriting among national banks and federal savings associations eased for the third consecutive year, according to a report released today by the Office of the Comptroller of the Currency (OCC).

The OCC's 21st *Annual Survey of Credit Underwriting Practices*, showed easing of underwriting standards within commercial and retail loan products of the 95 banks and federal savings associations surveyed, reflecting trends similar to those seen from 2005 through 2007.

"We are seeing trends very similar to those that examiners reported just prior to the most recent financial crisis," said Jennifer C. Kelly, Senior Deputy Comptroller and Chief National Bank Examiner. "With credit risk on the rise, OCC examiners will remain focused on evaluating new loan originations to assess banks' and federal savings associations' efforts to maintain prudent underwriting standards and practices through this stage of the credit cycle."

In the survey, examiners noted that banks and federal savings associations have eased underwriting standards and increased levels of credit risk in response to competitive pressures and abundant market liquidity. Large banks, as a group, reported the most easing of underwriting standards, with the most easing occurring in commercial real estate (CRE) construction, other CRE, leveraged loans, indirect consumer, and credit cards.

Examiners also noted increasing exceptions to banks' loan policies, primarily in commercial products and to a lesser degree in retail products. The combination of increasing policy exceptions and easing of underwriting standards can increase portfolio risk to excessive levels and result in less resilient portfolios during times of stress. Boards of directors and senior management should carefully consider the impact of eased underwriting standards on the quality and volatility of performance in their loan portfolios, particularly for products that have already seen considerable easing over the past several years, such as leveraged lending, CRE loans, indirect consumer lending, and credit cards.

The survey is a compilation of examiner observations and assessments of credit underwriting standards and practices at 95 of the largest banks and federal savings associations supervised by the OCC. The survey results cover the 12-month period ending June 30, 2015. The survey covers loans totaling \$5.1 trillion, representing 94 percent of all loans in the federal banking system.

Related Link

- [2015 Annual Survey of Credit Underwriting Practices](#) (PDF)

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