

[Banking and Finance Law Daily Wrap Up, PRUDENTIAL REGULATION— OCC focuses on effects of COVID-19 in spring risk report, \(Jul. 6, 2020\)](#)

Banking and Finance Law Daily Wrap Up

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The OCC has issued its spring 2020 *Semiannual Risk Perspective*, focusing on the financial impact of the COVID-19 pandemic.

The Office of the Comptroller of the Currency has issued its *Semiannual Risk Perspective for Spring 2020*, which addresses key issues facing national banks, federal savings associations, and federal branches and agencies of foreign banking organizations (collectively, "banks"), focusing on those that pose threats to the safety and soundness of banks and their compliance with applicable laws and regulations.

The [current report](#) focuses on the financial impact from the COVID-19 pandemic on the federal banking industry and presents data in four main areas: (1) the operating environment; (2) bank performance; (3) special topic in emerging risks; and (4) trends in key risks. The report reflects data as of Dec. 31, 2019, unless otherwise indicated.

According to the report, banks entered the national health emergency related to COVID-19 in sound condition but now face weak economic conditions resulting from the economic shutdown in response to the pandemic that will stress financial performance in 2020. The OCC reported weak financial performance and increasing credit, operational, and compliance risks among the key risk themes in the report. The report also discusses government relief programs as a special topic in emerging risks.

Highlights. As described in an OCC bulletin, highlights from the report include:

- financial performance will be affected by higher credit losses, overhead expenses, and lower net interest income;
- the onset of the COVID-19 national health emergency created an uncertain credit environment that will test the resiliency of commercial and retail loan portfolios and require credit risk management practices to be flexible and proactive;
- operational risk is heightened as banks amended business processes and engaged third parties to support widespread remote work capabilities, increased technological capacity, and solutions to maintain operations under elevated operational volumes; and
- compliance risk is elevated because of a combination of altered operations, employees working remotely, and several new federal and state programs designed to support consumers, such as the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Paycheck Protection Program, and a variety of forbearance and deferred payment programs.

Economic outlook. The OCC noted that the report was prepared from April to early June of this year and that during this time, states began phased reopening of their economies. According to the report, economic data releases in early June showed signs of recovery, and if these positive trends continue, the depth and breadth of credit issues discussed in the report may be less severe. But the OCC added that bank profitability remains dependent on the depth and duration of the economic downturn that is difficult to predict.

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