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OCC National Credit Underwriting Survey Finds
Commercial Loan Standards Eased, Retail Loan Standards
Mixed

WASHINGTON, D.C. -- The Office of the Comptroller of the Currency's (OCC) annual loan underwriting survey released today found that commercial loan standards have eased, primarily due to competition. On the retail side, lenders tightened underwriting standards for credit cards, indirect and direct consumer loans, and for affordable housing, but eased standards for home equity and residential real estate loans.

The survey of OCC examiners evaluates lending practices at 80 of the largest national banks in 1997 and compares this year's results to the 1996 findings. The banks included in the survey had loan portfolios totaling approximately \$1.5 trillion.

The survey found a discernable shift away from conservative underwriting standards since the 1996 survey. Across all categories of credit covered by the survey, examiners described 38 percent of the banks as having "conservative" underwriting standards, down from 52 percent in the 1996 survey. "Moderate" standards were depicted at 54 percent of the banks, up from 45 percent a year earlier, and "liberal" standards were seen at 8 percent of banks compared with 3 percent the year before.

Concerned by these trends, Comptroller of the Currency Eugene A. Ludwig encouraged national banks to consider the longer-term effect of easing lending standards and the increased levels of credit risk in their portfolios.

"While the currently favorable economic climate has minimized the adverse effects to date, the consequences of eased standards are likely to be readily and painfully apparent when the economy weakens," Mr. Ludwig said.

He expressed concern that longer maturities, weaker loan conditions, fewer guarantees, and weaker collateral positions will make it more difficult for banks to react to adverse developments and exercise appropriate controls to minimize bank losses from borrowers who face difficult circumstances.

Based on the preliminary findings of the survey, Mr. Ludwig on October 5 announced a series of actions that the OCC is undertaking to address the easing of underwriting standards. These steps include having OCC bank examiners review credit underwriting standards with senior management at every national bank and meet with the chief executive officer of every national bank to discuss any loans that

demand the CEO's attention.

Mr. Ludwig encouraged banks to maintain strong credit control and monitoring systems designed to identify weaknesses in individual credits as well as industries and specialized lending portfolios. "I am also concerned about a trend among some banks, especially the larger ones, toward reducing staff and cutting expenses in their lending operations," he said.

The survey also found:

- Fifty-nine percent of banks were found to have eased lending standards for one or more types of commercial loans, continuing a trend reported in last year's survey. The trend was most pronounced in middle market lending, syndicated and national credits, and commercial real estate lending. Competition was cited as the primary reason for the trend.
- Most banks are tightening their lending standards for retail loans with the exception of home equity and residential real estate lending. This trend is most pronounced in credit card portfolios. This trend was noted in large banks in last year's survey and has spread throughout the industry this year.
- The level of credit risk continues to increase for most components of both commercial and retail portfolios compared to a year ago. In commercial loan portfolios, higher inherent risk was most frequently cited in the syndicated/national credit, commercial real estate, and middle market loan components. In retail portfolios, the higher risks were in the credit card, indirect consumer, and home equity loans.

For a copy of 1997 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 call (202) 874-5043 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 supervises more than 2,600 national banks and 66 federal branches and agencies of foreign banks in the United States, accounting for 56 percent of the nation's banking assets. Its mission is to ensure a safe, sound and competitive national banking system that supports the citizens, communities and economy of the United States.