Office of the Comptroller of the Currency

SEMIANNUAL RISK PERSPECTIVE

FROM THE NATIONAL RISK COMMITTEE

FALL 2025

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ABOUT THIS REPORT

The Office of the Comptroller of the Currency (OCC) charters, regulates, and supervises national banks and federal savings associations and licenses, regulates, and supervises the federal branches and agencies of foreign banking organizations.[1] The OCC supervises these banks to ensure that they operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations.

The OCC's National Risk Committee (NRC) monitors the condition of the federal banking system and identifies key risks.[2] The NRC also monitors emerging threats to the federal banking system's safety and soundness and banks' ability to provide fair access to financial services and treat customers fairly. NRC members are senior agency officials who supervise banks of all sizes and develop bank supervisory policy.

The OCC's Semiannual Risk Perspective (SARP) identifies key issues facing banks. This report does not set forth policy on any statutory, regulatory, or technical issue nor an interpretation of a statute or regulation. The report reflects data as of June 30, 2025, unless otherwise indicated.

1 Throughout this report, the term "banks" refers to national banks, federal savings associations, and federal branches and agencies.

2 The term "federal banking system" collectively refers to the system as a whole. This represents the totality of OCC-supervised banks.

EXECUTIVE SUMMARY

- **The strength of the federal banking system remains sound**. Balance sheets remain satisfactory, with high capital and liquidity ratios positioned to absorb potential stress. Lower funding costs, moderate loan growth, and modest expense growth contributed to the satisfactory earnings performance. Investment portfolio unrealized losses fell to half of amounts reported in 2023 given the rate environment and strategic repositioning. Net interest margin (NIM) generally expanded throughout the federal banking system and non-maturity and term deposit costs reset in line with lower rates. Commercial and retail loan portfolio delinquencies, loss rates, and noncurrent and classified levels remain manageable. Liquidity remains sound. Deposit levels, net of brokered deposits, continued to increase during the first half of 2025. Contingent liquidity sources are satisfactory and expanding.

- **Cyber threats remain a concern.** The OCC has observed an increase in threats posed by foreign state-sponsored actors and sophisticated cybercriminal groups, targeting the financial sector.

- **Financial innovation presents banking opportunities.** The financial industry is in the midst of a change in the nature and delivery of financial products and services. The opportunity costs arising from a lack of investment in new technologies, products, and services may present material risks to long-term bank performance and viability of institutions that are slow, reluctant, or unable to evolve. The OCC is taking actions to foster a regulatory environment that enables banks to advance their businesses and client interests while managing financial risks and operating in a safe and sound manner.

PART 1

RISK AREA FOCUS

KEY FINANCIAL RISKS

A. CREDIT RISK

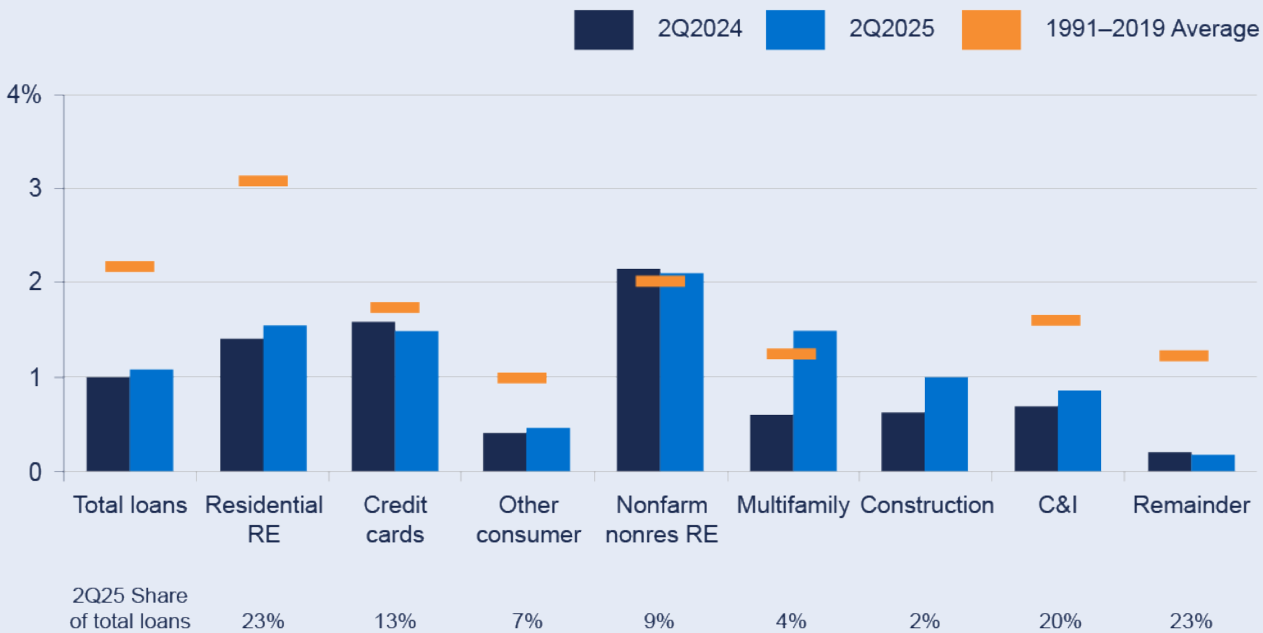
Commercial and retail loan portfolio delinquencies, loss rates, and noncurrent and classified levels remain manageable. Noncurrent loan rates for the federal banking system slightly increased from the prior year but remain well below their long-term average. (See figure 1.) Multifamily commercial real estate (CRE) saw the most weakening in credit performance from the prior year, with noncurrent loan rates above their 1991-to-2019 average. For community banks,[3] noncurrent rates were little changed from historically low levels of a year ago and remained below historical averages across all loan categories.

Total loan balances for the federal banking system were nearly 4 percent higher from a year ago. For community banks, loan balances grew at a slightly slower pace than the prior year. This loan growth was supported by property loans, such as residential real estate and nonfarm nonresidential CRE – which together account for nearly 60 percent of community bank lending – as well as multifamily CRE.

In recent regulatory underwriting surveys, banks reported tighter underwriting standards for commercial and industrial (C&I) loans. Slowing economic growth and higher input prices could compress C&I margins in some manufacturing sectors, especially for companies with higher leverage or weaker margins that cannot pass rising costs on to customers. Generally, middle-market borrowers are more vulnerable than larger companies due to less access to capital markets or less financing flexibility. Industries with borrowers that are already stressed have less flexibility to respond to adverse conditions.

3 “Community banks” here refers generally to institutions with less than $10 billion in assets. Elsewhere in this report, analysis is based on specific asset thresholds. The Spring 2026 *Semiannual Risk Perspective* will use updated analysis and references based on the specific asset thresholds noted in OCC News Release 2025-89, “OCC Announces Updates to Organizational Structure.”

FIGURE 1: NONCURRENT LOAN RATES FOR THE FEDERAL BANKING SYSTEM, PERCENT



Source: Call reports from OCC Integrated Banking Information System

Note: The increase in multifamily noncurrent rate was driven by an outlier and not a systemic decline in loan quality. Data are merger-adjusted and held constant for banks in continuous operation from the first quarter of 2020 to the second quarter of 2025. Remainder category includes agricultural loans and loans to governments, banks, and municipalities.

Banks also reported tighter underwriting standards and weaker demand for CRE loans and residential mortgage loans over the course of 2025. Among banks that reported tighter lending standards for C&I loans, a more uncertain economic outlook was cited as the most common reason. Where banks saw weaker demand for C&I loans, this was attributed to lower customer investment in plants and equipment as well as decreased financing needs for inventories. While prudent, tightening credit standards could result in higher refinance risk for marginal borrowers. Risks in income-producing CRE portfolios vary by property type and geography. Hospitality and industrial CRE are showing signs of weakening amid lower demand, while retail properties remain resilient. Office properties are experiencing mixed results as supply growth has tapered, but demand is sensitive to macroeconomic conditions. Demand for multifamily CRE continues to grow, and vacancies are declining in many markets. Acquisition, development, and construction CRE is experiencing several challenges including increasing input costs and labor shortages. Residential construction is also slowing as homes stay on the market for longer and price growth weakens. Industrial projects have slowed due to softening demand, though demand for data centers and some institutional projects, such as hospitals, continues to grow.

Agricultural lending is stabilizing, but headwinds remain for certain segments. Improving income from higher government payments and animal receipts is expected to slow farm bankruptcy filings compared with 2023-2024. Soybean and cotton have experienced significant declines in exports so far in 2025, and import tariffs could increase the price of fertilizer, which makes up approximately 10 percent of total farm expenses.

Retail loan performance in the federal banking system continues to reflect lower exposure to higher-risk mortgage and consumer lending portfolios and higher-risk borrower segments as compared with the market as a whole. After rising in recent years, delinquency ratios stabilized in credit card and auto lending. Home price appreciation is slowing in the Midwest and Northeast, while some regions in the South and West are seeing some home price declines after many years of appreciation. However, the residential real estate market is experiencing historically high levels of unused home equity and growing levels of mortgage-free home ownership.

B. MARKET RISK

Market risk in the federal banking system is generally satisfactorily managed. In aggregate, banks with assets less than $1 billion realized higher NIM over the first half of 2025 due to higher loan pricing relative to prior years. Additionally, NIM expanded at many banks due to increasing asset yields and decreasing term and non-maturity deposit costs. However, banks with assets greater than $1 billion noted a slight decrease in NIM on average, as loan yield declines offset reductions in deposit costs. This was primarily due to falling yields on short-term commercial loans and credit card balances, which represent a larger share of the portfolio of banks with assets above $1 billion compared with smaller peers.

Liquidity remains sound. Deposit levels, net of brokered deposits, continued to increase during the first half of 2025. Many banks maintained and grew deposits through competitive pricing relative to market alternatives. Banks' asset-pledging levels continue to increase as they build contingent capacity. Unrealized investment portfolio losses remain elevated and exposed to higher yields along the U.S. Treasury yield curve but represent about half of what was reported during 2023. Some banks chose to reposition their portfolios by selling lower-yielding securities, realizing the loss, and reinvesting at market yields.

COMPLIANCE AND OPERATIONAL RISK

A. INNOVATION

The financial industry is in the midst of significant technological innovation. Innovation creates strategic opportunities for banks. A lack of investment in new technologies, products, and services, however, may present material risks to long-term bank performance and viability of institutions. ***For a more detailed innovation discussion, refer to Section II – Federal Banking System Innovation.***

Additionally, recent legislation, the Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act), establishes a federal regulatory framework for payment stablecoins and limits the entities authorized to issue payment stablecoins in the United States. The OCC fosters a regulatory environment that enables banks to advance their businesses and client interests while managing financial risks and operating in a safe and sound manner.

B. CYBERSECURITY

The OCC has observed an increase in threats posed by foreign state-sponsored actors and sophisticated cybercriminal groups targeting the financial sector. The U.S. Department of State, the U.S. Department of the Treasury, and the Federal Bureau of Investigation (FBI) have issued public advisories warning the public and private sectors of the threat posed to U.S. businesses by information technology (IT) workers from the Democratic People's Republic of Korea (North Korea).[4] North Korean IT workers use a variety of techniques to obfuscate their identities and evade detection, including leveraging U.S.-based individuals, both witting and unwitting, to gain fraudulent employment and access to U.S. company networks to exfiltrate proprietary and sensitive data, facilitate cybercriminal activities, and illicitly generate revenue for the regime. Supporting North Korean IT worker-related activity, including processing related financial transactions, exposes banks to significant operational and compliance risks, including sanctions.

A recent firewall access incident highlights the ongoing importance of banks continuing to manage risks related to aging infrastructure and end of life (EOL) of IT assets.[5] It is important for banks to maintain an effective technology architecture strategy, commensurate with the size and complexity of products, services, and operations being supported. It may also be appropriate for bank technology strategies to consider processes for managing and mitigating risks from IT assets that have reached their EOL.

C. FRAUD RISK

Banks continue to face challenges from elevated levels and sophistication of fraud, including scams. Fraud is a key driver of operational losses, which may warrant a dynamic and adaptive risk management environment. On June 16, 2025, the OCC and other federal banking agencies issued a Request for Information (RFI) on Potential Actions to Address Payments Fraud,[6] asking stakeholders for feedback on potential actions they may take collectively or independently to help consumers, businesses, and financial institutions mitigate check, automated clearing house, wire, and instant payments fraud. The comment period closed on September 18, 2025, and the OCC is currently in the process of reviewing comments.

4 Guidance on the Democratic People's Republic of Korea Information Technology Workers (May 16, 2022) and Internet Crime Complaint Center (IC3), "North Korean IT Worker Threats to U.S. Businesses" (July 23, 2025).

5 "Information and technology assets can include hardware, software, mobile devices, virtual and cloud assets, physical assets (e.g., cabinets, locks, and hard copy information assets), digital information assets (e.g., data), and third-party-managed assets." Federal Financial Institutions Examination Council, *FFIEC Information Technology Examination Handbook*, "Architecture, Infrastructure, and Operations."

6 OCC Bulletin 2025-12, "Payments Fraud: Request for Information on Potential Actions to Address Payments Fraud."

D. FAIR LENDING, COMMUNITY REINVESTMENT ACT (CRA), AND OTHER CONSUMER COMPLIANCE

It is appropriate for banks to continue to implement effective change management for all applicable risk areas, including the evolving regulatory environment as it pertains to consumer compliance. For example, the OCC's supervisory process for fair lending[7] compliance no longer includes examining for disparate impact liability.[8] In July, the OCC and other federal banking agencies issued a joint notice of proposed rulemaking to rescind the CRA final rule issued on October 24, 2023. Banks remain subject to and are examined under the 1995 CRA regulations.

On August 7, 2025, President Trump issued Executive Order 14331, "Guaranteeing Fair Banking for All Americans," which states, among other things, that politicized or unlawful debanking should not be used as a tool to inhibit constitutionally or statutorily protected beliefs, affiliations, or political views, and that banking decisions must be made on the basis of individualized, objective, and risk-based analyses.[9] Consistent with the Executive Order, the OCC has requested information from its nine largest regulated institutions regarding their efforts to ensure no American is denied access to financial services, and the agency is in the process of reviewing consumer complaint data to further identify potential politicized or unlawful debanking.

Additionally, the OCC is clarifying how it considers politicized or unlawful debanking[10] when reviewing certain licensing filings by banks and when considering CRA performance.[11] The OCC expects banks to continue to provide fair access to financial services, treat customers fairly, and comply with all applicable laws and regulations.

7 The OCC's supervisory processes continue to include regularly conducting fair lending risk assessments, analyzing Home Mortgage Disclosure Act data for possible evidence of disparate treatment, conducting risk-based fair lending examinations, and taking appropriate action if evidence of disparate treatment is found.

8 OCC Bulletin 2025-16, "Fair Lending: Removing References to Disparate Impact."

9 Executive Order 14331, "Guaranteeing Fair Banking for All Americans."

10 "Politicized or unlawful debanking" is defined as an act by a financial service provider "to directly or indirectly adversely restrict access to, or adversely modify the conditions of, accounts, loans, or other banking products or financial services of any customer or potential customer on the basis of the customer's or potential customer's political or religious beliefs, or on the basis of the customer's or potential customer's lawful business activities that the financial service provider disagrees with or disfavors for political reasons."

11 OCC Bulletin 2025-22, "Licensing and Community Reinvestment Act: Consideration of Politicized or Unlawful Debanking."

E. BANK SECRECY ACT/ANTI-MONEY LAUNDERING (BSA/AML) AND OFFICE OF FOREIGN ASSETS CONTROL (OFAC) COMPLIANCE RISK

On June 27, 2025, an interagency order was issued permitting banks to use an alternative method for collecting taxpayer identification numbers (TIN) under the Customer Identification Program (CIP). [12] The order applies to all accounts at banks and their subsidiaries, subject to the jurisdiction of the OCC, the Federal Deposit Insurance Corporation (FDIC), and the National Credit Union Administration (NCUA). The order, in certain situations, allows the use of third-party sources to obtain TINs before account opening, rather than obtaining them directly from the customer, provided the bank has written, risk-based CIP procedures that comply with regulatory standards and support reasonable identity verification. Use of the alternative method is optional, not required. On October 8, 2025, the OCC joined FinCEN, the Board of Governors of the Federal Reserve System, the FDIC, and the NCUA, in issuing new frequently asked questions clarifying suspicious activity reporting obligations and related AML/countering the financing of terrorism considerations for financial institutions.[13]

12 Financial Crimes Enforcement Network (FinCEN), "Order - Customer Identification Program." (The order was issued by the OCC, FDIC, and NCUA, with the concurrence of FinCEN.)

13 OCC Bulletin 2025-31, "Bank Secrecy Act/Anti-Money Laundering: FinCEN Frequently Asked Questions on Suspicious Activity Reporting."

PART 2

SPECIAL TOPIC: FEDERAL BANKING SYSTEM INNOVATION

As noted above, the financial industry is in the midst of change in the nature and delivery of financial products and services as new technologies create novel paths for financial intermediation. Innovation brings risks, but so too does a lack of innovation. Innovation creates strategic opportunities for banks as well as pressures to keep pace with changes in customer demand, competitive landscape, data management challenges, and new technologies. A lack of investment in new technologies, products, and services may present material risks to long-term bank performance. The OCC seeks to foster a regulatory environment that enables banks to advance their businesses and client interests while managing financial risks and operating in a safe and sound manner.

Banks of all sizes are exploring ways to leverage artificial intelligence (AI). Specifically, some banks are deploying sophisticated models to improve credit underwriting, detect fraud in real time, and personalize customer experience. Generative AI use cases have largely been internal facing, focusing on improving employee efficiencies, coding, call center agent assistance, employee knowledge base support, and document creation and summarization. While the opportunities of AI are broad, appropriate governance and risk management are essential to mitigate potential risks when implementing AI systems.

The OCC is also attentive to ongoing developments regarding digital assets in the federal banking system. On July 18, 2025, the GENIUS Act was signed into law. The GENIUS Act establishes a federal regulatory framework for payment stablecoins and limits the entities authorized to issue payment stablecoins in the United States. The Treasury Department issued a related request for comment.[14] The use of stablecoins may become more prevalent with increased adoption. The OCC is prepared to work swiftly to implement the law and comply with requirements contained in the GENIUS Act. As with all novel banking activities, the OCC expects banks engaging in digital asset activities to do so in a safe, sound, and fair manner; consistent with

14 U.S. Department of the Treasury, "Treasury Issues Request for Comment Related to the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act."

effective risk management practices; in alignment with the bank's overall prudent business plans; and in compliance with applicable laws and regulations.

Payment system innovations, such as distributed ledger technologies and mobile payment platforms, can be beneficial strategically. Failure to upgrade systems and digitize may result in loss of market share to competitors offering faster and cheaper payment alternatives. Additionally, there is a risk that prolonged use of older or legacy systems could increase the likelihood of operational outages, introduce security vulnerabilities, create system maintenance challenges, and reduce operational resilience. Effective system life-cycle management processes provide for appropriate planning and due diligence for technology investment decisions.

PART 3

ECONOMIC ENVIRONMENT AND BANK PERFORMANCE

The U.S. economy remains generally resilient, demonstrated by stable and positive corporate earnings performance and continued consumer spending. The U.S. economy experienced modest gross domestic product (GDP) growth in the first half of 2025, with a first-quarter contraction followed by a second-quarter rebound. This performance was heavily influenced by evolving trade and tariff policies and the uncertainty surrounding these developments. Job creation has slowed, but the unemployment rate has remained low by historical standards.

In September 2025, the Federal Open Markets Committee of the Federal Reserve lowered the target range for the federal funds rate as committee members seek a balanced response to inflation and softening unemployment trends. Market participants and economic forecasters anticipate further federal funds rate cuts. Continued softness in employment and a rise in unemployment could expose certain segments of the credit market to rising risk. If potential rate changes occur, banks may have near-term risks from suboptimal balance sheet positioning.

Banks could experience margin pressure if competition in deposit and loan markets limits their ability to manage funding cost and price for credit risk. Potential weaknesses in interest rate risk management could be exposed depending on the pace of rate cuts and the extent to which these rate cuts are reflected in longer-term rates.

The pace of overall economic activity is expected to ease further, although most forecasters expect the economy to avoid a recession. The Blue Chip Consensus (the Consensus) expects a slight increase in unemployment through the middle of 2026 and a year-over-year increase in real GDP of 1.9 percent in 2025 and 1.8 percent in 2026. Inflation, as measured by the year-over-year change in the headline Consumer Price Index (CPI), inched up to 2.9 percent in August 2025. Excluding the volatile categories of food and energy, however, growth in prices stayed at 3.1 percent. The Consensus expects headline CPI inflation to peak at a seasonally adjusted annual rate of 3.4 percent in the fourth quarter of 2025 before decelerating to reach 2.5 percent by the fourth quarter of 2026. Banks could experience increased credit risk from default of marginal borrowers if the financial health of consumers weakens.

Bank financial performance is resilient and relatively strong. Bank profitability in the first half of 2025 was supported by growth in net interest income (NII) as well as in noninterest income. For the federal banking system, NII grew 1.6 percent year-over-year, while growth was even stronger for banks with total assets less than $10 billion, at 11.3 percent. (See figure 2.) Lower funding cost and loan growth contributed to an acceleration of NII in the second quarter of 2025, and banks with total assets less than $10 billion benefited from advantageous repricing of loans as well. Despite similarly robust growth in noninterest income and modest growth in noninterest expenses in the first half of 2025, net income growth in the federal banking system was more or less flat from the same period a year ago. Profit growth would have been higher in the absence of one-time nonrecurring events.[15] Banks with total assets less than $10 billion, largely unaffected by nonrecurring items, saw net income grow by 18.1 percent from the first half of 2024.

FIGURE 2: BANK NET INCOME ($ BILLIONS)

	Federal Banking System			Banks with total assets <$10 billion		
	6/30/2024	6/30/2025	Y/Y % change	6/30/2024	6/30/2025	Y/Y % change
Year-to-date **revenues** in billions of dollars						
Net interest income	234.8	238.5	1.6%	11.9	13.3	11.3%
Noninterest income	112.9	123.5	9.4%	4.3	4.5	4.0%
Year-to-date **expenses** in billions of dollars						
Provisioning	35.4	41.9	18.2%	0.6	0.8	23.4%
Noninterest expense	201.3	203.0	0.9%	10.6	11.0	3.6%
Net income	93.7	93.4	–0.3%	4.0	4.8	18.1%

Source: Call reports from OCC Integrated Banking Information System

Note: Data are merger-adjusted and held constant for banks in continuous operation from the first quarter of 2020 to the second quarter of 2025. Banks with less than $10 billion in total assets exclude credit card and trust institutions. Net income is after tax.

15 These nonrecurring events included provision expenses related to a large bank acquisition and a change in the equity securities portfolio from a year ago. Adjusting for these events, return on equity for the federal banking system was higher compared with the same period in 2024.

Return on equity (ROE) for banks with total assets less than $10 billion increased to 11.2 percent, from 10.2 percent, driven by higher NIM in the first half of 2025. For the federal banking system as a whole, ROE was 11.6 percent, in line with profitability trends for recent years. The system's ratio of liquid assets to total assets was 32 percent as of June 2025, compared with 11 percent in June 2008 during the great financial crisis.

How banks navigate future economic trends and interest rates will influence earnings for the remainder of 2025. Balance sheets remain satisfactory and positioned to absorb stress, if it were to occur, with capital ratios and liquidity high by historical standards.