



Mutual Alert

OCC Reports Key Risks, Effects of COVID-19 in Federal Banking System

The Office of the Comptroller of the Currency (OCC) reported the key issues and the effects of the COVID-19 pandemic in the federal banking industry in its *Semiannual Risk Perspective for Fall 2020*. The report said banks remain strong but profitability has been affected by low interest rates and increasing levels of provisions for problem loans.

The OCC focused on credit, strategic, operational, and compliance risks in the report:

- Credit risk is increasing due to the impacts of economic downturn which affects customer ability to service debts
- Strategic risk is an emerging issue due to the historically low rate environment, potential credit stress and their effect on bank profitability
- Operational risk is higher as financial institutions respond to altered work environments and an evolving and complex operating environment. With altered work environments, cybersecurity threats are driving operational risk.
- Compliance risk is elevated due to a combination of altered work environments, and the requirement to quickly operationalize federal, state, and proprietary programs designed to support businesses and consumers

The report was based on data gathered from national banks and federal savings associations as of June 30, 2020. The four main areas of the report are operating environment, bank performance, special topics in emerging risk, and trends in key risks. The report is meant to serve as a resource for the banking industry, examiners, and the public. It portends increasing risk as fraudsters develop new cyber intrusions as employees access data remotely. Moreover, it implies that without significant new COVID -19 legislative relief, there will be significant degradation in lending portfolios. Those banks not OCC regulated should expect similar scrutiny in these risk areas from the FDIC and FRB. To view the full report [click here](#).

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