

OCC Identifies Key Risks Facing Federal Banking System*

On June 14, 2023, the Office of the Comptroller of the Currency (OCC) issued its *Semiannual Risk Perspective* Spring 2023 report. While noting that the overall strength of the federal banking system is sound, the report also identifies trends in key risks facing the federal banking system.

In the report, the OCC stated it has engaged directly with its banks to ensure they are appropriately managing their risks and restoring confidence in the banking system. It noted that many banks have increased their cash holdings and their capacity to borrow in order to cover potential depositor withdrawals. These moves enhance resiliency, but also could put pressure on bank earnings. It cautioned that banks should remain diligent and confirm the effectiveness of their risk management practices in order to ensure their ability to continue to withstand current and future economic and financial challenges.

The recent trends in key risks addressed by the OCC in the report are with regard to liquidity, operational, credit and compliance risks, as summarized below:

- Liquidity levels have been strengthened in response to the failures of several banks and investment portfolio depreciation. Rising long-term rates caused significant depreciation in investment portfolios, focusing attention on banks' liquidity risk profiles.
- Credit risk remains moderate in aggregate, but signs of stress are increasing, for instance in certain segments of commercial real estate. Overall, credit markets and loan portfolios remain resilient, and problem loan levels remain manageable. The persistent drag from high inflation and rising interest rates, however, is causing credit conditions to deteriorate.
- Operational risk is elevated. Cyber threats persist, and digitalization of banking products and services is expanding, especially as banks increase use of third parties. This expansion presents both opportunities and risks for financial institutions.
- Compliance risk is elevated. Banks continue to operate in a dynamic environment in which compliance management systems are challenged to keep pace with changing products, services, and delivery channels developed in response to customer needs and preferences.

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A copy of the report is located at <https://occ.gov/publications-and-resources/publications/semiannual-risk-perspective/files/pub-semiannual-risk-perspective-spring-2023.pdf>. Contact Mark Aldrich, Esq. at MAldrich@ABLAWyers.com or Joel Cook, Esq. at JCook@ABLAWyers.com with any questions.