Office of the Comptroller of the Currency **FACT SHEETS**

Central District

Headquartered in Washington, D.C, the OCC charters, regulates and supervises all national banks and federal savings associations and supervises the federal branches and agencies of foreign banks. In total, the OCC regulates and supervises 1,955 institutions including 46 large banks, 47 midsize banks, 47 federal branches, and 1,815 community banks holding assets of approximately $10 trillion and representing 69 percent of total U.S. commercial banking assets. The OCC's Community Bank Supervision unit includes 1,248 national banks and 567 federal savings institutions.

The OCC's Central District (CED), headquartered in Chicago, oversees the supervision of community banks in Illinois, Indiana, Kentucky, Michigan, Missouri, Minnesota, North Dakota, Ohio and Wisconsin. As of June 30, 2013, the Central District encompasses 517 institutions with $190 billion in assets. **Note to Editors**: Matters Requiring Attention (MRAs) are issues identified by examiners for which the OCC requires corrective action. These issues may include practices which deviate from sound risk management; weaknesses which may lead to noncompliance with laws, regulations or guidance; or other practices which contribute to undue risk.

Central District Risk as of June 30, 2013

- **Strategic risk** continues to be our top concern**.** The prolonged low rate environment has lead to net interest margin compression, heavy competition for quality assets, and uncertainty as to prudent avenues to increase profitability. Among CED banks, two-thirds are assessed as having moderate or high strategic risk, up from 60 percent less than two years ago.
- **Credit risk** management is of high concern, particularly in commercial lending. Low delinquencies and problem loan levels in commercial portfolios have lead bankers to seek growth in commercial loans as an alternative to Commercial Real Estate (CRE) loans, which didn't perform as well in recent years. The rate of growth may prove difficult to sustain, however, as the OCC has noted instances of relaxed underwriting terms and aggressive pricing. In 2013, examiners identified credit risk management weaknesses as MRAs in more than half of CED banks.
- **Credit and price risks** for commercial real estate and other real estate owned (OREO) continue to pose high concern. CRE charge-off trends and delinquency levels are improving but delinquencies remain elevated still at one-fourth of CED banks. The volume of OREO

has been stable over recent quarters but remains high overall, with nearly 85 percent of CED banks reporting OREO balances.

- **Compliance and reputation risks** are increasing, as legislative and regulatory reform continues to place increasing pressure on compliance functions. OCC examinations are focusing on compliance management systems, Bank Secrecy Act, fair lending, overdraft protection, and mortgage foreclosure processes. Nearly 60 percent of CED banks are assessed with either moderate or high compliance risk.
- **Operational risk** is an increasing concern at CED banks, particularly in the areas of enterprise governance and risk control systems. As strategic vulnerability persists, more banks are closely evaluating all overhead expenditures to determine where cuts can be made. However, more than two-thirds of CED banks have been assessed as having moderate or high operational risk, and the volume of MRAs is climbing in the areas of management supervision and planning, information technology, and audit program oversight.

State-by-State Summary of Condition of Community Banks

ILLINOIS. Illinois is home to five CED offices and 137 employees, located in Champaign, Chicago (3), and Peoria. The OCC supervises 148 banks in Illinois with assets of $40 billion.

- Nearly 80 percent of banks have a composite rating of 1 or 2, an increase since the previous quarter, indicating a slowly improving condition for the state's federally chartered banks.
- Asset quality ratings are satisfactory or better at nearly two-thirds of Illinois institutions.
- Through the first half 2013, the number of problem banks declined approximately 10 percent. Half of the problem banks are stable or improving.
- Earnings are a concern at nearly 40 percent of banks, although the earnings rating at 16 banks has been upgraded in the past year and more upgrades than downgrades are occurring.
- Commercial real estate loan exposures continue to pose high concern, with nearly one-third of banks reporting non-farm, non-residential and construction loan delinquencies over 5 percent.
- Credit risk management findings continue to be a primary concern, though the number of MRAs fell some since last quarter. Loan loss reserve methodology, credit analysis and documentation, and loan policies were the issues cited most often.

INDIANA. Indiana is home to 28 OCC employees in two CED offices, one in Evansville and one in Indianapolis. The OCC supervises 43 Indiana banks with assets of $19.3 billion.

- The condition of Indiana's banks remains generally healthy and improving, with 80 percent of the institutions assigned a composite rating of 1 or 2.
- Institutions assigned a less than satisfactory rating decreased by one since last quarter; additionally, only a small number of institutions in Indiana have received severely adverse ratings.

- Through the first half of 2013, the number of problem banks decreased by 20 percent. A majority of the problem banks are deteriorating, however.
- Credit risk remains a primary concern, with 40 percent of the banks rated as high, or moderate and increasing, in this area. Asset quality ratings are satisfactory or better at nearly two-thirds of Indiana institutions.
- Earnings performance trails that of CED as a whole; however, nearly 75 percent have been assigned an earnings rating of 1 or 2.
- Credit risk management findings continue to be a primary concern, though the number of MRAs decreased slightly over the prior quarter. Loan loss reserve methodology, loan policy, and collateral valuations were the issues cited most often.

KENTUCKY. Kentucky has 26 employees and one office, located in Louisville. The OCC supervises 35 Kentucky banks with assets of $7.4 billion.

- Ratings for Kentucky community banks have been stable in 2013, with nearly 90 percent assigned a composite rating of 1 or 2. A slight improvement in the composite ratings is evident over the course of 2013.
- The number of problem banks has fallen with just 12 percent of Kentucky banks adversely rated.
- Credit risk continues to be the primary concern, with one-fourth of the banks rated as high, or moderate and increasing, in this area. Asset quality ratings are satisfactory or better at nearly 80 percent of banks.
- Capital and earnings performance indicators remain stable. Capitalization levels lead CED averages, as do earnings generally.
- Credit risk management findings continue to be a primary concern, with a slight increase in MRAs cited since last quarter. Credit documentation and credit review were the issues cited most often.

MICHIGAN. Michigan is home to 26 employees and two OCC offices, located in Detroit and Iron Mountain. The OCC supervises 24 Michigan banks with assets totaling $6.2 billion.

- Ratings for community banks slightly improved over the last quarter as well as year to date, with 76 percent assigned a composite rating of 1 or 2.
- The number of problem banks fell to 24 percent since last quarter, with very few severely adverse ratings. The majority of problem banks are either stable or improving.
- Credit risk continues to be the primary concern, with over one-half of the banks rated as high, or moderate and increasing, in this area.
- Asset quality metrics reflect greater challenges for Michigan banks than CED averages; the metrics have improved in the last year but lag CED averages.
- Earnings performance indicators reflect modest improvement but continue to lag CED averages. Capitalization at Michigan banks is higher than CED averages.

- Credit risk management findings continue to be a primary concern, with a slight increase in MRAs cited since last quarter. Collateral valuations, risk ratings, and loan loss reserve methodology were the issues cited most often.

MINNESOTA. Minnesota is home to 90 employees located in offices in Alexandria, Duluth, and Minneapolis. The OCC supervises 80 institutions with assets totaling $19.8 billion.

- Ratings for community banks slightly improved over last quarter, with 88 percent assigned a composite rating of 1 or 2. Steady improvement in the composite ratings is evident over the last six quarters.
- The number of problem banks dropped by two since last quarter, with very few severely adverse ratings. Nearly all problem banks are either stable or improving.
- Credit risk is high, or moderate and increasing, at nearly one-fourth of Minnesota banks. Asset quality ratings are satisfactory or better at three-fourths of banks.
- Asset quality metrics are generally comparable with CED averages, with some ratios more favorable.
- Earnings performance indicators are more favorable than CED averages, while capitalization ratios reported were comparable.
- Credit risk management findings continue to be a primary concern, though the number of MRAs decreased modestly over the prior quarter. Credit documentation, loan loss reserve methodology, and concentration levels/reporting were the issues cited most often.

MISSOURI. Missouri is home to 60 employees located in three offices, located in Joplin and St. Louis (2). The OCC supervises 43 banking institutions with assets totaling $17.8 billion in Missouri, with some supervised by the Western District.

- Ratings for community banks have remained generally stable since 2011, with 77 percent assigned a composite rating of 1 or 2.
- The number of problem banks dropped by two since mid-2012, with a small number of severely adverse ratings. Several of the state's problem banks continue to deteriorate.
- Credit risk is high, or moderate and increasing, at nearly half of the Missouri banks. However, asset quality ratings are satisfactory or better at nearly two-thirds of institutions.
- Asset quality metrics are generally comparable with CED averages, although non-performing loan levels are higher. All of the Missouri asset quality metrics trended favorably since last quarter.
- Despite a stable net interest margin in 2013, profitability is up and compares slightly favorable with the CED average. Capital levels are also favorable with CED averages.
- Liquidity and Sensitivity to Market Risk metrics are comparable with CED averages.
- Credit risk management findings continue to be a primary concern, though the number of MRAs decreased modestly over the prior quarter. Insufficient credit policies, problem loan management, and loan loss reserve methodology were the issues cited most often.

NORTH DAKOTA. North Dakota is home to nine employees in the CED office located in Fargo. The OCC supervises 13 North Dakota banks with assets of $7.6 billion.

- Ratings for community banks are stable since the last quarter; most institutions have a composite rating of 1 or 2.
- North Dakota has the lowest problem bank level of any state in the nine-state Central District. Additionally, the problem banks here are improving.
- Operational risk is the primary concern with nearly one-fourth of North Dakota banks assessed as high, or moderate and increasing. Compared with CED overall, risks are low.
- North Dakota's banks exhibit healthy ratios, with asset quality and earnings metrics much better than CED averages. Capital, Liquidity, and Sensitivity to Market Risk ratios are in line with CED averages.
- MRAs continue to be low but increased slightly since last quarter. Approximately half are credit related, with loan loss reserves and credit file documentation being the primary issues.

OHIO. Ohio is home to 90 employees in three offices: one each in Cincinnati, Cleveland, and Columbus. These offices supervise 92 banks with assets totaling $58.9 billion.

- Ratings improved slightly since last quarter with 88 percent assigned a composite rating of 1 or 2. Modest improvement in composite ratings is evident since 2012.
- The number of problem banks has dropped by three since 2012, with very few severely adverse ratings. Most problem banks are improving or stable.
- Credit risk is high, or moderate and increasing, at over one-third of the banks.
- Asset quality is generally comparable with CED averages and has improved over last quarter. Asset quality ratings are satisfactory or better at nearly three-fourths of Ohio banks.
- Earnings performance is slightly less favorable than CED averages, while capitalization ratios are comparable.
- Liquidity metrics reveal slightly lower liquidity levels than CED averages, while Sensitivity to Market Risk indicators reflect greater long-term asset exposures.
- Credit risk management findings continue to be a primary concern, though the number of MRAs decreased modestly over the prior quarter. Loan loss reserve methodology, credit policies, and credit file documentation were the issues cited most often.

WISCONSIN. Wisconsin has 31 employees located in Milwaukee. The OCC supervises 49 Wisconsin banks with assets of $22.8 billion.

- Ratings have slightly improved since last quarter, with 77 percent of institutions assigned a composite rating of 1 or 2. This represents a slight reversal of what had been a modestly improving trend line in terms of number of healthy banks.
- The number of problem banks increased by one since 2012, though only a few have severely adverse ratings. Most problem banks are stable or improving.

- Credit risk is high, or moderate and increasing, at nearly half of the banks.
- Asset quality metrics reflect greater challenges for Wisconsin banks than CED averages; though the metrics continue to show slow, steady improvement. Asset quality ratings are satisfactory or better at nearly two-thirds of Wisconsin banks.
- Profitability compares favorably with CED averages, driven by a higher net interest margin in Wisconsin. Capital levels also compare closely with CED averages. Strategic risk also was assessed as high, or moderate and increasing, at nearly one-third of the banks.
- Liquidity and Sensitivity to Market Risk metrics are comparable with CED averages.
- Credit risk management findings continue to be a primary concern, though the number of MRAs decreased over the prior quarter. Collateral valuations, loan loss reserve methodology, and credit analysis were the issues cited most often.