Office of the Comptroller of the Currency

FACT SHEETS

OCC Central District Performance and Condition
Community National Banks and Federal Savings Associations

The health of Central District supervised institutions continues to strengthen.

- The condition of Midwestern banks is improving and the share of institutions identified as problems is waning at an accelerated pace.
  - More than 85 percent of banks located in the nine states in the OCC's Central District are rated 1 or 2 on the five-point CAMELS scale with one being the best performing, a level not seen since early 2009. The CAMELS rating system consists of a bank's Capital, Assets, Management, Earnings, Liquidity and Sensitivity to market risk.
  - Problem banks in the Central District fell to 72 in 2013, down from 106 in 2012 and 146 in 2011.
- Nearly two-thirds of the Central District's problem banks are concentrated in Illinois, Minnesota, and Wisconsin.
- Positive trends in problem bank levels were most pronounced in OCC banks and thrifts in Chicago and Minneapolis.
- Banks in Kentucky and Ohio were strongest at year-end 2013 with less than one in 10 identified as a problem bank, the strongest level since the end of the financial crisis.

Lending picked up in 2013 after several years of flat to declining volumes.

- With the health of institutions improving, certain district-supervised banks are enjoying increased credit originations.
- Aggregate district loan growth totaled 4 percent in 2013.
- OCC-supervised banks and thrifts in Indianapolis, Minneapolis, central Illinois, and throughout Ohio are experiencing higher growth rates. Drivers of the growth are centered in commercial and industrial, owner-occupied commercial real estate, and multifamily real estate lending.
- The economic recovery has not been as robust in areas like Chicago where loan growth has proven elusive.
- Agricultural lending is a key component of many district bank portfolios. As of December 31, 2013, nearly one in four of OCC-regulated banks had agricultural loan exposures exceeding 100 percent of capital. Risks are generally managed appropriately, which alleviates some concern with the relatively high concentrations.

Regulators see positive trends in financial performance, but banks may be challenged to further improve profitability in the near term.

- Earnings at Central District supervised banks were flat from 2012 to 2013, after several years of improvement.
  - Income measures were flat for return on assets and return on equity at 0.62 percent and 6.5 percent, respectively.
  - Reduced provision for loan loss expenses offset reductions in the net interest margin. Loan charge-offs and provision expenses have fallen to very low levels, and limited future benefit to earnings from this source is foreseen.
- Sustained improvement in earnings may prove to be difficult.
  - Nearly half of Central District-supervised banks saw a net interest margin decline of at least 20 basis points.
  - Fewer than one-sixth of the banks realized a net interest margin lift of 10 basis points or more.
  - Avenues to boost revenues have largely been tenuous without accepting higher levels of credit or interest rate risk (IRR).
- Capitalization ratios improved modestly in 2013 as a result of earnings retention and moderating asset growth.

Top risks facing community banks and thrifts in the Central District

- **Strategic risk** remains high with vulnerabilities in the continued low interest rate environment, coupled with the modest economic recovery. These factors have constrained opportunities for profit growth. Among Central District banks, nearly 70 percent face moderate or high strategic risk, up from 60 percent two years ago.
- **Credit risk** management is of heightened concern, particularly in commercial lending. A desire to diversify away from commercial real estate loans, which did not perform as well during the downturn, contributed to a pronounced 2013 increase of 10 percent in commercial loan volume. The rate of growth may prove difficult to sustain, as the pace of economic growth in the district is not as rapid. Further, the OCC has noted some relaxation of underwriting terms and structure, including aggressive pricing. In 2013, credit risk management weaknesses identified as Matters Requiring Attention (MRA)[1] continued to constitute nearly half of the primary concerns noted in examinations.
- **IRR** is elevated with risk building in investment portfolios. Interest rate volatility in mid-2013 contributed to significant swings in portfolio values. Institutions invested in longer term investments may be susceptible to future rate increases. In these banks, IRR is increasing and in some cases management is not monitoring and managing this risk appropriately.
- **Compliance and reputation risks** continue to rise, with nearly two-thirds of district banks assessed with either moderate or high compliance risk.

[1] 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.

- **Operational risk** concerns have emerged in district banks, particularly in the areas of enterprise governance and risk management systems. As revenue growth challenges persist, more banks are scrutinizing expense budgets to determine where cuts can be made. Nearly three-fourths of district supervised banks have been assessed as having moderate or high operational risk, and MRA volumes are escalating in the areas of management supervision and planning, information technology, and audit program oversight.

State-by-State Summary of Condition of Community National Banks and Thrifts

ILLINOIS. Illinois is home to five OCC offices and 142 employees. Three of these offices are in Chicago; we also have an office in Champaign and one in Peoria. The OCC supervises 148 banks in Illinois with assets of $39.7 billion.

- More than 80 percent of the OCC-supervised banks have a composite rating of 1 or 2, a modest improvement from 2012 when three-fourths of the banks were favorably rated.
- The number of problem banks declined more than 20 percent in 2013, with a similar improvement seen in 2012. Nearly 60 percent of the problem banks are stable or improving.
- Improving ratings result in part from asset quality ratings, which are now satisfactory or better at three of four Illinois institutions. Earnings are a concern at one-third of banks, although the earnings rating at 15 banks has been upgraded in the past year and more upgrades than downgrades are occurring.
- Commercial real estate loan exposures are moderating, though they remain problematic for one-fourth of Illinois banks that have a 5 percent delinquency rate or greater for commercial real estate or commercial construction portfolio segments.
- Capitalization levels reflect modest increases, stemming in part from asset shrinkage.
- Credit risk management findings continue to be a primary concern, though the number of MRAs cited fell appreciably since last year. Compliance management concerns are growing with a pronounced increase in MRAs. MRAs in Illinois declined nearly 25 percent in 2013.

INDIANA. Indiana is home to 28 OCC employees and two offices, one in Evansville and one in Indianapolis. The OCC supervises 41 banks in Indiana with assets of $19.3 billion.

- The condition of Indiana's banks is healthy and improving, with nearly 90 percent of OCC-supervised institutions assigned a composite rating of 1 or 2.
- The number of lower rated institutions has dropped considerably in recent years, falling 45 percent in 2013, and nearly 60 percent since the 2010 peak.
- Credit risk remains a 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 70 percent of Indiana institutions.
- Earnings performance continues to trail that of the Central District as a whole; however, nearly four in five banks have been assigned an earnings rating of 1 or 2.

- Capitalization levels are healthy as a result of moderating asset growth.
- MRAs cited in 2013 were comparable in number to the prior year. Credit risk management, compliance, and operational risks were among the issues cited most often.

KENTUCKY. Kentucky has 24 employees and one office, located in Louisville. The OCC supervises 35 Kentucky banks with assets of $7.4 billion.

- The condition of Kentucky's OCC-supervised banks is healthy and improving overall, with more than 90 percent of the institutions assigned a composite rating of 1 or 2.
- The number of lower rated institutions has dropped considerably in recent years, falling 50 percent in 2013, and more than 60 percent since the 2010 peak. There are very few deteriorating problem banks.
- Earnings are a primary concern for Kentucky banks supervised by the OCC, with one in four assigned a rating of 3 or worse. Profitability, while down slightly since 2012, compares closely to the district average.
- Credit risk concerns are abating, with one in five banks assessed as high, or moderate and increasing. Asset quality ratings are satisfactory or better at 86 percent of banks.
- Capitalization levels lead the Central District average, and are generally not a concern. Asset growth in 2013 was negligible.
- MRAs increased in 2013, though they remain low overall. Credit risk management and operational risk were among the issues cited most often.

MICHIGAN. Michigan is home to 24 employees and two OCC offices, one in Detroit and one in Iron Mountain. The OCC supervises 24 Michigan banks with assets totaling $6.3 billion.

- Ratings for OCC-supervised community banks slightly improved in 2013, with 75 percent assigned a composite rating of 1 or 2.
- Problem bank levels have fallen 40 percent since their 2008 peak. Remaining problem banks in Michigan are either stable or improving.
- Credit risk continues to be the primary concern, with more than one-half of the banks rated as high, or moderate and increasing, in this area. Asset quality metrics reflect greater challenges for Michigan's OCC-supervised banks than the district average. Though the metrics have improved in the last year, they continue to lag the district average.
- While the net interest margin slipped at Michigan banks supervised by the OCC in 2013, it compares well to the rest of the district. However, profitability overall was hampered by higher overhead expenses and risk in credit portfolios.
- Capitalization is good at OCC-supervised Michigan banks, and higher than district averages. Asset growth in 2013 was limited.
- MRAs in Michigan banks increased in 2013, though they remain relatively low. Credit risk management and operational risk were among the issues cited most often.

MINNESOTA. Minnesota is home to 75 employees located in offices in Alexandria and Minneapolis. The OCC supervises 85 Minnesota institutions with assets totaling $20.5 billion.

- Ratings for OCC-supervised community banks improved in 2013, with nearly nine in 10 assigned a composite rating of 1 or 2, up from 82 percent in 2012. Composite ratings have improved steadily in recent years.
- The number of problem banks has fallen nearly 70 percent since their 2010 peak, with few receiving the lowest ratings. Most problem banks are either stable or improving.
- Credit risk is high, or moderate and increasing, at one in five OCC-supervised Minnesota banks. Asset quality ratings are satisfactory or better at more than three-fourths of Minnesota banks. Asset quality metrics are generally comparable with the district average, though loan growth in 2013 was more robust in Minnesota versus the overall district at 7 percent. Commercial lending categories, including multifamily residential, commercial real estate, and commercial and industrial, contributed much of the growth.
- While the net interest margin slipped at OCC-supervised Minnesota banks in 2013, it compares well to district averages. Additionally, earnings benefited from controlled overhead expenses and low provisions for credit loss.
- Capitalization at OCC-supervised Minnesota banks is improving and generally consistent with the rest of the banks in the district on slowing asset growth.
- MRAs fell sharply in 2013, particularly relating to credit issues, which declined more than 50 percent. Operational and credit risk management issues remain among the most commonly cited.

MISSOURI. Missouri is home to 45 employees located in two offices, one in St. Louis and one in Joplin. The OCC supervises 40 banking institutions with assets totaling $17.6 billion in Missouri, with half supervised by the OCC's Western District.

- Ratings for OCC-supervised community banks have improved slightly since 2011, with four in five assigned a composite rating of 1 or 2.
- Problem bank levels have declined 20 percent since mid-2011, with a small number of the banks with the lowest ratings. There are very few deteriorating problem banks.
- Credit risk is high, or moderate and increasing, at two in five OCC-supervised Missouri banks. Additionally, asset quality ratings are satisfactory or better at nearly two-thirds of the institutions. Some asset quality metrics are unfavorable when compared with the district average, such as classified and non-performing loan levels, however, charge-offs are falling and compare closely with the district.
- The net interest margin fell in 2013, though it compares well with the district average. Though profitability declined in 2013 at OCC-supervised Missouri banks, it remains comparable with the district.
- Capitalization for federally chartered Missouri banks is generally consistent with other OCC banks in the Central District. Asset shrinkage in 2013 contributed to the increased capital ratios.

- MRAs fell sharply in 2013 to a low level, particularly in the area of credit issues, which saw a pronounced decline. Compliance and credit risk management issues were cited most often.

NORTH DAKOTA. North Dakota is home to nine employees in Fargo. The OCC supervises 13 North Dakota banks with assets of $8.1 billion.

- Ratings for OCC-supervised community banks have remained stable the last several years; most institutions have a composite rating of 1 or 2.
- North Dakota continues to have the lowest number of problem banks supervised by the OCC of any state in the district. The problem banks in the state are improving.
- Operational risk remains the primary concern with nearly one-fourth of OCC-supervised North Dakota banks assessed as high, or moderate and increasing. Compared with the district overall, risks are low.
- Financial condition and performance ratios are healthy, with asset quality and earnings metrics better than the district average.
- MRAs fell modestly in 2013. Increases in the areas of capital markets, compliance, and operational risk offset declines in credit-related MRAs.

OHIO. Ohio is home to 89 employees located in offices in Cincinnati, Cleveland, and Columbus. These offices supervise 89 banks with assets totaling $58.9 billion.

- Ratings for OCC-supervised community banks further improved in 2013, with 92 percent assigned a composite rating of 1 or 2, up from 84 percent in 2012. Steady improvement in composite ratings is evident with a 70-percent drop in problem bank levels since 2009.
- Problem bank volume is now approaching pre-recession levels. The number of problem banks supervised by OCC has dropped by eight since 2012, with very few in the lowest rated categories. Half of the remaining problem banks are improving or stable.
- Credit risk is high, or moderate and increasing, at nearly one-third of the OCC-supervised banks. Asset quality is generally comparable with the district average and has improved over the last year, with satisfactory or better ratings at four in five OCC-supervised Ohio banks.
- Earnings performance is comparable to the district average. While capitalization levels are generally comparable, asset growth has outpaced that of banks from other district states.
- Sensitivity to market risk indicators reflect greater long-term asset exposures in the OCC-supervised Ohio banks, partly because of a higher volume of thrift charters versus other states.
- MRAs increased modestly in 2013. The uptick was attributable to issues in credit risk management, capital markets, and compliance.

WISCONSIN. Wisconsin has 33 employees located in Milwaukee. The OCC supervises 49 Wisconsin banks with assets of $22.8 billion.

- Ratings for OCC-supervised community banks have steadily improved since 2010, with more than four in five assigned a composite rating of 1 or 2.

- Problem bank levels have declined more than 50 percent since 2010, with a small number in the lowest rated category. Two-thirds of the state's OCC-supervised problem banks are stable or improving.
- Credit risk is high, or moderate and increasing, at one-third of the banks supervised by OCC. Asset quality metrics reflect greater challenges for OCC-supervised Wisconsin banks than for banks in other states in the district overall, though improvement is evident particularly with charge-offs. Asset quality ratings are satisfactory or better at nearly three-fourths of these banks.
- Profitability at Wisconsin banks supervised by OCC is comparable with the district average. These banks benefit from a higher net interest margin, offset in part by greater overhead expenses.
- Capital levels at OCC-supervised banks compare closely with district banks overall. Strategic risk also was assessed as high, or moderate and increasing, at more than one-fourth of the banks.
- MRAs were cited less frequently in 2013 because of fewer issues noted in compliance, credit, operational risk, and capital markets. This progress offset modest increases in asset management issues noted.

About the OCC's Central District

The OCC's Central District, headquartered in Chicago, Illinois, supervises 491 community national banks and federal savings associations in Illinois, Indiana, Kentucky, Michigan, Minnesota, Missouri, North Dakota, Ohio, and Wisconsin. As of December 31, 2013, the Central District banks hold assets of $191 billion. The OCC supervises community banks and thrifts in its Central District through a network of 11 field offices and six satellite offices managed by an Assistant Deputy Comptroller who make decisions locally. The Central District houses its examination staff in these field and satellite offices so that examiners live and work near the institutions they supervise.

About the Office of the Comptroller of the Currency

The OCC charters, regulates, and supervises national banks and federal savings associations and supervises the federal branches and agencies of foreign banks. Nationwide, the OCC regulates and supervises 1,757 institutions. These institutions include 58 banks with more than $10 billion in assets, 166 banks with $1-$10 billion in assets, 48 federal branches of foreign banks, 1,485 community banks with less than $1 billion in assets. The OCC supervises 1,212 national banks and 497 federal savings institutions. Assets subject to OCC supervision total $10.4 trillion, which represent 69 percent of total U.S. commercial banking assets as of December 31, 2013.

Headquartered in Washington, D.C., the OCC has four district offices, which oversee the 67 field and satellite offices responsible for the supervision of community banks and thrifts. In addition, the OCC maintains a London office to supervise the international activities of national banks.

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