Office of the
Comptroller of the Currency

SEMIANNUAL RISK PERSPECTIVE

FROM THE NATIONAL RISK COMMITTEE

SPRING 2025

CONTENTS

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. This spring 2025 SARP report presents data in three main areas: trends in key risks, operating environment, and bank performance. The report reflects data as of December 31, 2024, unless otherwise indicated.

The OCC welcomes feedback by email: NRCReport@occ.treas.gov.

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

FEDERAL BANKING SYSTEM KEY THEMES

- **The strength of the federal banking system remains sound.** Consumer sentiment, geopolitical risk, sustained higher interest rates, and downward movement in some macroeconomic indicators have increased economic uncertainty.

- **Commercial credit risk is increasing.** This is driven by growing geopolitical risk, sustained higher interest rates, growing caution among businesses and their customers, and other macroeconomic uncertainty. Pockets of risk remain for some commercial real estate (CRE) property types and vary by geographic market and product type. Refinance risk remains high for loans underwritten during a period of lower interest rates.

- **Retail credit risk remains stable despite economic uncertainty.** Most consumer borrower segments continue to withstand elevated prices, interest rates, and growing debt levels, supported in part by growth in wages exceeding aggregate inflation since 2019. However, wage growth is decelerating, and economic uncertainty is driving adverse changes in consumer sentiment.

- **Market and liquidity risk are stable.** Net interest margins (NIM) in OCC-supervised banks improved in the latter half of 2024 as effective federal funds rate (EFFR) cuts enabled banks to lower funding costs. Robust interest rate risk (IRR) scenario analysis and sensitivity testing are critical due to uncertainty surrounding inflation and future EFFR movement. Asset-based liquidity was stable in 2024, but unrealized investment portfolio losses remain a focus. Deposits were also stable, but deposit competition warrants continued monitoring.

- **Operational risk is elevated.** Banks continue to seek opportunities to gain efficiencies and respond to an evolving and increasingly complex operating environment. Failure to upgrade systems and digitize may result in loss of market share to competitors offering faster and cheaper payment alternatives. Criminals continue to exploit traditional payment methods. Fraud schemes commonly target checks, wire transfers, peer-to-peer payment platforms, and insiders. Evolving cyber threats by sophisticated malicious actors continue to target banks and their key service providers, emphasizing the importance of operational resilience. Recent disruptions across many sectors, including the financial sector, highlight the importance of sound third-party risk management.

- **Compliance risk remains elevated.** This is due in part to Bank Secrecy Act/anti-money laundering (BSA/AML) and consumer compliance risks associated with elevated fraud levels, account access concerns, and evolving business models.

- **Adoption of new technologies, products, and services, and/or engagement with financial technology companies (fintechs) to deliver banking products and services, can offer benefits to banks and customers.** These benefits can include, gaining efficiencies, furthering digitalization efforts, and meeting evolving customer expectations. That said, these engagements potentially introduce complexities to the operating environment, with implications for banks' governance, change management, and risk management programs.

GLOBAL AND DOMESTIC ECONOMIC OPERATING ENVIRONMENT

- Global economic growth is forecast to slow in 2025 with uncertainty stemming from trade policy and geopolitical tensions. Moreover, asynchronous monetary policy decisions by global central banks could result in currency and bond market volatility.

- After the brief pandemic-era recession in the second quarter of 2020, U.S. real gross domestic product (GDP) has grown solidly and, by the first quarter of 2025, was 12 percent above its pre-pandemic peak in the fourth quarter of 2019. Payroll employment in April of this year was 55 million above its pre-pandemic peak, while unemployment remains near historical lows, at 4.2 percent. However, the first quarter of 2025 saw a slight decline in economic activity, driven by a sizeable increase in the volume of imports. At the same time, job creation continued at pre-pandemic levels, with 177,000 jobs created in April 2025.

- The near-term economic outlook remains cautious as economic uncertainty has grown. Some forecasters note that consumers appear poised to slow spending as households have depleted much of their excess savings built up during the pandemic, wage growth continues to slow, and job gains have eased. The Blue Chip Consensus Forecast[3] (the Consensus) projects full-year growth to be 1.2 percent in 2025 and 1.3 percent in 2026. The Consensus projects personal consumption expenditure (PCE) inflation to accelerate to 3.6 percent at an annual rate by the third quarter of 2025. By the fourth quarter of 2026, PCE inflation is projected to fall to 2.2 percent, only slightly above the Board of Governors of the Federal Reserve System's (Federal Reserve) 2 percent target.

3 Developed by Wolters Kluwer.

BANK PERFORMANCE

- Profitability for the federal banking system was stable in 2024. For 2025, the earnings outlook will depend on how banks navigate an uncertain economic climate and the future path of interest rates. The federal banking system remains resilient and well-positioned to absorb stress, with capital ratios and liquidity high by historical standards.

- Recent changes in banks' balance sheets have positioned banks to potentially benefit more from a decline in interest rates relative to prior periods when the Federal Reserve lowered rates.

- Loan growth for the federal banking system remained weak in 2024, growing by 1.6 percent. Behind the tepid growth was a decline in commercial and industrial (C&I) loans. Federal banking system deposits grew at the same pace as loans, 1.6 percent. The loan-to-deposit ratio (LTD), one measure of liquidity, remained below the pre-pandemic level for the federal banking system. For banks with assets less than $10 billion, LTD ratios have nearly returned to pre-pandemic levels.

PART I

TRENDS IN KEY RISKS

A. CREDIT RISK

COMMERCIAL CREDIT

Commercial credit risk is increasing, driven by growing geopolitical risk, sustained higher interest rates, growing caution among businesses and their customers, and other macroeconomic uncertainty. This environment may implicate certain effective risk management practices, including prudent concentration risk management, loan- and portfolio-level stress testing, accurate risk ratings, and appropriate allowance for credit losses (ACL) methodologies.

Pockets of risk remain for some CRE property types and vary by geographic market and product type. The multifamily market is projected to stabilize later this year and the industrial market is expected to stabilize within the next 12 to 18 months. Office vacancies are projected to continue to rise into 2026, and property values may continue a slow decline before stabilizing. Hotel performance is bifurcated by asset class. Economy hotels continue to experience declines in demand, while luxury hotels are experiencing demand growth. Regardless of asset class, average daily room rates remain below pre-pandemic averages, reflecting limited pricing power in hospitality. Retail properties, except malls, continue to remain in demand due to limited new supply. Banks have generally recognized the riskiest CRE properties and have written down loans or put in place loss mitigation strategies. However, geopolitical risks and economic uncertainties remain that have the potential to impact various type of CRE properties.

Refinance risk remains high for loans underwritten during a period of lower interest rates and to companies with higher leverage and marginal repayment capacity, smaller and lower-rated firms with near-term debt maturities, and firms with limited financial flexibility. Refinance risk is also high for CRE loans underwritten during the period of lower interest rates, often with interest-only terms. These loans are typically secured by properties with significant declines in property values or lower net operating income (NOI).

Trade disruptions due to tariffs and geopolitical risks may compress margins across numerous industries with lower ability to pass through costs on imported goods and materials. In addition, industries with heavy exports may be adversely affected by changes in global tariff policies.

Given the continuing growth in private capital markets, examiners continue to monitor banks' involvement in venture lending activity and novel lending structures to private capital providers, such as net asset value and hybrid facilities.

Agricultural commodity prices remain below the long-term average, increasing risk to banks with concentrations in agricultural lending. While farm bankruptcies have increased, farm cash income is expected to increase in 2025 due to government disaster assistance payments and a modest decrease in expenses. Increased farmland values support a relatively low debt-to-assets ratio across agricultural borrowers. However, agricultural producers heavily reliant on export products, such as soybeans and corn, may experience additional challenges from changes in global trade policies.

RETAIL CREDIT

Retail credit performance remains satisfactory, and overall retail credit risk is stable. Most consumer segments continue to withstand elevated prices and interest rates, supported in part by growth in wages exceeding aggregate inflation since 2019. However, wage growth is decelerating and economic uncertainty is driving adverse changes in consumer sentiment. This adverse sentiment has the potential to impact personal consumption, which has been one of the main drivers of past, robust GDP growth.

Currently, bank delinquency and loss rates remain manageable. Consumers continue payment prioritization of low-rate mortgage loans with historically low, albeit increasing, levels of delinquency and loss rates. Delinquencies in other retail asset classes, namely credit cards and automobile loans, reflect an increasing trend, but are forecast to stabilize during the first half of 2025. However, delinquency rates may be higher than reported due to some banks temporarily freezing delinquencies to provide borrowers time to qualify for the re-aging of accounts as part of loan workout programs. Such practices can be used to help borrowers overcome temporary financial difficulties but can obscure the true delinquency status of the portfolio if not prudently structured and controlled.[4]

Banks reported tighter lending standards for the year across most categories of consumer lending. Portfolio growth was generally flat for 2024 across all consumer portfolios. Flat loan growth, desire to increase lending margins, and current housing and automobile affordability challenges may impact a bank's credit risk appetite. Changing market and economic conditions can also affect the performance of retail credit models.

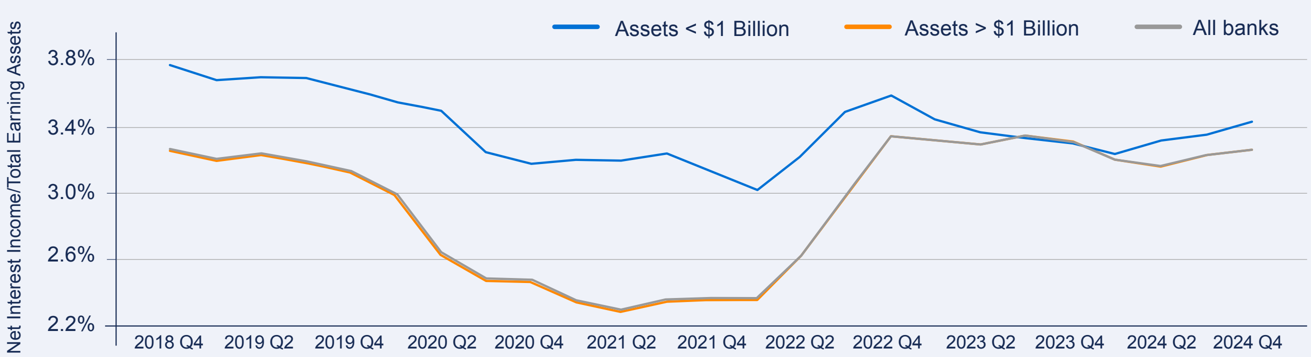
4 Refer to OCC Bulletin 2000-20, "Uniform Retail Credit Classification and Account Management Policy," and OCC Bulletin 2023-11, "Current Expected Credit Losses: Interagency Policy Statement on Allowances for Credit Losses (Revised April 2023)."

Recent hurricanes, wildfires, and other natural disasters have increased risks concerning insurance and residential real estate collateral administration, including risks from lapses in coverage, collateral coverage sufficiency, nonstandard coverage related to perils, riders, and exclusions, and blanket bond insurance sufficiency in recovering uninsured losses. Affordability pressures in some geographies, notably increases in taxes and insurance premiums (including significant increases in premiums for flood and homeowners' insurance), are more material and may adversely affect borrowers' ability to repay debts.

B. MARKET RISK

Market and liquidity risk are stable. NIMs[5] improved in the second half of 2024 (as shown in figure 1) as banks were able to pass on lower rates to depositors due to EFFR reductions and improved funding mix. Asset-based liquidity[6] and deposits in OCC-supervised banks were fairly stable in 2024. Deposit competition and deposit assumptions warrant continued monitoring through liquidity and interest rate stress testing and modeling. Unrealized investment portfolio losses remain a concern and heighten the importance of banks' access to operationally ready contingent funding sources. Inflation uncertainty and impact of EFFR movement heighten the importance of robust IRR scenario analysis and assumption sensitivity testing.

FIGURE 1: OCC-SUPERVISED BANKS QUARTERLY NIM TREND



	2020	2021				2022				2023				2024			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Assets <$1 Billion	3.18%	3.20%	3.20%	3.24%	3.13%	3.02%	3.22%	3.49%	3.58%	3.44%	3.36%	3.33%	3.30%	3.24%	3.31%	3.35%	3.43%
Assets >$1 Billion	2.47%	2.34%	2.29%	2.34%	2.36%	2.36%	2.62%	2.98%	3.34%	3.32%	3.29%	3.34%	3.31%	3.20%	3.16%	3.23%	3.26%
All Banks	**2.48%**	**2.36%**	**2.30%**	**2.36%**	**2.37%**	**2.37%**	**2.63%**	**2.99%**	**3.34%**	**3.32%**	**3.29%**	**3.34%**	**3.31%**	**3.20%**	**3.16%**	**3.23%**	**3.26%**

Source: Consolidated Reports of Condition and Income, schedules RI-INC and RC-BAL
Note: This chart represents the entire federal banking system bifurcated by asset size of $1 billion. The NIM ratio is calculated as quarterly annualized net interest income (NII) divided by average earning assets. NIMs for all banks have improved by 6 basis points when comparing the first quarter of 2024 to the fourth quarter of 2024.

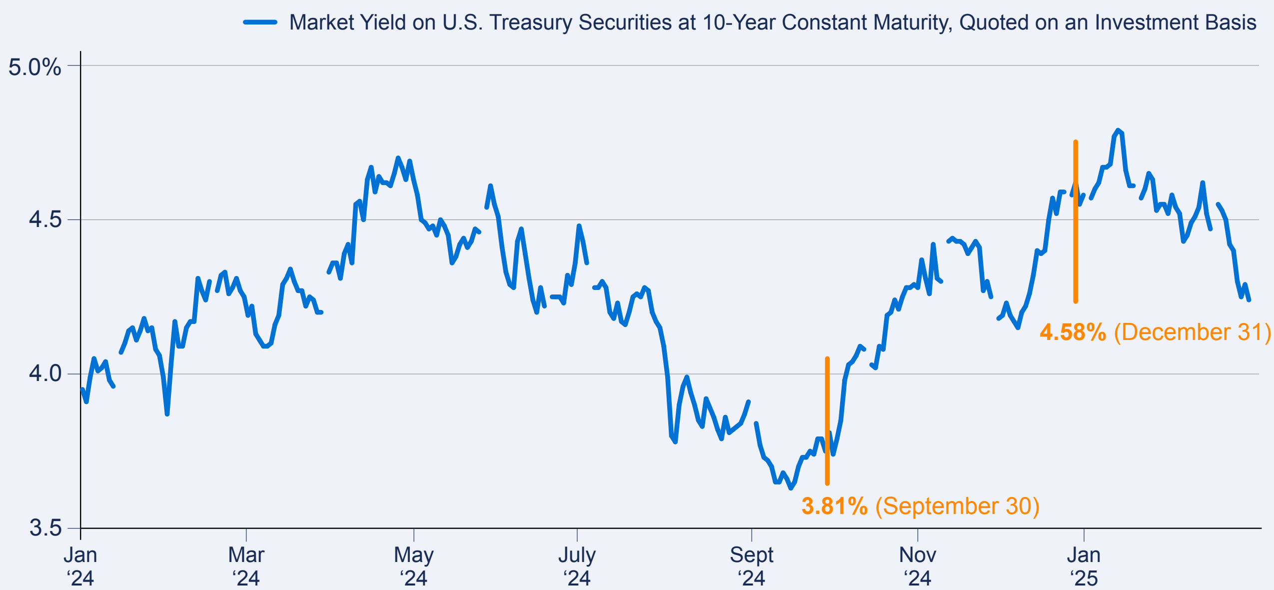
5 NIM in this "Market Risk" section refers to a trend of the ratio identified in the Uniform Bank Performance Report (UBPR). The calculation is quarterly annualized NII divided by average earning assets. The NIM analysis in this section represents earnings performance trends from the second half of 2024.

6 Defined here as total securities, fed funds sold, reverse repurchase agreements, and cash and due from depository institutions.

Banks with assets greater than $1 billion reported a 17-basis-point decline in earning asset yields in the fourth quarter, while margins improved due to a 21-basis-point decline in funding costs as banks began to benefit from the 100-basis point reduction in the federal funds target rate that started in September 2024. Funding costs in the fourth quarter also benefited from less reliance on brokered deposits and borrowings.

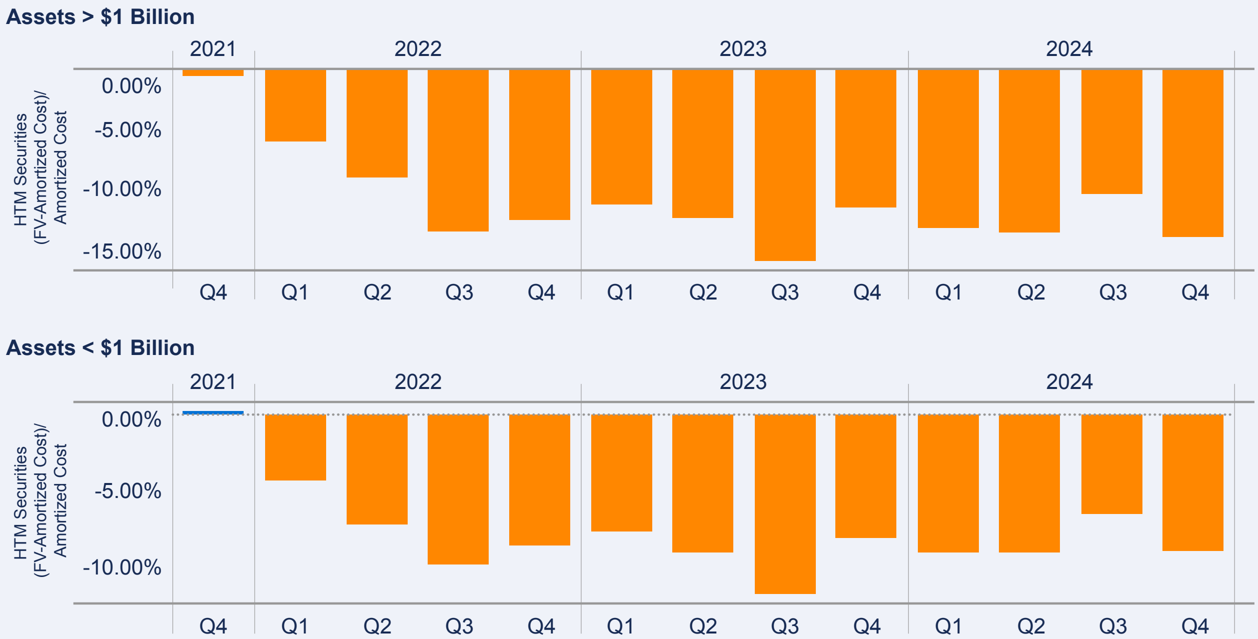
Elevated unrealized losses in investment portfolios remain a concern. Fluctuations in the yield on 10-year U.S. Treasury securities (UST) resulted in large quarter-to-quarter changes in unrealized losses, particularly in held-to-maturity (HTM) securities. The 10-year UST market yield declined to 3.81 percent as of September 30, 2024 (as shown in figure 2), and unrealized losses in HTM securities fell to two-year lows of 10.4 percent and 6.5 percent in banks with assets greater than $1 billion and banks with assets less than $1 billion, respectively (as shown in figure 3). The 10-year UST market yield subsequently moved back up to 4.58 percent by year-end 2024 (as shown in figure 2) and unrealized losses rose above year-end 2023 levels.

FIGURE 2: 10-YEAR UST MARKET YIELD, JANUARY 2024 TO FEBRUARY 2025



Source: Federal Reserve, retrieved from [Federal Reserve Economic Data (FRED) system](), Federal Reserve Bank of St. Louis
Note: This chart represents the market yield on UST at 10-year constant maturity.

FIGURE 3: QUARTERLY TRENDS OF HELD-TO-MATURITY INVESTMENT GAINS/LOSSES AS A PERCENT OF AMORTIZED COST



Source: OCC's Integrated Banking Information System (IBIS)

Note: This chart represents the entire federal banking system bifurcated by asset size of $1 billion. The chart reflects the quarterly gains or losses of the entire federal banking system's HTM investment securities as a percentage of the total amortized cost of the entire federal banking system's HTM investment securities. The Consolidated Reports of Condition and Income (call report) defines the amortized cost or amortized cost basis as the amount at which a financing receivable or investment is originated or acquired, adjusted for premiums, discounts, and other accounting adjustments. Refer to the call report instructions for the full definition details.

Banks are reducing unrealized losses in available-for-sale (AFS) portfolios. Unrealized losses in banks with assets greater than $1 billion declined from 5 percent at year-end 2023 to 4 percent at year-end 2024 despite volatility and the large fourth-quarter increase in the 10-year UST yield. Unrealized AFS portfolio losses in banks with less than $1 billion in assets rose back to year-end 2023 levels of approximately 9 percent despite the 10-year UST yield being 70 basis points higher than one year prior. Exposure to unrealized losses in investment portfolios continues to underscore the importance of operational readiness to access alternative funding sources. Banks can use liquidity stress testing as part of contingency planning to help identify model reliability and access investment portfolio liquidity without exposing earnings and capital to realized losses.

Uncertainty surrounds the direction and magnitude of inflation and what, if any, effect this may have on the direction and impact of Federal Open Market Committee decisions on the federal funds target rate. This uncertainty continues to heighten the importance of a robust suite of IRR stress testing scenarios in both rising and falling rate environments as well as assumption sensitivity testing. Scenarios involving yield curve flattening and inversion may also be effective to consider in light of recent history.

C. OPERATIONAL RISK

CYBERSECURITY

Operational risk remains elevated as cyber threat actors continue to target banks and their service providers. Simultaneously, banks continue to increasingly rely on third parties, including fintech firms, expanding the cyberattack surface. The risks posed by the increasing reliance on a few third parties, in certain instances, increases the likelihood of a single point of failure. A single point of failure due to an operational disruption or cyberattack could trigger widespread and cascading effects across the financial sector.

The OCC continues to observe cyber threat actors targeting banks of all sizes with ransomware attacks, emphasizing the importance of operational resilience, including testing business continuity and incident response plans. Cyber threat actors are also increasing their use of “double extortion attacks.”[7] This tactic pressures the bank into paying a ransom[8] even if it can restore impacted systems and data from unaffected backups.

The United States Secret Service alerted financial institutions to an increase in automated teller machine (ATM) jackpotting, or ATM cashout, attempts in 2024. Criminals, sometimes disguised as service technicians, access and alter the ATM’s security controls to illegally dispense cash. Jackpotting can involve using a universal ATM key to open the ATM units, install malware to the ATM’s system, connect the ATM to an unauthorized external device (black box), or install an unauthorized device between the ATM’s computer and network cable connection. Examples of controls that may be relevant to mitigating risks related to ATM jackpotting attempts include cybersecurity and technology controls, such as installing software updates and patches in a timely manner, and physical security controls, such as security cameras, alarms, changing universal keys, and ongoing monitoring of ATM activity.

OPERATIONAL RESILIENCE

Banks are exposed to a wide range of potential disruptive events, including technology-based failures, cyber incidents, pandemic outbreaks, and natural disasters. While advances in technology have improved banks’ ability to identify and recover from various types of disruptions, cyber threats are increasingly sophisticated and interdependencies with counterparties and service providers are growing. These operational risks highlight the importance for banks to ensure continued maintenance of effective operational resilience.

7 In a double extortion attack, cyber threat actors gain access to and encrypt a bank’s sensitive information and threaten to leak the exfiltrated data if the bank fails to pay a ransom.

8 The U.S. government has strongly discouraged banks from paying ransom or extortion demands, as there is no guarantee data will be unencrypted or not destroyed, and payment of the ransom may increase the likelihood of repeated extortion attempts. Ransom payments benefit illicit actors, can undermine the national security of the United States, and may potentially violate the Office of Foreign Assets Control (OFAC) sanctions. U.S. Department of the Treasury, OFAC, “Updated Advisory on Potential Sanctions Risks for Facilitating Ransomware Payments,” September 21, 2021.

INNOVATION AND ADOPTION OF NEW PRODUCTS AND SERVICES

Banks continue to adopt new technology and innovative products and services to gain efficiencies, in furtherance of digitalization efforts, and to meet evolving customer expectations. Incorporating new products and services can assist with marketplace competition, lower consumer costs, and enhance customer experience. While adoption of new technologies and novel business arrangements with third parties to deliver products and services to end users can offer benefits to banks and their customers, these activities may add additional complexity to the operating environment, impacting banks' governance, change management, and risk management needs depending onto the bank's size, complexity, and risk profile.[9]

Banks have approached artificial intelligence (AI), including generative AI (genAI), adoption cautiously, but overall, global adoption continues to increase, with banks, businesses, and governments exploring various use cases. Responsible AI use can help banks make more informed decisions, enhance efficiency, and provide better and more customized services to households and businesses of all sizes. AI in banking currently includes real-time fraud and anomaly detection and prevention; some components of credit underwriting, such as financial analysis and collateral evaluation processes; document reading and information extraction; and personalized customer recommendations. Banks continue to explore the use of genAI and implement use cases. AI may also be helpful for regulatory compliance management, enterprise risk management, and data analysis. While beneficial, using any form of AI, whether produced internally or by a third party, can introduce model, cybersecurity, and compliance risks.

The OCC is attentive to ongoing developments regarding digital assets in the federal banking system.[10] On March 7, 2025, the OCC issued Interpretive Letter (IL) 1183[11] rescinding IL 1179. IL 1183 reaffirms that the crypto-asset custody, distributed ledger, and stablecoin activities discussed in prior letters are permissible. On May 7, 2025, the OCC issued IL 1184,[12] providing further clarification on bank's authority regarding crypto-asset custody services. As with all novel banking activities, the OCC expects banks engaging in crypto-asset activities to do so in a safe, sound, and fair manner; consistent with effective risk management practices; in alignment with the bank's overall prudent business plans; and in compliance with applicable laws and regulations.

9 Refer to OCC Bulletin 2017-43, "New, Modified, or Expanded Bank Products and Services: Risk Management Principles" and OCC Bulletin 2023-17, "Third-Party Relationships: Interagency Guidance on Risk Management." A bank must comply with applicable laws and regulations, including ensuring an activity is performed in a safe and sound manner, regardless of whether the bank performs the activity internally or through a third party.

10 Refer to Executive Order "Strengthening American Leadership in Digital Financial Technology," 90 Fed. Reg. 8647 (January 23, 2025).

11 IL 1183, "OCC Letter Addressing Certain Crypto-Asset Activities" (March 7, 2025).

12 IL 1184, "Clarification of Bank Authority Regarding Crypto-Asset Custody Services" (May 7, 2025).

Many banks and service providers face challenges with maintaining legacy technology architectures while responding to increasing digitalization demands.[13] Innovations in payment systems using emerging technologies, such as distributed ledger technologies and mobile payment platforms, can bypass traditional legacy banking infrastructure and disrupt fee revenue streams that banks rely upon. There is a risk that 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 create other concerns that could reduce operational resilience.

The board of directors (board) may delegate the bank's daily managerial duties to others; however, the board is ultimately responsible for providing the appropriate oversight to ensure that the bank operates in a safe and sound manner and in compliance with applicable laws and regulations.[14] This includes consideration of whether new activities are consistent with the bank's strategic goals and risk appetite and comply with applicable laws and regulations. The board is also responsible for ensuring management implements an effective risk management system that identifies, measures, monitors, and controls risks related to new activities. This includes management informing the board and the board understanding any material risks that may impact earnings and capital.[15]

FRAUD RISK MANAGEMENT

Fraud affects numerous stakeholders, including banks and their customers. The interconnected payments ecosystem highlights the importance of information sharing and collaboration. Banks can support their customers by providing information about fraud trends and ways to protect themselves.[16] Customer education can help consumers be aware of fraud schemes and trends. Ongoing training can help bank staff to identify red flags and respond to customers seeking to conduct transactions outside their usual transaction patterns. Bank trade groups may be able to facilitate sharing of information at a level that could help reduce or mitigate risks in the banking system.

Criminals continue to exploit traditional payment methods. Fraud schemes commonly target checks, wire transfers, peer-to-peer payment platforms, and insiders. While fraud schemes are constantly evolving, social engineering, phishing, account takeover, business email compromise, impersonation (e.g., of business executives, government officials, third parties, or tech support), romance and investment scams, and identity theft schemes remain lucrative.

13 The OCC recently released a request for information on community banks' engagement with digitalization. Refer to OCC Bulletin 2025-8, "Bank Activities: Request for Information on Community Bank Digitalization."

14 Refer to OCC Bulletin 2017-43, "New, Modified, or Expanded Bank Products and Services: Risk Management Principles," and the "Corporate and Risk Governance" booklet of the *Comptrollers Handbook*.

15 *Id.*

16 See OCC Bulletin 2019-37, "Operational Risk: Fraud Risk Management Principles."

First-party fraud (or friendly fraud) occurs when an external party, including a bank customer, uses their own identity to commit fraud against the bank. Card holders may attempt to take advantage of chargeback rules to dispute a legitimate charge on their card. Foundational controls, such as customer authentication and continuous monitoring of account transaction activity using historical data and technology tools, may help banks to identify higher-risk accounts and prevent fraud.

Insider abuse can expose banks to excessive risk and cause a loss of customer confidence. The digital environment presents opportunities for employees to manipulate information to misappropriate assets, commit financial statement fraud, steal information to resell, or conduct other illicit activity. Mobile phones and other electronic devices facilitate the capture and theft of sensitive customer information, especially when permitted in sensitive areas of the bank. Required step-aways, such as mandatory vacation and job rotation, can limit a single employee's control over a specific task.

D. COMPLIANCE RISK

BANK SECRECY ACT/ANTI-MONEY LAUNDERING AND OFFICE OF FOREIGN ASSETS CONTROL (OFAC)

Elevated levels of fraud, including traditional fraud schemes and use of innovative technology to perpetrate fraud, may result in increased volumes of suspicious activity alerts and increased SAR filing obligations. In some cases, banks are leveraging BSA staff to help manage related risks in other areas of the bank, e.g., fraud investigations, which could affect continuity of BSA operations.

As banks continue to implement innovative technologies, including partnering with fintechs to deliver new or expanded products and services, the fintechs may not always have appropriate experience, technical expertise, and resources in place. This could undermine their ability to effectively manage these associated risks, particularly regarding a bank's BSA/AML or sanctions risk profile, which may be altered by changing business models or global events.

The Treasury Department in March 2025 issued an interim final rule that removes the requirement for U.S. companies and U.S. persons to report beneficial ownership information to the Financial Crimes Enforcement Network (FinCEN) under the Corporate Transparency Act.[17] OCC-supervised banks must continue to comply with the existing FinCEN 2016 Customer Due Diligence rule[18] and other existing BSA requirements. There are currently no specific requirements for banks to incorporate the National

17 FinCEN, News Release, "FinCEN Removes Beneficial Ownership Reporting Requirements for U.S. Companies and U.S. Persons, Sets New Deadlines for Foreign Companies" (March 21, 2025).

18 Customer Due Diligence Requirements for Financial Institutions, 81 Fed. Reg. 29398 (May 11, 2016).

Priorities issued by FinCEN into their risk based BSA compliance programs until the effective date of final revised regulations.

CONSUMER COMPLIANCE

Compliance risk increases when banks do not promptly investigate, resolve, and, as appropriate, credit funds in accordance with applicable laws, such as the Electronic Fund Transfer Act (Regulation E), the Expedited Funds Availability Act (Regulation CC), and the Federal Trade Commission Act. As discussed above, increased levels and sophistication of fraud may necessitate reasonable delays as allowed by law or regulation. However, this may also exacerbate compliance risk when banks take prolonged timeframes to complete investigations or implement broad account access limitations, preventing customers, including those who are not victims of fraud, from accessing their funds.[19]

As interest rates fluctuate, banks may offer new or updated deposit products, such as high-yield savings accounts or a greater variety of certificates of deposit (CD). Compliance risk may increase when communications on CD rollover processes or maturity options lack clarity or cause confusion, for example, when rates paid on rolled-over CDs are far below the original promotional rates offered by a bank. Compliance risk may rise as insurance premiums rise. For example, failure to maintain adequate flood insurance coverage can lead to violations of the Flood Disaster Protection Act and its implementing regulations.

19 For example, limited check deposit availability exceptions under Regulation CC require additional compliance obligations.

PART II

ECONOMIC OPERATING ENVIRONMENT

GLOBAL ECONOMIC OPERATING ENVIRONMENT

Economic analysts generally forecast slow global economic growth for 2025. However, there remains uncertainty stemming from trade policies as well as geopolitical tensions in Europe, the South China Sea, and the Middle East. Economic growth remains tepid in Europe, with Germany facing challenges restoring industrial competitiveness and the risk of higher tariffs undermining business confidence. Prolonged industrial overcapacity and weak domestic demand in China have further increased China's reliance on exports to support growth, creating trade imbalances that are worsening global trade tensions. Uncertainty surrounding trade policies and tariffs, a strong U.S. dollar, and high geopolitical risk are all expected to create a challenging environment for emerging market countries. However, India may be an exception, with strong GDP growth projected for 2025, as it positions itself as a manufacturing alternative to China.

Asynchronous monetary policy decisions by central banks could result in exchange rate and bond market volatility. In Europe, the European Central Bank and the Bank of England are lowering interest rates, as inflation appears reasonably contained while growth is very weak, whereas in the U.S. the Federal Reserve is expected to keep rates level in the first half of 2025. Meanwhile, the Bank of Japan is increasing policy rates as inflation is unusually above target. Many emerging markets have policy rates at relatively high levels due to elevated and persistent inflation, with some countries such as Brazil seeing large policy rate increases. These differing paths for monetary policy across key countries create an environment where "carry trades" could be suddenly reversed and unwound, transmitting exchange rate and interest rate volatility across global financial markets, similar to the Japanese yen carry trade unwind in August 2024.

High debt and debt servicing costs are a key risk for many countries and corporate entities. This risk is not restricted to emerging market countries. Many advanced economies, such as France and the U.K., are struggling to lower budget deficits as they grapple with very high debt levels and weak growth. Fiscal concerns in Europe are compounded by pressure to increase defense spending. There is a risk of countries experiencing higher rates of inflation and lower bond prices as the stock of outstanding bonds accumulates.

CONSUMPTION BOOSTED ECONOMIC GROWTH IN 2024

Despite heightened uncertainty, the economy remains in a solid position. After the brief pandemic-era recession in the second quarter of 2020, U.S. real GDP has grown solidly and, by the first quarter of 2025, was 12 percent above its pre-pandemic peak in the fourth quarter of 2019. This translates to 2.3 percent growth per quarter at an annual rate, slightly above the economy's long-term potential trajectory of 2.0 percent growth.[20] The labor market has also displayed strength during the same time period. Payroll employment in April 2025 was 5.5 million[21] above its pre-pandemic peak while unemployment remains near historical lows, at 4.2 percent.[22]

The economy reached a 2.8 percent growth rate in 2024, though growth slowed towards the end of the fourth quarter, and the U.S. economy shrank 0.3 percent in the first quarter of 2025. Some slowing of activity was evident toward the end of 2024, with the annualized growth rate at 2.5 percent in the fourth quarter. Consumer spending and residential investment supported economic momentum throughout 2024, and they reached annualized growth rates of 4.0 percent and 5.5 percent, respectively, in the fourth quarter. But this was offset by weakness elsewhere. Businesses spent far less on restocking inventories in the fourth quarter of 2024 and pulled back on investment in structures and equipment, resulting in slower overall growth. At the same time, job creation continued at pre-pandemic levels, with 177,000 jobs created in April 2025. Most economists remain cautious in their near-term assessments as the outlook for the economy has grown more uncertain. Some forecasters note that consumers appear poised to slow spending as households depleted much of their excess savings built up during the pandemic, wage growth continues to slow, and job gains have eased since the close of last year. Moreover, consumer confidence has declined sharply according to both the Conference Board and University of Michigan indexes. Business confidence has also decreased, with expectations for investment spending falling across all five of the Federal Reserve's most recent regional manufacturing surveys. The Consensus predicts that growth in real private nonresidential fixed investment will slow from 3.6 percent for all of last year to 1.2 percent in 2025, and slow further to 0.8 percent in 2026.

Given these trends, the Consensus expects real GDP growth to moderate to 1.0 percent at an annual rate by the third quarter of 2025 and then increase slightly in the following quarters. The Consensus expects

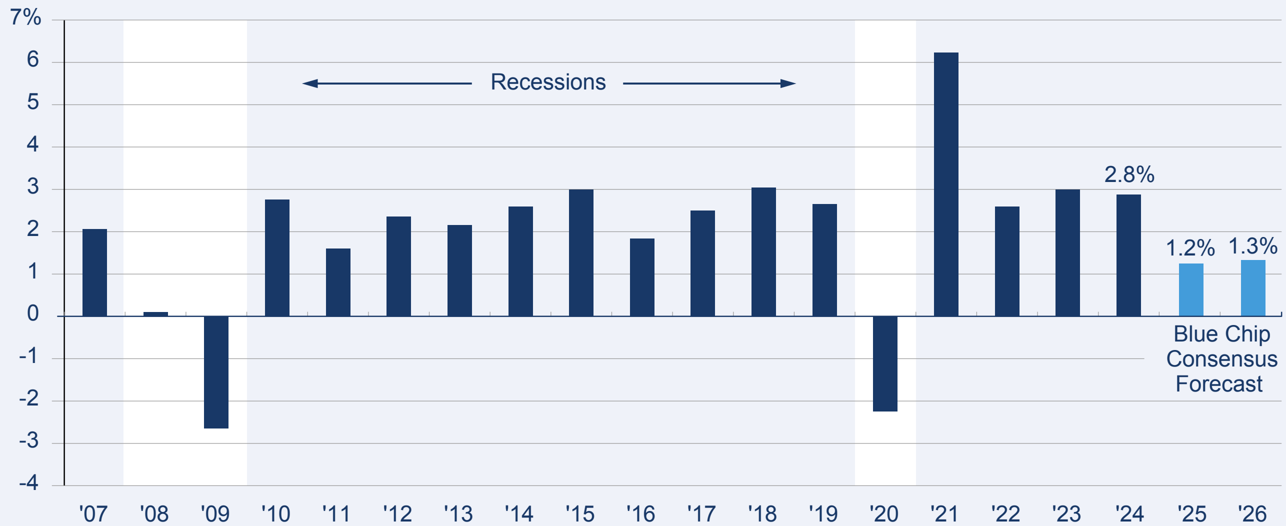
20 Congressional Budget Office estimate of potential growth.

21 Civilian Employment, seasonally adjusted, U.S. Bureau of Labor Statistics, May 2025.

22 The Employment Situation, U.S. Bureau of Labor Statistics, May 2005-2025.

full-year growth to be 1.2 percent in 2025 and 1.3 percent 2026 (as shown in figure 4). Meanwhile, PCE inflation is expected to accelerate to 3.6 percent at an annual rate by the third quarter of 2025, with some easing thereafter. By the fourth quarter of 2026, PCE inflation is projected to fall to 2.2 percent, only slightly above the Federal Reserve's 2 percent target.

FIGURE 4: REAL GDP, ANNUAL PERCENT CHANGE



Source: Bureau of Economic Analysis (4Q:2024), Blue Chip Economic Indicators (May 2025)

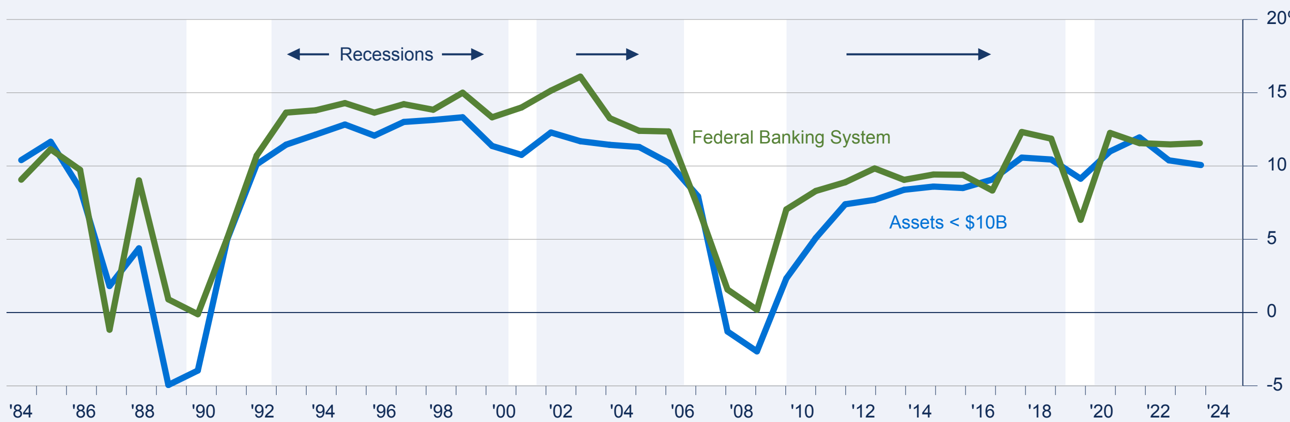
PART III

BANK PERFORMANCE

BANK PROFITABILITY REMAINED RESILIENT IN 2024, AMID SLOWER LOAN GROWTH

Profitability in the federal banking system was stable in 2024, with return on equity at 11.7 percent, compared with 11.5 percent a year prior. For banks with less than $10 billion in total assets, profitability declined slightly from a year ago, from 10.7 percent to 10.4 percent, but remained at a solid level compared with historical averages (as shown in figure 5). Though the Federal Reserve started to ease monetary policy in the latter half of 2024, interest rates remained relatively high throughout the year, leading to subdued loan growth and compression of NIM. For 2025, the earnings outlook will depend on how banks navigate an uncertain economic climate and the future path of interest rates. The federal banking system remains resilient and well-positioned to absorb stress, with capital ratios and liquidity high by historical standards. The federal banking system's ratio of liquid assets to total assets was at 31 percent in 2024, compared with 16 percent in 2008.

FIGURE 5: TREND IN BANK RETURN ON EQUITY



Source: Call reports from OCC Integrated Banking Information System

Note: Data are annual values 1984-2024. Banks with less than $10 billion in total assets exclude credit card and trust institutions.

NII growth, a key driver of bank profitability, slowed in 2024, in part due to higher funding costs and lower loan growth. For the federal banking system, NII was largely unchanged, with a slight 0.3 percent decline, while banks with assets less than $10 billion saw a 2.7 percent growth. For both the federal banking system and banks with assets less than $10 billion, higher noninterest income offset some of the weakness in NII and supported revenue, while growth in expenses was modest. In addition, the federal banking system benefited from gains in the equity securities portfolio in 2024, which also supported profitability. Overall, this led to an improvement in net income for the federal banking system and banks with assets less than $10 billion, increasing 5.7 percent and 6.4 percent, respectively (as shown in table 1).

TABLE 1: TRENDS IN BANK NET INCOME (IN $BILLIONS)

	Federal Banking System			Banks with total assets <$10 billion		
	2023	2024	Y/Y % change	2023	2024	Y/Y % change
Year-to-date **revenues** in billions of dollars						
Net interest income	461.8	460.6	-0.3%	24.0	24.6	2.7%
Noninterest income	213.1	223.5	4.9%	8.3	8.8	6.6%
Year-to-date **expenses** in billions of dollars						
Provisioning	61.9	66.1	6.7%	1.3	1.3	5.1%
Noninterest expense	397.0	396.5	-0.1%	20.9	21.8	4.3%
Net income	169.7	179.4	5.7%	7.8	8.3	6.4%

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 fourth quarter of 2024. Banks with less than $10 billion in total assets exclude credit card and trust institutions.

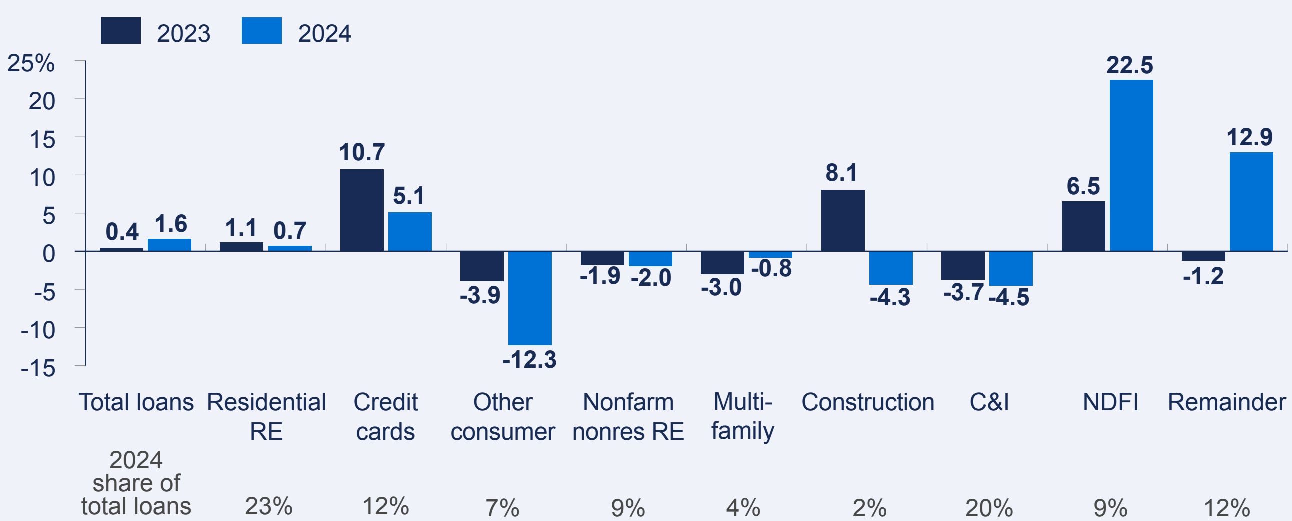
Bank funding costs increased in 2024, as interest rates remained elevated and depositors continued to switch into higher-yielding accounts. While the increase in funding costs was more pronounced among banks with assets less than $10 billion, those banks also realized greater gains on asset yields compared with the overall system, resulting in smaller NIM compression. Banks with assets less than $10 billion were slower to reprice deposits in response to the cuts in the federal funds rate that began in September, compared with the overall system. Both the federal banking system and banks with assets less than $10 billion, however, have repriced deposits faster than in the last interest rate cutting cycle in 2019.

Recent changes in banks' balance sheets have positioned banks to potentially benefit more from a decline in interest rates relative to prior periods when the Federal Reserve lowered rates. For example, a higher proportion of banks carry more short-term liabilities relative to short-term assets compared with the beginning of 2019, the start of the previous rate-lowering cycle.[23] Though a number of factors can affect how changes in interest rates impact NIM, this suggests that a greater share of banks could benefit from lower deposit rates compared with prior periods.

Loan growth remained weak in 2024, at 1.6 percent (as shown in figure 6). Weak growth was primarily driven by a decline in C&I and nonfarm nonresidential real estate loans. Loan growth was supported by increases in credit card balances and loans to nondepository financial institutions (NDFI). Real estate loans drove a 4 percent increase in loan balances at banks with assets less than $10 billion in total assets. Residential real estate, nonfarm nonresidential, and multifamily lending account for more than 60 percent of community bank lending.

Federal banking system deposits grew at the same pace as loans, 1.6 percent, following deposit outflows in 2022 and 2023. The loan-to-deposit ratio, one measure of liquidity, remained below the pre-pandemic level for the federal banking system. For banks with assets less than $10 billion, with slightly faster loan growth, loan-to-deposit ratios have nearly returned to pre-pandemic levels.

FIGURE 6: YEAR-OVER-YEAR CHANGE IN LOAN BALANCES FOR THE FEDERAL BANKING SYSTEM, PERCENT



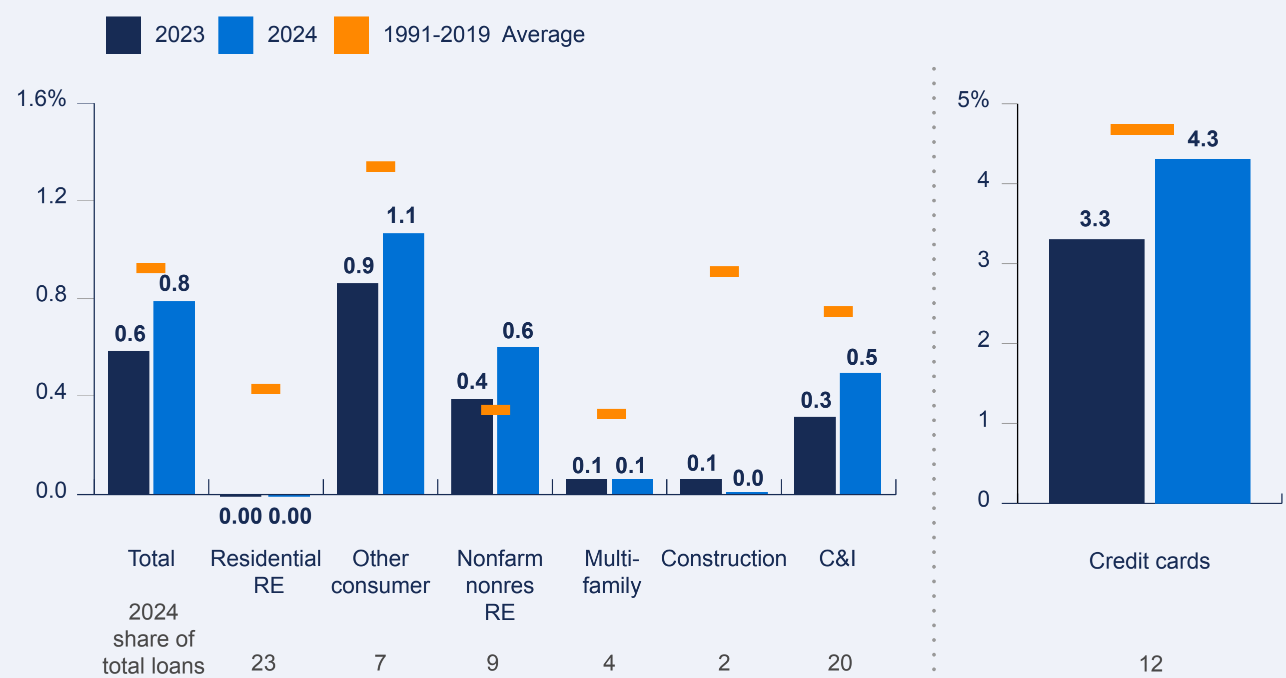
Source: Call reports from OCC Integrated Banking Information System

Note: Data are merger-adjusted and held constant from banks in continuous operation from the first quarter of 2020 to the fourth quarter of 2024. "Other consumer" is consumer loans less credit card loans. "Remainder" includes agricultural loans and loans to governments and municipalities.

23 56 percent of banks have positive net short-term liabilities (measured as liabilities of one year or less minus assets one year or less, as a share of total assets) compared with 41 percent of banks at the beginning of 2019.

Net charge-off rates slightly increased from the prior year but remained historically strong. For the federal banking system, the net charge-off rate for total loans increased to 0.8 percent, compared with 0.6 percent a year ago (as shown in figure 7). Nonfarm, nonresidential real estate loans were the only outlier as the net charge-off rate rose slightly above the 1991-2019 average rate. However, net charge-off rates for all other loan categories remained below their historical averages (as shown in figure 7). For banks with assets less than $10 billion, net charge-off rates were little changed from the historically low levels of a year ago and remained low across all loan categories.

FIGURE 7: NET CHARGE-OFF LOAN RATES FOR THE FEDERAL BANKING SYSTEM, PERCENT



Source: Call reports from OCC Integrated Banking Information System

Note: Data are merger-adjusted and held constant from banks in continuous operation from the first quarter of 2020 to the fourth quarter of 2024. For Residential Real Estate, net charge-offs were negative .004 percent for 2023 and negative .01 percent for 2024.

LIST OF ABBREVIATIONS

ACL	allowance for credit losses
AI	artificial intelligence
BSA/AML	Bank Secrecy Act/anti-money-laundering
Consensus	The Blue Chip Consensus Forecast
C&I	commercial and industrial loans
CRA	Community Reinvestment Act
CRE	commercial real estate
EFFR	effective federal funds rate
Federal Reserve	Board of Governors of the Federal Reserve System
FinCEN	Financial Crimes Enforcement Network
FOMC	Federal Open Market Committee
genAI	generative artificial intelligence
GDP	gross domestic product
LTD	loan-to-deposit ratio
NDFI	nondepository financial institution
NII	net interest income
NIM	net interest margin
NOI	net operating income
NRC	National Risk Committee
OCC	Office of the Comptroller of the Currency
PCE	personal consumption expenditure
SARP	Semiannual Risk Perspective
SAR	suspicious activity report
UST	United States Treasury