Office of the Comptroller of the Currency

SEMIANNUAL RISK PERSPECTIVE

FROM THE NATIONAL RISK COMMITTEE

occc.gov

CONTENTS

ABOUT THIS REPORT ii

EXECUTIVE SUMMARY 1

PART I: RISK AREA FOCUS 2

PART II: ECONOMIC ENVIRONMENT AND BANK PERFORMANCE 7

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. The report reflects data as of December 31, 2025, unless otherwise indicated.

1 Throughout this report, the term "banks" refers collectively 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

- Bank earnings improved in 2025, supported by loan growth and a decline in funding costs that drove robust growth in revenues. Balance sheets remain strong, with capital ratios and liquidity high by historical standards. Earnings releases for the first quarter of 2026 indicate that these trends have generally persisted.

- Bank performance has been underpinned by a resilient U.S. economy that exhibited moderate growth in 2025. The economic outlook for 2026 anticipates that consumer spending and investment will continue to support growth. Uncertainties arising from geopolitical risk, notably the conflict in the Middle East, affect this outlook although economic forecasters generally anticipate the effect to be temporary. The latest projections foresee a modest slowdown in economic growth and a noticeable increase in headline inflation through the middle of the year, but a return to underlying trends in the third and fourth quarter of 2026.

- Credit risk within the federal banking system remains manageable in aggregate. Past-due and nonaccrual loans, as well as net charge-offs, remain below long-term averages in most loan portfolios. Credit conditions and refinancing risk in certain segments of commercial real estate lending and of private credit markets warrant ongoing monitoring. There has been a modest increase in past-due loans in the market for consumer credit, driven by borrowers with weaker credit scores. However, OCC-supervised banks have manageable exposures to higher-risk borrowers.

- Cyber threats and fraud remain a concern. Cybercriminal groups targeting the financial sector are increasingly sophisticated and foreign state-sponsored actors continue to pose a threat. This risk is elevated due to increased geopolitical tensions related to the Middle East conflict. There are increasingly advanced AI tools coming into the market to assist with cybersecurity functions. A sound understanding of the potential benefits and possible risks associated with these advanced tools can be important for cyber risk management. Banks continue to face challenges from both the elevated levels and rising sophistication of fraud and scams.

- Geopolitical tensions increase sanctions and money laundering risk, straining bank compliance systems, and may raise the potential for sanctions and Bank Secrecy Act/anti-money laundering (BSA/AML) violations. The OCC continues to look for opportunities to tailor bank supervision and regulations to risk and complexity and reduce burden for its regulated institutions so they can support economic growth.

- The OCC supports responsible innovation, including implementation of artificial intelligence (AI), as a means of modernizing the financial system and ensuring that banks of all sizes remain relevant and competitive. Recent developments, particularly generative and agentic AI, offer banks opportunities to automate and improve core operational, customer service, and other activities in novel ways.

PART I

RISK AREA FOCUS

KEY FINANCIAL RISKS

A. CREDIT RISK

Bank loan growth accelerated in 2025 and total loan balances for the federal banking system grew by 6 percent from the end of 2024. Portfolio quality is satisfactory across retail and corporate credit with past-due and nonaccrual loan ratios, as well as net charge-off ratios, below long-term averages for most loan categories.

In commercial real estate (CRE), several property types continue to experience headwinds. These have not resulted in significant credit defaults, although refinance risk merits continued attention. A substantial volume of CRE loans originated in a lower-interest environment will mature in the next several years and will need to be refinanced at prevailing rates.

Net absorption of office CRE turned positive during the last half of 2025, pointing to gradual stabilization of that market segment. At the same time, certain banks continue to work through legacy problem loans, and banks with over $250 billion in assets took additional charge-offs on office loans. Despite continuing rental rate declines in the Sun Belt, driven by the substantial supply wave of 2022-24, demand is steady and multifamily properties remain resilient. The vacancy rate for warehouse properties is expected to remain high for the near term. Hotel industry performance has declined due to low room demand. Retail remains a bright spot. The vacancy rate in retail properties remains low, with little space available for lease in most markets.

Bank exposures to private credit funds are generally performing according to the terms agreed with borrowers. There are signs that credit quality for some vintages, borrower types, and sectors of the private credit markets is weakening. The increasing use of debt restructurings and paid-in-kind (PIK) mechanisms

may mask underlying credit deterioration in loan portfolios held by private credit funds. In conjunction with growth in lending to private credit funds and an increase in concentrations at some banks, careful monitoring of borrower performance and refinancing risk is increasingly important.

Retail loan portfolios in the federal banking system continue to demonstrate prudent risk management. Market-level data show an increase in past-due consumer loans. This trend is driven by households with lower credit scores. In the federal banking system, indicators of retail loan performance have generally improved in the past year as exposure to higher-risk consumer lending segments remains manageable.

The U.S. housing market price trends are stable at the national level, with some geographic areas experiencing slight declines. High levels of homeowner equity contribute to stability in residential real estate credit.

B. MARKET RISK

Throughout 2025, net interest margins (NIM) improved across the banking system, driven by lower funding costs. Funding costs throughout the banking system plateaued through most of 2024 but began declining in the last quarter of 2024 and into 2025, following adjustments to the federal funds rate target by the Federal Open Markets Committee (FOMC). Banks with less than $30 billion in assets (referred to as “community banks” in this report) reported larger improvements to NIM. For these banks, lower funding costs were coupled with more favorable asset yields than for other banks.

Unrealized losses on securities portfolios, both as a percentage of the amortized cost of securities and in dollar terms, fell and are at their lowest levels since 2021. Amid continued growth in aggregate deposits, banks saw a modest increase in uninsured deposits as a share of total deposits. This was driven by banks with assets over $500 billion. The share of uninsured deposits remains in line with long-term averages.

COMPLIANCE AND OPERATIONAL RISKS

A. CYBERSECURITY

The OCC continues to highlight threats posed by foreign state-sponsored actors and sophisticated cybercriminal groups targeting the financial sector. Current geopolitical tensions could lead to an increase in malicious activity against financial institutions and service providers, underscoring the importance of heightened threat monitoring and safeguarding against disruptive attacks targeting the financial sector.

Artificial intelligence (AI) is significantly transforming the cyber threat landscape, while also providing new capabilities to manage cyber-related risks. AI lowers the barrier to entry for threat actors and increases the speed, scale, and sophistication of cyber-attacks targeting financial institutions and their customers. AI can also be used to facilitate fraud and enable automated reconnaissance, rapid vulnerability discovery and exploitation, targeted social engineering, and adaptive malware that can evade traditional security defenses. The implementation of more stringent security measures, such as multifactor authentication and timely patch management, help mitigate AI-enabled cyber risks for banks. AI can also be deployed to defend against threats and to support risk management and heightened threat and vulnerability monitoring processes. There are increasingly advanced AI tools coming into the market to assist with cybersecurity functions. A sound understanding of the potential benefits and possible risks associated with these advanced tools can be important for cyber risk management.

B. FRAUD RISK

Fraud is a key driver of operational losses, and banks continue to face challenges from elevated levels and sophistication of fraud and scams. This includes impersonation scams, which can be facilitated by text messages and social media. In light of the evolving nature of fraud confronting banks, a dynamic and adaptive approach to risk management is warranted. The Financial Crimes Enforcement Network (FinCEN) has recently issued alerts highlighting the need for vigilance to evolving fraud typologies.[3]

C. COMPLIANCE RISK

Geopolitical tensions increase sanctions and money laundering risk, straining bank compliance systems, and may raise the potential for sanctions and BSA/AML violations. In this context, FinCEN recently highlighted the growing use of Chinese money laundering networks by transnational criminal organizations to move illicit proceeds through the U.S. financial system.[4]

The OCC continues to look for opportunities to tailor bank supervision and regulations to risk and complexity so that banks can direct more attention and resources toward higher-risk customers and activities. For example, in conjunction with changes proposed by FinCEN, the OCC, the Federal Deposit Insurance Corporation (FDIC), and the National Credit Union Administration (NCUA) issued a proposed

3 *Federal Register*, "Geographic Targeting Order Imposing Recordkeeping and Reporting Requirements on Certain Financial Institutions in Minnesota" (Jan. 13, 2026); FinCEN, "FinCEN Issues Advisory on Health Care Fraud Schemes Targeting Medicare, Medicaid, and Other Federal and State Health Care Benefit Programs" (March 30, 2026).

4 FinCEN, "FinCEN Issues Advisory and Financial Trend Analysis on Chinese Money Laundering Networks" (Aug. 28, 2025).

rule to amend requirements for supervised institutions to establish and maintain effective risk-based anti-money laundering and countering the financing of terrorism (AML/CFT) programs.[5] In separate bulletins, the OCC also clarified BSA/AML examination procedures applicable to community banks and reduced community bank data collection requirements. Specifically, the OCC issued supplementary guidance that tailors the agency's application of the BSA/AML examination procedures for all community banks based on these banks' generally low levels of money laundering and terrorist financing risk.[6] The OCC also discontinued its Money Laundering Risk system data collection.[7] These actions demonstrate the OCC's efforts to improve the effectiveness and efficiency of BSA/AML compliance while reducing unnecessary burden on community banks. Additionally, on February 13, 2026, FinCEN issued exceptive relief to streamline customer due diligence requirements.[8]

INNOVATION

A. ARTIFICIAL INTELLIGENCE

Banks have used forms of AI for many years. While larger banks are generally more forward leaning when it comes to the implementation of newer forms of AI, banks of all sizes are exploring ways to further leverage AI. Banks are taking a measured approach to the adoption of generative AI (genAI) and agentic AI, with usage generally limited to specific use cases with guardrails and human-in-the-loop accountability to manage risk. To date, the OCC has observed that use cases are primarily productivity and customer experience enhancement tools. Broader advancements in AI, particularly genAI and agentic AI, offer banks opportunities to automate and improve core operational, customer service, and other activities in novel ways and banks may consider expanding their use of genAI and agentic AI for material financial decisions.

Appropriate governance and risk management are essential to mitigate potential risks when implementing AI. Many risks associated with AI are the same as those of models and tools that do not rely on AI. The industry has overcome many key risk management challenges associated with traditional AI. The OCC recognizes there are unique challenges related to the use of genAI and agentic AI such as lack of explainability, data privacy and data poisoning issues, cybersecurity threats, and validation challenges where industry approaches are evolving.

....

5 OCC News Release 2026-25, "Agencies Request Comment on Anti-Money Laundering/Countering the Financing of Terrorism Proposed Rule" (Apr. 7, 2026).

6 OCC Bulletin 2025-37, "Bank Secrecy Act/Anti-Money Laundering: Community Bank Minimum Bank Secrecy Act/Anti-Money Laundering Examination Procedures" (Nov. 24, 2025).

7 OCC Bulletin 2025-38, "Bank Secrecy Act/Anti-Money Laundering: Discontinuation of Annual Money Laundering Risk System Data Collection" (Nov. 24, 2025).

8 FinCEN, "FinCEN Issues Exceptive Relief to Streamline Customer Due Diligence Requirements" (Feb. 13, 2026).

The OCC supports responsible innovation, such as through genAI and agentic AI, as a means of modernizing the financial system and ensuring that banks of all sizes remain relevant and competitive. The OCC supports banks' efforts to integrate AI into core functions, while managing the risk in a safe and sound manner and in compliance with applicable laws and regulations. The OCC issued OCC Bulletins 2025-26 and, jointly with the FDIC and the Board of Governors of the Federal Reserve System, 2026-13.[9] OCC Bulletin 2026-13 updates model risk management guidance and rescinds prior model risk management guidance and other issuances. The bulletins clarify that model risk management practices should be risk-based and commensurate with a banking organization's size, complexity, and model materiality. GenAI and agentic AI models are novel and rapidly evolving and are not within the scope of the revised model risk management guidance. The agencies plan to issue in the near future a request for information that addresses model risk management generally and considers, in particular, banks' use of AI, including genAI, agentic AI, and AI-based models. The OCC is also actively reviewing supervisory expectations, guidance, and regulations to ensure that innovative opportunities are available to all OCC-supervised banks, rather than only a few, that wish to take advantage of AI. In doing so, the OCC seeks to support community banks that leverage third-party technology and to right-size supervisory expectations.

B. DIGITAL ASSETS

The OCC continues to be attentive to ongoing developments regarding digital assets, including tokenized assets, in the federal banking system. On February 25, 2026, the agency issued a notice of proposed rulemaking under the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act.[10] The GENIUS Act, which was signed into law on July 18, 2025, establishes a federal regulatory framework for payment stablecoins and limits the entities authorized to issue payment stablecoins in the United States. The use of stablecoins may become more prevalent with increased adoption. The OCC is continuing to work swiftly to implement the law and comply with requirements contained in the GENIUS Act. On March 5, 2026, the OCC, the Board of Governors of the Federal Reserve System, and the FDIC released interagency frequently asked questions on tokenized securities, clarifying that the technologies used to issue and transact in a security do not generally impact its regulatory capital treatment.[11] As with all novel banking activities, the OCC expects banks engaging in digital 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. The OCC will continue to monitor these activities and provide regulatory clarity as appropriate.

9 OCC Bulletin 2025-26, "Model Risk Management: Clarification for Community Banks" (Oct. 6, 2025); OCC Bulletin 2026-13, "Model Risk Management: Revised Guidance" (Apr. 17, 2026).

10 OCC Bulletin 2026-3, "GENIUS Act Regulations: Notice of Proposed Rulemaking" (Feb. 25, 2026).

11 OCC Bulletin 2026-7, "Regulatory Capital: Interagency FAQs on Tokenized Securities" (March 5, 2026).

PART II

ECONOMIC ENVIRONMENT AND BANK PERFORMANCE

ECONOMIC ENVIRONMENT

The U.S. economy in 2025 exhibited moderate but resilient growth despite notable volatility across quarters and emerging structural headwinds. Real gross domestic product (GDP) expanded by 2.1 percent for the year, reflecting consumer spending strength and business investment driven by robust AI spending. However, growth decelerated in the fourth quarter, as the federal government shutdown and softer household demand weighed on output. Nevertheless, overall economic activity remained positive, and U.S. economic growth continued to outperform other advanced economies, underscoring the economy's capacity to absorb various short-term shocks.

While 2025 saw a modest gain in net payrolls, these gains occurred mostly in the first half of the year before reversing over the second half of the year. This was accompanied by narrowing job creation as fewer industries expanded. But unemployment remains relatively low, at 4.3 percent in March 2026, having changed little since September. Wage growth eased in 2025 as labor demand and supply returned to better balance, ending the year at a resilient 3.4 percent. As of early 2026, the labor market is characterized by employer caution.

Although inflationary pressures have eased from prior peaks, core inflation started 2026 at 3.1 percent, above the Federal Reserve's 2 percent long-run target. Persistently elevated service-sector inflation, accelerating goods inflation, and high shelter costs have kept inflation sticky. The Federal Reserve maintained a cautious stance in 2025, balancing the need to anchor inflation expectations against the slowing labor market. However, after holding rates steady in the first half of the year, rates were cut three times in the second half of the year.

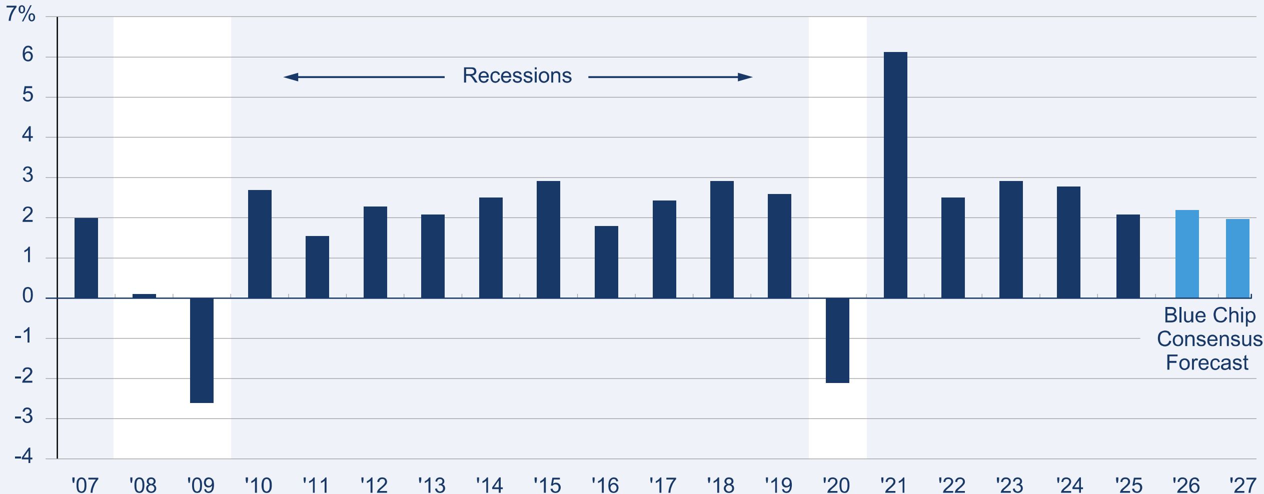
The U.S. single-family housing market in 2025 continued to move from the post-pandemic environment with low interest rates and rapid gains in home prices toward a more balanced, slow-growth state with relatively low transaction volumes and decelerating home price appreciation. Lower mortgage rates in late 2025 benefited borrowers but have not fully offset the impacts of the post-pandemic trends on the cost of financing a home.

There are significant regional differences in single-family house price trends that see the Northeast and Midwest regions outperforming a cooling Sun Belt. This pattern is mirrored in the multifamily property sector. Apartment rents in the Sun Belt, as well as the Mountain West, face some pressure as rental demand continues to absorb the substantial supply wave of 2022–2024.

Within the nonresidential property market, office properties still face the highest vacancy rates. However, vacancy rates plateaued last year and are projected to hold near current levels throughout 2026. Logistics and industrial markets are normalizing following a period of rapid growth, with vacancies expected to peak this year. Retail performance is steady, while hotel sector performance has diverged. High-end properties are posting positive revenue growth while low-end segments are experiencing the steepest year-over-year declines.

Looking at 2026, the Blue Chip consensus forecast anticipates continued economic expansion, although the near-term outlook is affected by the conflict in the Middle East. According to the April forecast, real GDP is expected to grow at annual rates of 2.2 percent and 2.0 percent in 2026 and 2027, respectively. See figure 1. Growth is projected to be driven by solid consumer spending, resilient corporate balance sheets, and sustained investment in technology and productivity-enhancing sectors. The unemployment rate is forecast to level off at 4.5 percent in the third quarter of 2026. Headline inflation is expected to increase materially in the first half of the year, peaking at an annualized rate of 5.1 percent in the second quarter, and then fall substantially in the second half of 2026 while remaining slightly above the Federal Reserve’s 2 percent target.

FIGURE 1: REAL GDP, ANNUAL PERCENT CHANGE



Sources: Bureau of Economic Analysis (fourth quarter 2025), Blue Chip Economic Indicators (April 2026)

The outlook reflects an initial assessment of the military conflict in the Persian Gulf and the expectation that the conditions will settle. The April consensus forecast foresees a modest deceleration in economic growth in the second and third quarters of 2026 and a more substantial increase in inflation relative to the forecast released in March. Going forward, developments in the Middle East, in particular the resumption of shipping of oil and other commodities through the Strait of Hormuz, may inform further adjustments to the outlook. If the closure is sustained, higher energy costs could raise production and transportation expenses for businesses, fueling inflation. Passing these costs to consumers would reduce purchasing power and dampen spending. Continued trade policy uncertainty is another risk, as persistent frictions can weaken business confidence, raise input costs, and limit export demand. Inflation remains a concern, and market participants and forecasters have adjusted their expectations regarding potential cuts to the federal funds rate target set by the FOMC. The April Blue Chip consensus forecast anticipated one rate cut in 2026 (as opposed to two rate cuts in the March forecast). Financial market pricing has indicated that market participants anticipate that even one cut may not happen. This could slow investment and consumption. Labor market vulnerabilities, such as continued weak job creation or rising unemployment, could further erode household income and spending.

Thus far, the U.S. economy and financial markets have been more resilient to developments in the Middle East than economies in Asia and Europe. Countries in the Gulf Cooperation Council export roughly 80 percent of their energy products to Asia, primarily through the Strait of Hormuz, in addition to significant exports of liquified natural gas to Europe. If disruptions to the flow of energy and other commodities, such as fertilizer, from the Middle East persist, their impact on foreign economies is likely to grow and may affect U.S. firms and banks with exposure to these economies.

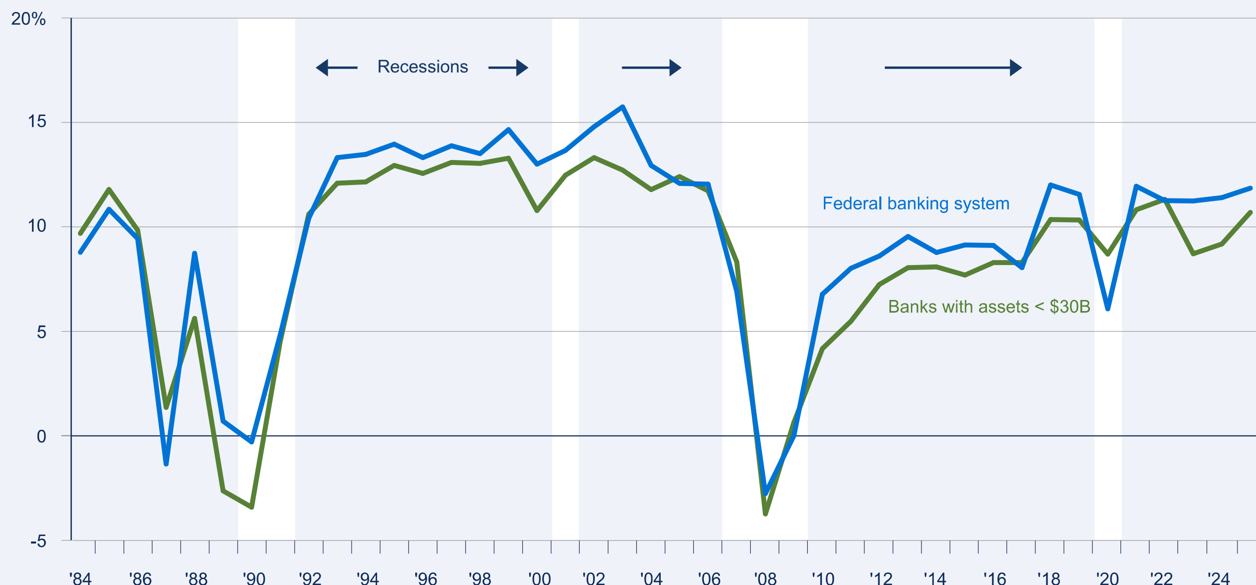
BANK PERFORMANCE

Profitability for the federal banking system increased in 2025 as revenue growth accelerated, loan growth improved, and credit quality remained stable. The return on equity for both the system as a whole and for community banks exceeded 10 percent (12.2 percent for the system[12] and 11 percent for community banks). See figure 2. Balance sheets remained strong, with capital ratios and liquidity high by historical standards. The federal banking system's ratio of liquid assets to total assets was 31 percent at the end of 2025, compared with 15 percent in 2008.

……………………..

12 The system figures are driven by the largest institutions.

FIGURE 2: BANK RETURN ON EQUITY, PERCENT



Sources: Call reports from OCC Integrated Banking Information System
Note. Data are annual values 1984-2025. Banks with less than $30 billion in total assets exclude credit card and trust institutions. White bars indicate recession periods.

Growth in net interest income (NII) was a key driver of bank profitability in 2025, as funding costs declined and loan growth accelerated. Community banks also continued to benefit from higher loan yields, while loans for other banks were quicker to reprice downward on average. This reflects differences in the composition of loan portfolios, with a relatively large share of long-term property loans for community banks and a larger share of short-term commercial and industrial (C&I) and other business loans for larger banks. For the federal banking system, NII grew 3.7 percent, while NII at community banks advanced at a much faster pace, 12.2 percent. Though larger banks saw greater relief in interest expense than community banks, this benefit was not sufficient to offset the lower asset yields, resulting in more modest NII growth for the system.

As noninterest income also grew and expense growth was modest, net income grew 8.8 percent for the system and 21.6 percent for community banks. See table 1.

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

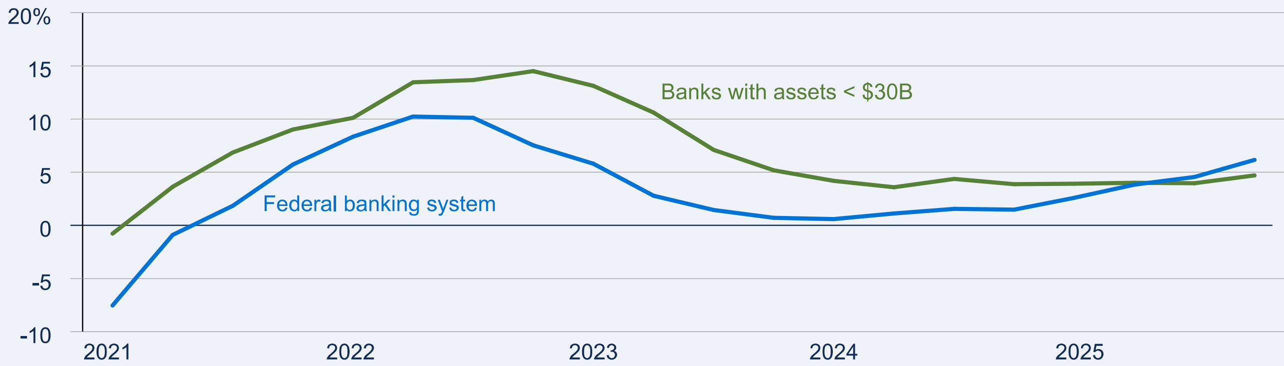
	Federal banking system			Banks with total assets <$30 billion		
	2024	2025	% change past 12 months	2024	2025	% change past 12 months
Revenues						
Net interest income	476.3	493.9	3.7%	30.7	34.4	12.2%
Noninterest income	224.8	249.6	11.0%	10.3	11.0	7.1%
Expenses						
Provisioning	71.1	75.5	6.2%	1.9	2.1	10.5%
Noninterest expense	403.2	414.1	2.7%	26.1	27.6	6.0%
Net income	183.1	199.2	8.8%	10.3	12.5	21.6%

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 2025. Banks with less than $30 billion in total assets exclude credit card and trust institutions.

Following a recent period of slow loan growth, total loan balances for the system grew over 6 percent from a year ago. See figure 3. Loans to non-depository financial institutions helped advance loan growth for the system. Loan growth also improved for community banks, with total loan balances 5 percent higher than a year ago. Results from the most recent Federal Reserve Senior Loan Officer Opinion Survey on Bank Lending Practices (SLOOS) suggest loan growth momentum could continue in 2026.[13] According to the January 2026 survey, banks expect loan demand to strengthen across all categories and lending standards to generally remain unchanged in 2026.

13 Board of Governors of the Federal Reserve System, "January 2026 Senior Loan Officer Opinion Survey on Bank Lending Practices" (last update Feb. 2, 2026).

FIGURE 3: YEAR-OVER-YEAR CHANGE IN TOTAL LOAN BALANCES, PERCENT

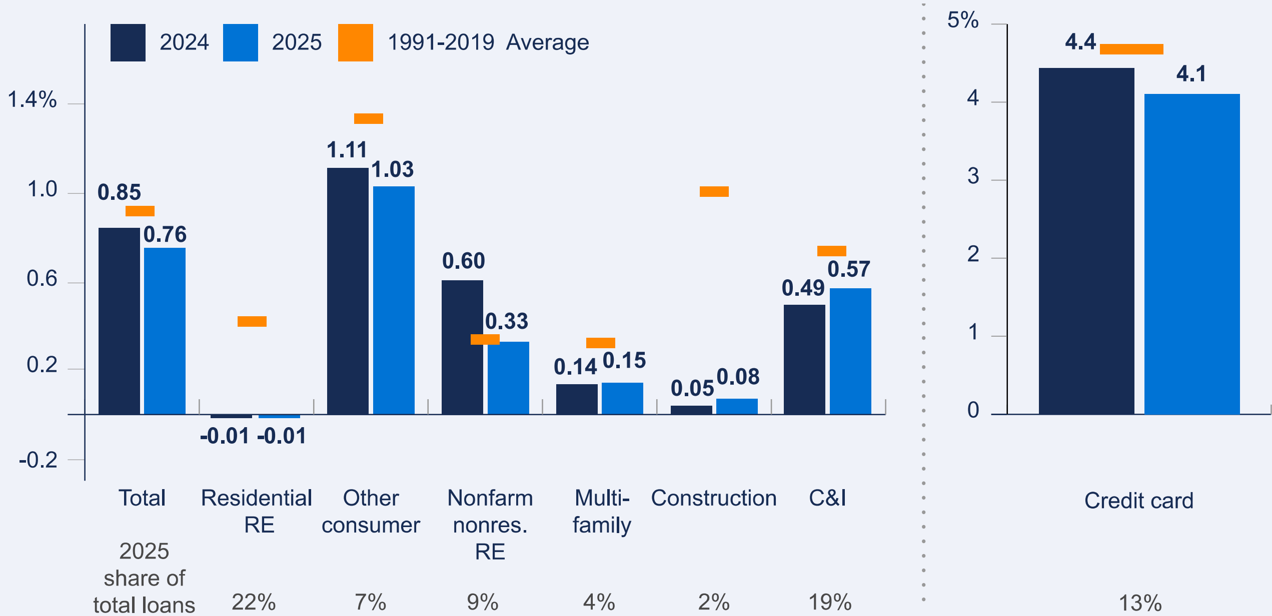


Sources: Call reports from OCC Integrated Banking Information System

Note: Total loans exclude Paycheck Protection Program (PPP) loans. Data are merger adjusted for institutions in continuous operation from the first quarter of 2020 to the fourth quarter of 2025. Banks with less than $30 billion in total assets exclude credit card and trust institutions.

Credit performance for the system improved from a year ago, and charge-off rates remained below the long-term average rates from 1992-2019, led by a decline in net charge-offs for nonfarm nonresidential real estate loans. See figure 4. Based on the January 2026 SLOOS, banks expect credit performance to improve for CRE loans, have mixed expectations for C&I loans, and expect deterioration in household credit, including most consumer loan categories.

FIGURE 4: NET LOAN CHARGE-OFF RATES FOR THE FEDERAL BANKING SYSTEM, PERCENT



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 2025.