State Fact Sheet—Central District Quarterly Report for End of Q4 2012

The OCC charters, regulates, and supervises all national banks and federal savings associations (collectively "banks"), and supervises the federal branches and agencies of foreign banks. The OCC regulates and supervises 1,955 institutions. These institutions include 46 large banks, 47 midsize banks, 47 federal branches, and 1,815 community banks. The OCC's Community Bank Supervision oversees 1,248 national banks and 567 federal savings institutions. Assets subject to OCC supervision total $10 trillion or 69 percent of all U.S. commercial banking assets.

Headquartered in Washington, D.C., the OCC has four district offices that oversee the supervision of community banks. The Central District, headquartered in Chicago, oversees community banks in Illinois, Indiana, Kentucky, Michigan, Missouri, Minnesota, North Dakota, Ohio, and Wisconsin. As of December 31, 2012, the Central District supervises 526 banks with $192 billion in assets.

This document makes reference to Matters Requiring Attention (MRAs), which are issues identified by examiners that require 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.

Highlights of each state's quarterly condition assessment follow:

ILLINOIS. Illinois is home to five central district offices. In addition to the district office and two field offices located in Chicago, the OCC also has field offices in Champaign and Peoria. The 150 community national banks and federal savings associations in Illinois, with total assets exceeding $40 billion, are supervised by 133 OCC employees.

- More than 75 percent of the community national banks and federal savings associations have a composite rating of 1 or 2, consistent with the previous quarter, indicating a generally stable condition for the state's federally chartered banks.
- Through 2012, the number of problem banks declined 15 percent. Twenty 20 percent are improving, while another 40 percent are stable.
- Earnings are a concern at nearly one quarter of banks, although the earnings rating at 20 banks were upgraded in the past year.
- Levels of commercial real estate (CRE) lending exposure continue to pose high concern, with nearly one-third of banks reporting non-farm non-residential and construction loan delinquencies greater than 5 percent.
- Issues surrounding problem loan management and loan loss reserves have been identified most often as credit administration weaknesses. Credit-related MRAs increased slightly from last quarter.

INDIANA. Indiana has two field offices, located in Indianapolis and Evansville, with 34 employees. The OCC supervises 43 Indiana banks with assets of $19.3 billion.

- Indiana's banks remain generally healthy, with 75 percent of the institutions assigned a composite rating of 1 or 2.

- Institutions assigned a less than satisfactory rating increased by one since last quarter; however, only a small number of institutions in Indiana have received severely adverse ratings.
- The number of problem banks remained unchanged in 2012. Slightly more than half are stable or improving.
- Credit risk remains a primary concern, with 50 percent of the banks rated high, or moderate and increasing. Nearly 50 percent of the banks have a less than satisfactory asset quality rating assigned.
- Earnings performance trails the central district average; however, nearly 80 percent have been assigned an earnings rating of 1 or 2.
- Credit-related MRAs increased slightly over the prior quarter, with problem loan management, loan policy, and loan loss reserves being the primary concerns.

KENTUCKY. Kentucky has one field office, located in Louisville, with 24 employees. There are 39 Kentucky federal banks in the state, with assets of $8.7 billion. The Louisville office supervises approximately two-thirds of those institutions, with out of state offices located closer to the banks supervising several other OCC offices.

- Ratings for banks have been stable since last quarter, with nearly 85 percent assigned a composite rating of 1 or 2. Slight improvement in the composite ratings is evident over the course of 2012.
- The number of problem banks is unchanged from last quarter at 16 percent, with very few severely adverse ratings.
- Credit risk continues to be the primary concern, with nearly one-third of the banks rated high, or moderate and increasing. Further, less than satisfactory asset quality ratings have been assigned at more than 25 percent of banks.
- Capital and earnings performance indicators remain stable. Capitalization levels lead central district averages, while earnings performance lags district averages.
- Credit-related MRAs remained stable since last quarter, with primary concerns noted in the areas of credit management, problem loan management, and loan loss reserves.

MICHIGAN. Michigan is home to two offices, in Detroit and Iron Mountain, with 26 employees who supervise 25 banks with assets totaling $6.1 billion.

- Ratings for Michigan banks have been stable over the last quarter, with 72 percent assigned a composite rating of 1 or 2. Slight improvement in the composite ratings is evident over the course of 2012.
- The number of problem banks is unchanged from last quarter at 28 percent, with very few severely adverse ratings. Most problem banks are either stable or improving.
- Credit risk continues to be the primary concern, with more than half of the banks rated high, or moderate and increasing.
- Asset quality metrics reflect greater challenges for Michigan banks than district averages; the metrics have not improved appreciably in recent quarters.
- Earnings performance indicators remain stable but continue to lag the average for federal banks and thrifts in the district. Capitalization levels at Michigan banks are higher than district averages.

- Credit MRAs saw a pronounced increase this quarter. Credit management issues are by far the largest concern. Problem loan management, file documentation, and loan loss reserves are the primary issues for the credit-related MRAs.

MINNESOTA. Minnesota is home to OCC offices in Alexandria, Duluth, and Minneapolis, with 82 employees. These offices supervise 92 institutions with assets totaling $21.8 billion.

- Ratings for banks slightly improved over last quarter, with 85 percent assigned a composite rating of 1 or 2. Steady improvement in the composite ratings is evident over the course of 2012.
- The number of problem banks has dropped by four since last quarter, with very few severely adverse ratings. All problem banks are either stable or improving.
- Credit risk remains the primary issue with a less than satisfactory asset quality rating assigned to one-third of banks. Additionally, a high or moderate and increasing credit risk assessment was made at one quarter of the banks in the state.
- Asset quality metrics are comparable with district averages.
- Earnings performance indicators are more favorable than district averages, while capitalization ratios reported were comparable.
- Credit MRAs account for more than half of MRAs reported over the last year. Problem credit management, analysis, and documentation were the issues cited most often.

MISSOURI. Missouri is home to three OCC offices, located in Joplin and St. Louis (2), with 54 employees who supervise 45 institutions with assets totaling $18.4 billion. Most Missouri banks are supervised by either the OCC's Central or Western District.

- Ratings for banks improved slightly through the end of 2012, with 81 percent assigned a composite rating of 1 or 2.
- The number of problem banks dropped by three since mid-2012, with no severe adverse ratings. Most problem banks are stable or improving.
- Credit risk remains the primary issue with a less than satisfactory asset quality rating assigned to 40 percent of the banks in the state. Additionally, a high or moderate and increasing credit risk assessment was made at nearly half of the Missouri banks.
- Asset quality metrics are generally comparable with district averages, although non-performing loan levels are approximately 30 percent higher. All of the Missouri asset quality metrics trended favorably since last quarter.
- Despite a slight decline in the net interest margin since earlier in 2012, profitability is up and compares closely with the district average. Capital levels are comparable with district averages.
- Liquidity and sensitivity to market risk metrics are comparable with district averages.
- Credit MRAs account for half of all MRAs reported last year. Problem loan management, credit file documentation, and analysis were the issues cited most often.

NORTH DAKOTA. North Dakota has one OCC office, located in Fargo, with a total of 7 employees. The OCC supervises 14 North Dakota banks with assets of $7.9 billion.

- Ratings for banks stayed largely the same since last quarter, with most institutions assigned a composite rating of 1 or 2.
- North Dakota has the lowest problem bank level of any state in the central district. There are no deteriorating problem banks.
- Risk profiles didn't change much since last quarter. Operational risk is the primary concern with one in five North Dakota banks assessed high, or moderate and increasing. Compared with other states overall, risks are fairly low.
- North Dakota's banks exhibit healthy ratios, with asset quality and earnings metrics much better than district averages. Capital, liquidity, and sensitivity to market risk ratios are in line with district averages.
- MRAs are low and decreasing. Approximately half are credit related, with loan loss reserves and credit file documentation being the primary issues.

OHIO. Ohio is home to district offices in Cincinnati, Cleveland, and Columbus, with a staff of 80. These offices supervise 92 banks with assets totaling $59 billion. Nearly all of the supervision of Ohio banks is done by the Ohio offices.

- Ratings have been stable since last quarter with 84 percent assigned a composite rating of 1 or 2. Slight improvement in composite ratings is evident over the course of 2012.
- The number of problem banks has dropped by four during 2012, with very few severely adverse ratings. Nearly all problem banks are improving or stable.
- Credit risk remains the primary issue with a less than satisfactory asset quality rating assigned to nearly one-third of banks. Additionally, a high or moderate and increasing credit risk assessment was made at over 40 percent of the banks.
- Asset quality metrics are generally comparable with district averages, with the exception of non-performing loan levels which are nearly 20 percent lower than district averages. The asset quality metrics generally reflect modest improvement over last quarter.
- Earnings performance indicators are less favorable than district averages, while capitalization ratios reported were comparable.
- Liquidity metrics are comparable with district averages. Sensitivity to market risk indicators reflect more long-term asset exposures than district averages.
- Credit MRAs account for nearly half of all MRAs reported last year. Problem loan management, loan loss reserves, and credit file documentation were the issues cited most often.

WISCONSIN. Wisconsin has one OCC office, located in Milwaukee, with 30 employees. The OCC supervises 50 Wisconsin banks with assets of $22.9 billion. The Milwaukee office supervises approximately one half of the Wisconsin banks, with the balance primarily supervised by Minneapolis and Chicago field offices.

- Ratings have slightly improved since last quarter, with 80 percent of institutions assigned a composite rating of 1 or 2, continuing a modestly improving trend.
- The number of problem banks has fallen by five during 2012, with very few severely adverse ratings. Most problem banks are stable or improving.
- Credit risk remains the primary issue with a less than satisfactory asset quality rating assigned to 40 percent of the banks. Additionally, a high or moderate and increasing credit risk assessment was made at more than half of the banks.

- Asset quality metrics reflect greater challenges for Wisconsin banks than district averages; though the metrics have shown slow, steady improvement.
- Profitability compares closely to the district average, despite a more favorable net interest margin in Wisconsin. Capital levels also compare closely with district averages.
- Liquidity and Sensitivity to Market Risk metrics are comparable with district averages.
- Credit MRAs accounted for nearly half of all MRAs last year. Loan policy, loan loss reserves, and credit file documentation issues were cited most often.

Summary. As of December 31, 2012, the OCC's assessment of risks for Central District national banks and federal savings associations included:

- **Strategic risk** remains the top concern as earnings remain under pressure because of low rates and asset yields, compressed margins, and heavy competition for quality assets. Among institutions supervised by the CED, 65 percent are rated with moderate or high strategic risk, up from 60 percent less than two years ago.
- **Credit and price risks** for CRE and OREO continue to pose high concern. While charge-off trends are improving, CRE delinquencies remain high at nearly one-third of CED banks. The volume of OREO has been stable over recent quarters but remains high overall, with more than 80 percent of CED banks reporting OREO balances.
- **Credit risk management** is of moderate concern, as competitive conditions for quality commercial credit have led to relaxed underwriting terms and aggressive pricing decisions. In 2012, examiners identified credit risk management weaknesses as MRAs in more than 40 percent of CED banks.
- **Retail credit risk** is of moderate concern, with the slower recovery pace in housing and employment behind weaker performance in many 1st and 2nd mortgage portfolios. One-third of CED banks have single family loan delinquencies exceeding 5 percent.
- **Compliance and reputation risks** are increasing, as legislative and regulatory reform continues to place increasing pressure on compliance functions. OCC examinations are focusing on compliance management systems, Bank Secrecy Act, fair lending, overdraft protection, and mortgage foreclosure processes. Nearly 60 percent of CED banks are assessed with either moderate or high compliance risk.