Office of the Comptroller of the Currency

SEMIANNUAL RISK PERSPECTIVE

FROM THE NATIONAL RISK COMMITTEE



FALL 2026

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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 June 30, 2026, 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

- **Since the release of the previous SARP in May 2026, the OCC has continued to reset the OCC's risk tolerance and enhance the risk-based nature of its supervisory policies and practices.** Specific actions include the codification of unsafe or unsound practices[3] and expanded eligibility for an 18-month exam cycle for community banks with up to $6 billion in assets.[4] These and other changes aim to focus supervision on material financial risk, and reduce exam burdens, especially for community banks.

- **Bank profitability improved substantially during the first half of 2026**. Loan growth, modest expansion of net interest margins (NIM) and expansion of non-interest income contributed to robust revenue growth. Lower provisioning for credit losses further supported net income and profitability.

- **Credit risk in the loan portfolios of OCC-supervised banks remains modest overall**. The upward trend in medium to long-term rates over the first half of 2026 could increase commercial refinancing risk. The retail operating environment remains broadly supportive for credit quality, although continued inflation pressures could constrain the flexibility of certain households. In addition, there have been signs of weakening retail and commercial credit performance outside of the banking sector that merit attention.

- **Banks provide project-based and other secured financing to investments in Super Intelligence (SI) infrastructure.** Although OCC-supervised banks tend to hold senior positions in these structures, the rapid increase in funding needs for SI infrastructure and the use of novel financing structures warrant monitoring.

- **Interest rate developments could affect both the NIM and the valuation of securities held by banks.** In 2026, bank funding costs have benefited from lower short-term interest rates than in 2025, while yields on newly originated assets have increased. Stabilization of short-term rates and increases in medium to long-term ones may change the contributions of funding cost and asset yields to banks' NIM going forward. In addition, higher long-term rates affect the fair value of long duration assets.

- **Banks of all sizes are continuing to explore ways to leverage SI.** The growing availability and advancement of SI create opportunities to enhance efficiency and internal controls as well as to improve analytics and customize services. Implemented responsibly, SI benefits both banks and customers.

- **Employed by threat actors, advanced SI amplifies cybersecurity and fraud concerns.** Standard security and anti-fraud strategies, including access controls and identity verification, can help mitigate these threats. In addition, SI can also support banks' efforts to address cyber threats and fraud, utilizing SI capabilities to process large amounts of data and recognize subtle patterns.

3 Federal Register, "Unsafe or Unsound Practices, Matters Requiring Attention" (September 1, 2026); OCC Bulletin 2026-41, "OCC Bank Enforcement Actions, Matters Requiring Attention: Revised Policies and Procedures Manuals for Bank Enforcement Actions and Related Matters and Matters Requiring Attention" (August 27, 2026).

4 Federal Register, "Expanded Examination Cycle for Certain Small Insured Depository Institutions and U.S. Branches and Agencies of Foreign Banks" (September 14, 2026).

PART I

RISK AREA FOCUS

KEY FINANCIAL RISKS

A. CREDIT RISK

Credit risk in the Federal banking system remains modest. Loan growth has been broad-based across segments. Indicators of loan performance have improved on average and continue to indicate that the quality of loan portfolios compares well to long term averages. Outside of the banking sector, there have been signs of weakening retail and commercial credit performance that merit attention. The elevated medium- to long-term interest rates could increase commercial refinancing risk.

The retail operating environment remains broadly supportive, with employment and income conditions supporting repayment capacity. Affordability pressures constrain the flexibility of certain households as elevated borrowing costs and essential living expenses weigh more heavily on non-prime and lower-income cohorts.

National commercial real estate (CRE) markets are expected to keep stabilizing over the next two years, with property income increasing, and values recovering. Vacancy rates are expected to hold steady in most segments although they remain elevated in office and multifamily. In multifamily, rent growth has lagged rising operating costs, putting some further pressure on performance. Borrowers with variable-rate debt, near-term maturities, or higher leverage may face greater financial stress in a prolonged high-interest-rate environment.

CRE and Commercial and Industrial (C&I) lending contributed to the acceleration in loan growth. Investments in SI infrastructure have been a source of demand in these segments. The scale of capital investment, expected to be in the trillions of dollars over the next few years, has led so-called hyperscalers and other participants in the SI infrastructure ecosystem to seek financing from equity and bond markets as well as from banks and other lenders.[5] Advances in SI have the potential to drive productivity

5 Stijn van Nieuwerburgh, Financing the AI buildout, Brookings Papers on Economic Activity (September 23, 2026).

improvements, new scientific discoveries, and economic growth, as well as innovation in banking. Already, the physical build-out of SI infrastructure contributes to economic growth.[6] Financing of SI infrastructure investment may pose unique challenges due to the evolving nature of the technology; issues related to data center construction and deployment at scale; and the financing of physical assets and semiconductor chips that are not easily repurposed or that depreciate rapidly.

Large tech companies have leveraged internal cashflows, new equity, and issuance in the investment-grade bond markets to fund investments. In addition, investment is being financed through project-level and other third-party financing structures via project and construction financing based on long-term lease obligations, purchase commitments, and guarantees. Companies have sometimes partnered with private capital providers to develop novel financing structures. Specialized SI companies establishing data centers to lease or rent cloud computing capacity are raising funds from the non-investment grade bond market and private sources, typically with some backing from large tech companies. Some of these financing arrangements create inter-relationships between firms in the SI value chain that can be opaque due to the use of off-balance sheet and contingent financing commitments.

Lending from large domestic and foreign banks to SI companies, data centers and related private credit entities is typically senior in the capital structure and often secured. Credit risk on individual projects could be affected by construction delays, power availability, community sentiment, and technological depreciation or obsolescence occurring prior to loan amortization and refinancing. Some institutions are attempting to mitigate this risk through client selection, shortened loan tenors, and identification of ways in which projects could be re-purposed. Changing market risk premiums or deterioration in the financial conditions of some SI companies may lead to existing loans becoming mispriced. Finally, slower-than-expected growth in revenues from SI could become a source of concentration risk that is amplified by interconnections among SI companies. The resilience of novel financial and contractual structures used in data center financing has limited performance under stressed conditions. To date, the quality of credit provided by banks is supported by their senior position as well as strong demand for processing power that is evident from commitments from the SI labs and low vacancy rates for data centers.

B. MARKET RISK

In the first half of 2026, long-term interest rates increased materially. By the end of September 2026, the 10-year Treasury yield rose as much as a percentage point from year end 2025 and the 30-year Treasury yield by as much as 80 basis points.[7] The rise in long-term rates, illustrated by 10- and 30-year Treasury yields, has been driven by a variety of factors, including expectations for future interest rates, supply and

6 Iñaki Aldasoro, Sebastian Doerr, and Daniel Rees, Financing the AI boom: from cash flows to debt, BIS Bulletin 120 (January 7, 2026).

7 Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis (DGS10), FRED, Federal Reserve Bank of St. Louis (last accessed, October 30).

demand conditions in bond markets, and the anticipated impact of inflation pressures on rates. Short-term rates remained stable until the Federal Open Markets Committee (FOMC) raised the federal funds rate target range by 25 basis points in September. Compared to the beginning of 2026, the yield curve is both higher and steeper, which creates both opportunities and challenges for banks.

The path of short-term rates has contributed to a slowdown in NIM improvement. Many banks realized increasing NIMs in 2024 and 2025, in part due to the ability to lower deposit rates as the FOMC cut the federal funds target six times. With short-term rates flat for most of 2026, banks have had limited room to continue lowering deposit rates and funding costs to further support their NIM. The increase in the federal funds rate target in September could place upward pressure on funding cost. The highly competitive deposit environment is likely to exacerbate these pressures. Rising long-term rates provide the opportunity for banks to invest in higher yielding loans and investments.

Higher long-term rates have also led to a decline in investment portfolio valuations held by banks. Selling these investments would result in realized losses that reduce earnings and capital. For banks that hold on to the securities, unrealized losses have no impact on regulatory capital levels for banks that elected the accumulated other comprehensive income opt-out. However, holding on to the securities also means banks earn below market rates on their investment. Capacity to borrow against these securities is also impacted due to lower collateral values. In the past few years, many banks reduced investment portfolio duration through purchasing shorter duration assets or hedging, which helped reduce the impact of higher interest rates on portfolio valuation.

COMPLIANCE AND OPERATIONAL RISK

A. INNOVATION

Banks of all sizes continue to explore ways to leverage SI as the growing availability, advancement, and utility of SI create opportunities to enhance efficiency and internal controls as well as to improve analytics and customize services. Applications of generative and agentic SI in banks have involved improving internal operations, among other uses. The OCC has also observed that some banks are testing or have deployed customer-facing generative SI and agentic SI use cases.

Implemented responsibly, SI can benefit banks as well as customers. In both generative and agentic SI implementations, banks are developing, implementing, and adapting oversight mechanisms, including human review of SI output. SI can also support banks' efforts to address cyber threats and fraud, where SI capabilities to process large amounts of data and recognize subtle patterns can be particularly useful. It is important for institutions adopting SI—or any other innovation—to ensure that the implementations are fit for purpose, and that any innovative banking products, services, and business arrangements are implemented in a safe and sound manner and in accordance with applicable law. On November 4, 2026, the OCC published a supervisory framework designed to support OCC examiners in evaluating banks' use of SI in

normal-course business activities.[8] The OCC will continue to encourage safety, soundness, and innovation through a technology-neutral approach.

B. FRAUD

The growing availability of sophisticated SI models has dramatically changed the fraud landscape. SI can further enable threat actors to carry out various types of fraud such as social engineering, account takeover, or impersonation with greater speed, scale, and complexity. A comprehensive approach to fraud risk management, as well as the ability to respond to emerging threats of fraud can help deter fraud affecting a bank and its customers. Internal controls designed to prevent and deter SI-enabled fraud often utilize a layered approach. Examples of approaches include incorporating human review and using a different communication method from the one used in the request to help verify a request is legitimate (e.g., "out-of-band confirmation," or video verification). In addition, monitoring the speed or volume of an activity such as a login attempt, password reset, or transaction can detect if unusual activity is happening too quickly or too often (e.g., behavioral and environmental analytics, velocity monitoring).

C. CYBERSECURITY

Some of the latest, or "frontier," SI models amplify the scale and speed with which vulnerabilities and exploits in information systems are identified. Certain models can also develop software patches to address vulnerabilities much faster than human coders can do by themselves. At the same time, developments in generative and advanced SI enable sophisticated cyber threats, compressing the time that is available for discovering and responding to risks. These developments reinforce the importance for banks and their service providers of developing and maintaining fundamental cyber hygiene practices and controls as part of an effective defense against the many cybersecurity threats facing financial institutions. Practices include multifactor authentication, timely patching, secure configurations, network segmentation, enhanced monitoring, immutable or air-gapped back-ups and security awareness training to help mitigate existing and emerging SI-enabled cyber threats.

Post-quantum computing (PQC) represents a critical shift in the financial sector as future developments in quantum computing could create capabilities to break encryption protocols that currently protect financial data. Maintaining awareness of developments in quantum computing and the risk implications allows banks and their service providers to anticipate evolving threats and manage future investments in technological infrastructure. Several federal agencies have published resources to inform banks and service providers about quantum capabilities and promote proactive measures they may take to prepare for post-quantum cryptography migration.[9]

8 OCC Bulletin 2025-54, "Super Intelligence: Supervisory Framework" (November 4, 2026).

9 See for example NIST Internal Report 8547, Transition to Post-Quantum Cryptography Standards (October 2026).

PART II

ECONOMIC ENVIRONMENT AND BANK PERFORMANCE

ECONOMIC ENVIRONMENT

In the first half of 2026, the U.S. economy expanded at a moderate pace despite elevated policy uncertainty and external headwinds. Consumer spending continued to drive economic growth, supported by low unemployment and steady personal income growth. Business investment was also a strong contributor to growth with sustained spending on SI and data centers. Elevated mortgage rates and housing affordability challenges restrained homebuilding, which is a major component of residential investment. Overall, the U.S. economy continued to outperform most other advanced economies despite ongoing geopolitical tensions and trade policy uncertainty.

Labor market conditions remained roughly in balance in 2026. After slowing considerably during the second half of 2025, job growth stabilized and improved modestly in 2026. Nevertheless, the unemployment rate remained low by historical standards, reflecting labor demand and a labor force that were broadly in balance, with only modest job growth needed to keep unemployment stable.

Inflation accelerated in the first half of 2026. The closure of the Strait of Hormuz caused a spike in energy prices and prices of energy-sensitive goods and services, which pushed annual growth in the headline Personal Consumption Expenditures price index from 2.9 percent in January to 4.1 percent in May before falling back. The PCE price index for September increased 3.6 percent from a year before. While past tariff increases have exerted upward pressure on inflation through higher retail prices on consumer imports and imported raw material costs for U.S. manufacturers, the tariff impact has waned and is no longer a main driver of inflation above the Federal Reserve's two percent target.[10]

Considering inflation trends and solid economic growth, the FOMC raised the federal funds rate target by 25 basis points at its September meeting, to a range of 3.75 to 4 percent. If inflation proves persistent, further tightening of interest rates could be on the horizon, slowing business investment and housing activity, and reducing consumer borrowing. Conversely, continued progress toward the Federal Reserve's inflation target

10 Maximiliano Dvorkin et al., Tariff Effects on Inflation Stabilize in Recent Months, Federal Reserve Bank of St. Louis (August 18, 2026); Federal Reserve, Minutes of the Federal Open Market Committee, July 28-29, 2026.

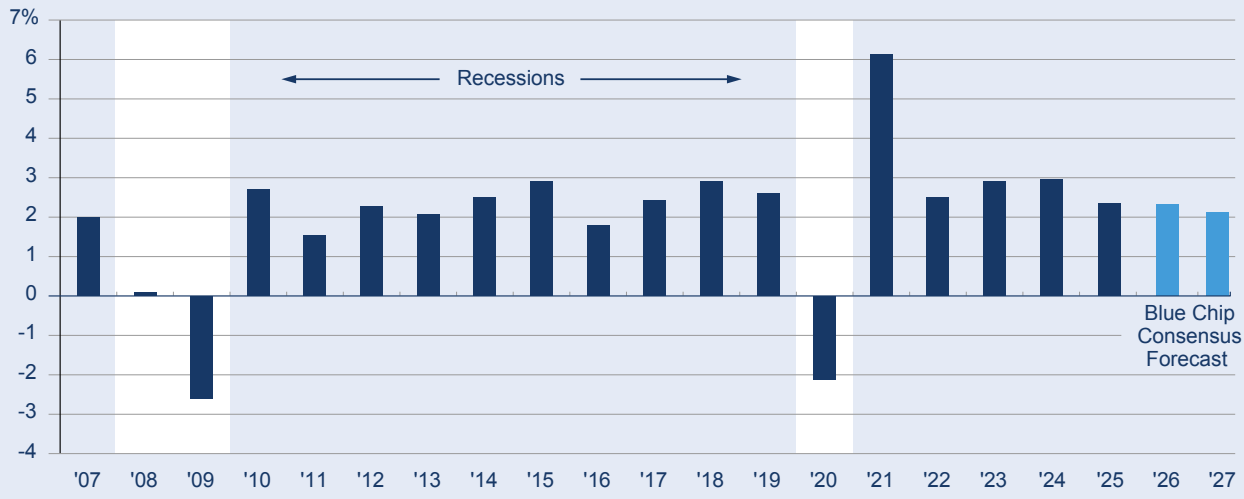
could provide policymakers with flexibility to gradually reduce policy restraint, supporting employment and economic expansion.

The U.S. single-family housing market continued to transition toward a more balanced environment following its rapid pandemic-era expansion. Existing home sales in 2026 were broadly in line with levels from the past two years but remained well below pre-pandemic volumes. While national home price appreciation started the year weak at under 2 percent, it improved modestly as the year progressed. However, regional differences remained. Markets in the Northeast and Midwest continued to outperform the Sun Belt, where stronger new construction and improving inventory slowed price growth. Condominiums remained under stress in the South, Southeast, and West regions, where prices continued to decline modestly.

In 2026, the U.S. commercial real estate market stabilized after several years of widespread stress, though sharp performance differences remained. Retail led with robust fundamentals, where structural shortages kept vacancies near multi-decade lows. Hospitality was also strong, supported by solid hotel revenue, although revenue growth was tilted toward upper end properties. Meanwhile, the office sector started a slow recovery, as minimal new supply allowed demand to modestly draw down vacancies from their 2025 peak. Multifamily conditions remained somewhat soft, especially in southern and mountain west metros. Finally, a multi-year supply glut pushed industrial vacancy up significantly, slowing rent growth.

Looking ahead, the October Blue Chip consensus forecast anticipates moderate economic expansion through 2027. Real GDP is projected to grow at an annual rate of 2.3 percent in 2026 and 2.1 percent in 2027. See figure 1. The forecast assumes consumer spending will be supported by moderate income growth, while SI investment further boosts economic activity. Labor market conditions are projected to remain stable, with the unemployment rate forecast to remain in the low to middle 4 percent range. Inflation is expected to ease over the forecast period, ending 2027 somewhat above the Federal Reserve's 2 percent target.

FIGURE 1: REAL GDP, ANNUAL PERCENT CHANGE



Sources: Bureau of Economic Analysis (second quarter 2026), Blue Chip Economic Indicators (October 2026).

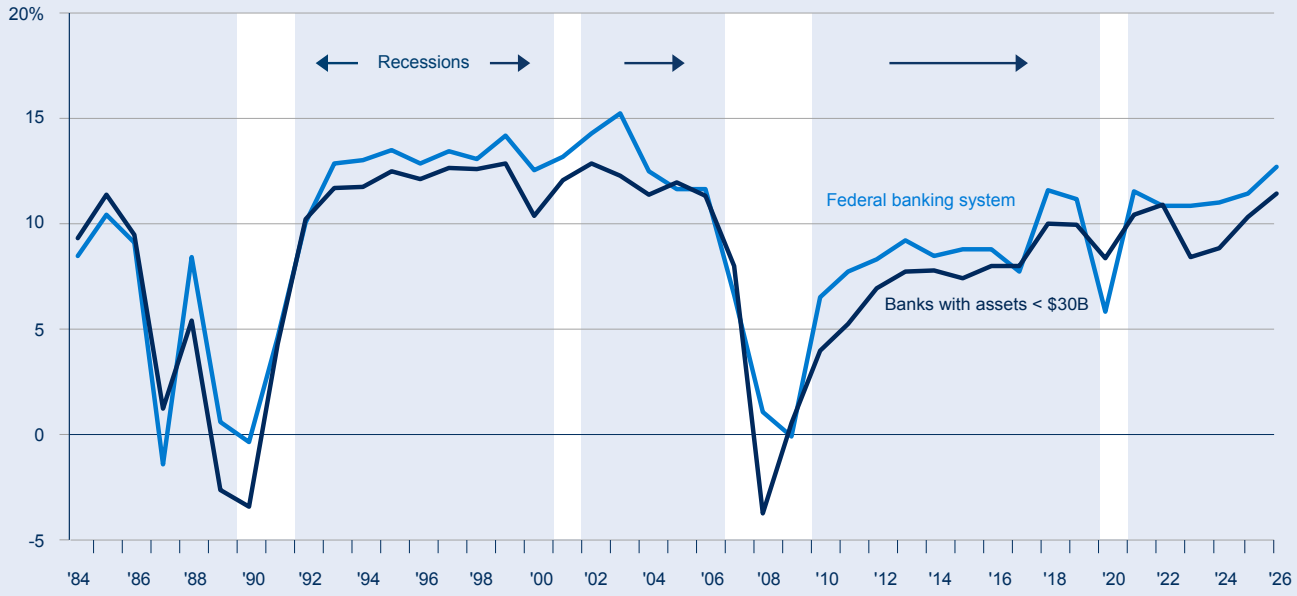
Note: White bars represent recession periods.

Although the baseline outlook remains favorable, several downside risks persist. Trade policy remains uncertain, as higher tariffs, adjustments to global supply chains, and potential policy shifts could restrain investment and global trade. Geopolitical tensions also pose risks, particularly if energy or commodity market disruptions intensify. Domestically, growth is becoming more reliant on SI-driven private nonresidential fixed investment, leaving the economy vulnerable to a spending slowdown or a stock market correction if tech valuations prove unsustainable. Additionally, as the 10-year Treasury yield rose about 70 basis points from February, higher borrowing costs could weigh on capital expenditures and housing demand. While the U.S. economy and financial markets have thus far demonstrated resilience in the face of headwinds, an intensification or convergence of risks could slow economic growth or increase financial market volatility.

BANK PERFORMANCE

Profitability for both the federal banking system and banks with assets less than $30 billion (hereafter referred to as community banks) increased to levels not seen in more than two decades during the first half of 2026. Net income grew over 20 percent in the first half of 2026, compared to the prior year. See figure 2. A rebound in loan growth for the system paved the way for strong revenue generation and credit conditions also supported a drop in the provision for loan losses over the year. How banks navigate a relatively uncertain economic and interest rate environment will influence the earnings outlook for the remainder of 2026. Balance sheets remain strong and well-positioned to absorb unexpected stress, if it were to occur, with capital ratios and liquidity high by historical standards. The federal banking system's ratio of liquid assets (defined here as cash reserves plus U.S. Treasury holdings) to total assets was 17 percent as of June 2026, compared to 4 percent in June of 2008.

FIGURE 2: BANK RETURN ON EQUITY, PERCENT



Source: Call Reports from OCC Integrated Banking Information System.

Note: Data are annual values 1984-2024 and YTD annualized through the second quarter for 2026. Banks with less than $30 billion in total assets exclude credit card and trust institutions. White bars represent recession periods.

Net interest income (NII) growth accelerated through the second quarter of 2026, reflecting lower funding costs and stronger loan growth, which shifted asset portfolios toward higher-yielding loans and supported wider NIMs. NII growth approached 9 percent for both the federal banking system and community banks. Noninterest income growth also accelerated, especially for the overall system which registered a very solid 12 percent growth rate. Support from strong revenue, combined with a decline in loan loss provisions close to 25 percent, translated into bottom line net income growth of 20 percent.

TABLE 1: BANK NET INCOME ($ BILLIONS)

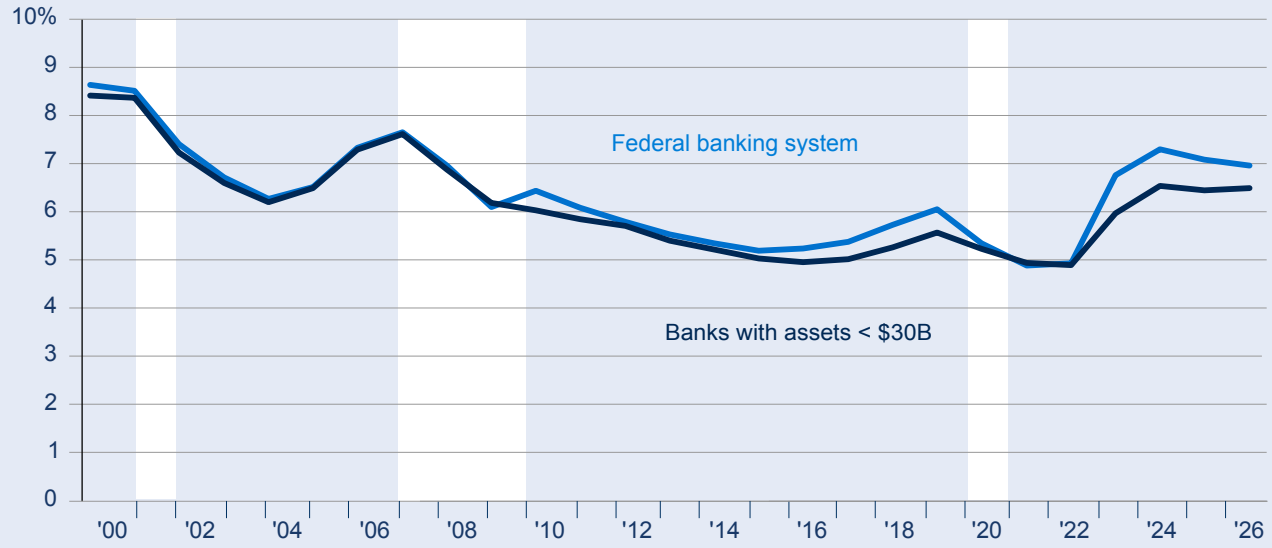
	Federal Banking System			Banks with total assets <$30 billion		
	6/30/2025	6/30/2026	Y/Y % change	6/30/2025	6/30/2026	Y/Y % change
Year-to-date **revenues** in billions of dollars						
Net interest income	242.1.8	262.8	8.6%	17.5	19.0	8.7%
Noninterest income	124.1	139.0	12.0%	5.4	5.7	7.0%
Year-to-date **expenses** in billions of dollars						
Provisioning	42.0	32.2	-23.4%	1.1	0.8	-24.8%
Noninterest expense	205.3	226.4	10.3%	13.7	14.5	5.2%
Net income	94.7	116.6	23.1%	6.3	7.5	20.0%

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 second quarter of 2026. Banks with less than $30 billion in total assets exclude credit card and trust institutions.

Behind the trend in net interest income, NIM was up slightly for the system (4 basis points), while for community banks NIM improved at a solid clip (19 basis points). The difference in the magnitude of the change in NIM over the last year between the system and community banks was primarily attributable to differences in asset yields. Community bank loan yields experienced no measurable decline while total loan yield for the system was lower than a year ago. See figure 3. Loan yields dropped primarily due to compression in the pricing of C&I loans and other business loans, which are variable rate products and originated at shorter durations and comprise a larger share of total lending for the system compared to community banks. Community banks, with a higher concentration in property loans, benefited from higher yields on these longer-term loans.

FIGURE 3: LOAN YIELDS



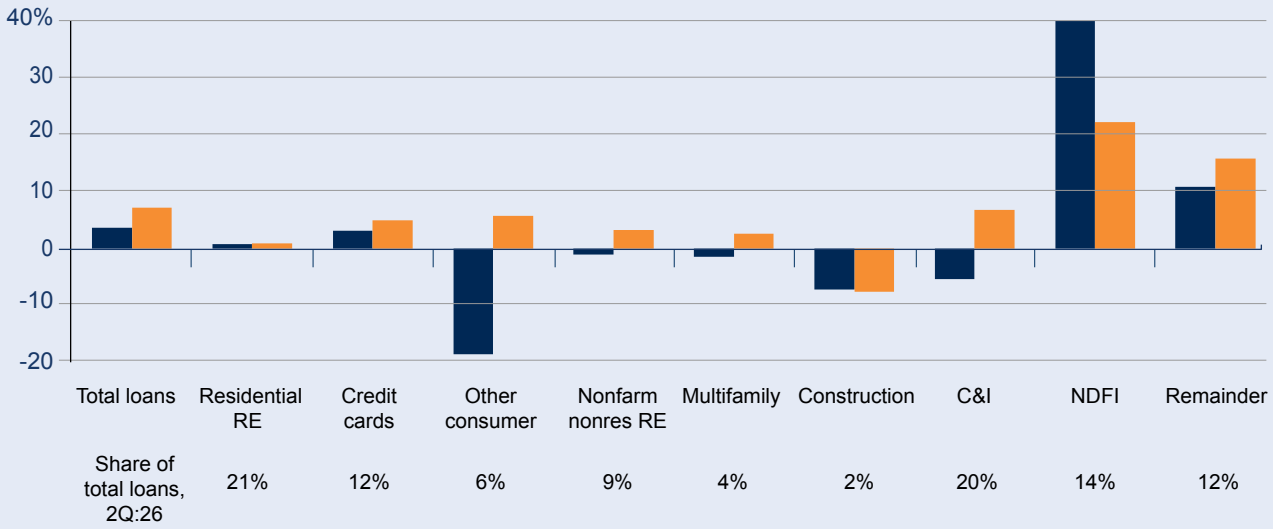
Source: Call Reports from OCC Integrated Banking Information System.

Notes: Data are as of each Q2 through 2026 for FDIC-insured federal charters. Banks with less than $30 billion in total assets exclude credit card and trust institutions. White bars represent recession periods.

Loan growth also supported NII growth. Total loan volume for the system was over 7 percent higher than a year ago, which is almost double the rate of growth from last year and the fastest growth since 2022. Loan growth was supported by loans to non-depository financial institutions (NDFIs), which grew 22 percent, but higher loan growth was broad-based with nearly all categories above their 2025 levels. For community banks, loan balances grew just over 4 percent from a year ago, a slightly faster pace than the prior year. While real estate is around 70 percent of the balance sheet loans outstanding, growth was essentially unchanged from a year ago and so it was loans to the business and agricultural sectors which helped move overall lending higher.

Credit performance improved slightly from the prior year, and indicators of credit quality are generally better than the long-run pre-pandemic average. The improvement over the last year was mostly concentrated in nonfarm, nonresidential real estate portfolios. The noncurrent loan rate for this category is below the historical average for the first time in several years. See figure 5. For community banks, noncurrent rates were little changed from the historically low levels of a year ago and remained below historical averages across all loan categories. In sum, the loan performance trends buttress the decline in provisions that helped propel the very healthy net income growth so far in 2026.

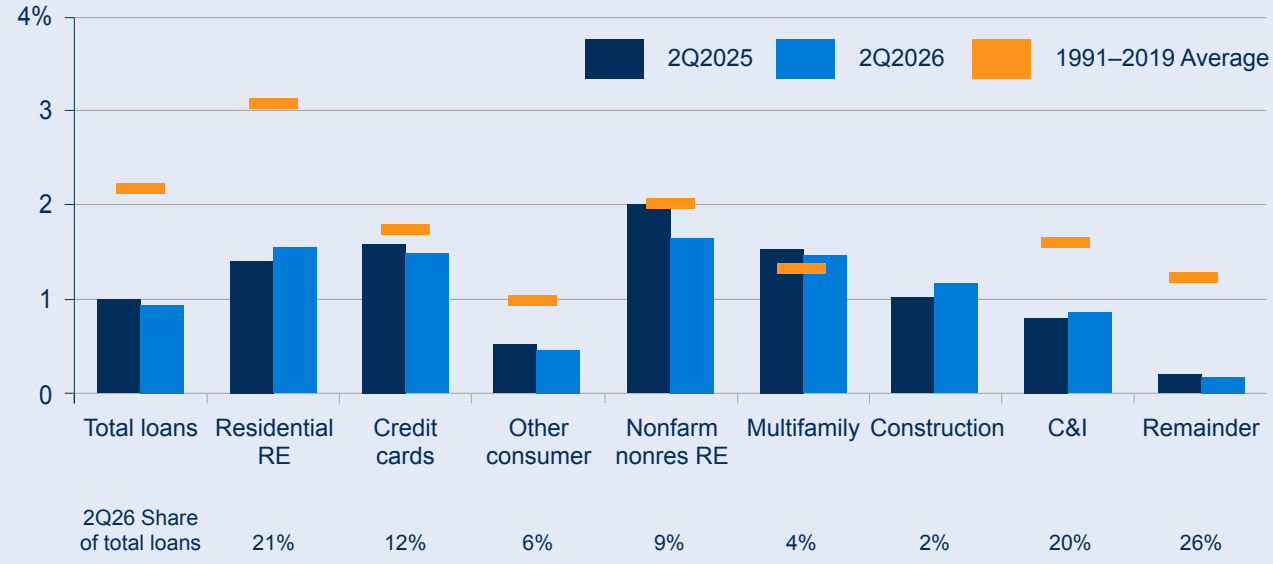
FIGURE 4: YEAR-OVER-YEAR CHANGE IN LOAN BALANCES FOR THE FEDERAL BANKING SYSTEM, PERCENT



Source: Call Reports from OCC Integrated Banking Information System.

Note: Data are merger-adjusted and held constant for institutions in continuous operation from the first quarter of 2020 to the second quarter of 2026. The "Other consumer" category is consumer loans less credit card loans. "Remainder" includes agricultural and other loans. Call Report changes in December 2024 led to large re-classifications of loans that was a factor in the large swings for several categories in 2025, including other consumer, C&I, NDFI, and other loans.

FIGURE 5: NONCURRENT 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 for banks in continuous operation from the first quarter of 2020 to the second quarter of 2026. The "Other consumer" category is consumer loans less credit card loans. "Remainder" includes agricultural and other loans.