OCC Eliminates "Reputational Risk" Category from Bank Supervision Criteria

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On March 20, the OCC announced that it will no longer treat reputation risk as a standalone category in its supervision of national banks and federal savings associations. The decision marks a dramatic shift in the agency's risk-based examination framework.

Under the updated policy, OCC examiners are instructed to discontinue separate assessments of reputation risk and instead evaluate any such concerns through other established risk areas—such as operational, compliance, or credit risk—when they present a tangible impact to bank safety, soundness, or fair treatment of customers. OCC staff have been directed to revise examination manuals and related documentation to eliminate references to reputation risk. This change follows the Senate's introduction of proposed legislation that would prohibit all federal banking agencies from considering reputation risk in supervisory exams.

The concept of reputational risk has been around for decades, and involves the risk to current or projected financial condition and resilience arising from negative public opinion. The OCC's exam manual states that "departure from effective corporate and risk governance principles and practices cast doubt on the integrity of the bank's board and management. History shows that such departures can affect the entire financial services sector and the broader economy."

Now, according to the OCC, the revised framework is intended to improve clarity and public confidence in the examination process. The OCC emphasized that removing the term does not reduce expectations for sound risk management, but instead to ensure that supervisory actions are grounded in objective and material risk considerations.

Putting It Into Practice: The OCC's removal of reputation risk as a standalone category echoes recent comments from Acting Comptroller Hood, who emphasized that the agency will not push banks to debank entire categories of customers without assessing individualized risks (discussed here). We expect further actions from federal regulators as part of a broader shift in supervisory policy and priorities (previously discussed here, here, and here).

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