



Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

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To: Chief Executive Officers of National Banks and all Examining Personnel

The OCC is pleased to enclose its "Agricultural Lending" booklet as a new addition to the *Comptroller's Handbook*. This booklet incorporates, with some refinements, all of the OCC's existing agricultural examination guidance into a single reference source. Accordingly, Banking Circular 191, "Agricultural Credit Documentation," dated April 4, 1985, and Banking Circular 221, "Farm Products Lien," dated December 22, 1986, are hereby rescinded.

Although Examining Circular 222, "Agricultural Loan Classification," dated May 21, 1984, is also rescinded, the booklet preserves much of that circular's guidance, including the OCC's basic approach to classifying troubled farm credit. In addition, the booklet identifies the following five core factors that examiners should consider when reviewing any farm loan:

- Is the loan performing according to its original or reasonably modified terms?
- Is collateral sufficiently liquid, margined, and controlled to fully protect the loan in the event of the borrower's default?
- What is the borrower's financial condition, i.e., liquidity, leverage, cash flow, free assets?
- What has been the borrower's historical farming and debt service performance?
- Are there other strengths (e.g., crop insurance, guarantors, family support, etc.) not captured above?

While none of these individual criteria are determinative of how an examiner should treat a farm loan, when considered together they assist in appropriately rating the risk associated with specific credit relationships.

Bank credit has played an important role in farm activities throughout U.S. history. Loans supplied by banks have been essential to many individual farmers and to the development of new agricultural technologies and techniques. However, the business is changing rapidly, and risks are increasing.

The Federal Agriculture Improvement and Reform Act of 1996 (Farm Bill) diminished the role of federal government payments, thereby increasing the sensitivity of farm operations to market prices. Recently, economic conditions overseas and a strong U.S. dollar have had a downward effect on the market prices of many U.S. farm products. While these events do not necessarily portend systemic problems, they highlight the need for bankers to fully understand and actively manage their agriculture portfolios. This is especially important for banks that have concentrations of agricultural credit or other heavy dependence on an agriculture-based local economy.

This booklet discusses the risks inherent in agricultural lending and provides an overview of farm loan underwriting and administration. It is intended to be used in conjunction with other OCC booklets such as "Loan Portfolio Management," and the large bank and community bank program booklets. As with all handbooks, examiners are expected to exercise judgment in determining which of the procedures described in this booklet are appropriate for a particular bank examination.

Any questions regarding this booklet should be directed to the Credit Risk Division at (202) 874-5170.

To order more copies of this booklet, please send your request and \$15 for each booklet to the Office of the Comptroller of the Currency, P.O. Box 7004, Chicago, IL 60673-0004.