



NEWS RELEASE

Comptroller of the Currency
Administrator of National Banks

NR 2001-52

FOR IMMEDIATE RELEASE
June 8, 2001

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OCC Announces Pilot Program to Enhance Lending Capacity And Alleviate Competitive Disparities for Community National Banks

WASHINGTON -- Comptroller of the Currency John D. Hawke, Jr. announced today a pilot program intended to address the competitive disparity that exists in states that have higher lending limits for state-chartered institutions than the federal limits available to national banks.

National banks are generally allowed to lend no more than 15 percent of their capital on an unsecured basis to a single borrower. Many states have higher limits for the banks they charter. The three-year pilot program will allow national banks with the highest supervisory ratings to lend up to the state limit -- but no more than 25 percent of capital -- to single borrowers for small business loans and for loans secured by a perfected first-lien security interest in 1-4 family real estate in an amount that does not exceed 80 percent of the property's appraised value.

"This program has been very carefully crafted to address a competitive disadvantage that many national banks have expressed a concern about, while maintaining safety and soundness protections," Mr. Hawke said. "We have included a number of safeguards in our program and will not allow a bank to risk more than 25 percent of its capital on a single borrower, even in states with higher limits. Loans to a single borrower will be limited to a maximum of \$10 million."

Moreover, he said, the pilot program would not permit a bank to use the new authority for an aggregate volume of loans to all borrowers in excess of 100 percent of capital.

Mr. Hawke noted that the program is aimed primarily at community banks and said that because of the way it is structured, a bank with over \$1 billion in assets would not be able to participate.

"We have heard from banks that the higher lending limits afforded state-chartered institutions in some states is a significant competitive issue," Mr. Hawke said. "One reason we created this pilot was to find out how much interest there really is in higher loan limits."

The Comptroller stressed the limited nature of the pilot program. "As a practical matter, because of the limits we have imposed, a bank will not be able to use the new authority for more than ten customers in its fullest extent."

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Mr. Hawke said the OCC decided against expanding the categories of loans that qualify for the special limits beyond small business and residential real estate until the agency can evaluate the more limited program.

To participate in the program, a bank must be rated 1 or 2 under the five-point Uniform Financial Institutions Rating System scale, which evaluates an institution's capital adequacy, asset quality, management capability, earnings strength, liquidity and sensitivity to market risk. Eligible banks must also have a rating of at least 2 for the asset and management components of the test.

Banks also will be required to file an application to participate in the program. This step will enable the OCC to monitor the program effectively and to oversee the safety and soundness of banks participating in the program.

Mr. Hawke stressed that the new program is not intended to give national banks any advantage over state chartered institutions, but only to alleviate a competitive inequity about which many national banks have complained. Accordingly, the higher limits are only available in states that have lending limits above 15 percent that would be available for residential real estate and small business loans.

The Comptroller also emphasized that loans made under the new program will not be insulated from supervisory oversight. Loans made under the new limits will still be subject to criticism if they are poorly underwritten, for example, or if they lead to excessive concentrations in certain types of loans.

In addition, the OCC can rescind a bank's authority to take advantage of the new limits if safety and soundness problems develop.

The [pilot program](#) will take effect 90 days after publication in the Federal Register, which is scheduled for June 11.

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The OCC charters, regulates and examines approximately 2,200 national banks and 56 federal branches of foreign banks in the U.S., accounting for more than 55 percent of the nation's banking assets. Its mission is to ensure a safe and sound and competitive national banking system that supports the citizens, communities and economy of the United States.