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Comptroller Hawke Cautions Agricultural Bankers  
About Uncertain Farm Environment

ST. LOUIS -- Comptroller of the Currency John D. Hawke, Jr. emphasized today the importance of strong and creative risk management by bankers in dealing with the challenging agricultural economy.

Speaking to bankers and bank examiners at a conference here sponsored by the Office of the Comptroller of the Currency (OCC), Mr. Hawke cited a number of downward indicators, including a recent OCC survey that predicts credit risk in agricultural lending will rise in 2000. He said that the recession in Asia, foreign competition, recent droughts, a strong dollar, and "silos bulging with years of surplus" are all factors putting pressure on the agriculture industry.

"At a time of remarkable growth in the nonfarm economy--with most Americans enjoying record prosperity--net farm income was down last year, the second year in a row," said Mr. Hawke.

At the same time, the Comptroller noted that many of the traditional benchmarks of bank health such as increased earnings, strong loan growth, good asset quality, and capital are at historically high levels among farm banks compared to the troubled period in agriculture lending during the 1980s. He said farmers are substantially less leveraged today than they were in the early 1980s and that farm debt today, adjusted for inflation, is at the same level that it was in 1965.

Mr. Hawke encouraged bankers to work with agricultural borrowers -- farmers and others -- who may be experiencing temporary difficulties, so that credit is not unduly restrained. "Farmers may be able to ride out the hard times if they are able to obtain the financing they need to tide them over until better times return," he said.

The Comptroller stated that OCC bank examiners would take into account prudent efforts by bankers to work with their troubled farm borrowers when classifying credit risk. He advised examiners to carefully weigh the full range of relevant factors affecting the condition of farm credit and said they should not automatically criticize loans solely because of negative cash flows, a borrower's need for more time to service loans, or because previous debt has been carried over.

"If we get it right, ... we can avoid both unnecessary overreaction to adverse conditions and the excessive latitude that can lead to more serious problems later on," he said.

The OCC charters, regulates and examines approximately 2,400 national banks and

59 federal branches and agencies of foreign banks in the United States, accounting for 59 percent of the nation's banking assets. Its mission is to ensure a safe, sound and competitive national banking system that supports the citizens, communities and economy of the United States.