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Comptroller Urges Review of Underwriting Standards
by Midwestern Agricultural Bankers

WASHINGTON -- Comptroller of the Currency Eugene A. Ludwig has commended Midwestern agricultural banks for maintaining sound underwriting standards but urged them to review and update their loan underwriting practices as the agricultural sector enters a period of uncertainty. His comments came in a letter that accompanied release of an update to the OCC's Agricultural Loan Underwriting Study that has been sent to banks in the Midwest.

"We found that banks continue to reasonably underwrite and administer agricultural loans," Mr. Ludwig said. "We are thus assured that banks are better prepared to deal with adverse economic conditions than they were in the 1980s."

The survey included data from 284 agricultural community banks (defined as any bank that advances at least 25 percent of its loans for agricultural purposes) and assessments of lending practices used by 50 national banks in making and supervising agricultural loans. The data concentrated on banks in the Midwest where agricultural lending represents the largest concentration of credit.

The study pointed out that while banks have a history of relaxing underwriting standards during good economic times, there was little evidence of this in the OCC's update of agricultural lending in the Midwest. Among its findings, the study concluded the following:

Bankers have improved their analysis of borrower repayment capacity;

Most banks (62 percent) now use financial software to prepare spreadsheets and analyze financial information;

Banks continue to follow reasonable underwriting standards and maintain adequate controls over collateral.

At the same time, the Comptroller urged agricultural bankers to consider incorporating several practices and policies to enhance their underwriting standards. These included:

Encourage agricultural customers to use accrual accounting. Only six percent of banks gather this type of information;

Continue to incorporate computerized loan analysis; and,

Adjust percentages used to calculate collateral margins when underlying collateral values are volatile.

"We encourage bankers to compare their underwriting systems to

our findings and implement changes as appropriate," Mr. Ludwig wrote. "Recent volatile commodity prices, adverse weather conditions, and uncertainty regarding government support programs reinforce the need for sound policies and administration over agricultural lending."

Requests for copies of the update should be directed to:
Gary M. Brickman, Office of the Comptroller of the Currency,
Midwestern District, 2345 Grand Boulevard, Suite 700, Kansas
City, MO 64108 - (816) 556-1800 or fax: (816) 556-1892.

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to ensure the safety and soundness of the national banking system.