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National Bank Examinations of Agricultural Loan
Portfolios
Will be Guided by OCC Handbook

WASHINGTON, D.C. -- The Office of the Comptroller of the Currency (OCC) issued a new examination handbook that creates a single reference for bankers and examiners on OCC policies and procedures for national bank management of risks associated with agricultural lending.

"It is our belief that it is essential for national banks to continue their historic role in financing our nation's agricultural sector," said John D. Hawke, Jr., Comptroller of the Currency. "The guidance we are issuing today focusses on maintenance of effective risk controls over banks' agricultural lending activities. It should help ensure that agricultural banks remain strong, healthy and capable of supporting America's farmers and agricultural enterprises."

The OCC encourages bankers to work with their agricultural borrowers during times of financial stress and instructs examiners to give appropriate consideration to those efforts. Such efforts can ease temporary pressures and help restore borrowers' repayment capacity.

The guidance, *Agricultural Lending*, which incorporates much of the OCC's former Examining Circular 222, takes a comprehensive approach to analyzing and classifying agricultural loans. It emphasizes that there are no automatic rules and asks examiners to carefully consider all relevant factors affecting the borrower's performance. These factors include the current and historical farming and loan repayment performance of the borrower; the borrower's financial condition, including liquidity, leverage, and cash flows; the amount and quality of collateral pledged or available; and the prospects for repayment within a realistic time frame. Examiners should take current, historic, and prospective agricultural economic conditions into account when determining the longer term quality of agricultural loans.

In a letter to the chief executive officers of national banks accompanying the handbook, the OCC said that the 1996 Farm Bill increased the sensitivity of farm operations to market prices. "Recently," said the letter, "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 agricultural portfolios."

The OCC believes that assigning appropriate credit risk ratings and working with troubled borrowers are not mutually exclusive decisions, and that the books and records of national banks should, at all times, accurately reflect the risks inherent in their assets and activities. The new guidance requires examiners to judge each situation individually.

The handbook serves as a primer for national bank examiners by compiling fundamental information needed to evaluate agricultural loans in the context of many interconnected risks that affect this sector -- weather-related events, including drought, flood, storms, and freezes; disease; crop prices; overseas markets; financial markets; and overly abundant supply.

The OCC defines agricultural banks as those with 25 percent or more of their loan portfolio in agricultural loans. Currently, 528 banks with \$8.8 billion in agricultural loans fit in this category. By comparison, the agricultural loan volume of nonagricultural banks was \$23 billion. This reflects the profile of agricultural banks as generally being relatively small and located in rural communities with farmers and small agriculture-related business as their customers. Larger agri-businesses often use large banks.

Copies of Agricultural Lending are being mailed to national banks, OCC examiners and subscribers to the Comptroller's Handbook. To order copies of this booklet, please send your request, and a \$15 check made payable to the Comptroller of the Currency for each booklet, to: Comptroller of the Currency, P.O. Box 70004, Chicago, IL 60673-0004.

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The OCC charters, regulates and examines approximately 2,600 national banks and 66 federal branches and agencies of foreign banks in the United States, accounting for 58 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.