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OCC Offers New Handbook to Banks Engaged in  
Accounts Receivable and Inventory Financing Activities

WASHINGTON --The Office of the Comptroller of the Currency (OCC) issued new guidance this week to help banks understand and manage the risks associated with accounts receivable and inventory financing activities.

The OCC's handbook, Accounts Receivable and Inventory Financing, describes this specialized area of lending and the various forms it takes, discusses the associated risks, and establishes OCC's expectations for sound loan underwriting, credit administration, and risk management practices.

Accounts receivable and inventory financing loans allow borrowers to leverage assets to obtain financing. They are primarily used to provide working capital but are also used to finance acquisitions, to restructure debt, and to help companies through periods of distress. Accounts receivable and inventory loans also underlie many leveraged and "structured" transactions. The handbook emphasizes the importance of underwriting, controls, and monitoring to mitigate the higher risks associated with these types of loans.

"It is extremely important for bankers to employ proper collateral and administrative controls in order to mitigate the higher risks associated with this form of specialized lending," said Dave Gibbons, Deputy Comptroller for Credit Risk. "When prudently underwritten and properly administered, accounts receivable and inventory finance loans often result in lower losses relative to other forms of commercial lending. However, when advances against collateral are liberal or collateral is poorly controlled, the risks in this form of financing can become inordinate."

The handbook also advises community bankers to ensure they fully understand the risks associated with accounts receivables lending supported by computer software products purchased from third party vendors. Such software generally provides banks with bookkeeping systems to manage receivables, and vendors often assist the bank in acquiring customer accounts; however, the software cannot provide the lending and risk management expertise necessary to supervise this high risk activity.

The handbook also includes detailed examples of how examiners should rate accounts receivable and inventory financing loans with various structures.

The OCC charters, regulates and examines approximately 2,400 national banks and 58 federal branches and agencies of foreign banks in the United States, accounting for 57 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.