NEWS RELEASE

Comptroller of the Currency
Administrator of National Banks

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OCC Extends and Expands Three-Year Old Pilot Program that Provides Expanded Lending Limits for Community Banks with National Charters

WASHINGTON – The Office of the Comptroller of the Currency is extending and expanding a pilot program aimed at helping community banks with national charters continue to provide expanded credit availability to customers in states that have lending limits higher than those available for federally-chartered institutions.

National banks are generally allowed to lend no more than 15 percent of their capital on an unsecured basis – plus an additional 10 percent secured by readily marketable collateral -- to a single borrower. Many states have established higher limits for the banks they charter.

In June, 2001, the OCC started a pilot program that allowed 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.

The final rule published in the August 19 Federal Register extends that pilot program to June 11, 2007, and expands it to include agricultural loans. The OCC concluded that while the program appears to be working well, more data is needed to make a determination on whether to make the program permanent.

"Community national banks play a vital role in financing the needs of America's families, farms and small businesses," said Comptroller of the Currency John D. Hawke, Jr. "Our pilot program is intended to give well-run community banks the flexibility they need to better support their community and their local economy."

The Comptroller said the program will continue to include important safeguards to ensure that that participating banks apply the expanded limits in a safe and sound manner and that the program will be targeted to community banks.

A national bank must seek approval from the OCC to participate in the program, and cannot lend more than $10 million to a single borrower under each special lending limit, regardless of how much capital it has. Total loans made under the special authority cannot, in the aggregate, exceed 100 percent of a bank's capital. Thus, as a practical matter, only banks with less than $1 billion in assets would be able to take full advantage of the special authority, Mr. Hawke noted.

"We recognize that in some states national banks that take full advantage of this special authority will still have a lower loan-to-one-borrower limit than state-chartered institutions," said Comptroller Hawke. "However, we believe our rule enables national banks to better serve their customers and redresses the competitive disparity created by high state lending limits while preserving the bedrock safety and soundness principles that Congress and the American people expect us to uphold."

A national bank is eligible to participate in the program if it is well capitalized and is rated 1 or 2 under the 5-point Uniform Financial Institutions Rating System, with a rating of at least 2 for asset quality and for management. To participate, a bank must obtain OCC approval, a provision that will enable the OCC to monitor the program effectively and oversee the safety and soundness of institutions that participate.

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