FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION
NEWS RELEASE

FOR IMMEDIATE RELEASE PR-198-87 (10-27-87)

FDIC ISSUES INTERIM RULE ON AMORTIZATION OF FARM LOAN LOSSES

The Board of Directors of the Federal Deposit Insurance Corporation today approved an interim rule which establishes eligibility requirements and application procedures for banks in distressed agricultural regions of the country that are interested in amortizing farm loan losses.

The FDIC's interim regulation is essentially the same as interim regulations expected to be adopted by the Office of the Comptroller of the Currency and the Federal Reserve Board. The new seven-year farm loan loss amortization program was authorized by Congress in the Competitive Equality Banking Act (CEBA) due to the protracted economic downturn in agricultural regions of the country.

Title VIII of CEBA permits agricultural banks to amortize (1) losses on qualified agricultural loans and (2) losses resulting from a reappraisal of other related assets. Losses must have been incurred between December 31, 1983 and January 1, 1992, and must not have involved fraud or criminal abuse on the part of the bank's officers, directors or principal shareholders.

The FDIC's interim rule describes the procedures and standards applicable to banks wishing to amortize loans under CEBA. Banks must request to participate in the amortization plan and must meet the following eligibility criteria:

-- The institution must qualify as an agricultural bank, defined as: located in an area where the economy depends on agriculture; having $100 million or less in total assets; and having at least 25 percent of its total loans in qualified agricultural loans;

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-- Capital needs replenishment but the bank is nonetheless economically viable and fundamentally sound;

-- No evidence exists that fraud or criminal abuse led to significant losses on qualified agricultural loans and related assets; and

-- A plan to restore capital to an acceptable level has been approved by the FDIC.

Qualified agricultural loans are those which finance agricultural production and other loans to farmers, or loans secured by farm land, as well as other loans and leases that a bank proves to be sufficiently related to agriculture.

After approval for participation in the amortization program, banks would amortize losses on qualified agricultural loans and other related assets by reporting the amount of those losses in new items to be established in the asset and equity capital sections of the balance sheet of their Quarterly Report of Condition. This approach discloses such loans without distorting reported income and facilitates monitoring the program through quarterly call reports.

CEBA required the banking agencies to promulgate regulations implementing Title VIII within 90 days after enactment, which allowed insufficient time for agencies to solicit public comment. Therefore, the FDIC is requesting comments from the public prior to adopting a final regulation. The interim rule is effective November 9, 1987, and terminates on June 30, 1988. Comments must be received on or before January 8, 1988.

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