



Agricultural Loans

FIL-61-96
August 9, 1996

TO: CHIEF EXECUTIVE OFFICER
SUBJECT: *Analysis and Classification of Agricultural Credits*

The FDIC recently issued its examiners the attached memorandum providing general policy direction on analyzing and classifying agricultural credits. While the guidelines reaffirm earlier policy guidance on this subject, certain issues have been expanded or clarified.

The memorandum emphasizes the need for examiners to be objective, realistic and fair in their assessment of agricultural credits. While examiners must be alert to, and critical of, operational and managerial weaknesses in banks, they must also recognize when an institution is taking reasonable steps to deal with external risk factors that are largely beyond the institution's control, such as weather conditions or commodity prices. The guidance stresses that actions taken by bank management to address such situations, when done in a prudent manner with proper risk controls and management oversight, should be recognized and fairly portrayed in oral and written communications regarding the examination findings. This does not imply, however, that analytical or classification standards should be compromised. Rather, it means that the bank's response to these challenges will be considered in supervisory decisions.

When determining the level of risk in a specific lending relationship, the relevant factual circumstances must be reviewed in their totality. Such factors as the borrower's historical performance and financial strength, the value of any collateral, and other sources of repayment must be considered. The guidance also emphasizes that, even if a loan is adversely classified, examiners will not and should not call for such specific bank action as foreclosure or sale of collateral. Such a decision is, properly, the prerogative of bank management.

The attached memorandum is provided for your information. If you have any questions, please contact your Division of Supervision regional office.

Nicholas J. Ketcha Jr.
Director

Attachment

Distribution: FDIC-Supervised Banks (Commercial and Savings)