



Attachment for FIL-61-96

TO: Regional Directors
FROM: Nicholas J. Ketcha Jr.
Director
SUBJECT: *Analysis and Classification of Agricultural Credits*

1. Purpose

To provide guidance to examiners and Regional Office staffs on the analysis and classification of agricultural credits.

2. Discussion

A Regional Director memorandum on this subject was issued June 11, 1984 (Transmittal number 105), and has been the Division's primary source of policy guidance. Although it is no longer formally outstanding, many examiners and others continue to apply its principles when analyzing agricultural loans. Given the substantial period that has elapsed since that memorandum was distributed, it is prudent to update and reissue guidelines on this important segment of commercial bank lending. In general, the provisions of the 1984 memorandum remain valid today. However, certain matters are clarified and expanded upon to provide more complete examiner guidance. The revised policy document is included as an attachment to this memorandum. The material will be incorporated into the DOS Manual of Examination Policies at a subsequent update.

This is also an opportune time to reiterate two other points. First, on a number of occasions in the past when natural disasters or other external factors caused financial difficulties for bank borrowers, the Corporation expressed support for the efforts of banks to work constructively with their customers. We have said that when these constructive efforts, such as loan restructuring or extended terms of repayment, are done in a prudent and well-informed manner and with proper risk controls and management oversight, we will not criticize these practices. This remains the FDIC's position. Second, the Interagency Statement of Policy on the Allowance of Loan and Lease Losses states that one of the factors banks must consider in their estimates of credit losses is changes in national and local economic and business conditions and developments, including the condition of various market segments. As you know, some bank borrowers in limited geographic areas of the country are experiencing economic hardships because of drought and low cattle prices. For the banks so affected, those climatic and economic factors should be taken into account in their reserve adequacy analyses.

3. Action

This memorandum and attachment are effective upon receipt and should be distributed to all safety and soundness examiners and Assistants.