Statement
of
Martin J. Gruenberg Acting Chairman
Federal Deposit Insurance Corporation
On
Impact of Recent Hurricanes
On
Financial Institutions in the Gulf Coast
before the
Committee on Banking, Housing
and
Urban Affairs U.S. Senate
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Room 538, Dirksen Senate Office Building

Chairman Shelby, Senator Sarbanes, and members of the Committee, I appreciate the opportunity to testify on the efforts of the Federal Deposit Insurance Corporation (FDIC) and the other federal regulatory agencies to respond to the impact of last year's devastating hurricanes on federally insured financial institutions and their customers in the Gulf Coast region.

In December, I traveled with FDIC staff to New Orleans and Mississippi. We met with local financial institutions, the state banking commissioners, and local community group leaders. As many have observed, it is difficult to appreciate the challenge confronting the Gulf Coast region until visiting the area and seeing first hand the scale of the damage. It is also impossible to visit the area and witness the determination of the local financial institutions and community leaders to rebuild their communities without feeling a renewed sense of the obligation of the FDIC and the other federal financial institution regulatory agencies (federal regulatory agencies) to do all we can to assist them in that effort.

My testimony will review the actions taken by the FDIC and the other federal regulatory agencies immediately following the storms to maintain confidence in the region's financial institutions, as well as interagency actions during the past six months to assist institutions and individuals affected by the hurricanes. I also will provide the FDIC's current assessment of the impact of the hurricanes on the condition of the federally insured financial institutions (financial institutions) in the region, and discuss outreach efforts planned in the near term.

At the outset, I want to point out that much of the work of the FDIC that I will describe today took place under former FDIC Chairman Donald Powell. He deserves great credit for his leadership of the FDIC, as well as for his current leadership as Federal Coordinator of Gulf Coast recovery efforts.

Federal Regulatory Agency Actions Following the Storm

When Hurricanes Katrina and Rita hit the Gulf Coast, they impacted the operations of at least 280 financial institutions, with 120 of these institutions headquartered in the 49 counties and parishes in Alabama, Louisiana, and Mississippi designated by the Federal Emergency Management Agency (FEMA) as eligible for individual and public assistance. Similar to other sectors of the Gulf Coast economy, financial institution facilities were destroyed, communication and data processing capabilities were disrupted, and financial institution employees saw their homes destroyed or inundated with flood waters.

In the aftermath of the storms, the FDIC along with the other state and federal regulatory agencies1 were committed to doing everything possible to preserve public confidence in the financial system and restore essential financial services. The agencies immediately began working with financial institutions to help them resume operations and with customers to communicate accurate information about their institutions and how they could get needed cash. The agencies' communication initiatives included contacting financial institutions, connecting customers to their institutions and coordinating supervisory oversight programs. To facilitate communication, the FDIC and the other federal regulatory agencies issued a number of press releases related to the Gulf Coast hurricane recovery. A list of these press releases is attached as Appendix A.

One of the first steps the FDIC took following Katrina's landfall was to create an internal FDIC Hurricane Task Force (Task Force) to coordinate the efforts of the units of the Corporation around the country and ensure prompt sharing of accurate information among staff, other regulators and consumers. The Task Force oversaw efforts to identify insured institutions experiencing service interruptions and assist those institutions to resume operations. The FDIC and other regulatory agencies immediately contacted management officials from the affected institutions to assess their operational status. The agencies quickly determined that some institutions were finding it difficult to operate branch offices and process electronic transactions, including automated teller machine (ATM) transactions. Fortunately, due to disaster preparedness procedures that all insured institutions are required to have in place, most institutions resumed operations within hours or a few days, using facilities that were not severely damaged, establishing temporary locations, or sharing facilities and even employees in order to provide services to areas where facilities were heavily damaged. For example, one institution shared a branch in the Jefferson Parish of New Orleans with five competitors to minimize disruptions to local customers.

The FDIC also worked to connect customers with their financial institutions while at the same time maintain public confidence in the financial industry. We immediately established a 24-hour consumer hotline to answer questions about contacting financial institutions, including questions about accessing accounts, replacing lost records, obtaining replacement ATM cards and processing direct deposit payments. The FDIC also updated its website with information about financial institutions operating in the affected areas along with customer service and branch contact information. The FDIC consistently emphasized that deposit insurance remained in force, financial institution customers' money was safe, cash was available, and consumers should be vigilant about the potential for theft and scams.

From the outset, the federal regulatory agencies recognized that we were dealing with extraordinary circumstances that required flexibility in the application of financial institution rules and regulations. Immediately after Katrina made landfall, the agencies urged financial institutions to be flexible with borrowers and others experiencing disruptions due to the storm. This was followed by a series of advisories providing guidance and information to financial institutions and their customers. During the past six months, the federal regulatory agencies have encouraged financial institutions to work with borrowers by deferring loan payments, extending repayment terms, restructuring existing loans, easing terms for new loans (including the ability to skip some payments), and providing short-term loans for living expenses until insurance proceeds are received. The agencies sponsored several public service announcements encouraging individuals affected by the storms to contact their lenders. Only through keeping the lines of communication open will financial institutions determine how they can help individuals recover from this natural disaster without impairing the individuals' credit ratings or weakening the financial viability of the institutions. A list of all FDIC Financial Institution Letters providing advisory guidance regarding the Gulf Coast hurricanes is attached as Appendix B.

In addition, on September 19, 2005, the Federal Financial Institutions Examination Council (FFIEC) formed the Katrina Working Group (Working Group). Made up of senior supervisory staff from all FFIEC member agencies2 and the Mississippi Banking Commissioner,3 the Working Group continues to address supervisory policy issues emerging from the disaster. The Working Group established a frequently-asked questions board on the FFIEC website and directed the publication of examiner guidance to ensure consistent treatment of affected institutions, regardless of charter. The Working Group continues to meet with key financial institution organizations and consumer groups to strengthen communication among all affected parties. This group also is identifying and assessing the flexibilities available to the FDIC and other federal regulatory agencies to assist financial institutions affected by the disaster. Where possible, the federal regulatory agencies have modified regulatory requirements and procedures to facilitate the recovery of institutions affected by the storms. For example, the agencies simplified several application and filing requirements including branch closings and relocations.

Impact of the Hurricanes on Financial Institutions

The economic toll of Hurricanes Katrina and Rita is unprecedented in U.S. history and the recovery will take an extended time. Much of the damage was caused by flood or storm surge, and the greatest economic losses are centered in Louisiana and Mississippi.

Historically, no financial institutions are known to have failed as a result of past natural disasters. In fact, community financial institutions traditionally have played a critical role serving the areas most severely affected by the hurricanes. However, due to the scale of destruction left by these storms, it remains difficult to determine the applicability of experiences from previous disasters to the current situation.

The 120 insured institutions headquartered in the 49 designated disaster counties and parishes are relatively small community financial institutions. According to financial data for these institutions, about three-fourths of them hold less than $250 million in assets, and only five have assets greater than $1 billion. Eighty seven of these 120 institutions obtain 100 percent of their deposits within the disaster counties, and only five receive more than half their deposits outside the area. These institutions have a long history of lending in their local communities and are heavily invested in local real estate with residential and commercial real estate loans representing more than 60 percent of their combined loan portfolios. As a result, not only does the local population rely heavily on these institutions, but the prospects of these 120 institutions, 94 located in Louisiana, 17 in Mississippi, and 9 in Alabama, are closely linked to the health and vitality of the local economies.4

Although most of these 120 institutions were financially strong before the hurricanes, financial results to date do not yet provide a clear picture of the full effects of the storms since many of the institutions in the area continue to extend loan deferrals and are still communicating with customers to develop long-term rebuilding plans. Nevertheless, recent financial results provide some indications of how the institutions may be reacting and adjusting to the effects of the hurricanes. Post-hurricane data reveal that a number of institutions operating in areas hit hard by Katrina are moving fairly aggressively to build loan loss allowances and experienced a pick-up in charge-off rates. Consistent with this, 20 institutions reported net operating losses for the fourth quarter. Despite these losses, all institutions remained "well capitalized" or "adequately capitalized," reflecting the strong capital positions of most institutions prior to the hurricanes. Liquidity for most of the institutions also remains strong.

Looking ahead, there is considerable uncertainty regarding the prospects for the financial institutions most directly affected by the hurricanes. Over the medium-term horizon, the greatest source of uncertainty and concern is the effect of the hurricanes on credit quality. Over the longer-term horizon, the prospects for these financial institutions will be determined largely by the economic prospects of the communities they serve.

With respect to credit quality, the outlook for each institution will depend on a variety of currently unknown factors, including reimbursement amounts and timing of insurance proceeds, borrowers' repayment capability, collateral protection, and the availability of financial assistance programs. The FDIC is utilizing both supervisory outreach and data analysis to assess the extent to which insured institutions in the region may experience medium- to long-term credit quality and profitability issues.

Our supervisory outreach started immediately after Hurricane Katrina. The FDIC and other agencies contacted all 120 insured institutions previously mentioned. Among the subjects we discussed with the institutions' management were the degree to which there was a significant decline in population in the institutions' trade area; notable personnel shortages caused by employee relocations; extensive commercial or residential lending activities within designated disaster areas; and substantial structural or contamination damage to financial institution facilities. This helped us gain some basic information to identify which financial institutions should receive the most supervisory attention.

During December 2005, examiners from the FDIC and the other agencies visited many of these insured institutions. At these meetings, the agencies asked bank management more detailed questions related to the degree to which borrowers in the affected area had been contacted, to what extent they were covered by insurance, and to what extent they knew if their customers were capable of repaying their loans. Beginning in January, the agencies resumed their comprehensive examination programs that were suspended at the time of the storms.

In addition to this type of supervisory analysis, the FDIC is conducting off-site research utilizing mapping tools and data from a variety of sources to provide us with additional information. This analysis involves using data from FEMA on damage assessments and flood insurance coverage, along with data on financial institution loan levels and deposits. We are working with other government entities and organizations to research sources of information that will help identify institutions with significant loan exposures in areas of the Gulf Coast most severely damaged by the hurricanes. We then use off-site stress testing tools to determine how vulnerable these institutions may be to medium- to longer-term credit weakness under various scenarios. Our analysis is ongoing, and we plan to share the analysis with the insured institutions.

As a result of these efforts we have narrowed our focus from the initial group of 120 institutions to a small group of institutions, which we will continue to monitor the most closely. As suggested earlier, the prospects for the financial institutions most affected will depend in large measure on the efforts underway to rebuild and revitalize the communities these institutions serve.

Next Steps

In addition to their regular supervisory activities, the federal regulatory agencies are hosting a forum in New Orleans on March 2 and 3. The Future of Banking on the Gulf Coast: Helping Banks and Thrifts to Rebuild Communities will focus on short- and long-term challenges facing banks and thrifts operating in areas affected by hurricanes and ways to help these institutions rebuild their communities. The agencies are inviting to this forum executives from all the community financial institutions in the region, the larger regional financial institutions, as well as a number of large institutions from around the country with operations that are national in scope. State banking supervisors and other federal government agencies will also participate in the forum.

The forum will promote an exchange among Gulf Coast community financial institutions, national and regional institutions, and federal agencies involved in the rebuilding effort. Executives from community financial institutions will have an opportunity to discuss their experiences, the challenges they face, and the ways that banking and governmental organizations can collaborate to address these challenges. Executive officers of larger financial institutions from across the region and the country will discuss ways they may be able to help local financial institutions meet the needs of consumers and businesses. Possible support that large institutions may be able to provide community institutions include operational assistance such as accounting or computer programming, loan participations and purchases, and non-controlling capital investments. They will have the opportunity to explore with the community financial institutions potential partnerships to revitalize and stabilize damaged communities through the financing of housing and business development, infrastructure improvements, and community services.

To ensure that these initiatives continue, one outcome of the forum will be to establish a task force or working group comprised of representatives of local community financial institutions and larger regional and national financial institutions to facilitate ongoing working partnerships.

Conclusion

Since the hurricanes first struck the Gulf Coast area last summer, the resiliency of the local community financial institutions most impacted by the storms has been impressive. The federal regulatory agencies are fully engaged with financial institutions in the region to ensure that the adverse impact on the industry and their customers is minimized to the extent possible. However, additional challenges for community financial institutions in the disaster area may lie ahead. Given the many uncertainties at this time, it is too early to determine what impact the disaster will have on the long-term condition of these institutions. We will continue to monitor closely the condition of the affected financial institutions and will work closely with their management so that we can appropriately address the challenges that will likely arise in the future as this region recovers.

Appendix A - Press Releases Related to Gulf Coast Hurricanes

Appendix B - Financial Institution Letters Issued Related to Gulf Coast Hurricanes

1. Federal regulatory agencies include the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, Office of Thrift Supervision and National Credit Union Administration. State regulatory agencies include supervisory authorities in Alabama, Louisiana, and Mississippi, as well as the Conference of State Bank Supervisors.

2. Board of Governors of the Federal Reserve Board, Comptroller of the Currency, FDIC, National Credit Union Administration, and Office of Thrift Supervision.

3. The Mississippi Commissioner is representing the FFIEC's State Liaison Committee.

4. For further information, see the Winter 2005 issue of FDIC Outlook, "In Focus This Quarter: A Preliminary Assessment of the Effects of Recent Hurricanes on FDIC-Insured Institutions," and in particular "Financial Characteristics of Banks Affected by Katrina."

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Appendix A

Press Releases Related to Gulf Coast Hurricanes

PR Number Date Issued	Title	Purpose
PR-84-2005 August 31, 2005	Responding to Hurricane Katrina: FDIC Encourages Banks to Work with Those Hit Hard	Highlight that FDIC issued a letter to bankers encouraging them to work with borrowers in the areas hit hard by the storm. Encourage consumers and business owners to actively reach out and work with their financial institutions. Provide the FDIC's toll free Consumer Hotline Number to consumers.
Joint Release September 2, 2005 PR-85-2005	Agencies Encourage Insured Depository Institutions to Assist Displaced Customers	Ask insured depository institutions to consider all reasonable and prudent steps to assist customers' and credit union members' cash and financial needs in areas affected by Hurricane Katrina. Remind the public that deposit insurance is in full force and the money in FDIC- or NCUA-insured accounts is protected by federal deposit insurance. Note that a priority is to provide customers access to deposit accounts and other financial assets. Encourage financial institutions to assist affected institutions and consider all reasonable and prudent actions that could help meet the critical financial needs of their customers and communities.
PR-86-2005 September 2, 2005	FDIC Providing Consumers Banking Information About Hurricane Katrina: *Opens Toll-Free Consumer Hotline to Answer Questions, Help Consumers and Banks Connect*	Announce the new 24-hour consumer hotline and dedicated web page that includes bank branch information for FDIC-insured institutions in damaged areas. Highlight that the FDIC is contacting FDIC-insured institutions with the affected disaster zones and maintaining an up-to-date data base on the web site identifying the

		operational status of financial institutions. Highlight that the FDIC encouraged banks to do what they can to assist consumers with the banking needs due to the disaster.
PR-88-2005 September 7, 2005	Banks Resuming Operations in Hurricane-Affected Areas: Chairman to Tour Areas Hit by Storm, Meet with State Banking Commissioners	Note that most banks in the areas affected by Hurricane Katrina are operating and providing financial services to customers and non-customers. Announce Chairman Powell's trip to the hurricane disaster area at the invitation of the Louisiana and Mississippi bank commissioners. Remind customers to protect their Social Security, bank, and credit card numbers, as well as other personal information.
PR-90-2005 September 14, 2005	Banks Opening More Branches in Areas Affected by Hurricane Katrina, Helping Communities Rebuild	Announce that all the 280 FDIC-insured banks in the hurricane-affected area were operating, with 93 percent or 4,693 of the 5,054 bank and savings institution branches open for business, and that 33 temporary locations have been opened in the 3 state-area. Detail Chairman Powell's tour of Omni Bank in Jefferson Parish, which was operating jointly with five competitors in an effort to best serve the community. Reiterate message to consumers that their money is safe and note that the FDIC is aware of the difficulties some customers have had reaching their bank due to telecommunications problems.
Joint Release September 19, 2005	FFIEC Forms Working Group to Address Financial Industry Issues After Hurricane Katrina	Announce the formation of an interagency working group to enhance the agencies' coordination and communication on, and supervisory responses to, issues facing the industry in the aftermath of Hurricane Katrina.

		Note that group membership will include senior level supervision official from each member agency and the FFIEC's State Liaison Committee.
PR-92-2005 September 22, 2005	FDIC Supports Regulatory Relief in House Testimony, Endorses Action by Congress to Help Banks in Hurricane Zone: *General Counsel urges including additional financial agency-endorsed proposals into H.R. 3505*	Support continuing efforts to eliminate unnecessary regulatory burden and to streamline and modernize laws and regulations for the financial industry in accordance with EGRPRA. Recommend that Congress consider lightening the regulatory burden on banks by temporarily relaxing Prompt Corrective Action requirements for affected institutions, as it has in previous disasters. Note that the banking agencies have exercised flexibility in the enforcement of regulatory requirements in order to help banks serve hurricane victims as best as possible.
PR-93-2005 September 23, 2005	FDIC Encourages Banks to Assist the Victims of Hurricane Rita: *Continues Toll-Free Hotline for Consumers with Banking Troubles*	Encourage FDIC-supervised banks to work constructively with consumers who may be hit hard by Hurricane Rita. Remind consumers about the 24-hour hotline for consumers and the special Web page for victims of the hurricanes. Encourage customers to open a dialogue with their bank to find out how it can help them recover from this natural disaster.
Joint Release September 28, 2005 PR-96-2005	Agencies Announce Orders Exempting Bank Transfer Agents Affected by Hurricane Katrina	Announce issuance of orders granting emergency relief to bank transfer agents affected by Hurricane Katrina. Recognize that securities transfers and payments to and from security holders in the affected region may present compliance issues for some FDIC-regulated transfer agents. Relax temporarily certain regulatory provisions in order to provide FDIC-regulated transfer agents with flexibility in coping with the situation.
Joint Release	FFIEC Agencies Announce Additional Guidance for	Announce the availability of additional supervisory guidance (in question and

October 6, 2005	Financial Institutions in Response to Hurricanes Katrina and Rita	answer format) on regulatory and reporting issues related to Hurricanes Katrina and Rita. Provide guidance on: the agencies' expectations for regulatory reports; appropriate allowances for loan and lease losses; accounting treatment of sales of held-to-maturity securities, and temporary hardship programs. Announce that the agencies have granted a waiver from their respective appraisal regulations to regulated institutions entering into transactions with borrowers affected by the hurricanes.
PR-106-2005 October 25, 2005	FDIC Asks Banks to Work Constructively with Borrowers Affected by Hurricane Wilma: *Provides Toll-Free Consumer Hotline to Answer Banking Questions*	Ask FDIC-regulated banks to work with borrowers affected by the damage caused by Hurricane Wilma throughout South Florida. Remind consumers that the FDIC's 24-hour toll-free consumer hotline, established in the aftermath of Hurricane Katrina, is still operational.
Joint Release November 30, 2005	Agencies Encourage Insured Depository Institutions to Continue Efforts to Meet the Financial Needs of Customers Recovering from the Aftermath of Hurricane Katrina	Encourage insured depository institutions to consider all reasonable and prudent actions that could help meet the critical financial needs of their customers and their communities affected by Hurricane Katrina. Continue to encourage lenders to work with both individual and commercial borrowers who have been affected by the storms - - granting additional deferral periods for some borrowers in accordance with sound risk management practices may be appropriate given that the timing and amount of insurance payments, disaster payments, and other assistance may still be unknown. Encourage institutions to provide flexible repayment terms at the end of the deferral period, such that lump sum payments of all deferred interest

		and principal do not become due immediately when payments resume. Encourage institutions to continue efforts to contact their customers. Stress importance that borrowers displaced by the storm contact their lending institution. Direct institutions and consumers to FFIEC website for more detailed guidance that address various repayment options and the regulatory reporting requirements surrounding them.
PR-2-2006 January 5, 2006	Full Effects of Recent Hurricanes on Gulf Coast Banks Will Take Time to Assess: *FDIC Offers Preliminary Analysis on FDIC-Insured Banks*	Announce the release of the winter 2005 edition of *FDIC Outlook*, which focuses on the unique challenges banks face after Hurricanes Katrina and Rita. Provide web link to *FDIC Outlook*.
Joint Release January 13, 2006 PR-6-2006	Federal Financial Regulators Announce Public Service Campaign to Help Hurricane Victims	Announce a public service campaign to aid in the financial recovery of victims of last year's hurricanes. Encourage banks, thrifts, and credit unions to continue to work with borrowers - - assistance may include waiving fees, lowering interest rates, extending repayment schedules, or deferring principal or interest for an additional period, if appropriate.
PR-4-2006 January 10, 2006	Effects of Hurricanes Katrina and Rita on Local Banking Sector Beginning to Emerge; Housing markets moderating in parts of West, Northeast and South: *FDIC analysts review current banking and economic conditions across the nation*	Announce the release of the winter 2005 edition of the *FDIC Regional Profile* and *FDIC State Profiles*. Provide insights into the impact of Hurricanes Katrina and Rita on directly affected local economies and banking sectors.
Joint Release February 3, 2006 PR-12-2006	Federal Bank and Thrift Supervisors Announce Banking Forum in New Orleans	Announce that the federal bank and thrift regulatory agencies will be hosting a forum, titled "The Future of Banking on the Gulf Coast: Helping Banks and Thrifts Rebuild Communities," on March 2-3, 2006.

		Highlight that focus of forum will be the short-term and long-term challenges facing banks and thrifts operating in the areas affected by Hurricanes Katrina and Rita and on ways of helping meet the needs of the local communities.

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Appendix B

Financial Institution Letters Issued Related to Gulf Coast Hurricanes

FIL Number Date Issued	Title	Purpose
FIL-85-2005 August 29, 2005	Regulatory Relief: Steps to Help Rebuild Areas Affected by Hurricane Katrina	Announce a series of steps (lending, reporting requirements, publishing requirements, and consumer laws) intended to facilitate the rebuilding process in areas damaged by Hurricane Katrina and associated severe storms.
FIL-89-2005 September 2, 2005	Hurricane Katrina: Assistance for Displaced Customers	Encourage institutions to consider all reasonable and prudent steps to assist customers in areas damaged by Hurricane Katrina.
FIL-88-2005 September 6, 2005	Hurricane Katrina: Social Security Payments and Benefits for Veterans	Update information about Social Security and Veterans Benefits Administration payments for those affected by Hurricane Katrina.
FIL-91-2005 September 12, 2005	Hurricane Katrina: Frequently Asked Questions Regarding the Bank	Issue response to frequently asked questions regarding the Bank Secrecy Act.
FIL-95-2005 September 21, 2005	Hurricane Katrina: Notification Requirements for Closing Branches in Hurricane-Impacted Areas	Acknowledge that the severe damage caused by Hurricane Katrina may affect institutions' compliance with publishing and other requirements for branch closings. Encourage institutions to inform its federal regulator and its customers, to the best of its ability, as soon as possible after making the decision to close an office.
FIL-97-2005 September 27, 2005	Regulatory Relief: Guidance to Assist Financial Institutions in Responding to Hurricane Rita	Refer depository institutions to recently promulgated financial institution letters (FILs) for guidance rather than issuing FILs specific to Hurricane Rita.
FIL-101-2005 October 7, 2005	Regulatory Relief: Information for Bankers in Hurricane-Affected Areas	Provide flexibility in the administration of regulatory requirements for brokered deposit waivers, main office and branch relocations, and appraisals for institutions affected by Hurricanes Katrina and Rita.

FIL-106-2005 October 25, 2005	Regulatory Relief: Steps to Rebuild Areas Affected by Hurricane Wilma	Announce a series of steps (lending, reporting requirements, publishing requirements, and consumer laws) intended to facilitate the rebuilding process in areas damaged by Hurricane Wilma and associated severe storms.
FIL-12-2006 February 3, 2006	Hurricane Katrina Examiner Guidance: Interagency Supervisory Guidance for Institutions Affected by Hurricane Katrina	Issue examiner guidance outlining the supervisory practices to be followed in assessing the financial condition of institutions affected by Hurricane Katrina.

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