



Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

March 2000

To: Chief Executive Officers of National Banks, All Examining Personnel, and
Comptroller's Handbook Subscribers

The enclosed "Accounts Receivable and Inventory Financing" booklet is part of the revised *Comptroller's Handbook*. This booklet expands and updates guidance formerly in the "Accounts Receivable Financing" section of *The Comptroller's Handbook for National Bank Examiners*, and incorporates OCC's supervision-by-risk philosophy.

The booklet describes the various forms of accounts receivable and inventory financing, discusses their associated risks, and establishes OCC's expectations for sound loan underwriting, credit administration, and risk management practices. It emphasizes the importance of controls and monitoring in mitigating the higher risk associated with this specialized form of lending, and clarifies OCC's policy on how accounts receivable and inventory loans should be classified. The booklet stresses the need to evaluate cash flow, collateral value, collateral liquidity, performance, and controls when assigning a risk rating. It instructs examiners that a high or low risk rating should not automatically be assigned simply because a loan is administered in an asset-based lending department.

The booklet is intended to provide specific guidance for this specialized form of lending and should be used in conjunction with other OCC booklets such as "Loan Portfolio Management" and the large bank and community bank supervision booklets. Examiners must exercise judgment when determining which of the procedures in this booklet are appropriate for a particular bank based on the bank's risk profile and the quality of its risk management process.

Any questions regarding this booklet should be directed to the Credit Risk Division at (202) 874-5170.

To order more copies of this booklet, please send your request and \$15 for each booklet to the Office of the Comptroller of the Currency, P.O. Box 7004, Chicago, IL 60673-0004.