

RESCINDED

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BANKING ISSUANCE

Any attachments to this document are rescinded only as they relate to national banks and federal savings associations.

Type: Banking Bulletin

Subject: Working With Borrowers in
Communities Under Stress

TO: Chief Executive Officers of National Banks and All Examining Personnel

PURPOSE: This issuance transmits the Interagency Statement on Supervisory Practices Regarding Depository Institutions and Borrowers Affected by Disturbances in Los Angeles. That message is intended to encourage bankers to continue working constructively with borrowers in communities under stress. The OCC and the other federal regulators recognize that the effects of such disturbances on local businesses and individuals are often transitory, and that prudent efforts to adjust or alter terms on existing loans should not be subject to examiner criticism.

RESPONSIBLE OFFICE: For guidance on applying this statement, contact the Office of the Chief National Bank Examiner in Washington, (202) 874-5170.

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Senior Deputy Comptroller
Bank Supervision Policy

Interagency Statement on Supervisory Practices Regarding Depository Institutions and Borrowers Affected By Disturbances in Los Angeles

It has been a long-standing practice of the Federal bank and thrift regulatory agencies (Federal Deposit Insurance Corporation, Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency and The Office of Thrift Supervision) to promote supervisory actions that encourage depository institutions to work constructively with borrowers who are experiencing difficulties due to conditions beyond their control. The recent disturbances in Los Angeles and other cities have placed financial pressures on businesses and individuals in the affected areas, in some cases adversely affecting their ability to repay loans in accordance with original terms and conditions. Often the financial pressures stemming from such events are transitory in nature, and borrowers are able to resume payments when economic conditions improve or the borrowers' financial positions stabilize. Under such circumstances, depository institutions may determine that the most prudent policy is to work with borrowers experiencing difficulty, in a manner that is consistent with sound banking practices, rather than take more precipitous actions such as foreclosure and/or forcing the borrower into bankruptcy.

Lenders may find that it is beneficial to work with borrowers experiencing difficulties by extending terms of repayment or otherwise restructuring the borrower's debt obligations. Such cooperative efforts can ease pressures on troubled borrowers, improve the capacity of such borrowers to service debt, and strengthen a depository institution's ability to collect on its loans. Depository institutions in areas affected by widespread disruption may also deem it appropriate to ease credit-extending terms for new loans to certain borrowers, consistent with prudent banking practice, in order to assist the borrowers in recovering their financial strength and place them in a better economic position to service their debts. With proper risk controls and management oversight, these steps can contribute both to the health of the local community, as well as serve the long-run interests of the lending institution. If carried out in a prudent manner, such efforts on the part of the lender will not be subject to examiner criticism.

In addition, depository institutions in the affected areas may find that their levels of delinquent and nonperforming loans will increase. Consistent with long-standing practice, the Federal bank and thrift regulatory agencies in supervising these institutions will take into consideration the unusual circumstances they face.

One of the principal objectives of the examination and supervision process is to achieve an accurate assessment of a depository institution's loan portfolio and financial condition. In carrying out their supervisory responsibilities, the Federal bank and thrift regulatory agencies recognize that efforts to work with borrowers in communities under stress, if conducted in a reasonable way, are consistent with safe and sound banking practices as well as in the public interest.