

RESCINDED

97-5

OCC 97-5

Subject: Working with Borrowers Affected by Recent Natural Disasters
Description: Message to Bankers and Examiners

TO: Chief Executive Officers of all National Banks, Department
and Division Heads, and all Examining Personnel

PURPOSE

Any attachments to this document are rescinded only as they relate to national banks and federal savings associations.

This issuance is intended to encourage bankers to work with borrowers in communities affected by recent natural disasters, including the recent floods, ice storms, and related disaster conditions in the Western and Midwestern parts of the United States. The OCC recognizes that the effects of natural disasters on local individuals and businesses are often temporary, and that prudent efforts to adjust or alter terms on existing loans in areas affected by the floods and related problems should not be subject to examiner criticism.

POLICY

One of the principal objectives of the supervision by risk approach is to achieve an accurate assessment of a bank's risk management practices. The assessment includes an evaluation of how a bank identifies, monitors, manages, and controls risks when a segment of its loan portfolio is affected by external factors, such as a natural disaster.

The OCC recognizes that efforts by banks to work with borrowers in communities under stress, if conducted in a reasonable manner, are consistent with safe and sound banking practice, effective risk management, and in the public interest.

Banks may, as part of effective risk management, choose to work with borrowers by extending the terms of repayment or otherwise restructuring the borrower's debt obligations. Such cooperative efforts can ease pressures on troubled borrowers, improve their capacity to service debt, and strengthen the bank's ability to collect on its loans. Banks may also ease credit-extension terms for new loans to certain borrowers, consistent with prudent banking and risk management practices. This will help such borrowers recover their financial strength and place them in a better position to service their debts.

With proper risk controls and management oversight, these steps can contribute to the health of the local community and serve the long-term interests of the bank as well. Consistent with long-standing OCC practice, such efforts by lenders will not be subject to examiner criticism, if carried out in a prudent manner.

The OCC district office in San Francisco, (415) 545-5900, is the point of contact for national banks in need of assistance in dealing with customers affected by this current disaster in the Western states. For disaster assistance in Minnesota and areas in the Midwest, please contact the OCC district office in Kansas City at (816) 556-1800.

OTHER RELATED OCC RELEASES

The following banking and examining issuances contain additional

guidance for dealing with troubled loan situations:

- Banking Circular 257 -- Troubled Loan Workouts and Loans to Borrowers in Troubled Industries
- Examining Circular 96 -- Agricultural Loan Classification
- Banking Bulletin 93-12 -- Emergency Policy Statement on Credit Availability
- News Release 93-58 -- Federal Regulators Announce Additional Credit Availability Initiatives

Questions about this OCC bulletin or any of the issuances listed above, should be directed to the office of the Chief National Bank Examiner at (202) 874-5330.

Eugene A. Ludwig
Comptroller of the Currency
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