ROBERT D. McTEER, JR.
PRESIDENT
AND CHIEF EXECUTIVE OFFICER

FEDERAL RESERVE BANK
OF DALLAS

DALLAS, TEXAS 75222

August 5, 1993

Notice 93-82

TO: The Chief Executive Officer of each
member bank and bank holding company

SUBJECT

Supervisory Practices for Institutions and Borrowers Affected by Disasters

DETAILS

The Federal Reserve Board has announced a series of steps designed to help ease financial stress in areas affected by flooding in the Midwest. A supervisory statement adopted by the Board encourages financial institutions to work constructively with borrowers who are experiencing difficulty due to the flooding. The statement says that banks may find it appropriate to ease credit terms to help new borrowers restore their financial strength, consistent with prudent banking practices, and to restructure debt or extend repayment terms for existing borrowers.

The Board also waived appraisal regulations for real estate related transactions affected by the flooding, and temporarily amended Regulation Z (Truth in Lending) to provide relief under waiver rules so that borrowers may gain ready access to loan funds when they use their primary dwelling as collateral for a loan.

Under the right of rescission, a borrower normally has three business days to cancel a loan contract when it is secured by the borrower's principal dwelling.

ATTACHMENT

Attached is the supervisory statement adopted by the Board.

MORE INFORMATION

For more information, please contact Earl Anderson, (214) 922-6152, or Basil Asaro, (214) 922-6066. For additional copies of this Bank's notice, please contact the Public Affairs Department at (214) 922-5254.

Sincerely yours,

Robert D. McTeer, Jr.

For additional copies, bankers and others are encouraged to use one of the following toll-free numbers in contacting the Federal Reserve Bank of Dallas: Dallas Office (800) 333-4460; El Paso Branch *Intrastate* (800) 592-1631, *Interstate* (800) 351-1012; Houston Branch *Intrastate* (800) 392-4162, *Interstate* (800) 221-0363; San Antonio Branch *Intrastate* (800) 292-5810.

This publication was digitized and made available by the Federal Reserve Bank of Dallas' Historical Library (FedHistory@dal.frb.org)

Statement on
Supervisory Practices Regarding
Financial Institutions and Borrowers Affected by
Floods in the Midwestern United States
July 23, 1993

It has been a long-standing practice of the Federal Reserve to promote supervisory actions that encourage regulated financial institutions to work constructively with borrowers who are experiencing difficulties due to conditions beyond their control.

The physical and business disruption caused by recent heavy floods in the Midwest has 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, financial institutions generally determine that the most prudent policy is to work with borrowers experiencing difficulty, in a manner that is consistent with sound business practices, rather than take more precipitous actions such as foreclosure and/or forcing borrowers into bankruptcy.

Lenders often find it in their and the borrowers' interests to extend terms of repayment or otherwise to restructure borrowers' debt obligations. Such cooperative efforts can ease pressures on troubled borrowers, improve their capacity to service debt, and strengthen financial institutions'

ability to collect on their loans. Financial institutions in areas affected by the widespread flooding may also deem it appropriate to ease credit terms, consistent with prudent banking practices, for new loans to certain borrowers in order to assist the borrowers to recover their financial strength and place them in a better position to service their debts. With proper risk controls and management oversight, these actions can contribute both to the health of the local community and serve the long-run interests of lending institutions. If carried out in a prudent manner, such efforts by lenders will not be subject to examiner criticism.

Financial institutions in the affected areas may find that their levels of delinquent and nonperforming loans will increase. Consistent with long-standing practice, the Federal Reserve, in supervising these institutions, will consider the unusual circumstances these institutions face in determining any supervisory response.

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

The Federal Reserve also recognizes that financial

institutions in disaster-affected areas may encounter difficulty in complying with financial reporting requirements. Institutions in disaster areas that have encountered difficulties complying with such reporting requirements should contact the appropriate Reserve Bank as soon as possible for further guidance.

In addition, the Federal Reserve reminds regulated institutions of the availability of the recently announced program on documentation for loans to small- and medium-sized businesses and farms, which may assist lenders in meeting the credit needs of borrowers in disaster areas. This program allows institutions that are adequately capitalized and have a CAMEL rating of 1 or 2 to designate a basket of loans which examiners will evaluate solely on the basis of performance and will not criticize due to loan documentation. To qualify for the exemption, the loan may not exceed the lesser of $900,000 or 3 percent of the institution's total capital. The total basket of such loans may not exceed 20 percent of total capital.

There are also several initiatives in process pursuant to the Depository Institutions Disaster Relief Act of 1992 (DIDRA), which provided the Federal Reserve and the other federal banking agencies with the authority to grant certain regulatory relief to financial institutions affected by major disasters. As provided in section 2 of DIDRA, the Board has waived the appraisal requirements of Title XI of FIRREA and the Board's regulation for real estate related transactions affected by the flooding.

Under section 4 of DIDRA, financial institutions may seek, until April 23, 1994, relief from regulations governing leverage capital requirements if they are experiencing a temporary increase of assets due to the influx of insurance proceeds or government assistance funds. Financial institutions that may need such relief should contact the appropriate Reserve Bank.

Pursuant to section 3 of DIDRA, relief was granted from certain requirements under Regulation Z (Truth in Lending) that related to consumers' right of rescission for certain loans secured by their principal dwellings. The authority to make exceptions under section 3 of DIDRA has expired. The Board has approved similar relief through its existing authority under Regulation Z. In particular, a final rule has been approved to temporarily amend Regulation Z regarding consumer waivers of the right to cancel certain home-secured loans so that borrowers in the major disaster areas may more readily gain access to loan funds.

Finally, in keeping with the intent of DIDRA and previous initiatives to encourage financial institutions to meet the needs of communities devastated by major disasters, the Federal Reserve, in assessing Community Reinvestment Act performance, will give positive consideration to financial institutions' participation in programs where most or all of the financing provided may ultimately benefit low- and moderate-income borrowers or such neighborhoods located outside of an

institution's delineated community.

Specific questions on these initiatives should be directed to the appropriate Reserve Bank.