IMPORTANT SPEECHES LAST WEEK

by Steve Brown

Late last week, the Senior Deputy Comptroller for Midsize and Community Bank Supervision for the OCC and the Deputy Director, Policy, Division of Risk Management Supervision for the FDIC were in front of Congress speaking about examination practices. Both were there to discuss the groundswell of interest about the examination process and lower bank lending activity.

The Deputy Director of the FDIC jumped right into his testimony by clearing up a few things in loan workouts. He indicated that the policy statement on loan workouts addressed two common misconceptions about how regulators view troubled loans. The first is that examiners require write-downs of loans to creditworthy borrowers because the value of the collateral has deteriorated. Here, the Deputy Director pointed out that examiners first and foremost will look to the ability of the borrower to repay the loan. If the borrower is expected to repay the loan in full according to its terms, there is no required write-down or placement in nonaccrual status, regardless of any deterioration in collateral. That is good news for bankers and is yet another instance of how good communication between bankers and examiners can help clear up potential issues before they get out of hand. The second point he addressed related to restructured or modified loans. Here, he indicated that such loans do not need to remain in nonaccrual status regardless of the borrower's demonstrated performance and prospects for repayment under the modified terms and that once the borrower demonstrates the ability to perform over a period of 6 months; the loan can be removed from nonaccrual status. While this is something bankers have become quite familiar with as of late, hearing the Deputy Director restate it, ensures bankers and examiners have common understanding.

The Senior Deputy Comptroller for the OCC was also direct in her testimony about regulatory examinations. She indicated that the OCC is aware some bankers have said their ability to meet the needs of creditworthy borrowers is being constrained by what they regard as overly aggressive regulatory loan classifications and the substitution of examiner judgment for that of bank management. Here she stated that she believes examiners are striking the right balance in encouraging bankers to make loans to creditworthy borrowers, but to also identify and address problem credits. The problem she pointed out was that loan classification assessments require considerable judgment and are very fact specific, so she encouraged bankers to contact supervisory offices or the Ombudsman's office with specifics, if they feel examiners have not fully considered all pertinent information. That too is good news for bankers, because it indicates that at the highest levels the OCC is willing to listen to issues surfaced by bankers and to reconsider examinations. Opening up the communication channels is the first key step toward finding common ground, so this wholly positive.

Finally, both also indicated they believe in the value of having strong community banks and that community banks play a crucial role in providing consumers and small businesses with essential financial services critical to economic growth and job creation. That is good to hear, as it indicates the work done to differentiate community banks from the larger banks is being recognized by regulators and should translate when they come on site.

Since so many community banks have concentrations in commercial real estate, we leave you with a key concept from the testimony related to loan concentrations. Regulators indicate concentrations of credit exposures of any type can have a high degree of correlation with cyclical changes or economic events and these can accentuate risk exposure, so that in turn usually requires additional capital buffers. In short, regulators aren't saying bankers can't have loan concentrations, but they are indicating banks that have such concentrations can expect to be required to hold more capital.

BANK NEWS

Closings (51)

First Chicago Bank & Trust ($953mm, IL) was closed and bought by Northbrook Bank & Trust ($1.2B, IL) for a 50bp premium on deposits and most of the assets under loss share. Colorado Capital Bank ($717mm, CO) was closed and assumed by First-Citizens Bank & Trust ($8.4B, NC) for no deposit premium and most assets under loss share. Signature Bank ($67mm, CO) was closed and assumed by Points West Community Bank ($136mm, CO) for no premium or loss share.

Chair Bair

Shelia Bair completed her term and stepped down on Friday. Vice Chair Martin Gruenberg takes over, as Bair becomes a Sr. advisor to the think tank the Pew Charitable Trust starting in Sept.

Gas Station Lending

A MD jury has ordered Exxon Mobil to pay $1.5B in damages related to an underground gasoline leak at a rural Maryland gasoline station that released 26,000 gallons of gasoline and contaminated groundwater. The leak affected families and businesses in the area, as it has no public water and depends on private wells for drinking water. If your bank originates loans to gas stations you might want to double check insurance coverages.