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Transmittal – See OCC 2020-11

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Revisions to 12 CFR 32: Lending Limits Pilot Program

To

Chief Executive Officers of All National Banks, Department and Division Heads, and All Examining Personnel

On June 7, 2007, the Office of the Comptroller of the Currency (OCC) published in the *Federal Register* the attached interim final rule amending 12 CFR 32, which governs lending limits. The interim final rule makes permanent the lending limits pilot program, which provides special lending limits for 1-4 family residential real estate loans, small business loans, and small farm loans. It also eliminates the $10 million cap on loans to one borrower for each type of loan covered by the program. The other limits and safeguards that apply to the program, as described below, remain unchanged. The OCC is soliciting comments on whether the special lending limit program should be changed in other ways. The comment period ends on July 9, 2007. The following are features of the interim final rule:

- ***Higher limits linked to state lending limits.*** Under the interim rule, a national bank may use a higher lending limit for 1-4 family residential real estate loans, small business loans, and small farm loans, if the state where the bank is located allows its state-chartered banks to use a higher lending limit for these types of loans.

- ***Safeguards adopted from the pilot program.*** Like the pilot program, the interim rule contains a number of safeguards to ensure that the special lending limits are available only to banks in good financial condition with a demonstrated record of making sound loans.

    - *Only well-qualified national banks can make use of the special lending limits.* Under the interim rule, a national bank must apply to, and receive approval from, the OCC before making use of the special lending limits for real estate, small business, and small farm loans. A national bank is eligible to make use of these special lending limits, if it is well capitalized and has a rating of 1 or 2 under the CAMELS system, with at least a rating of 2 for asset quality and for management. A *de novo* national bank may apply to use the special lending limits once it meets the criteria to be an eligible bank.

    - *Caps.* If authorized to participate in the pilot program, the amount that a bank may lend under the special limits is capped in two ways:

        - *Individual borrower cap.* The total outstanding amount of a bank's loans to one borrower – *i.e.,* loans made under the combined general limit, the special lending limits, and the interim rule's lending limits for real estate, small business, and small farm loans – may not exceed 25 percent of the bank's capital and surplus; and

        - *Aggregate cap.* The total outstanding amount of any loan or parts of loans made by a bank to *all* of its borrowers, under the special limits of the pilot program, may not exceed 100 percent of the bank's capital and surplus.

    - *Termination for supervisory reasons.* The authority given by the OCC to a particular national bank to lend using these special limits will be subject to termination if a bank's continued participation in the program raises supervisory concerns about credit quality, undue concentrations in the bank's portfolio of loans in the three special categories, or concerns about a bank's overall credit risk management systems and controls.

- ***Effective date.*** This interim final rule became effective on June 7, 2007. It removes the pilot program's expiration date; therefore, banks with authority to lend under the program may continue to do so as long as they are eligible banks. The OCC is also soliciting comments on whether the special lending limits should be expanded in any other way.

For further information, contact Credit & Market Risk (202) 649-6670.

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Related Links

- Interim Final Rule 72 fr 31441