



Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C.

Financial Institution Letter
FIL-85-2010
December 14, 2010

Prudent Management of Agricultural Credit through Farming and Economic Cycles

Summary: The U.S. agricultural sector has benefited from almost a decade of solid farm production, strong demand, and favorable financing costs. With few exceptions, the sector appears poised to remain on a path of general prosperity in the near term and possibly longer. However, despite this generally positive outlook, the agricultural sector remains susceptible to shocks from a number of sources, including volatile commodity prices. Financial institutions engaged in agricultural lending must remain diligent in enforcing sound underwriting principles and establishing effective risk management procedures to help mitigate these risks. Where agricultural borrowers are struggling to make payments, FDIC recognizes that constructively working with borrowers often benefits the financial institution and the borrower.

Distribution:

FDIC-Supervised Banks (Commercial and Savings)

Suggested Routing:

Chief Executive Officer
Chief Lending Officer

Related Topics:

Interagency Policy Statement on Prudent Commercial Real Estate Loan Workouts issued on October 30, 2009.

Interagency Statement on Meeting the Credit Needs of Creditworthy Small Business Borrowers, issued on February 12, 2010.

Attachment:

Prudent Management of Agricultural Credit through Farming and Economic Cycles

Contact:

Review Examiner Robert W. Walsh, (202) 898-6649, or rowalsh@fdic.gov

Note:

FDIC financial institution letters (FILs) may be accessed from the FDIC's Web site at www.fdic.gov/news/news/financial/2010/index.html.

To receive FILs electronically, please visit <http://www.fdic.gov/about/subscriptions/fil.html>.

Paper copies of FDIC financial institution letters may be obtained through the FDIC's Public Information Center, 3501 Fairfax Drive, E-1002, Arlington, VA 22226 (1-877-275-3342 or 703-562-2200).

Highlights:

- As with all types of credit, financial institutions engaging in agricultural lending should implement a prudent credit risk management process that places a strong emphasis on borrower cash flow and repayment capacity and does not place undue reliance on collateral.
- Institutions should not place undue reliance on cyclical factors, such as appreciation of land prices when making credit decisions.
- Institutions should be sensitive to evidence of speculation in agricultural land prices or commodities that are influencing the market and remain focused on repayment ability and borrower underwriting.
- The guidelines and principles presented in the October 30, 2009, *Interagency Policy Statement on Prudent Commercial Real Estate Loan Workouts* can and should be readily adapted to lending relationships in the agricultural sector.