FDIC

Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
FIL-5-2010
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MEETING THE CREDIT NEEDS OF CREDITWORTHY SMALL BUSINESS BORROWERS

Summary: The federal financial regulatory agencies and the state supervisors (collectively, the regulators) are issuing the attached statement to restate and elaborate their supervisory views on prudent lending to creditworthy small business borrowers. The statement builds on the principles in existing guidance for prudent lending to creditworthy borrowers and strives to ensure that supervisory policies and actions do not inadvertently curtail the availability of credit to sound small business borrowers. Further, while the regulators expect institutions to effectively monitor and manage credit concentrations, institutions should not automatically refuse credit to sound borrowers because of a borrower's particular industry or geographic location. Financial institutions that engage in prudent small business lending after performing a comprehensive review of a borrower's financial condition will not be subject to criticism.

Distribution:
FDIC-Supervised Banks (Commercial and Savings)

Suggested Routing:
Chief Executive Officer
Chief Lending Officer

Related Topics:
Policy Statement on Prudent Commercial Real Estate Loan Workouts (FIL-61-2009)

Managing CRE Concentrations in a Challenging Environment (FIL-22-2008)

Interagency Statement on Meeting the Needs of Creditworthy Borrowers (FIL-128-2008)

Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices (FIL-104-2006)

Attachment:
Interagency Statement on Meeting the Credit Needs of Creditworthy Small Business Borrowers

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Highlights:

- Some small business borrowers are experiencing difficulty in obtaining or renewing credit to support their operations.
- Although loans outstanding to small businesses and farms increased at institutions with total assets of less than $1 billion for the year ending June 30, 2009, this category of lending declined by almost $14 billion overall, with the decrease primarily occurring at banks with total assets over $100 billion.
- This decline is attributable to a number of factors, including general trends in the economy, decreasing loan demand, and the emergence of credit problems.
- Institutions' analyses of borrowers' cash flow should reflect expectations for the borrowers' performance over a reasonable range of future conditions, rather than overly optimistic or pessimistic cases.
- Institutions should not use portfolio management models that rely primarily on general inputs, such as geographic location and industry, as a substitute for the evaluation of an individual customer's repayment capacity.
- Examiners will take a balanced approach in assessing the adequacy of an institution's risk management practices and small business lending activities.
- Examiners will not adversely classify loans solely due to a decline in the collateral value below the loan balance, provided the borrower has the willingness and ability to repay the loan according to reasonable terms.
- This statement supplements existing guidance.