

BULLETIN



NO. B-90-1

April 24, 1990

Subject: Loan Review and Watch List

In recent years, one of the primary problems of many of our State chartered banks has been the lack of a system for regular loan quality reviews and early identification of credits that warrant special attention of management. Such reviews, if properly executed, have many advantages which include:

- 1) A cross check of adherence to the bank's loan policies, underwriting standards, and loan/credit administration procedures.
- 2) A grading system which identifies, on a timely basis, loans which are to be included in the bank's "Watch List". These loans are those requiring special attention of management because of potential collectibility problems. Early identification and management focus on such credits has proven to be valuable in preventing or minimizing losses.
- 3) Assistance to the Board in their periodic review of the adequacy of the Allowance for Loan and Lease Losses (ALLL) as required by Call Report instructions.

Loan Review and Grading Systems was the subject of FDIC letter BL-27-89 dated June 29, 1989. This letter was addressed to the CEO of FDIC-supervised banks and strongly recommended the establishment of such a system by each bank. We agree with the FDIC letter referenced above that the nature, scope, and structure of these systems will vary with the size and complexity of individual banks but, at a minimum, will provide for:

- .. An identification or grouping of loans that warrant the special attention of management;

- .. For each loan identified, a statement or indication of the reason(s) why the loan merits special attention; and
- .. A mechanism for reporting periodically to the Board on the status of each loan identified and the action(s) taken by management.

Therefore, the Commissioner requests that the Boards of all Tennessee chartered banks should adopt a method for ongoing Loan Review. Each Board should create an ongoing Loan "Watch List". Both of these shall be created prior to July 1, 1990.

In all State examinations after July 1, 1990, we will examine the Bank's loan review and grading system, their "Watch List", and the process adopted by the Board for periodic review of the adequacy of the ALLL. Any deficiencies will be noted in the Comments and Conclusions section of the Examination Report.

Any questions regarding this Bulletin should be directed to Mark McDowell, Director, Bank Examination Division, at (615) 741-2236.

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Proposed Rule
of
Department of Financial Institutions
Chapter 0180-14
Rules Pertaining to Other Real Estate

Presented herein is a proposed rule of the Department of Financial Institutions submitted pursuant to Tennessee Code Annotated, Section 4-5-202 in lieu of a rulemaking hearing. It is the intent of the Department of Financial Institutions to promulgate these rules without a rulemaking hearing unless a petition requesting such hearing is filed within thirty (30) days of the publication date of the issue of the Tennessee Administrative Register in which the proposed rule is published. Such petition to be effective must be filed in the Department of Financial Institutions located at the John Sevier Building, Fourth Floor, 500 Charlotte Avenue, Nashville, Tennessee 37219-5384, and in the Department of State, Fifth Floor, James K. Polk State Office Building, Sixth and Deaderick, Nashville, Tennessee 37219, and must be signed by twenty-five (25) persons who will be affected by the rule, or an association of twenty-five (25) or more members, or any standing committee of the general assembly.

AMENDMENTS

Rule 0180-14-.02 PROCEDURES FOR DISPOSITION OF OTHER REAL ESTATE is amended by deleting paragraph (6) in its entirety, and substituting the following language, so that as amended the rule shall read as follows:

(6) The bank must obtain annually from an independent, qualified appraiser a current appraisal of fair market value for each parcel of other real estate owned and for each parcel of investment real estate. The bank has thirty (30) days from the date the parcel is acquired by the Bank as other real estate owned, or from the date on which the bank legally acquires real estate for investment purposes, to obtain this appraisal. Within twelve (12) months of the first appraisal required under this rule, and every twelve (12) months thereafter for as long as the bank owns the real estate, another independent appraisal or a written update must be obtained which confirms the current fair market value.

Banks are required to obtain appraisals on all parcels where Book Value exceeds one-half of one percent (1/2 of 1%) of Total Equity Capital. Any bank whose one-half of one percent (1/2 of 1%) of Total Equity Capital is less than \$25,000, shall be required to obtain appraisals on parcels whose book value is \$25,000 or greater; provided, however, that any Bank whose

one-half of one percent (1/2 of 1%) of Total Equity Capital is greater than \$150,000, shall be required to obtain appraisals on parcels whose book value is \$150,000 or greater.

For the purpose of this rule, a bank's Total Equity Capital is defined as the total of its Capital Stock, Surplus, and Undivided Profits.

AUTHORITY: T.C.A. §§45-1-107 and 45-2-607(b)(2).

Signature of the agency officer or officers directly responsible for proposing and/or drafting these proposed rules:

Kathryn R. Edge
Kathryn R. Edge
Assistant Commissioner
and Legal Counsel

I certify that this is an accurate and complete copy of proposed rules lawfully promulgated and adopted by the Department of Financial Institutions on the 16th day of May, 1989.

The Secretary of State is hereby instructed that, in the absence of a petition for rulemaking hearing being filed under the conditions set out herein and in the locations described, he is to treat the proposed rules as being placed on file in his office at the expiration of thirty (30) days after the publication date of the issue of the Tennessee Administrative Register in which these proposed rules are published.

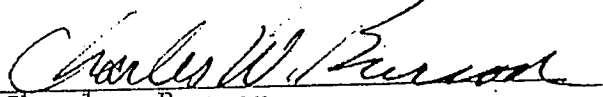
Jeff. Pyatt
Jeff. Pyatt
Commissioner of Financial
Institutions

Subscribed and sworn to before me this the 16 day of May, 1989.


Robert J. Auger
Notary Public

My commission expires on the 11 day of September, 1990.

All proposed rules provided for herein have been examined by the Attorney General and Reporter of the State of Tennessee and are approved as to legality pursuant to the provisions of the Administrative Procedures Act, Tennessee Code Annotated, Title 4, Chapter 5.


Charles Burson
Attorney General and Reporter

The proposed rules set out herein were properly filed in the Department of State and pursuant to the instructions set out above, and in the absence of the filing of an appropriate petition calling for a rulemaking hearing, will become effective on the 21st day of November, 1984.


Gentry Crowell
Secretary of State

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