



FEDERAL RESERVE BANK *of* KANSAS CITY

March 5, 2010

**Meeting the Needs of Creditworthy Small Business Borrowers**

**Attention:** Chief Executive Officer of each Tenth District Bank Holding Company and Tenth District State Member Bank

**Subject:** Agencies Issue Statement on Prudent Lending to Creditworthy Small Business Borrowers

**In Brief:** The federal financial regulatory agencies and the Conference of State Bank Supervisors (regulators) issued a statement on February 5, 2010, on the prudent lending to creditworthy small business borrowers. The regulators recognize that small businesses play an important role in the economy and know that some are experiencing difficulty in obtaining or renewing credit.

**Highlights:** The statement emphasizes that 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 supervisory criticism for small business loans made on that basis. Financial institutions should understand the long-term viability of the borrower's business and focus on the strength of a borrower's business plan to manage risk rather than using portfolio management models that rely primarily on general inputs, such as borrower's geographic location or industry.

The regulators are mindful of the harmful economic effects of an excessive tightening of credit availability in an economic downturn and are working, through outreach and communication with the industry and supervisory staff, to ensure that supervisory policies and actions do not inadvertently curtail the availability of credit to small business borrowers.

**Contact:** Questions regarding the press release may be directed to:

Kansas City:	Michael Thomas	(800) 333-1010, extension 12175
Denver:	Richie Thorne	(800) 333-1020, extension 22572
Oklahoma City:	Doug Gray	(800) 333-1030, extension 38631
Omaha:	Todd Hirsch	(800) 333-1040, extension 45751

**Attachment:** Federal Reserve Supervision and Regulation Letter 10-2

**Internet:** A copy of the joint press release is available on the Board's web site at:  
<http://www.federalreserve.gov/newsevents/press/bcreg/20100205a.htm>



**BOARD OF GOVERNORS**  
OF THE  
**FEDERAL RESERVE SYSTEM**

WASHINGTON, D.C. 20551

DIVISION OF BANKING  
SUPERVISION AND REGULATION

**SR 10-2**

**February 12, 2010**

**TO THE OFFICER IN CHARGE OF SUPERVISION AT EACH FEDERAL RESERVE BANK  
AND TO BANKING ORGANIZATIONS SUPERVISED BY THE FEDERAL RESERVE**

**SUBJECT: Interagency Statement on Meeting the Needs of Creditworthy Small Business Borrowers**

The Board of Governors of the Federal Reserve System, along with the other financial regulatory agencies<sup>1</sup> and the state supervisors<sup>2</sup> (collectively, the regulators), has adopted the attached statement on *Meeting the Credit Needs of Creditworthy Small Business Borrowers*. The regulators have issued this statement to restate and elaborate their supervisory views on prudent lending to creditworthy small business borrowers. They recognize that small businesses play an important role in the economy and that some are experiencing difficulty in obtaining or renewing credit.

The regulators are mindful of the harmful economic effects of an excessive tightening of credit availability in an economic downturn and are working, through outreach and communication with the industry and supervisory staff, to ensure that supervisory policies and actions do not inadvertently curtail the availability of credit to sound small business borrowers. The Federal Reserve has undertaken a range of related training and informational initiatives for examiners in this regard.

The statement also discusses sound underwriting and risk-management considerations. For instance, an institution should understand the long-term viability of a borrower's business and focus on cash flows and the strength of the borrower's business plan, including its plan for the use and repayment of borrowed funds.

Federal Reserve Banks are asked to distribute this letter to financial institutions supervised by the Federal Reserve in their districts, as well as to their own supervisory and examination staff. If you have any questions, please contact Jon Greenlee, Associate Director, Risk Management, at (202) 452-2962; Sabeth Siddique, Assistant Director, Credit Risk, at (202) 452-3861; Melissa Vanouse, Supervisory Financial Analyst, Credit Risk, at (202) 452-3814; or Dwight Smith, Senior

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<sup>1</sup> The other federal financial institution regulatory agencies consist of the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the National Credit Union Administration.

<sup>2</sup> The state supervisors are represented through the Conference of State Bank Supervisors.

Supervisory Financial Analyst, Supervisory Policy and Guidance, at (202) 452-2773. In addition, questions may be sent via the Board's public website.<sup>3</sup>

Patrick M. Parkinson  
Director

Attachment:

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

Cross References:

- *Interagency Statement on Meeting the Needs of Creditworthy Borrowers*, Board press release issued November 12, 2008
- SR letter 09-7, "Prudent Commercial Real Estate Loan Workouts"

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<sup>3</sup> See <http://www.federalreserve.gov/feedback.cfm>.