

FEDERAL RESERVE BANK OF SAN FRANCISCO
101 MARKET STREET, SAN FRANCISCO, CALIFORNIA

October 4, 2005

**BANKING SUPERVISION AND REGULATION:
BANKING ORGANIZATIONS AND CONSUMERS
AFFECTED BY HURRICANE KATRINA**

To State Member Banks, Bank
Holding Companies, U.S. Branches
and Agencies of Foreign Banks,
and Others Concerned,
in the Twelfth Federal Reserve District

**Supervisory Practices Regarding Banking Organizations and Consumers Affected by
Hurricane Katrina (SR 05-16)**

The Federal Reserve is issuing this statement to advise banking organizations that we will work actively to respond to issues that arise in the wake of the damage caused by Hurricane Katrina. In particular, it is the long-standing policy of the Federal Reserve to encourage bankers to work with borrowers and other customers in communities and regions affected by disasters. The Federal Reserve also wishes to remind banking organizations that there is regulatory flexibility available to facilitate recovery in the affected areas. In this spirit, we encourage banking organizations to work with supervisory staff at their Reserve Banks for further guidance on issues related to this disaster.

Working with Affected Borrowers and Other Customers

The Federal Reserve recognizes that banking organizations may have to take prudent steps to adjust or alter terms on existing loans in areas affected by this disaster. Efforts by banking organizations to work with borrowers in communities under stress, if conducted in a reasonable way, are consistent with safe and sound banking practice, can contribute to the health of the local community and promote recovery, and are in the public interest.

Banking organizations may, for example, work with borrowers to extend the terms of repayment or otherwise restructure the borrower's debt obligations. Such cooperative efforts can ease pressures on troubled borrowers, improve their capacity to service debt, and strengthen the banking organization's ability to collect on its loans. Banking organizations may also ease documentation requirements or credit-extension terms for new loans to certain borrowers, consistent with prudent banking practices. Such easing may help borrowers to recover their financial strength and place them in a better position to service their debt.

Banking organizations in the affected areas may find that their levels of delinquent and nonperforming loans will increase. Consistent with long-standing practices, the Federal Reserve will consider the unusual circumstances these organizations face in reviewing their financial conditions and determining any supervisory response.

Regarding consumer loans, the Truth in Lending Act and the Board's Regulation Z normally provide a consumer with the right to rescind certain credit obligations secured by the consumer's principal dwelling for three days after becoming obligated. This brief waiting period required by statute gives

consumers an opportunity to reflect on the loan terms before becoming finally committed to the transaction. However, consumers may modify or waive their right to cancel a transaction to meet a “bona fide personal financial emergency.” In accordance with the regulation, consumers experiencing a bona fide personal financial emergency due to Hurricane Katrina may waive their right to rescind by providing a brief written, signed and dated statement referencing the emergency and indicating that they need the funds immediately.

To help protect the interests of customers and communities in the affected areas, banking organizations should continue to be alert to indications of fraud or other criminal activities and report suspicious activity in accordance with existing protocols.

Regulatory Reports and Safety and Soundness Supervision

The Federal Reserve is aware that this disaster may affect banking organizations’ ability to submit accurate and timely regulatory reports to the Federal Reserve, including, for example, the FR Y-9 and FR Y-11 reports submitted by bank holding companies, bank Call Reports, and other regulatory reports. Banking organizations having difficulty submitting accurate and timely data because of this disaster should contact the Federal Reserve Bank where it submits its reports. The Federal Reserve does not expect to take supervisory action against banking organizations that take reasonable and prudent steps to comply with the Board’s reporting requirements but that are unable to do so due to circumstances caused by Hurricane Katrina.

In the conduct of safety and soundness supervision, the Federal Reserve will work with banking organizations affected by the disaster and will use appropriate discretion in establishing the scope and frequency of examinations and inspections, consistent with principles of safety and soundness and applicable law.

Bank Secrecy Act and Anti-Money Laundering Requirements

The Federal Reserve recognizes that many persons displaced or affected by Hurricane Katrina may not have access to their normal identification and personal records. For this reason, the Federal Reserve, in conjunction with the other federal depository institutions regulatory agencies and the Financial Crimes Enforcement Network (FinCEN), has reminded banking organizations that the Customer Identification Program requirements of the Bank Secrecy Act provide organizations the flexibility to use documents, non-documentary methods, or a combination to verify a customer’s identity. In addition, applicable regulations do not require a banking organization to verify a customer’s identity prior to opening an account, so long as the organization does so within a reasonable period of time after the account is opened.

The Federal Reserve encourages depository organizations to use non-documentary verification methods for affected customers that may not be able to provide standard identification documents, as permitted under the regulation. To assist organizations, the federal banking organizations regulatory agencies in conjunction with FinCEN have recently developed a set of FAQs addressing Bank Secrecy Act matters arising from Hurricane Katrina. These FAQs are available on the Hurricane Katrina section of the Federal Reserve Board’s public website.

Consumer Compliance Supervision

In scheduling future consumer compliance examinations, the Federal Reserve will make every effort to minimize the disruption and burden on state member banks by delaying compliance examinations on those banks that were directly affected by Hurricane Katrina or that are working to re-establish a more normal lending and economic environment in parts of their communities affected by the disaster. Federal Reserve supervision staff will keep in close contact with affected organizations to determine when a delayed examination can appropriately be scheduled.

In accordance with Regulation BB, which implements the Community Reinvestment Act (CRA), and existing guidance, the Federal Reserve will favorably consider activities that revitalize or stabilize

a designated disaster area, but will give greater weight to those activities designed to benefit low- or moderate-income individuals or areas. Other activities, such as providing affordable housing or community services to low- and moderate-income individuals, may also qualify for community development consideration under CRA.

Branch Service Interruptions and Relocations

Hurricane Katrina has required some state member banks to temporarily cease some or all the operations of a branch, or to temporarily move some branch operations to new locations. State member banks forced by Hurricane Katrina to temporarily relocate some or all of a branch's operations should advise the appropriate Reserve Bank accordingly, but will not be required to file an application with the Federal Reserve in connection with a temporary relocation. Once it ascertains its ultimate plans for the operations of a displaced branch, however, a state member bank should consult further with the appropriate Reserve Bank to determine whether any application or notice to the Federal Reserve will be required.

So long as the state member bank is actively planning or working to restore operations at an affected branch, the branch closing provisions of section 42 of the Federal Deposit Insurance Act would not apply. However, if a state member bank ultimately determines to permanently close a branch as a result of the hurricane, the bank should notify the customers of the branch and the appropriate Federal Reserve Bank in the manner specified by section 42 to the extent and as soon as possible after the decision to close the branch has been made.

Ongoing Initiatives

The Federal Reserve will continue to monitor closely the situation and the needs of banking organizations and their customers. The Federal Reserve will provide additional guidance and take further action as necessary or appropriate to help address those needs. Consistent with long-standing practices, the Federal Reserve will consider the unusual circumstances that organizations in the affected area have faced with respect to safety and soundness or compliance issues, including those regarding Bank Secrecy Act/anti-money laundering requirements, in determining the appropriate supervisory response. Information on Hurricane Katrina related issuances can be found on the Board's website at <http://www.federalreserve.gov/hurricanekatrina.htm>.

Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's Internet site, at <http://www.frbsf.org/banking/letters>.

For additional information about this information, please contact our Banking Supervision and Regulation Department at (415) 974-3028.

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