

# BB REVIEW

*Financial Services and Transactions*

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## FDIC ADVISES BANKS ON DEALING WITH CUSTOMERS AFFECTED BY GULF COAST OIL SPILL

### INTRODUCTION

As it does when other natural disasters strike, the Federal Deposit Insurance Corporation (FDIC) has issued guidance to banks on how to work with borrowers and others affected by the Gulf Coast oil spill. The economic ripple effect of the oil spill will extend both to borrowers located directly on the coast, such as those in the fishing or tourism industries, and those who are located great distances from the Gulf. For example, the spill likely impacts distant suppliers to offshore drilling companies whose plans are now on indefinite hold.

### FDIC GUIDANCE

In Financial Institutions Letter FIL-24-2010, dated May 7, 2010, the FDIC announced several initiatives intended to assist financial institutions whose customers are damaged in some manner by the spill. In general, the FDIC encourages banks to work constructively with those borrowers.

**Lending.** The FDIC recognizes that prudent efforts to modify the terms of existing loans to borrowers in communities affected by the spill should not be subject to examiner criticism, noting that such efforts “can be consistent with safe-and-sound banking practices as well as in the public interest.”

For example, a bank might temporarily suspend interest or principal payments, or permit a borrower to use collateral pledged to an existing loan for a new loan that is required due to spill-related damage if the

value of the collateral is sufficient to secure both loans within existing guidelines.

**Investments.** The FDIC cautions banks to monitor investment securities issued by and loans to municipalities affected by the spill. The FDIC guidance encourages “prudent efforts to stabilize such investments.”

For example, if a bank or its customers have revenue bonds backed by sales and use taxes in a community significantly affected by the spill, the FDIC expects the bank to actively monitoring the market for those securities.

**Consumer Laws.** Regulation Z gives consumers three days to rescind a non-purchase money credit transaction in which a security interest is granted in the consumer's principal dwelling, such as a home equity loan or credit line. During the three day rescission period, consumers may not receive any of the loan proceeds.

Recognizing that the oil spill will create situations in which some borrowers will need immediate access to funds from new home equity lines and similar credit transactions, the FDIC reminds banks that Regulation Z permits consumers to modify or waive the right to rescind if the credit transaction is needed to meet a “bona fide personal financial emergency.”

A consumer waiving this right must give the creditor a dated written statement that describes the emergency and specifically waives the right to rescind. The statement must be signed by all of the consumers

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IRS CIRCULAR 230  
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entitled to rescind, and no printed form may be used. See Sections 226.15 and 226.23 of Regulation Z for more information about the right to rescind.

**SMALL BUSINESS ADMINISTRATION  
DISASTER LOANS**

The U.S. Small Business Administration (SBA) has begun offering disaster assistance in areas affected by the oil spill. "Economic Injury Disaster" loans are available in amounts up to \$2 million. The loans bear interest rate at 4 per cent and are payable over 30 years. These loans can provide working capital, such as payment for fixed debt, payroll, accounts payable and other obligations that cannot be paid because of the disaster.

For a fact sheet on the SBA's disaster assistance in **Alabama**, see: [http://www.sba.gov/idc/groups/public/documents/sba\\_homepage/serv\\_recent\\_al\\_12174\\_factsheet.pdf](http://www.sba.gov/idc/groups/public/documents/sba_homepage/serv_recent_al_12174_factsheet.pdf).

The fact sheet for **Mississippi** can be found at: [http://www.sba.gov/idc/groups/public/documents/sba\\_homepage/serv\\_recent\\_ms\\_12173\\_factsheet.pdf](http://www.sba.gov/idc/groups/public/documents/sba_homepage/serv_recent_ms_12173_factsheet.pdf).