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## Hurricane Katrina: Relief Suggestions

September 6, 2005

Revised: September 20, 2005

### Congressional Action

#### Recovery

- **Establish special liquidity fund for banks in affected areas through the Federal Home Loan Bank System**, with flexible terms and minimal collateral requirements.
- **Waive restrictions and collateral requirements for advances through the Federal Reserve discount window.**
- **Raise current bank-qualified municipal bond issuance limit to \$30 million** (and index for inflation).
- **Create a special fund** to allow the federal government to purchase impaired loans of borrowers affected by the disaster.
- **Expand federal flood insurance coverage to uncovered properties flooded due to breach of the levees.**
- **Special bond issuance** (similar to NYC Liberty Bonds) - establish \$10 billion in tax-free "Katrina redevelopment bonds," allowing financial institutions to invest in Katrina bonds as triple tax exempt/bank-qualified bonds.
- **Authorize \$10 billion in Small Business Administration disaster loan authority** for use by financial institutions in disaster areas (loan limits up to \$250,000 for an individual and \$2 million for a business; up to 30-year term; maximum 4% interest; 85% SBA guaranty).
- **Appropriate \$150 million to SBA 7(a) loan program** to help lower fees on lenders and borrowers. (Especially needed since higher Katrina-related defaults will be counterproductive by automatically increasing lending fees.)
- **Increase SBA 7(a) loan program authority level by \$5 billion** to \$22 billion

- **Provide 25% tax credit for all interest earnings on SBA disaster loans** in designated Katrina disaster areas.
- Enact and fund **special fee waivers for SBA and USDA borrowers** in affected areas.
- **Increase funding for USDA's *Interest Assistance* program** (allows a reduction of up to 4% from the interest rate of farm operations loans).
- **Increase funding for guaranteed farm loan programs** – increase guarantee level to 95% for one year (as opposed to the current 90%) – streamline current loss claims procedures to expedite processing of claims.
- Waive offset requirements for **agricultural disaster aid**.
- **Allow 40% tax credit for up to \$10,000 in wages** paid by Katrina zone employers until 2006.
- **Apply 20% and 50% community bank tax credits** detailed in H.R. 2061 and S 1568 (“Communities First Act”).
- **Allow 5-year net operating loss (NOL) carry back** for financial institutions in disaster areas.
- **Increase IRC Section 179 immediate expensing to \$250,000** for small business investment in equipment, computers and software in disaster areas for 2 years (2007).
- **Waive taxes on interest earned from rural mortgage loans** (similar to provision in Communities First Act).

### Regulatory Relief

- **Indemnify financial institutions for uncollectible third-party checks** cashed for hurricane victims.
- **Waive affected banks' liability for cashing Federal benefit checks or disbursing direct deposits** after the death or legal incapacity of a benefit recipient or for cashing forged U.S. Treasury checks for a minimum of 6 months.
- **Grant regulators broad authority to waive *any* regulatory requirements** for banks in affected areas.
- **Waive certain consumer disclosures and protection requirements** in affected areas for depository institutions, such as Truth in Lending (TILA), especially the three-day right of rescission, APR disclosure, advance APR

disclosure, to allow banks to provide funds to affected customers ASAP and to use manual processing of note forms (when there is no or limited access to computers).

- **Extend all monthly and/or quarterly federal tax filing requirements** by 6 months and all annual filing requirements by one year and waive any tax penalties in this duration (provide waiver form to request further additional filing extension period).
- **Defer all withholding tax deadlines.**

### **Safety and Soundness**

- Allow banks in affected communities **additional latitude in cases of reduced capital levels**, e.g., under FDICIA prompt corrective action or for other purposes (especially those classified well-managed and well-capitalized prior to the disaster).
- **Relax prompt corrective action standards to avoid closing banks with temporarily impaired capital levels.**
- **Provide FDIC the flexibility to provide open bank assistance and waive “least cost resolution” requirement under FDICIA.**
- To address the influx of deposits expected from insurance/FEMA proceeds, **enact deposit insurance reform ASAP or relax hard 1.25% designated reserve ratio hard target** to allow the FDIC more flexibility in managing the FDIC fund.

## **Regulatory Action**

*While the September 1, 2005 press release from the regulatory agencies is helpful for banks in peripheral communities, banks in more devastated areas, will need additional support from the regulatory agencies to survive and provide customer service—before the bank can provide assistance to its customers, the bank itself must be viable, and it is critical that regulators provide as much assistance as possible for these institutions.*

## **Immediate Steps**

### **Recovery**

- **Provide banks with lists of resources and offer advice, guidance, and any other necessary assistance to help them resume operations.**

### **Liquidity**

- **Waive restrictions and collateral requirements for advances through the FHLB system.**

- **Waive reserve requirements** for banks in the affected area.
- **Expand the Federal Reserve Seasonal Liquidity program** time period to allow funds to be borrowed for longer periods.
- Provide **mechanisms to furnish currency and coin** to banks in the affected areas **ASAP and ongoing onsite security**. *Done, but additional security measures may be needed*
- **Facilitate the clearing and settlement of checks by extending the check deposit deadlines and servicing alternate presentment points**. *Done*
- **Waive check-encoding requirements** for affected banks to facilitate check clearing and settlement and improve liquidity.
- **Reinstate original availability schedule** for banks normally clearing through the Federal Reserve Bank of Atlanta's New Orleans Branch, which are now clearing elsewhere. *Done*

#### **Regulatory Relief**

- Grant banks **additional latitude to identify customers under Customer Identification Program requirements** (Bank Secrecy Act), since many customers may have lost all identification (especially since community banks already know their customers) – this applies to all instances requiring customer identification. *Done in part - additional, more specific guidance needed.*
- Provide additional **flexibility to allow banks in affected areas to open temporary branches and share resources** (lobbies, data processing, office space, other backroom support).
- **Defer reporting deadlines for regulatory reports**, e.g., call reports, and Report of Transaction Accounts, Other Deposits, and Vault Cash (FR 2900).
- **Allow flexibility on past due or classified loans and collateral requirements** (to give banks sufficient flexibility to work with borrowers who may have lost homes, cars, jobs) and **defer enforcement action due to credit quality**.
- **Allow banks to make credit policy exceptions and re-age accounts** that go past due as appropriate to help impacted borrowers without regulatory repercussions, including allowing deferred interest to be rolled into principal balance.
- **Temporarily relax both loan to value guidelines** on real estate loans in the affected areas (including up to 120% of value) **and appraisal requirements** (impossible to fairly evaluate property at this time).

- **Grant banks additional time to address errors under TILA and Regulation E** (allow at least 60 to 90 days for banks in affected areas).
- **Ease/waive CRA examination requirements** for period of time (to allow banks to provide services to their communities without having to document their activities).

### Longer Term Steps

- Offer **flexibility on examination cycles** – and allow additional latitude for banks in affected areas during their first exam, recognizing that they have been impacted by elements outside their control.
- Examiners need to clearly understand the impact of the disaster and **allow all affected banks sufficient flexibility for at least 18 – 24 months to recover** – technical application of requirements within 6 months does a great disservice to the local communities affected – especially for liquidity levels and plans.
- **Relax prompt corrective action standards to avoid closing banks with temporarily impaired capital levels.**
- **Provide FDIC the flexibility to provide open bank assistance and waive “least cost resolution” requirement under FDICIA.**
- **Appropriately define “temporary” when granting relief** (six months is insufficient – **18 months minimum** needed).
- Issue forward commitments that the FDIC will not **increase deposit insurance assessments for banks in affected areas that have a temporary decrease in capital levels due to sudden influx of deposits** from insurance/FEMA payments.