FDIC

Federal Deposit Insurance Corporation
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Financial Institution Letter
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Prudent Risk Management of Oil and Gas Exposures

Summary: FDIC-supervised institutions with direct or indirect oil and gas (O&G) exposures are reminded to maintain sound underwriting standards, strong credit administration practices, and effective risk management strategies. When O&G related borrowers experience financial difficulties, the FDIC encourages financial institutions to work constructively with borrowers to strengthen the credits and to mitigate losses where possible.

Statement of Applicability to Institutions with Total Assets Under $1 Billion: This FIL applies to FDIC-supervised financial institutions that have exposures to the O&G industry.

Suggested Distribution:
FDIC-Supervised Banks (Commercial and Savings)

Suggested Routing:
Chief Executive Officer
Chief Lending Officer

Related Topics:
Risk Management Manual of Examination Policies Section 3.2 (Loans)

Supervisory Insights Journal, "Stress Testing Credit Risk at Community Banks" Summer 2012

Interagency Statement on Meeting the Credit Needs of Creditworthy Small Business Borrowers, February 12, 2010 (FIL-5-2010)

Interagency Policy Statement on Prudent Commercial Real Estate Loan Workouts, October 30, 2009 (FIL-61-2009)

Interagency Statement on Meeting the Needs of Creditworthy Borrowers, November 12, 2008 (FIL-128-2008)

Environmental Liability: Updated Guidelines for An Environmental Risk Program November 13, 2006 (FIL-98-2006)

Attachment:
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Note:
FDIC Financial Institution Letters (FILs) may be accessed from the FDIC's Web site at www.fdic.gov/news/news/financial/2016/index.html.
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Highlights:

- O&G lending is complex and highly specialized due to factors such as global supply and demand, geopolitical uncertainty, weather-related disruptions, fluctuations and volatility in currency markets, and changes in environmental and other governmental policies. As such, companies and borrowers that are directly or indirectly tied to or reliant on the O&G industry frequently experience volatility within key operational areas of their businesses that will directly impact their financial condition and repayment capacity.

- Lending for O&G exploration and production activities in particular requires conservative underwriting, appropriate structuring, experienced and knowledgeable lending staff, and sound loan administration practices.

- For institutions doing business in O&G dependent areas that would be affected by volatility in commodity prices, prudent management of geographic, industry, and borrower concentrations is needed for sound risk management of such exposures. When reasonable diversification realistically cannot be achieved due to geographic or other factors, resultant concentrations may indicate the need for capital levels higher than the regulatory minimums.

- FDIC-supervised banks are encouraged to work with borrowers who are adversely affected by a severe or protracted downturn in commodity prices in accordance with a well-conceived workout plan and effective internal controls to manage these loans.