Frequently Asked Questions - Regulatory Issues Concerning the State Small Business Credit Initiative

How will the FDIC view loans made as part of the State Small Business Credit Initiative (SSBCI)? Will the FDIC initiate an additional review of banks participating in SSBCI programs?

The FDIC recognizes the importance of small businesses on Main Street and to our national economy. We support state nonmember institutions who participate in the SSBCI and other innovative programs that can assist them in meeting the credit needs of small business owners in a prudent and safe manner. In February 2010, the FDIC, other federal banking agencies, and the Conference of State Bank Supervisors issued the *Interagency Statement on Meeting the Credit Needs of Creditworthy Small Business Borrowers* (FDIC Financial Institution Letter 5-2010) which is available at: http://www.fdic.gov/news/news/financial/2010/fil10005.html. This 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. Consistent with this Statement, a bank's participation in the SSBCI program, by itself, would not prompt FDIC examiners to subject a state nonmember institution to a more intensive supervisory review. Bankers must continue to conduct sufficient due diligence in evaluating borrowers and underwriting loans made under this program. We also would expect lenders to ensure their participation in this and similar programs is consistent with and supports their overall strategic goals and objectives. Examiners may consider and evaluate this due diligence process as part of their normal safety-and-soundness examinations.

Does the SSBCI program encourage banks to make riskier loans?

Under the SSBCI, participating states will use the federal funds for programs that leverage private lending to help finance small businesses and manufacturers that are creditworthy but are not getting the loans they need to expand and create jobs. Bankers should continue to conduct sufficient due diligence in evaluating borrowers and underwriting loans made under this program.

Can banks with a regulatory corrective program participate in the SSBCI program?

State nonmember institutions with a corrective program should discuss their participation in the SSBCI with the appropriate FDIC field office.

Are loans made through the SSBCI eligible for Community Reinvestment Act (CRA) consideration?

Yes, loans made to businesses through the SSBCI program generally will be considered as small business loans under the CRA lending test that applies to financial institutions, particularly when they are $1 million or less in amount. Banks that are evaluated using examination procedures for intermediate small banks may choose to have business loans that also have a primary purpose of community development considered under the community development test instead of the lending test. Any lending activity considered during CRA evaluations is expected to be consistent with safe-and-sound banking practices.