STATEMENT OF POLICY #13

LENDING LIMITS WHERE BANK'S CAPITAL DECLINES

The Nebraska Department of Banking and Finance (“Department”) sets forth Statement of Policy #13 regarding the lending limit for a bank that experiences a decline in bank capital, thereby lowering its lending limit.

A loan made within a bank’s lending limits at the time the loan was made may be renewed, extended, or serviced without regard to changes in the lending limit of a bank following the initial extension of the loan if:

(a) the renewal, extension, or servicing of the loan does not result in the extension of funds beyond the initial amount of the loan; or

(b) the accrued interest on the loan is not added to the original amount of the loan in the process of renewal, extension, or servicing.

When a note matures or a demand clause is exercised, assuming the note was within the bank's lending limit on the date it originated, the bank may renew or extend the note as long as the amount of the renewal or extension does not exceed the initial amount of the note.

When the bank has established a master note for a customer, this master note may be serviced during the original term without regard to a bank's lending limit if, on the date the line of credit originated, it was within the bank's lending limit. The funds advanced may not exceed the original amount of the commitment. The advancement of funds must be directly related to the purpose for which the original commitment was made. In cases where the initial amount on a customer's note(s), combined with any unfunded commitments, is less than the current lending limit, any renewals, extension or new loans are subject to the bank's current (new) lending limit.

Any renewal or extension should be in keeping with sound banking principles. A decline in capital must be due to factors other than the payment of dividends.

Examples

Example 1: Bank A's lending limit on January 2, 2015 was $150,000 when it extended an operating master note, with a maturity of January l, 2016, to customer X for $120,000 for his hog operation. Bank A's lending limit on November 1, 2015, is $90,000. On November 1, 2015, Customer X's master note stands at $80,000, and he comes in for the additional $40,000 available on the master note for use in his hog operation.

The bank may honor the original $120,000 commitment even though it now exceeds the bank's lending limit. It makes no difference whether the loan was ever at the $120,000 limit during the year, since a master note is a commitment by the bank to extend up to that amount, and it is anticipated the amount will fluctuate over the operating cycle. The bank would be in violation of the statute for: (1) advancing money beyond the master note originally drawn by the parties (in the example, the limit would be $120,000); or, (2) for advancing funds for another area of his farm operation. When the master note comes up for renewal on January 1, 2016, the bank may renew or extend the initial amount, even though it exceeds the bank's lending limit.

<u>Example 2</u>: Bank A's lending limit on March 1, 2015, was $150,000 when it made a one-year loan to customer X for $120,000. On March 1, 2016, Bank A's lending limit is $90,000. Customer X has made payments of interest and principal and paid the loan down to $95,000. Bank A may renew or extend the loan at $120,000, even though it exceeds the lending limit.

<u>Example 3</u>: Customer X has a single advance note for $40,000 for livestock, a master note for $100,000 for operating expenses, and a $20,000 single advance note for equipment. These notes were all made within the bank's lending limits on January 2, 2015. Customer X pays off the $20,000 equipment note. On January 2, 2016, when the other two notes come up for renewal, he owes $36,000 on the livestock loan and $64,000 on the master note for operating expenses. The bank's lending limit on that date is $80,000. The bank may renew the livestock and operating loans in the respective amount of $40,000 and $100,000, even though they exceed the bank's current lending limit of $80,000. (For the purposes of this example, we will assume there is not a current livestock appraisal entitling the customer to borrow an extra 10%).

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