

Memo 1994-29 Livestock Exclusion from Classification

TO: All Field Examiners
FROM: Frank D. Dunnick, Bank Commissioner
DATE: September 15, 1994

RE: EXCLUSION OF LIVESTOCK FROM CLASSIFICATION

Effective immediately, the department's position for livestock exclusion will be as follows. If the bank has a current livestock inspection on file, and the livestock is adequately perfected by means of a properly filed UCC-1, the livestock value, after deducting the accrued interest on the purchase money loan for the livestock, and any outstanding feed and vet bills, will be excluded from classification. As an examiner, you will need to determine what the accrued interest deduction will be by reviewing current bank records. The amount of estimated feed and vet bills, if any, will be ascertained by questioning bank management.

A current livestock inspection for the purposes of this memorandum will be every 90 days for cattle which are bought and sold on a frequent and ongoing basis, and every six months for all other cattle. This varies from the guidelines contained in Memorandum 93-7, dated June 18, 1993. Memorandum 93-7 requires inspections of livestock on an annual basis unless cattle are bought and sold on a frequent and ongoing basis which then requires inspections every 90 days. **If the banker wishes the livestock to be considered for exclusion from classification, the inspection must be every ninety days for those cattle bought and sold on a frequent and ongoing basis and every six months for all other cattle.** While this requirement is more stringent than Memo 93-7 for all cattle that are not sold on a frequent and ongoing basis, we anticipate the bankers will only obtain semi-annual inspections on their poorer or borderline customers; those which the banker anticipates to be classified credits. The inspection frequency by bankers will most likely not change for the remaining good quality credits, where annual inspections are required by Memo 93-7.

The intent of this policy is for the blanket exclusion of livestock from classification. Deviations from the policy are not anticipated except on rare occasions.

I'm sure as this policy is implemented there will be questions from all of you. Please do not hesitate to give Judi, Kevin or me a call regarding this memo.

FDD:JMS:dsla