



RESCINDED

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This rescission applies to the transmitting document only and not the attached interagency guidance. Refer to (OCC 2009-32) for the status of the attached interagency guidance.

October 30, 2009

MEMORANDUM FOR CHIEF EXECUTIVE OFFICERS

FROM: Timothy T. Ward *Timothy T. Ward*
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SUBJECT: Guidance on Prudent Commercial Real Estate Loan Workouts

The Federal Financial Institutions Examination Council (FFIEC) released today the attached policy statement, adopted by each of the financial regulators, on prudent commercial real estate (CRE) loan workouts. It provides guidance for financial institutions as they modify or restructure existing loans with creditworthy CRE borrowers that are experiencing financial difficulties. The Office of Thrift Supervision and the other financial institution regulators recognize that prudent loan workouts are often in the best interest of both financial institutions and borrowers, particularly during difficult economic conditions.

The attached policy statement details supervisory expectations for prudent risk management practices in support of credit and business decision-making for loan workouts. It also addresses specific loan workout arrangements, classification of loans, and regulatory reporting and accounting considerations. As such, it updates and replaces existing supervisory guidance to assist examiners in evaluating institutions' efforts to renew or restructure loans to creditworthy CRE borrowers.¹

The guidance is intended to promote supervisory consistency, enhance the transparency of CRE workout transactions, and ensure that supervisory policies and actions do not inadvertently curtail the availability of credit to sound borrowers. The guidance also includes references and materials related to regulatory reporting,² but it does not change existing regulatory reporting guidance provided in relevant interagency statements issued by the regulators or accounting requirements under generally accepted accounting principles (GAAP). The general principles

¹ This statement replaces the Interagency Policy Statements on *the Review and Classification of Commercial Real Estate Loans* (November 1991) and *Review and Classification of Commercial Real Estate Loans* (June 1993).

² For savings associations, the Thrift Financial Report (TFR).

articulated in this policy statement also could apply to commercial loans that are secured by real property or other business assets of a commercial borrower.

Financial institutions that implement prudent CRE loan workout arrangements after performing a comprehensive review of a borrower's financial condition will not be subject to criticism for engaging in these efforts even if the restructured loans have weaknesses that result in adverse credit classification. In addition, renewed or restructured loans to borrowers who have the ability to repay their modified debts according to reasonable terms will not be subject to adverse classification solely because the value of the underlying collateral has declined to an amount that is less than the loan balance. The policy statement reiterates existing guidance that examiners are expected to take a balanced approach in assessing an institution's risk management practices for loan workout activity.

The guidance includes a series of examples of commercial real estate loan workouts that are provided for illustrative purposes only. They are intended to reflect the examiners' analytical processes for credit classification, determination of troubled status and whether the modified loan represents a troubled debt restructuring. By necessity, they represent simplifications of actual situations and examiners and institutions should consider all the facts and circumstances of their specific situations when determining the appropriate classification and reporting decisions.

Additionally, the guidance includes as attachments, a reference list of relevant supervisory and accounting guidance; valuation concepts for income producing real estate; and the banking agencies asset classification definitions.

For further information, contact your Regional Office or William Magrini, Senior Project Manager, Credit Risk, at (202) 906-5744.

[Attachment](#)