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FDIC adopts guidance on prudent commercial real estate loan workouts

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The Federal Deposit Insurance Corp. (FDIC), in coordination with the other member agencies of the Federal Financial Institutions Examination Council (FFIEC), adopted a policy statement supporting prudent commercial real estate (CRE) loan workouts. This policy statement stresses that performing loans, including those that have been renewed or restructured on reasonable modified terms made to creditworthy borrowers, will not be subject to adverse classification solely because the value of the underlying collateral declined.

This policy statement provides guidance to examiners, and financial institutions that are working with CRE borrowers who are experiencing diminished operating cash flows, depreciated collateral values, or prolonged delays in selling or renting commercial properties. It also recognizes that during these difficult economic circumstances, continued credit availability to businesses, especially small businesses, is challenging, even where borrower performance has been acceptable. This policy statement reflects the appropriate balance of prudent credit practices and meeting legitimate credit needs.

The FFIEC Agencies recognize that prudent loan workouts are often in the best interest of both financial institutions and borrowers, particularly during difficult economic conditions. This policy statement details risk-management practices for loan workouts that support prudent and pragmatic credit and business decision making within the framework of financial accuracy, transparency, and timely loss recognition. Financial institutions that implement prudent loan workout arrangements after performing comprehensive reviews of borrowers' financial conditions will not be subject to criticism for engaging in these efforts, even if the restructured loans have weaknesses that result in adverse credit classifications.

The policy statement includes examples of CRE loan workouts. The examples, provided for illustrative purposes only, reflect examiners' analytical processes for credit classifications and assessments of institutions' accounting and reporting treatments for restructured loans. The policy statement reiterates existing guidance that examiners are expected to take a balanced approach in assessing institutions' risk-management practices for loan workout activities.

The member Agencies of the FFIEC include the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, the Office of Thrift Supervision, and the FFIEC State Liaison Committee. The FDIC currently chairs the FFIEC.

Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. The FDIC insures deposits at the nation's 8,195 banks and savings

associations and it promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars - insured financial institutions fund its operations.

To read the 33 page document in its entirety visit
<http://www.fdic.gov/news/news/press/2009/pr09194.html>

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