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Comptroller to community bankers: Come clean on commercial real estate

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Many community banks are in denial about commercial real estate loans involving residential properties, Comptroller of the Currency John Dugan said April 16, calling for aggressive action to identify problem loans and warning bankers not to hide problems.

"Right now, too many community bankers are having too hard a time coming to grips with the problems that have emerged in their commercial real estate portfolios," Dugan said during a luncheon sponsored by the Exchequer Club.

He added that the industry is moving into a more challenging environment. "We are into a period where we're going to have more bank failures, and more problems, and some problems are going to get farther along than we would like," Dugan said.

Although other credit problems also are on the radar screen, Dugan said examiners will pay special attention to commercial real estate loans, which he said played "an outsized role" during banking downturns in the 1980s and the 1990s.

Dugan, who said bankers "are reluctant to charge off obviously troubled loans or even to flag problems to their examiners," called for "frank communication" between bankers and examiners. Clear communication will be a two-way street, he said, saying examiners who find problems will make the OCC's expectations explicit and unmistakable.

Dugan's remarks are the latest warning on risks for bankers in connection with commercial real estate loans, particularly those involving home construction. In a January speech to the Florida Bankers Association, Dugan noted "clear signs" of declining quality in those loans.

More recently, the Federal Deposit Insurance Corporation warned state nonmember banks to understand and manage risks associated with commercial real estate lending.

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