



FEDERAL RESERVE BANK *of* KANSAS CITY

February 1, 2012

**Disposal of Problem Assets through “Asset Exchanges”**

**Attention:** Chief Executive Officer of each Tenth District Bank Holding Company and Tenth District State Member Bank

**Subject:** Federal Reserve System issues statement on the Disposal of Problem Assets through Exchanges (Federal Reserve Supervision and Regulation Letter 11-15)

**In Brief:** The Federal Reserve System issued a statement on December 21, 2011, concerning the disposal of problem assets through asset exchanges, which are executed primarily through the use of a third-party or marketing agent. The statement recognizes and encourages institutions to explore all options to dispose of nonperforming assets, which primarily consist of loans and other real estate owned; however, the use of asset exchanges should be properly vetted amongst senior management and the board so that risks to the bank are adequately identified and appropriate risk management techniques are in place, to mitigate potential exposures.

**Highlights:** The statement emphasizes that financial institutions that engage in asset exchanges should analyze and identify the potential risks associated with the proposed transactions as these exchanges may reduce problem assets in the short term; however, lack of appropriate due diligence may result in heightened risks over the longer term. In addition, the statement provides guidance on risk management considerations as well as supervisory responsibilities.

The Federal Reserve System recognizes that asset exchanges, if properly executed with reputable counterparties, could achieve the institutions' objective of reducing problem assets; however, institutions could suffer significant losses if risks are not analyzed and appropriately identified prior to entering into asset exchange transactions.

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**Internet:** A copy of the Federal Reserve's statement release is available on the Board's web site at: <http://www.federalreserve.gov/bankinforeg/srletters/sr1115.htm>