



FEDERAL RESERVE BANK *of* KANSAS CITY

November 9, 2009

Prudent Commercial Real Estate Loan Workouts

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

Subject: Policy Statement on Prudent Commercial Real Estate (CRE) Loan Workouts

In Brief: The financial regulators have adopted the attached policy statement on *Prudent CRE Loan Workouts*.

Highlights: The Federal Reserve and the other financial regulators issued this policy statement to update longstanding guidance regarding the workout of CRE loans, especially in light of recent increases in such workouts. This guidance is intended to promote prudent CRE loan workouts at regulated financial institutions and to ensure examiners take a balanced and consistent approach in reviewing institutions' workout activities. If conducted in a reasonable and prudent manner, such workouts are often in the best interests of both the institution and the borrower.

The financial regulators recognize that financial institutions face significant challenges when working with CRE borrowers that are experiencing diminished operating cash flows, depreciated collateral values, or prolonged sales and rental absorption periods. While CRE borrowers may experience deterioration in their financial condition, many continue to be creditworthy customers who have the willingness and capacity to repay their debts. 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 debts according to reasonable modified 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 statement sets forth the appropriate standards for evaluating the management practices, workout arrangements, credit classification, regulatory reporting, and accounting for prudent CRE loan workouts. The statement includes references and background materials related to regulatory reporting and accounting, appraisals and valuation concepts, and classification definitions. It does not change existing regulatory reporting or accounting guidance or standards.

Attachments: [SR Letter 09-07](#)
[Policy Statement on Prudent Commercial Real Estate Loan Workouts](#)