



FEDERAL RESERVE BANK *of* KANSAS CITY

December 05, 2013

SR 13-17: Interagency Supervisory Guidance Addressing Certain Issues Related to Troubled Debt Restructurings

Attention: Chief Executive Officer of Each Tenth District State Member Bank, Bank Holding Company, and Savings and Loan Holding Company.

In Brief: The Federal Reserve, together with the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Office of the Comptroller of the Currency, (the agencies) has issued guidance addressing certain issues related to the accounting treatment and regulatory classification of commercial and residential real estate loans that have undergone troubled debt restructurings (TDRs). This guidance reiterates and clarifies the definition of collateral-dependent loans, discusses the non-accrual status of TDRs, and outlines the circumstances under which a charge-off is warranted. This guidance applies to all institutions supervised by the Federal Reserve including institutions with less than \$10 billion in assets.

Highlights: The agencies encourage financial institutions to work constructively with borrowers and view prudent modifications as positive actions when they mitigate credit risk. The agencies generally will not criticize financial institutions for engaging in prudent workout arrangements, even if the modified loans result in adverse credit classifications or constitute TDRs.

The agencies have issued this guidance to ensure consistent regulatory and accounting treatment of TDRs in conformance with existing supervisory policies and generally accepted accounting principles. The guidance addresses the following issues and concepts:

Accrual Treatment – Describes when TDRs should be placed on non-accrual, and under what conditions they can be restored to accrual status.

Collateral-Dependent Loan Definition – Defines and gives examples of a collateral-dependent loan.

Regulatory Classification and Charge-off Treatment – Outlines the considerations that should be given to collateral-dependent and non-collateral dependent TDRs when assigning regulatory risk grades, and when uncollectible loans should be charged off.

Impairment Measurement – Describes the appropriate measurement methods for both collateral-dependent and non-collateral dependent loans.

Contact: Questions regarding the guidance may be directed to your Central Point of Contact, or to Paul Oseland at (405) 270-8632 or (800) 333-1030, extension 2708632.

Internet: A copy of the SR Letter and attachments is available on the Federal Reserve Board of Governors' web site at: <http://www.federalreserve.gov/bankinforeg/srletters/sr1317.htm>.