

Press Release

October 30, 2009

Federal Reserve adopts policy statement supporting prudent commercial real estate (CRE) loan workouts

For immediate release

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The Federal Reserve on Friday adopted a policy statement supporting prudent commercial real estate (CRE) loan workouts. This policy statement, adopted by each of the financial regulators,¹ provides guidance for examiners, and for 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. The financial regulators 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 decisionmaking 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. In addition, performing loans, including those 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.

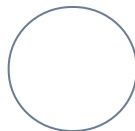
The policy statement includes examples of CRE loan workouts. The examples, provided for illustrative purposes only, reflect examiners' analytical processes for credit classifications and assessments of institutions' accounting and reporting treatments for restructured loans. The policy statement reiterates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

[Attachment \(418 KB PDF\)](#)

Footnotes

1. The financial regulators consist of 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. [Return to text](#)

Last Update: October 30, 2009



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