To State Member Banks, Bank
Holding Companies, Financial Holding
Companies, and Foreign Bank Offices
in the Twelfth Federal Reserve District

Federal Reserve Adopts Policy Statement Supporting Prudent Commercial Real Estate (CRE)
Loan Workouts

The Federal Reserve adopted a policy statement on October 30, 2009 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 decision making 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.

Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San
Francisco’s website, at http://www.frbsf.org/banking/letters.

For additional information, please contact:

Federal Reserve Bank of San Francisco
Banking Supervision and Regulation
(415) 974-2136
(415) 974-3166

Attachment: Policy Statement on Prudent Commercial Real Estate Loan Workouts

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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.