

Federal Reserve Bank of San Francisco
101 Market Street, San Francisco, California 9410

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**BANKING SUPERVISION AND REGULATION:
COMMERCIAL REAL ESTATE LENDING FINAL
GUIDANCE**

To State Member Banks, Bank
Holding Companies, U.S. Branches
and Agencies of Foreign Banks,
and Others Concerned,
in the Twelfth Federal Reserve District

Final Guidance on Concentrations in Commercial Real Estate Lending

The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation issued final guidance on sound risk management practices for concentrations in commercial real estate lending. The guidance is intended to help ensure that institutions pursuing a significant commercial real estate lending strategy remain healthy and profitable while continuing to serve the credit needs of their communities.

The agencies have observed that commercial real estate is an area in which some banks are becoming increasingly concentrated. This trend is particularly evident among small and medium-sized banks that are facing strong competition in other business lines. The agencies support banks serving a vital role in their communities by supplying credit for business and real estate development, but however, are concerned that rising commercial real estate loan concentrations may expose institutions to unanticipated earnings and capital volatility in the event of adverse changes in commercial real estate markets.

The final Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices reminds institutions that strong risk management practices and appropriate levels of capital are important elements of a sound lending program, particularly when an institution has a concentration in commercial real estate loans. The final guidance reinforces and enhances existing regulations and guidelines for safe and sound real estate lending. The guidance provides supervisory criteria, including numerical indicators to assist in identifying institutions with potentially significant CRE loan concentrations that may warrant greater supervisory scrutiny. These criteria do not constitute limits on CRE lending.

The agencies are committed to ensuring consistent application of this guidance and are developing training programs for their supervisory staff. These training materials will emphasize that the numerical screening criteria are not to be viewed as limits on an institution's commercial real estate lending activity.

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 our Banking Supervision and Regulation Department at (415) 974-2225.

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