

Federal Reserve Bank of San Francisco
101 Market Street, San Francisco, California 94105

July 6, 2012

To State Member Banks,
Bank Holding Companies and
Savings and Loan Holding Companies,
in the Twelfth Federal Reserve District

SR 12-10 / CA 12-9 Questions and Answers for Federal Reserve-Regulated Institutions Related to the Management of Other Real Estate Owned (OREO)

This letter conveys various questions and answers regarding the management of OREO by institutions regulated by the Federal Reserve. During the recent financial crisis, financial institutions have experienced a rise in OREO caused by general weaknesses in the housing market, including increases in delinquencies and defaults, house price declines, and weaknesses in the structure of a number of commercial real estate financings. The attached *Questions and Answers for Federal Reserve-Regulated Institutions Related to the Management of Other Real Estate Owned (OREO) Assets* document (Q&A document) is intended to clarify existing policies and promote prudent practices for the management of an institution's OREO assets, addressing both safety-and-soundness policies and consumer compliance issues.

The Federal Reserve's longstanding guidance for the management and financial reporting of OREO assets is set forth in Section 2200 of the *Commercial Bank Examination Manual* and the instructions to regulatory reporting forms for banks and bank holding companies.¹ However, given the increase in OREO on financial institutions' balance sheets, the Federal Reserve is issuing the attached Q&A document to reiterate this longstanding guidance and to highlight key concepts on the financial reporting, loss recognition, and management of OREO assets. Topics covered in the Q&A document include:

- Transferring an Asset to OREO
- Reporting Treatment and Classification
- Appraisal Concepts
- Ongoing Property Management
- Operational and Legal Issues
- Sale and Transfer of OREO

Questions regarding this letter and the attached Q & A document should be directed to the following individuals:

- Division of Banking Supervision and Regulation: Mary Aiken, Manager, at (202) 452-4534; Donald Gabbai, Senior Supervisory Financial Analyst, at (202) 452-3358; or Carmen Holly, Supervisory Financial Analyst, at (202) 973-6122, in Credit, Market, and Liquidity Risk Policy; and Matthew Kincaid, Senior Accounting Policy Analyst, at (202) 452-2028, in Accounting Policy; or
- Division of Consumer and Community Affairs: Timothy Robertson, Senior Supervisory Consumer Financial Services Analyst, RB Oversight/CBO Supervision, at (202) 452-2565.

1. See, for example, *Instructions for Preparation of Consolidated Reports of Condition and Income (FFIEC 031 and 041)* and *Instructions for Preparation of Consolidated Financial Statements for Bank Holding Companies* (FR Y-9C). Refer to the Federal Reserve's public website under the tab "Reporting Forms" for reporting instructions.
<http://www.federalreserve.gov/reportforms/default.cfm> [Return to text](#)

In addition, institutions may send questions via the Board's public website.²

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
(213) 364-1026 Safety and Soundness
(801) 322-7853 Consumer Compliance

Attachment: Questions and Answers for Federal Reserve-Regulated Institutions Related to the Management of Other Real Estate Owned (OREO) Assets

Cross References:

- SR letter 12-5/CA letter 12-3, "Policy Statement on Rental of Residential Other Real Estate Owned (OREO) Properties"
- SR letter 10-16, "Interagency Appraisal and Evaluation Guidelines"
- CA letter 09-5, "Information and Examination Procedures for the "Protecting Tenants at Foreclosure Act of 2009"
- CA letter 05-3, "Servicemembers Civil Relief Act of 2003"
- SR letter 03-5, "Amended Interagency Guidance on the Internal Audit Function and its Outsourcing"
- SR letter 00-17, "Guidance on the Risk Management of Outsourced Technology Service"
- SR letter 95-16, "Real Estate Appraisal Requirements for Other Real Estate Owned (OREO)"

² See <http://www.federalreserve.gov/apps/contactus/feedback.aspx>.