



Federal Deposit Insurance Corporation
550 17th Street NW, Washington, DC 20429-9990

Financial Institution Letter
FIL-36-2022
August 2, 2022

Interagency Policy Statement on Prudent Commercial Real Estate Loan Accommodations and Workouts

Summary: The Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the National Credit Union Administration (NCUA) (collectively, the agencies), in consultation with state bank and credit union regulators, are inviting comment on a policy statement for prudent commercial real estate loan accommodations and workouts.

Statement of Applicability: The contents of, and material referenced in, this FIL apply to all FDIC-insured financial institutions.

Related Topics:

Credit

[Part 364 – Standards for Safety and Soundness](#)

[Part 365 – Real Estate Lending Standards](#)

[FIL-62-2015 – Statement on Prudent Risk Management for CRE Lending](#)

[FIL-104-2006 – Commercial Real Estate Lending: Joint Guidance](#)

Attachment: [Policy Statement on Prudent Commercial Real Estate Loan Accommodations and Workouts](#)

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Highlights:

- On October 30, 2009, the agencies, along with the Federal Reserve, the Federal Financial Institutions Examination Council State Liaison Committee, and the former Office of Thrift Supervision, adopted the Policy Statement on Prudent Commercial Real Estate Loan Workouts (2009 Statement) as a useful resource for both agency staff and financial institutions in understanding risk management and accounting practices for commercial real estate (CRE) loan workouts.
- Currently, more than 98 percent of banks engage in CRE lending, and CRE loans are the largest loan portfolio type for nearly half of all banks. Further, the dollar volume of CRE loans is at an historic high, recently peaking at more than \$2.7 trillion.
- In 2020, the COVID-19 pandemic led to stress across several CRE property types, including hospitality, office, retail, and the entertainment sectors. These and other CRE sectors may be more vulnerable to pressure from the current rising interest rate and overall inflationary pressures in the economy.
- The 2021 Shared National Credit Review reflected a higher classified rate for CRE as well as increasing levels of CRE loans listed for Special Mention. Additionally, the delinquency rates for Commercial Mortgage Backed Securities backed by hotel and retail properties reached double digits in 2020, surpassing peak rates in the previous real estate cycle.
- Challenges that arose during the pandemic remain, including inflation, supply chain imbalances, labor challenges, and vulnerability to rising interest rates. These additional risks could adversely affect the financial condition and repayment capacity of borrowers in a variety of industries.
- To assist financial institutions, given these challenges and risks related to CRE lending, the agencies, in consultation with state bank and credit union regulators, are proposing to update and expand the 2009 Statement by incorporating recent policy guidance on loan

accommodations and accounting developments for estimating loan losses ([proposed Statement](#)).

- The proposed Statement discusses the importance of working constructively with CRE borrowers who are experiencing financial difficulty and would be appropriate for all supervised financial institutions engaged in CRE lending.
- The proposed Statement addresses sound principles and supervisory expectations with respect to a financial institution's handling of loan accommodations and workouts on matters including (1) risk management, (2) classification of loans, (3) regulatory reporting, and (4) accounting considerations, and includes updated references to supervisory guidance.
- The agencies recognize that prudent CRE loan accommodations and workouts are often in the best interest of both the financial institution and the borrower. Accordingly, the proposed Statement reaffirms the key principles from the 2009 Statement: (1) financial institutions that implement prudent CRE loan workout arrangements after performing a comprehensive review of a borrower's financial condition will not be subject to criticism for engaging in these efforts, even if these arrangements result in modified loans that have weaknesses that result in adverse credit classification; and (2) modified loans to borrowers who have the ability to repay their debts according to reasonably established terms will not be subject to adverse classification solely because the value of the underlying collateral has declined to an amount that is less than the loan balance.
- The proposed Statement includes the following additional changes: (1) addition of a new section on short-term loan accommodations; (2) information about changes in accounting principles since 2009; and (3) revisions and additions to examples of CRE loan workouts.
- Comments on the [proposed Statement](#) are due 60 days from the date of publication in the *Federal Register*.