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*Joint Release*

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**Office of the Comptroller of the Currency**  
**Federal Deposit Insurance Corporation**  
**Federal Reserve Board**  
**Office of Thrift Supervision**

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For immediate release

**Federal Regulators Announce  
Additional Credit Availability Initiatives**

**June 10, 1993**

The four federal regulators of banks and thrifts today announced six additional initiatives to implement the President's March 10 program to improve the availability of credit to businesses and individuals. These initiatives include changes to regulatory reporting requirements and the issuance of joint policy statements on the valuation of real estate collateral, use of the "Special Mention" category in reviewing loans, and improved coordination of examinations. The changes to regulatory reporting requirements are consistent with generally accepted accounting principles (GAAP).

The agencies noted that these latest actions bring to a close the first phase of the President's credit availability program. However, all four agencies emphasized that they are continuing efforts to reduce the paperwork and regulatory burden that impedes the flow of funds to creditworthy borrowers.

The actions announced today cover these areas:

■ **In-Substance Foreclosures**

In the past, the agencies' rules required certain loans to be reported as in-substance foreclosures. In the revised guidance issued today, the agencies make it clear that a collateral dependent real estate loan need not be reported as foreclosed real estate unless the lender has taken possession of the collateral. However, appropriate losses must be recognized. This guidance is consistent with the approach taken by the Financial Accounting Standards Board (FASB) in its new standard on loan impairment.

■ **Returning Nonaccrual Loans to Accrual Status**

In the past, a loan that was partially charged off could not be returned to accrual status until all missed payments had been made up to bring the loan to current status and the institution expected to receive the full contractual principal and interest on the loan.

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This reporting requirement also applied in situations where the borrower showed a renewed ability and willingness to service the remaining debt. Accordingly, institutions sometimes found it difficult to work with borrowers who were experiencing temporary difficulties in a way that would maximize recovery on these troubled loans.

To address this problem, the agencies are making two revisions to their nonaccrual guidelines. First, banks and thrifts will be allowed to formally restructure troubled debt in a manner that will allow a portion of the debt to become an accruing asset, provided certain criteria are met. This revised reporting guidance makes the policies of the bank and thrift regulatory agencies consistent.

Second, in some cases, borrowers have resumed paying the full amount of scheduled contractual principal and interest payments on loans that are past due and in nonaccrual status. Under the guidance issued today, banks and thrifts will be allowed to return such past due loans to accrual status, provided the institution expects to collect all principal and interest due and the borrower has made regular payments in accordance with the terms of the loan over a specific period of time.

■ **Regulatory Reporting Requirements for Sales of Other Real Estate Owned (OREO)**

The agencies will separately issue guidance to banks and thrifts that generally conforms regulatory reporting requirements for sales of OREO with generally accepted accounting principles (GAAP), as set forth in FASB Statement No. 66. These changes delete certain requirements for minimum down payments for sales of OREO. Financial institutions and examiners should refer to FASB Statement No. 66 for a detailed discussion of the accounting principles that apply to sales of real estate.

■ **Review and Classification of Commercial Real Estate Loans**

The agencies are reaffirming their guidelines issued in November 1991 to ensure that examiners are reviewing commercial real estate loans in a consistent, prudent and balanced manner. Today's policy statement reiterates that the evaluation of commercial real estate loans is based on a review of the borrower's willingness and capacity to repay and on the income-producing capacity of the underlying collateral over time. The statement emphasized that it is NOT regulatory policy to value collateral that underlies real estate loans on a liquidation basis.

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■ **Supervisory Definition of Special Mention Assets**

The agencies are concerned that improper use of the "Special Mention" loan category in examiners' reviews of loan portfolios may inhibit lending to small- and medium-size businesses. Accordingly, all four agencies have adopted a uniform definition for this category.

The use of a common definition will lead to more consistent supervision among the four agencies. It will also enable examiners to more readily segregate Special Mention assets from those warranting adverse classification. The agencies have agreed to use classified assets, which by definition do not include Special Mention assets, as the standard measure in expressing the quality of a bank or thrift's asset portfolio.

■ **Coordination of Holding Company, Thrift and Bank Examinations**

The four agencies are issuing interagency guidelines to coordinate their supervision and examinations in order to minimize the disruptions and burdens associated with the examination process. Under the principles laid out in the guidelines, the agencies will work to eliminate duplication in examinations by multiple agencies. Examinations and inspections of a particular legal entity will be conducted by the primary supervisor for that entity. The agencies will increase coordination of examinations and will establish procedures to centralize and streamline examinations in multibank organizations.

The initiatives announced today follow a number of actions previously taken by the four agencies to implement the President's credit availability program. Those actions include:

- **Interagency Policy Statement on Documentation of Loans (March 30, 1993)**
- **Interagency Letter on Lending Discrimination (May 27, 1993)**
- **Proposed Rule on Revised Appraisal Requirements (June 1, 1993)**
- **Interagency Release on Joint Fair Lending Initiatives (June 10, 1993)**

The four agencies emphasized that they will continue their efforts to reduce paperwork and regulatory burdens and improve the ability of small businesses and consumers to gain access to credit. For example, in the coming months, the agencies expect to modify their procedures for corporate applications (e.g., applications for charters, mergers, and branches) to make them less duplicative and more uniform.

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