
Joint Statement

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

For immediate release

**Interagency Guidance on
Reporting of In-Substance Foreclosures**

June 10, 1993

On March 10, 1993, the four federal banking and thrift regulatory agencies issued an Interagency Policy Statement on Credit Availability. That statement indicated that the agencies would seek to clarify the reporting treatment for in-substance foreclosures (ISF) and would work with the accounting authorities to achieve consistency between generally accepted accounting principles (GAAP) and regulatory reporting requirements in this area.

Under existing accounting guidelines for determining whether the collateral for a loan has been in-substance foreclosed, a loan is transferred to "other real estate owned" (OREO or REO) and appropriate losses are recognized if certain criteria are met. Such OREO designations may impede efforts to improve credit availability and may discourage lenders from working with borrowers experiencing temporary financial difficulties.

The Financial Accounting Standards Board (FASB) recently issued Statement No. 114, "Accounting by Creditors for Impairment of a Loan," addressing the accounting for impaired loans. This Standard also clarifies the existing accounting for in-substance foreclosures. Under the new impairment standard and related amendments to Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings" (FAS 15), a collateral dependent real estate loan (i.e., a loan for which repayment is expected to be provided solely by the underlying collateral) would be reported as OREO only if the lender had taken possession of the collateral. For other collateral dependent real estate loans, loss recognition would be based on the fair value¹ of the collateral if foreclosure is probable. However, such loans would no longer be reported as OREO. Rather, they would remain in the loan category.

(more)

¹ Fair value is defined in paragraph 13 of FAS 15.

Accordingly, the agencies have concluded that losses² must be recognized on real estate loans that meet the existing ISF criteria based on the fair value of the collateral, but such loans need not be reported as OREO unless possession of the underlying collateral has been obtained. The agencies believe that this interagency guidance, coupled with other agency actions currently being taken, will reduce impediments to the availability of credit.

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² Consistent with GAAP, loss recognition would consider estimated costs to sell.