

## Joint Agency News Release

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### REGULATORS ISSUE JOINT SUPERVISORY POLICIES

The four federal regulators of banks and thrift institutions today issued joint statements and guidelines to clarify certain regulatory and accounting policies. The agencies said the intent of this effort is to contribute to a climate in which banks and thrifts will make loans to credit-worthy borrowers and work constructively with borrowers experiencing financial difficulties, consistent with safe and sound banking practices. The policies encourage increased disclosure about the condition of financial institutions' loan portfolios, facilitate extensions of credit to sound borrowers and the workout of problem loans, and better assure sound assessments of the value of real estate that secures loans.

The four regulatory agencies that issued today's statements are the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve Board (FRB), and the Office of Thrift Supervision (OTS). Together, the four agencies supervise the activities of the nation's 12,000 commercial banks and 2,400 thrift institutions.

The joint policy statements cover a wide range of issues, including the following specific points:

- o Recognition of income for certain non-performing loans. The agencies are considering the merits of proposed guidelines addressing the accrual of income on loans that have been partially charged off. The agencies and the Securities and Exchange Commission will both solicit public comment on the proposed guidelines.
- o Valuation of real estate loans in examinations. The joint statement clarifies that the supervisory evaluation of real estate loans is based on the ability of the collateral to generate cash flow over time, not upon its liquidation value.

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- o Guidance on other issues relating to nonaccrual assets and formally restructured debt. This guidance covers a range of accounting issues, including cash basis income recognition on nonperforming loans, treatment of multiple loans to one borrower, and acquisition of nonaccrual assets.

The four agencies also issued a general statement that stressed the importance of financial institutions working with borrowers who may be experiencing temporary difficulties. The general statement discusses previously released policies that deal with increased disclosure on nonaccrual loans and guidance on the application of the definition of Highly Leveraged Transactions (HLTs). The statement also addresses regulatory policies on capital levels and loan concentrations, as they relate to institutions' ability to make loans to credit-worthy borrowers.

The agencies will send the clarifications and statements to field examiners and depository institutions. The agencies may also issue more detailed guidance on the issues covered in today's joint statements. Copies of the general statement and the joint policy guidelines released today are available from the OCC, FDIC, FRB, and OTS.

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