



**Federal Deposit Insurance Corporation**  
550 17th Street NW, Washington, D.C. 20429-9990

**Financial Institution Letter**  
**FIL-61-2009**  
**October 30, 2009**

## **POLICY STATEMENT ON PRUDENT COMMERCIAL REAL ESTATE LOAN WORKOUTS**

**Summary:** The financial regulators recognize that prudent commercial real estate (CRE) loan workouts are often in the best interest of financial institutions and creditworthy CRE borrowers. The attached guidance focuses on the elements of prudent workout programs. It also provides illustrations of the analytical review process to ensure the credit risk in a loan workout is accurately identified and the arrangements receive appropriate regulatory reporting and accounting treatment.

### **Distribution:**

FDIC-Supervised Banks (Commercial and Savings)

### **Suggested Routing:**

Chief Executive Officer  
Chief Lending Officer

### **Related Topics:**

*Managing CRE Concentrations in a Challenging Environment (FIL-22-2008)*  
*Interagency Statement on Meeting the Needs of Creditworthy Borrowers (FIL-128-2008)*  
*Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices (FIL-104-2006)*

### **Attachment:**

[Policy Statement on Prudent Commercial Real Estate Loan Workouts](#)

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### **Note:**

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### **Highlights:**

- Institutions and borrowers face significant challenges when dealing with diminished operating cash flows, depreciated collateral values, or prolonged sale and rental absorption periods.
- The financial regulators recognize that prudent CRE loan workouts are often in the best interest of the financial institution and CRE borrowers.
- Performing loans, including those renewed or restructured on reasonable modified terms, made to creditworthy borrowers 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.
- Institutions that implement prudent CRE loan workouts after performing a comprehensive review of a borrower's financial condition will not be subject to criticism for engaging in these efforts, even if the restructured loans have weaknesses that result in adverse classification.
- Examiners will take a balanced approach in assessing the adequacy of an institution's risk management practices for loan workout activity.
- The guidance includes a series of examples of CRE loan workouts, which are provided for illustrative purposes only.
- This guidance replaces the *Interagency Policy Statement on the Review and Classification of Commercial Real Estate Loans* (November 1991).